

THREE RIVERS DISTRICT COUNCIL

At a meeting of the **Audit Committee** held in the Penn Chamber, Three Rivers House, Rickmansworth, on Tuesday 28 June 2016 from 7.30pm to 9.17pm.

Present: Councillor Sarah Nelmes (Chairman), Steve Drury (Vice Chairman), Joy Mann, Eric Bishop, Angela Killick, Joan King.

Also in attendance:

Chris Wood	Shared Internal Audit Service (SIAS)
Andrew Brittain	EY
Joanne Wagstaffe	Director of Finance
Nigel Pollard	Section Head – Accountancy
Sarah Haythorpe	Principal Committee Manager
Mike Simpson	Committee & Web Officer

Apologies for absence were received from Councillor David Coltman and Hannah Ormston (EY).

AC 01/16 MINUTES

The Minutes of the meeting of the Audit Committee held on 22 March 2016 were confirmed as a correct record and signed by the Chairman.

AC 02/16 NOTICE OF OTHER BUSINESS

The Chairman was asked to accept four late items that had not been available for five clear days before the meeting:

- **Agenda item 5 – slides on the effectiveness of the Audit Committee**
- **Agenda item 10 – Internal Audit Recommendations**
Appendices 3 to 9 - Progress against Outstanding Internal Audit Recommendations, including update reports on recommendations relating to Health and Safety, Asset Management and Diesel Usage
- **Agenda Item 14 – Draft Statement of Accounts for 2015/16**
Draft Statement of Accounts for 2015/16 – Appendix 1
- **Agenda Item 16a – Annual Audit and Certification Fees Letter**

The Chairman noted the concerns of the Committee regarding the late reports, but it was agreed to take the Agenda items 5, 14 and 16a, and that an extra meeting of the Audit Committee should be convened for late July in order to address the issues in Agenda item 10 in more detail. It was also noted that the three missing reports were also to be brought back to the additional meeting and Officers were requested to attend to present their reports.

AC 03/16 DECLARATIONS OF INTEREST

None received.

AC 04/16 AUDIT COMMITTEE EFFECTIVENESS

The Internal Auditor made a presentation on Audit Committee Effectiveness, which explained the role and purpose of the Committee, looked at a Model of Audit Committee Effectiveness, examined the basics of a good Audit Committee and the characteristics of what makes for an effective Audit Committee.

The Vice-Chairman said that in order to execute the duties of an effective Audit Committee, Members needed to receive reports in a timely fashion.

The Chair particularly noted the idea of an annual review of Audit Committee effectiveness and the presentation of an annual report to Full Council to promote and account for the work and value of the Committee. SIAS was requested to provide some example reports demonstrating good practice in this regard.

RESOLVED:-

That the Committee noted the contents of the Internal Auditor's presentation.

AC 05/16 RISK MANAGEMENT STRATEGY

The Committee was informed that the Risk Management Strategy report was to be presented at the meeting of the Audit Committee on 27 September 2016 prior to the Policy & Resources Committee in October 2016, to coincide with the annual service planning and risk management group.

RESOLVED:

That the report on Risk Management Strategy be presented to the Audit Committee at their meeting on 27 September 2016.

AC 06/16 FINANCIAL AND BUDGETARY RISKS

This report detailed the Council's financial and budgetary risks. It was stated that item 19, relating to South Oxhey, was added recently, and item 10 regarding interest rates would be covered later in the meeting. Although the report was compiled prior to the Brexit vote on 23 June 2016 there had been no update since the last report.

In response to a question from a Member, the Section Head-Accountancy explained that budgets were cash limited in order to reduce the prospect of increasing spending by Council departments.

The Chairman said that she had previously asked that the Council's financial risks, due to the well-documented IT issues, be included on the register and it had not happened. She asked if the risk could now be included. Officers confirmed it could be and confirmed that both the South Oxhey and IT risks would be updated in time for the additional meeting.

The Section Head - Accountancy suggested that Capita Treasury Management be invited to make a presentation on financial matters at a future meeting, either July or September. The Committee agreed this suggestion.

The Vice-Chairman stated that the financial impact of Britain's withdrawal from the EU would be known in October, but it was argued that the monetary effect may be known sooner, perhaps by late July.

