

THREE RIVERS DISTRICT COUNCIL

At a meeting of the **Audit Committee** held in the Penn Chamber, Three Rivers House, Rickmansworth, on Tuesday 22 November from 7.30pm to 8.45pm.

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

Also in attendance:

Chris Wood	Shared Internal Audit Service (SIAS)
Hannah Ormston	EY
Joanne Wagstaffe	Director of Finance
Bob Watson	Head of Finance
Phil King	Emergency Planning & Risk Manager
Chris Roberts	Finance Business Partner (WBC projects)
Mike Simpson	Committee & Web Officer

Apologies for absence were received from Councillor David Coltman, and Andrew Brittain (EY).

AC 33/16 MINUTES

The Minutes of the meeting of the Audit Committee held on 27 September 2016 were confirmed as correct records and signed by the Chairman.

AC 34/16 NOTICE OF OTHER BUSINESS

There was no other business.

AC 35/16 DECLARATIONS OF INTEREST

There were no declarations of interest.

AC 36/16 FINANCIAL AND BUDGETARY RISKS

The Head of Finance introduced the standard report which enabled the committee to monitor the Council's financial and budgetary risks. The primary point of note was the downgrading of the risk following the Council's acceptance of the Government's offer of a four year grant settlement. The Head of Finance said that 95% of local authorities accepted the offer.

The Vice-Chairman asked whether it was known which councils had not accepted the Government's offer and whether it would be possible to monitor the consequences. The Director of Finance replied that there was no published list of non-complying local authorities but if details of the 5% became available they would be shared with the committee.

RESOLVED:-

That the latest position regarding Financial and Budgetary risks be noted.

AC 37/16 ANNUAL GOVERNANCE STATEMENT (AGS) – ACTION PLAN UPDATE

The Head of Finance presented the AGS Action Plan update and drew the Committee's attention to the two outstanding ICT-related actions that were to be reviewed by the Internal Audit Service..

RESOLVED:-

That the implementation of the Action Plan resulting from the Annual Governance Statement be noted.

AC 38/16 EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER

The external auditor presented the report produced by EY and stated that its contents would be familiar to the Committee, and that an unqualified opinion was given. A certificate confirming completion of the audit of the Council was issued on 29 September.

The external auditor reminded the committee of the key change in audit regulations whereby from the 2017/18 financial year the timetable for the preparation and approval accounts would be brought forward, meaning that the Council would need to produce draft accounts by 31 May for auditing by 31 July 2018.

In reference to appendix A she added that the Audit fees for 2015/16 were agreed.

The Chairman asked for reassurance from the Head of Finance and Director of Finance that officers were comfortable with the earlier audit deadlines, to which the Head of Finance replied that he was, and that the timetable would be adjusted to allow for the earlier deadline.

The Director of Finance added that EY was to be represented at the upcoming meeting of Hertfordshire Chief Financial Officers (HCFO) when the matter of the earlier deadline will be discussed.

RESOLVED:-

That the external auditor's Annual Audit Letter be noted.

AC 39/16 INTERNAL AUDIT PROGRESS REPORT – 2016/17

The Internal Audit Manager presented the report, commencing with the progress in implementation of outstanding internal audit recommendations. He indicated that general progress in the implementation of recommendations was good, and overall the Council's performance was strong in this area. He highlighted the three recommendations relating to the 2016/17 Corporate Credit Card audit, where extensions to implementation dates had been requested, as well as the twelve recommendations, mainly IT related, where no updates had been provided for the meeting.

The Chairman asked whether Members of the Committee had any questions, and a Member observed that progress relating to ICT in 2016 was notably absent.

The Director of Finance replied that there was a range of outstanding IT issues, and that Emma Tiernan, ICT Client Section Head was now back at work following maternity leave and was working through them. Emma believed it unlikely that

existing targets would be met in view of the extent of the review and had asked for deadline extensions although the Director of Finance would discuss shortening the length of the extensions.

The Member expressed concern that the Council was too reliant on one person working three days per week. The Director of Finance said that Kevin O'Brien was covering IT issues in Emma's absence, and that it was necessary to reset the IT project. To that end a company was due to start work imminently on providing an IT strategy for the Council.

The Director of Finance added that Emma was reluctant to commit to deadlines that could not be delivered.

The Chairman suggested it would be useful to have sight of the programme as it progressed, and the Director of Finance said that some details of the strategy would be available in early December. In response to the question of which Committee such information would be made available to, she said it would be seen by the IT Steering Group, the Leadership Team at WBC and the Management Board at Three Rivers.

The Chairman said she would like reassurance as to the security of the system, to which the Director of Finance replied that it was relatively secure, but it was not possible to ensure 100% system security. The Council's IT was not considered insecure, and she was happy with what had been done to date.

The Member suggested that Watford and Three Rivers would have different ICT priorities, and the Director of Finance said that for audit purposes the recommendations would be the same.

Reference the heading Asset Management 2014/15 there was concern that the new version of Uniform was unavailable, and the Director of Finance assured the Committee that the project was in the process of being completed.

The Vice-Chairman said that the delay in achieving implementation target dates for the 2014/15 Enforcement recommendations, including Licensing, would be addressed when a new Licensing Officer was appointed, and no extension request had been received. Any request for an extension to the deadline date would be referred to the Head of Finance and Director of Finance.

The Chair identified that with regard to the 2015/16 Contract Management recommendations, no extension to the target date had been requested. The Audit Manager indicated that a revised and updated response had been received from Watford Borough Council subsequent to the Audit Committee cut-off date that covered both local authorities represented on the shared Contract Management Forum. This indicated that the draft risk guidance and risk log would be completed by February 2017, following the roll out of a process culminating in Lunch and Learn sessions.

