

## **AUDIT COMMITTEE**

**14 MARCH 2012**

Present: Councillor I Brown (Chair)  
Councillors A Burtenshaw, A Khan, R Martins and S Rackett

Also present: Councillor Andy Wylie, Portfolio Holder for Finance and Shared Services (for minute numbers 40 to 45),  
Councillor M Meerabux  
Gurpreet Dulay (Grant Thornton) and Richard Lawson (Grant Thornton)

Officers: Head of Strategic Finance  
Finance Manager  
Audit Manager  
Committee and Scrutiny Officer

### **35 APOLOGIES FOR ABSENCE/COMMITTEE MEMBERSHIP**

There were no apologies for absence.

### **36 DISCLOSURE OF INTERESTS (IF ANY)**

There were no disclosures of interest.

### **37 MINUTES**

The minutes of the meeting held on 12 January 2012 were submitted and signed.

### **38 OUTSTANDING ISSUES**

The Committee received a report of the Head of Strategic Finance updating Members on three areas where further information had been required.

A Member requested further clarification about the response regarding the misstatement in the accounts.

Richard Lawson, from Grant Thornton, advised that the accounts had been processed and all adjustments had been made. The misstated £320,000 was no longer an issue.

The Finance Manager added that the misstatement had been included in the draft accounts, but this had been resolved and there were no misstatements in the final accounts published in September.

The Head of Strategic Finance said that the external auditor was satisfied with the accounts. The accounts had been produced against a background of very tight timescales. The corrections had taken place between 30 June and 29 September.

Richard Lawson commented that the company had met representatives from Shared Services Finance, the Head of Strategic Finance and the Director of Corporate Resources and Governance from Three Rivers to discuss the procedures for this year.

RESOLVED –

that the contents of the report be noted.

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## **REPORTS FROM GRANT THORNTON**

The Committee received a report of the Head of Strategic Finance and three reports from Grant Thornton. The Auditor's reports included an Audit Progress report, an IT Shared Services Update and the Accounts Audit Approach Memorandum.

### Watford Borough Council Accounts Audit Approach Memorandum

Gurpreet Dulay, from Grant Thornton, informed the Committee about the Accounts Audit Approach Memorandum. The document included an update on the response to key risks from the results of interim audit work carried out. A review of IT was being carried out separately. Mr Dulay highlighted some of the key points in the document.

### IT Shared Services Update

Richard Lawson provided the update on the IT Shared Services review. He advised that Audit Committee would receive a report at every meeting this year. Gurpreet Dulay informed the Committee that Grant Thornton's specialist in IT matters would be attending the next meeting and would answer questions.

Members questioned that the Council was rushing to change IT service delivery. Concerns had been raised in the Auditor's report, which reflected comments from the consultant undertaking an independent review of the IT Shared Service. One Member suggested that the in-house option should still be under consideration. Members said it was important that they felt the right decision had been made and also that the system needed to be future-proof.

The Head of Strategic Finance informed the Committee that officers were hoping to finalise the tender specification this week. Various options would be considered, for example whether to continue with the current number of servers or to move to a data centre. There were other options to consider including the management of existing software contracts. The Shared Services Joint

Committee would be presented with the optimum solution for consideration. He advised that the specification would be based on 70% quality and 30% price. Quality was the uppermost consideration but price was still important.

A Member asked that it be minuted that there were concerns about the ICT process. He asked that it be constantly reviewed and the Council ensured it obtained the best quality at the best price.

RESOLVED –

that the reports be noted.

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**TREASURY MANAGEMENT ANNUAL REPORT AND ACTUAL PRUDENTIAL INDICATORS 2010/11, MID YEAR TREASURY MANAGEMENT MONITORING REPORT FOR 2011/12 AND TREASURY MANAGEMENT STRATEGY STATEMENT 2012/13 - 2014/15 (DCRG)**

The Committee received a report of the Head of Strategic Finance which informed Members of the Treasury Management Annual Report and Prudential Indicators for 2010/11. It also provided a mid-year review of the Treasury Management function in 2011/12 and reported on the Treasury Management Strategy for 2012/13 – 2014/15.

The Finance Manager reported that the most important document was the Treasury Management Strategy for 2012/13. The report included reference to the Council's debt free status and the recommendation that the Strategy should include the ability for the Council to borrow up to £10 million for longer than a 12-month period. The officer's report explained the reasons for the request. Audit Committee was asked to consider the request and then to make a recommendation to the next Council meeting.

Members asked for further information about the pros and cons of the change from a debt-free status and the consequences of holding the £7 million from the West Hertfordshire Hospitals NHS Trust for the Health Campus development. One Member also questioned whether the limit should be set higher.

The Head of Strategic Finance responded that there was no advantage in being debt-free other than not needing to repay any debt. Loans from the Local Enterprise Partnership were interest free and in the short term would earn investment interest.

With regard to the £7 million from the Hospitals Trust, the Head of Strategic Finance explained that if the road and bridge were not built the money would have to be repaid. If the road and bridge were built then the Council would not have to repay the money.

Following a question about the additional £3 million the Head of Strategic Finance advised that this was from the Hertfordshire Local Enterprise Partnership. The loan was interest free and would be used for infrastructure requirements.

The Head of Strategic Finance said that the £3 million would remain a debt until it had been repaid. The risk associated with this was that the Health Campus project would not be viable and there was an insufficient 'return' to clear the debt. This was hopefully unlikely.

The Finance Manager informed the Committee that the limits could be changed at any time and it could be reduced if the level was not required.