RESOLVED:-

- 1) That the financial and budgetary risks report be noted; and
- 2) That an additional meeting of the Audit Committee be scheduled for late July 2016.

AC 07/16 FRAUD ANNUAL REPORT

The Fraud Manager presented the Annual Fraud Report and highlighted data-matching and tenancy fraud as being particularly significant issues. He added that the telephone hotline had proved to be the most preferred method of communication with the public, and invited questions from the Committee.

A Member asked about the disparity in administrative penalties applied in Three Rivers and Watford. The Fraud Manager explained that it was necessary for an offender to agree to accept an administrative penalty, and more in Three Rivers did so.

Another Member asked whether the Council is compensated financially when cases of tenancy fraud are identified. The Chairman replied that although there is no direct cash gain, the Council benefited by the further availability of housing stock which resulted in reduced costs for temporary accommodation.

A Member asked why as many as 122 of 318 cases were rejected by the Fraud Team, to which the Fraud Manager replied that in such cases there was insufficient evidence to prosecute, but details were often passed to other agencies for following up.

RESOLVED:-

that the report by the Fraud Manager be noted.

AC 08/16 INTERNAL AUDIT ANNUAL REPORT 2015/16

The Audit Manager presented the Internal Audit Annual Report by SIAS and identified significant points for the Committee's attention. In discussing the Moderate overall assurance opinion for non-financial systems, the Audit Manager noted that there was a substantial improvement over the previous year for operational audits but drew attention to the status of IT matters during 2015/16 which affected the assurance opinion.

In response to a Member question, the Director of Finance stated that IT stability issues had not affected the main financial systems, and IT stability tended to impact Revenue and Benefits, which used several different IT systems.

RESOLVED:-

That the contents of the annual internal audit report and the annual assurance statement be noted.

That the results of the self-assessment as required by both the Public Sector Internal Audit Standards and the Quality Assurance and Improvement Programme be noted.

That the SIAS Audit Charter 2016/17 be accepted.

That the assurance from management that the scope and resources for internal audit were subject to no inappropriate limitations in 2015/16 be noted.

AC 09/16 INTERNAL AUDIT RECOMMENDATIONS

The SIAS Internal Audit Progress Report was received which, amongst other things, detailed progress made in implementing the recommendations of the Internal Auditor.

The Chairman of the Committee provided an overview of the function of the Audit Committee in relation to the internal and external audit recommendations for the benefit of the new Members. The status of the recommendations is reported to each Committee. The recommendations arise from the work of the auditors following discussions with management, at which point deadlines are agreed. These deadlines are monitored by the Committee to ensure they are met, and require good reasons to extend them. Recommendations in Appendices 3 to 9 of the report that have been implemented are removed after their status has been reported. The Committee's role is to hold officers to account for the documented actions.

The Chairman stated that some unsatisfactory deadline-related issues had been identified by the Audit Committee at the previous meeting, which had not been addressed by officers. Officers had not attended the Committee as requested, explanatory reports which were requested had not been produced in a timely manner to permit adequate consideration by the Committee, and deadline extension refusals had not been observed.

The Director of Finance responded that one of the officers involved was not currently at work, but agreed that the situation must be improved.

The Chairman reiterated that extended deadlines which had not been agreed by the Committee were not permissible, and that 'not yet due' on the report was not acceptable either. Updates should be provided even where the agreed management action is 'not yet due'.

As Appendices 3 to 9 - Progress against Outstanding Internal Audit Recommendations had not been available to Members for five clear working days, and given the detail contained therein, Members felt that Appendices 3 to 9 should not be accepted at the meeting, and that a revised version should be presented at the next meeting.

In discussing the 19 IT Audit recommendations contained within Appendices 3 to 9, the Audit Manager informed the committee that at the last meeting, the Head of Finance, in conjunction with SIAS, undertook to review the recommendations related to IT and consider whether any could be deleted. It was recognised that

given the period of time that has elapsed since the audit reports were originally published, the changing status of IT service delivery at the Council and the constantly evolving digital landscape, that many of the previous comments and actions, while sound in principle, are now largely out of date and /or no longer relevant.

It was concluded that the management comments and actions would be removed. The information was still available in previous reports to the committee. The original recommendations would be re-tested during the first IT audit of 2016/17.

