

Final

## AUDIT COMMITTEE

16<sup>th</sup> March 2011

Present: Cllr I Brown (Chair)  
Cllrs Brodhurst, Martins and Poole

Also present: Councillor Wylie      Portfolio Holder for Finance  
Paul Dossett      Grant Thornton  
Richard Lawson      Grant Thornton  
Maryum Malik      Director, Sector

Officers      Head of Strategic Finance  
                  Head of Legal & Property (for items AUD31-34)  
                  Head of Finance (Shared Services)  
                  Finance Manager (Shared Services)  
                  Audit Manager (Shared Services)  
                  Democratic Services Manager

### AUD31      **APOLOGIES FOR ABSENCE/COMMITTEE MEMBERSHIP**

10/11

Apologies were received from Councillor Mortimer.

### AUD32      **DISCLOSURE OF INTERESTS**

10/11

There were no disclosures of interest.

### AUD33      **MINUTES**

10/11

The minutes of the meeting held on 12<sup>th</sup> January 2011 were submitted and signed.

### AUD34      **FREEDOM OF INFORMATION**

10/11

At the last meeting the Committee had invited the Head of Legal & Property Services to attend this meeting to talk about the process for dealing with FOI requests.

The Head of Legal & Property Services explained what happened when an FOI was received by the Council. Most came in by email to the Customer Service Centre and were then passed on to the relevant department's Customer Liaison Officer who acted as the departmental co-ordinator for such requests. They were responsible for ensuring that the request was seen and dealt with by the appropriate officer for monitoring progress and co-ordinating the response. All requests were logged on the Council's Lagan CRM system and the response was sent out in the format requested by the person submitting the FOI (where possible). Where the request was from a news agency, a copy of the response was also sent to the Communications Team. There was often a trend with enquiries and the same questions were sent to a number of authorities, for example land charges and councillors' allowances.

The process for dealing with FOIs varied from authority to authority; some had a single point of contact or even a dedicated team. The process used at Watford

worked well as a large number of FOIs were received and having requests disseminated to the relevant departments helped to spread the workload.

In response to a question about exemptions, the Head of Legal & Property Services explained that the majority did not apply to local authorities but were more relevant to central government. She outlined the exemptions that did apply to local government but explained that ultimately it was still necessary to consider whether or not it was in the public interest to disclose the information.

A Member asked about the publication of FOI requests and responses. The Head of Legal & Property Services responded that, as the Council's FOIs were dealt with by the individual departments, it would be difficult to publish all the responses. The nature of the response and whether a response had been given was stored on the system; it did not, however, include a full history. If Members were interested in a particular request, information could be provided.

In response to a further question, the Head of Legal & Property Services confirmed that if a member of the public wanted information about a particular answer it would be dealt with as a further FOI.

The Chair thanked the Head of Legal & Property Services for attending the meeting to talk about FOIs and answering Members' questions.

AUD35  
10/11

## **INVESTMENT PERFORMANCE**

Maryum Malik, Director of the Council's Financial Advisors - Sector, gave a presentation on the Council's investment performance. She covered areas such as UK interest rate forecasts and information on the creditworthiness of the Council's counterparties. The Council's investments totalled £36,910,000 for which it received an overall interest rate of 1.25% (compared to the current average interest rate earned by her other local authority clients of 0.8%.) This demonstrated that the Council had done well with its investments.

In response to a question from the Chair, Maryum said that she met with the Head of Strategic Finance twice a year to review the position although regular telephone/ email contact was maintained. The Head of Strategic Finance added that Sector were always available for questions about new products and other enquiries.

He went on to explain that a medium level of risk was adopted by the Council as opposed to a low risk strategy which would put the portfolio with the Government Debt Management Account which only paid a 0.4% rate of interest.

Maryum stressed the importance of not putting all the investments in one place and also having some liquid assets available to invest should interest rates start to improve. She confirmed that the Council's portfolio was average risk and was well spread.