#### RESOLVED –

1. that the Treasury Management Annual Report and Actual Prudential Indicators 2010/11, Mid Year Treasury Management Monitoring Report 2011/2012, and Treasury Management Strategy Statement 2012/13 – 2014/15 (Appendices 1, 2 and 3) be noted.
2. that Audit Committee approves each of the key elements of the Treasury Management Strategy Statement (Appendix 3), and **recommends these to Council:**
  - The Prudential Indicators and Limits for 2012/13 to 2014/15, including the Authorised Limit Prudential Indicator.
  - The Minimum Revenue Provision (MRP) Statement which sets out the Council's policy on MRP.
  - The Treasury Management Strategy 2012/13 to 2014/15 and the Treasury Prudential Indicators.
  - The Investment Strategy 2012/13 and the detailed criteria contained in the Treasury Management Strategy.
3. that Audit Committee **recommends to Council** that the facility to borrow up to a maximum of £10m from external parties be approved and that all Treasury Management Strategy Statements be amended accordingly.

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#### TREASURY MANAGEMENT UPDATE REPORT

The Committee received a report of the Head of Strategic Finance which provided the regular review of the Council's Treasury Management Strategy and investment performance.

The Head of Strategic Finance referred Members to paragraph 4.3 of the report and that a longer maturity profile could be considered for next year. He circulated the latest portfolio. He advised that the Council would continue to use secure institutions but the length of the investment improved interest rates.

Following a Member's questions about the investments, the Head of Strategic Finance explained that the total amount invested in Nat West should not exceed £10 million. Currently there were two separate investments in Nat West which were less than that figure. With regard to building societies the Treasury policy stipulated that it was permissible to invest a maximum of £3 million in the top five building societies. The Council, however, limited these investments to £2 million.

The Co-operative Banks interest varied each night. This was the Council's regular bank.

RESOLVED –

that the report be noted.

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## **STRATEGIC RISK REGISTER**

The Committee received a report of the Head of Strategic Finance which informed Members about the Strategic Risk Register. The register had been reviewed and approved by the Leadership Team on 6 March 2012.

The Head of Strategic Finance explained that the register set out the strategic risks for the Council and not all services' risks. He suggested Members should not be surprised if a risk rating began as red; this denoted a high risk. If it were green, low risk, then it should probably not be on the register. The register set out the controls which had been put in place to reduce risk. The register was kept under review as it was a changing situation.

Members raised concerns about the risks associated with the Health Campus. One Member asked that Audit Committee was kept informed and received regular reports. It was noted that the longer projects took the higher the risk that contractors' costs increased. Another question raised was whether a change in government would affect the project.

The Head of Strategic Finance informed the Committee that the Major Projects Board received regular reports about the Health Campus. The majority of political parties nationally inferred that more investment was needed in infrastructure projects.

Following a question from the External Auditor regarding item 20 on the list, Business Rates Retention and Local Council Tax Benefits schemes, the Head of Strategic Finance advised that the first report related to this subject would be presented to Cabinet on 20 March. The issue was whether there would be a countywide scheme. The Council could decide not to pass on any loss to the client. The Cabinet report suggested a way forward. The maximum risk was a loss of £120,000 to the Council (but a greater risk to the County Council).

The Portfolio Holder for Finance and Shared Services added that some local authorities had been trying to get a countywide agreement. This would mean that when clients moved from one Hertfordshire authority to another their benefit concessions would not change. The concessions offered needed to be considered particularly as the client base was different in each district.

Further to a question about the worst case scenario, the Head of Strategic Finance replied that the Council did not know the bottom line for some of the schemes, including the Health Campus and Charter Place. It was necessary that the Council was satisfied. In respect of the Health Campus project the Council owned 60% of the land and if the scheme did not proceed the Council

could sell the land. This project, however, involved reputable companies. The Council would have a better idea in three or four months time.

The reference to the Olympics and Paralympics was to ensure that there was a friendly experience for those visitors staying in and around Watford.

One Member referred to the service delivery section and that it appeared to refer to cuts rather than income generation.

The Portfolio Holder responded the opportunity for a growth in income was limited. The major generation for income was tied into property and retail lettings. There was a limited growth in this area due to the current economic climate. It was therefore necessary to look at a reduced cost base.

RESOLVED –

that the Strategic Risk Register at Appendix 1 of the report be approved.

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#### **INTERNAL AUDIT STRATEGY AND ANNUAL WORK PLAN FOR 2012/13**

The Committee received a report of the Audit Manager which set out the Audit Strategy and Annual Work Plan for the coming financial year.

Following a Member's comment about cyber crime, the Audit Manager advised that the IT audits had not been completely scoped. He said that ethical hacking was an area that could be considered.

RESOLVED –

that the 2012/13 Internal Audit Strategy and Annual Work Plan be approved.

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#### **IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS**

The Committee received a report of the Audit Manager which set out the progress with the implementation of Internal Audit's recommendations.

The Audit Manager informed the Committee that the information contained within his report had been summarised from the responses. The completed updates table contained 36 pages. He asked Members whether they wished to see the full table at future meetings.

The Committee agreed that future reports should include the full table of updates.

RESOLVED –

1. that the report be noted.
2. that future reports to the Committee include the full table of updates.

**INTERNAL AUDIT PROGRESS REPORT**

The Committee received a report of the Audit Manager updating Members on the work undertaken by Internal Audit on the 2011/12 Audit Plan.

Richard Lawson asked for assurance that the year end reconciliations would be carried out.

The Portfolio Holder replied that he would not be pleased if this process was not completed. He referred to the penultimate paragraph on page 101 of the report. Reconciliations needed to be carried out properly. This was how the Council could get into difficulties, as had happened in the past.

RESOLVED –

that the contents of the report be noted.

Chair

The Meeting started at 7.00 pm  
and finished at 8.15 pm