The Chairman suggested elements of the report were rejected. The Audit Manager noted the comments of the Chairman, and agreed that the Internal Audit recommendations in Appendices 3 to 9 should be presented to the next Committee meeting to be convened in July 2016, but that the main body and Appendices 1 and 2 of the report remained relevant as they had been available to the Committee in good time. Key aspects were highlighted to the Committee.

RESOLVED:-

That the Internal Audit Progress Report for the period to 10 June 2016 be noted.

That the amendments to the Audit Plan as at 10 June 2016 be approved.

That the contents of the Internal Auditor's recommendations at Appendices 3 to 9 be noted but deferred consideration of the appendices to the next Committee meeting where an updated version would be presented.

AC 10/16 EXTERNAL AUDIT PROGRESS REPORT

The External Auditor (EY) presented the report, during which it was stated that EY worked closely with SIAS, and thanked officers and management for their co-operation.

The External Auditor identified Journal Testing as an area that required a good looking at, as were IT General Controls. Ideally ITGCs could be relied upon but based on the findings of the audit this was not the case.

EY would be on site at Three Rivers House from Monday 4 July to begin the next external audit, and would report at the meeting in September, or possibly at the one in between.

It was stated that a further significant risk had been added, IFRS13, which related to the evaluation of investment properties, and this would be the focus of some attention during the upcoming audit.

RESOLVED:-

That the contents of the external auditor's reports be noted.

AC 11/16 TREASURY MANAGEMENT ANNUAL REPORT 2015/16

The Section Head – Accountancy reported on how the Council invested its cash reserves in order, amongst other things, to keep Council Tax down.

The Council adhered to a SLY policy of investment, meaning Security, Liquidity and Yield. Reserves were invested in UK based Building Societies and Lloyds Bank, for periods of between three and six months to allow instant access to funds if necessary, and to obtain the best available return on investments.

A limit was imposed on how much was invested with any one institution, thereby reducing risk, and in the past year the Council achieved .68% interest on its investments, compared to target earnings of .62%.

Although the UK could be entering an uncertain period following the EU referendum a change of financial strategy was not being considered at this time.

A Member asked who set the £9 million borrowing limit mentioned in the presentation, and the Section Head replied it was the Council.

The Chairman confirmed that the Council's approach to financial risk was one of caution, and the Director of Finance added that in future the Council would consider investing in other commodities, such as property, in order to achieve a better return.

RESOLVED:-

That the Treasury Management Annual Report be approved.

AC 12/16 ANNUAL GOVERNANCE STATEMENT (AGS) 2015/16

The Section Head – Accountancy presented the Annual Governance Statement and said there was little change since the previous one. SIAS had found no significant changes that required mentioning.

It was suggested the Members read the report in full and submit any questions they had.

RESOLVED:-

That the Annual Governance Statement be noted and that Members submit any questions to the Section Head – Accountancy.

AC 13/16 DRAFT STATEMENT OF ACCOUNTS FOR 2015/6

The Director of Finance presented the Draft Statement of Accounts and said it was to be finalised and sent to the External Auditor within the next week.

RESOLVED:-

- 1) That the draft Statement of Accounts for 2015-16 for approval at a later date be noted; and
- 2) Noted the new accounting deadlines that would apply in May 2017-18, for auditing in July 2018, and that this should be considered when scheduling meetings of the Audit Committee.

AC 14/16 COMMITTEE'S WORK PROGRAMME

The report was presented to the Committee by the Director of Finance, who said that the Annual Governance Statement Action Plan update would be included at the September meeting.

The Director of Finance asked when Members would like to receive the Annual Report, and it was agreed that March 2017 would be appropriate, to coincide with the end/start of the Financial Year.

RESOLVED:-

That the contents of the Work Programme be noted.

AC 15/16 ANNUAL AUDIT AND CERTIFICATION FEES

The External Auditor presented details of the fees charged by EY for Audit services, and said that charges payable were set by Public Sector Audit Appointments Ltd., and not EY.

The Director of Finance informed the Committee that, in future, the Council would be able to appoint the External Auditor of its own choice.

RESOLVED:-

That the External Audit fees be noted.

CHAIRMAN