A Member asked whether it was possible to invest directly in the markets. Maryum explained that it was possible to invest in bonds but any investments had to be in the spirit of the Guidance and ensure return of the original investment; interest was a secondary consideration for local authorities. Bonds

were AAA rated but the issue related to interest rates and the risk if the money needed to be withdrawn before the maturity date. She advised that, with regard to the Council's investment with the Co-operative Bank, there were a couple of money market funds which were now yielding slightly higher and which the Council may wish to consider as an alternative.

The Chair thanked Maryum for a very informative presentation.

AUD36  
10/11

### **TREASURY MANAGEMENT STRATEGY AND TREASURY MANAGEMENT PRACTICES FOR 2011/12**

The Committee received a report on the Council's proposed Treasury Management Strategy for 2011/12 together with details on Treasury Management Practices.

The Finance Manager (Shared Services) presented the report which, she explained, followed on from the presentation just received from Sector. Council approval had to be sought to agree a temporary borrowing limit should the need arise. Such a facility would only be used in the short term.

She also drew Members' attention specifically to the information in the report relating to the use of additional information other than credit ratings including, for example, Credit Default Swaps, negative rating, watches/outlooks which would be applied to compare the relative security of differing investment counterparties.

### **RESOLVED**

That the following key elements be **recommend to Council**:

1. The Prudential Indicators and Limits for 2011/12 to 2013/14 contained within Appendix A of the report, including the Authorised Limit Prudential Indicator.
2. The Minimum Revenue Provision (MRP) Statement contained within Appendix A of the report which sets out the Council's policy on MRP.
3. The Treasury Management Strategy 2011/12 to 2013/14, and the Treasury Prudential Indicators contained within Appendix B of the report.
4. The Investment Strategy 2011/12 contained in the Treasury Management Strategy (Appendix B), and the detailed criteria included in Annex B1 of the report.

**ACTION:** Head of Strategic Finance

AUD37  
10/11

### **AUDIT PLANNING UPDATE 2010/11**

The Committee received Grant Thornton's audit planning update for the financial year 2010-11. It set out the work they would deliver in discharging their responsibilities to give an opinion on the Council's financial statements and a conclusion on the Council's arrangements for achieving value for money.

Final

Richard Lawson presented the report and explained that they would be providing comment on the Council's accounts and value for money. Specific risks identified included the adoption of IFRS and financial performance pressures.

In response to a question about how IFRS sat with the work done by Grant Thornton, Richard confirmed that they would ensure compliance and that the Council was heading in the right direction. Specialist technical support would be available to the Council as required.

RESOLVED

that the report be noted

AUD38  
10/11

### **CERTIFICATION WORK REPORT 2009/10**

Various grant-paying bodies required external certification of claims for grant or subsidy and returns of financial information. As Watford Borough Council's external auditors, Grant Thornton undertook certification work at the Council, acting as an agent of the Audit Commission.

Richard Lawson presented the report. For the financial year 2009/10, they had certified 3 claims and returns for the Council. Performance in preparing claims and returns had slightly improved since 2008/9 which provided further evidence that the shared service with Three rivers DC was gradually embedding.

It was noted that the DWP had now closed off the previous Housing Benefit claim and therefore no provision was required in the accounts for claw back.

He drew the Committee's attention to the issues highlighted in the report relating to Housing and Council Tax Benefit Scheme and National Non Domestic Rates. Changes to staff and systems over the past year had also had an impact.

The recommendations in Appendix B of the report had been agreed with management along with the implementation dates.

RESOLVED

that the report be noted

AUD39  
10/11

### **REVIEW OF THE COUNCIL'S ARRANGEMENTS FOR SECURING FINANCIAL RESILIENCE**

The Committee received Grant Thornton's report on the draft specification for agreement with management.

Paul Dossett presented the report which he explained was about Council spending plans in the light of the Spending Review and other challenges. It also tested some of the assumptions the Council was making in its MTFS around issues such as savings, inflation, fee increases etc. It would act as a driver for the value for money conclusion in September and if adequate plans were in place the Council should expect an unqualified value for money conclusion.

The Head of Strategic Finance referred to a very detailed questionnaire which they would start working on the following week. The Portfolio Holder spoke about the strategic ratio and the need to bear in mind that Watford, as a sub regional centre, serviced a much wider area than its Council Tax base. Additional comments to this effect needed to be included.

The Committee was asked to note that the Audit Commission had recently released the individual fees for Councils for 2011/12 and the Watford BC audit fee had been set at £114,000, a reduction of 5% on the 2010/11 fee. The Audit Commission had also published arrangements for rebating councils for fees in respect of both 2010/11 and 2011/12 which meant the net fee paid would be less than the published scale fees.

RESOLVED

that the report be noted.

AUD40  
10/11

**UPDATE ON THE PROGRESS OF THE IFRS RE-STATEMENT.**

The Finance Manager (Shared Services) introduced a report which followed on from the Implementation of International Financial Reporting Standards report dated 13<sup>th</sup> January 2010 and updated the Audit Committee about the progress the Council had made in restating the accounts following the introduction of International Financial Reporting Standards (IFRS) to local government. It highlighted for Members what had been done to date by officers; the major substantive changes and what effects it would have on the authority.

The Chair referred to the changes in some of the terminology. In response the Finance Manager gave examples such as “fixed asset” now “long term” and “stock” now “inventory”. She added that the look would be different but the balance sheet similar. There would be more opportunity for analysis of revenue.

In response to a question about the collection of employee benefits, the Finance Manager explained that this related to benefits such as annual leave and TOIL which may have accrued and may have to be paid for if an employee left the authority. The Portfolio Holder added that this information could be quite difficult to gather and collate and was dependent on having accurate systems in place.

RESOLVED

that the Committee notes the report and periodically monitors the progress of the implementation of IFRS in the Council by way of future reports to Committee.

ACTION: Finance Manager (Shared Services)

AUD41  
10/11

**INTERNAL AUDIT ANNUAL WORK PLAN 2011/12**

Before inviting the Audit Manager to introduce his report the Chair advised the Committee that this was Barry Austin’s last meeting as he was retiring at the end of March. On behalf of the Audit Committee he expressed his thanks to Barry for

the hard work he had done and support he given the Committee over the years.

The Audit Manager presented a report setting out an interim Internal Audit Work Plan for the coming financial year for Watford BC and Three Rivers DC. He had prepared the report as he was leaving the Council and arrangements for the future provision of internal audit had not been finalised. This plan would enable the work to continue but he advised it may need to change at a later date.

A Member commented on the significant contribution made by the Audit Manager and stressed the need for internal audit to continue to be robust. The Head of Strategic Finance endorsed these views and commented on how dependent the external auditors were on the internal audit service.

**RESOLVED**

that the interim 2011/2012 Internal Audit Work Plan be approved.

AUD42  
10/11

**IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS**

The Committee received a report highlighting any lack of progress in implementing Internal Audit recommendations.

**RESOLVED**

that the contents of the report be noted.

AUD43  
10/11

**INTERIM INTERNAL AUDIT ANNUAL REPORT 2010/11**

The Committee received the Audit Manager's Interim Annual Report on the work of the Internal Audit Service for 2010/2011 and his opinion of the adequacy and effectiveness of the Council's control environment. He advised that this report would normally be presented in June and any changes would be reported to that meeting.

A number of issues relating to the key financial systems had been highlighted in the report. Officers and Members were aware of the issues which were being addressed and the position should improve.. The Head of Strategic Finance added that, for Shared Services to be wholly effective, it was necessary for both authorities to use the same software platforms and changing software inevitably caused disruption. Watford and Three Rivers systems were different and there had been significant issues to be resolved. Regular meetings were taking place regarding these system changes and it was anticipated that by the time of the external audit all issues highlighted by the Audit manager would have been resolved.

The Portfolio Holder advised that the reconciliation issues had been discussed at the Shared Services meeting. The Council was very sensitive to reconciliation problems due to issues which had arisen in the past.

The Finance Manager (Shared Services) confirmed that there had been some problems with bank reconciliations and with the way information was being imported. Reports from the income management system were, however,

regularly being looked at and reconciled with the ledger. Revenues and Benefits also looked at what was coming from Income Management and going to Revenues and Benefits. The situation should be up to date by 31<sup>st</sup> March 2011.

The Portfolio Holder advised that a review of infrastructure had been carried out. Issues such as server needs, capacity building and, capital spend had been identified. They were also looking at protocols to protect security and future resilience.

RESOLVED

that the contents of the interim annual internal audit report be noted.

AUD44  
10/11

## **RISK MANAGEMENT STRATEGY**

The Committee received an update on risk management across the Council. It was structured in three parts:

- Quarterly report of the Corporate Risk Manager
- Risk Management Strategy
- Future arrangements for risk management

The Head of Strategic Finance introduced the report. He stressed the need for risk management to be embedded throughout the authority. The risk element had to be considered in each project and the standard report template included a paragraph on potential risks.

He explained that the Risk Management post had been deleted following the service prioritisation process and he would be taking on the lead responsibility for risk management and business continuity. He spoke about the training exercise referred to in the Corporate Risk Manager's report and stressed the need to carry out such exercises on a regular basis. A budget of £10K had been retained to ensure the continued dissemination of good practice across the authority.

The Committee would have an opportunity to look at the Corporate risk register at its June meeting.

The Portfolio Holder advised all Members to be aware of their responsibility in ensuring that all identified risks had been considered as part of the decision making process and seeking clarification from the Portfolio Holder if risks were not specifically identified in reports. The Committee agreed that an article to this effect should be placed in the Members' Bulletin along with Appendix A of the report which gave an explanation of the scoring risk and how it was represented.

RESOLVED

1. that the quarterly report and future arrangements for risk management be noted.
2. that the Risk Management Strategy be approved.

3. that an article be placed in the next Members' Bulletin as agreed by the Committee.

ACTION: Member Development & Civic Events Officer

AUD45  
10/11

### **REVIEW OF REVENUES AND BENEFITS HEALTH CHECK**

The Committee received a report providing an up to date picture of the recommendations made by ISCAS Ltd in their review of the Revenues & Benefits Service conducted in August 2010.

The Head of Strategic Finance said that this report was very much about work in progress but good progress had been made. There would be a further report in June.

The Portfolio Holder referred to the recommendation to either write off debts or re-instate committal proceedings unless it was uneconomical to do so. He said this issue had also been discussed by Shared Services and consideration was being given on whether there should be more write offs.

He added that, whilst a lot of work was being done, some would not progress until the income system was fully integrated between the two authorities. He said that the health check had proved to be a useful benchmark.

### **RESOLVED**

that the report be noted

AUD46  
10/11

### **INTERNAL AUDIT – FUTURE ARRANGEMENTS**

The Committee received a preliminary report regarding the future provision of an internal audit service.

The Head of Finance (Shared Services) introduced the report. A report had also been submitted to the Shared Services Joint Committee and a copy of the report to that committee had been circulated. This report contained a number of options which had been considered.

The Chair warned of the risk of diluting the service too much and another member added that he would like to see a good business case accompanied by a risk assessment to support any reduction in audit resource.

A Member asked about compatibility of software and whether this was likely to be an issue if the Council entered into a partnership with another authority. The Portfolio Holder responded that this was not really an audit issue but that different versions of the same system were obviously not ideal. Harmonisation was being looked at so that the potential for sharing services could be explored. Other issues such as contracts, staff training and pensions also needed to be taken into account.



Final

RESOLVED

1. that one of the current 3 audit staff be appointed as an interim manager in the short term.
2. that options for the provision of a fully resourced audit service continue to be explored and a report be made to the next meeting of this committee.

ACTION: Head of Finance (Shared Services).

Chair  
Audit Committee

The meeting started at 7.30 p.m.  
and ended at 9.45 p.m.