The Chairman said that this was in effect an extension request without actually asking for it, and asked the Committee whether it believed it was reasonable to grant an extension until March 2017, to which Members agreed.

With regard to Corporate Credit Cards 2016/17, the Head of Finance and Director of Finance gave assurances to the Committee that the recommendations would be completed this week.

The Audit Manager proceeded to verbally update the performance data in the SIAS Progress Report, given that 2.5 weeks had elapsed since the paper was published. Delivery of billable days had moved on to 49% as at 22 November 2016. The

internal auditor asked whether there were any questions in relation to his report. The Chairman asked whether the internal auditor himself was happy that SIAS was on target to meet its plan delivery objectives, to which he- replied that the service was experiencing challenges relating to both planned and unplanned sickness absence, maternity leave and vacancies. This was being offset by utilising BDO, SIAS's co-sourced delivery partners. It was anticipated that there would be sufficient delivery to supplement the annual Head of Assurance Opinion. This had already been reported to the SIAS Board members. The Audit Manager stated that he wanted to be upfront with the Audit Committee and manage expectations, even though it may be that delivery targets are indeed achieved.

RESOLVED:-

That the contents of the Shared Internal Audit Services progress report for 2016/17 be noted, and the matter of Contract Management be revisited if necessary.

AC 40/16 RISK MANAGEMENT STRATEGY

The Emergency Planning and Risk Manager presented the Risk Management report, and identified the increased values in the column headed 'Failure to provide statutory service/meet legal obligations' as being the only change to this annual report since 2007.

RESOLVED:-

That the Risk Management Strategy be noted and referred to the Policy and Resources Committee

AC 41/16 APPOINTMENT OF AUDITORS 2018/19 AND BEYOND

This report was presented by Chris Roberts, Finance Business Partner (Projects) who explained the new arrangements by which Councils were to appoint their own external auditors for 2018/19 accounts by 31 December 2017.

He said that the move would realise substantial savings, and Councils were offered four options by which auditors may be appointed. The most likely choice for Three Rivers was that by which responsibility was delegated to an Appointing Person, and was the option the Committee would be asked to recommend to Council.

The Vice-Chairman said it was logical for Watford and Three Rivers to have a shared audit, and the Director of Finance said the subject was discussed at a recent HCFO meeting when it was agreed both authorities would choose the same option, as having the same auditor would provide the best value.

The Vice-Chairman said it made sense to retain the services of the current external auditor as they were aware of how the Council work and in consideration of the revised deadlines. The Director of Finance said the Council would have no input in which company was appointed.

RESOLVED:-

That the Audit Committee noted the new arrangements for appointing an external auditor and agreed to recommend to Council opting in to the PSAA Appointing Person proposal.

AC 42/16 TREASURY MID-YEAR REVIEW

The Head of Finance presented the report which provided details of the 2016/17 Mid-Year Review of the Treasury Management function. He said the Council was still solvent but performance was lower than previous years due largely to lower interest rates.

The Council's financial situation was stable and there was the possibility of future growth if interest rates increased, but he said there were always suggestions of increased interest rates.

RESOLVED:-

That the report be noted.

AC 43/16 FINANCIAL PLANNING – TREASURY MANAGEMENT

The Head of Finance presented the report which, he said, must be referred to Council for approval.

There had been a sea change in terms of investments, and that this report was still embryonic with further changes very likely. The report was written in early November and there was already an amendment due to the changing interest rate situation.

The Head of Finance said that the Council was adopting a Property Investment strategy in order to increase the returns on its investments as the present financial

climate meant there was pressure on local authorities to do so. Other councils had adopted a similar strategy, as generally the value of property stabilises or increases. Furthermore, the Council would have the option of liquidating assets quickly by selling the property if capital was required.

The Head of Finance said the belief was that money was available to invest and realise an improved return. At present the Council invests heavily in banks and building societies, and diversification was required in order to improve capital returns.

A Member asked whether investment in property was at huge risk of a dip as the market was at the tip of a cycle. The Director of Finance replied that investment in property is a greater risk than cash but it would be over a longer term. Diversification was seen as a good means to increase returns, but the Council would err on the side of caution, and no properties had yet been identified.

The Member asked whether potential investment would be in commercial property rather than residential, to which the Head of Finance replied that commercial property was preferable as it was less risky, and that the Council would use core reserves for such investments rather than cash flow.

A Member asked if the Council was looking at other areas in which to invest in addition to property, and whether it was just looking at investment opportunities within the UK. In reply it was stated that the Council would look at UK based assets as fluctuating exchange rates would make overseas investment too risky, and the plan was to increase yield by investing over a longer term and was not looking at Government gilts and bonds etc.

RESOLVED:-

That the Audit Committee agreed to recommend to the Policy and Resources Committee and to Council the Treasury Management Strategy Statement.

AC 44/16 COMMITTEE'S WORK PROGRAMME

The Committee's Work Programme was presented and the Chairman said an IT update was required, and the Committee should have sight of a revised programme by the end of December. A Member said he was happy to wait longer if it meant that by doing so more answers would be available. The Chairman suggested setting of a deadline of mid-January 2017, but by which time it may be too late to request changes to the Work Programme.

The Director of Finance said that IT is a 'living, breathing' entity and was therefore constantly evolving and an update would be provided in March 2017. It was suggested the IT situation be monitored between meetings and fed back to her for inclusion in the Work Programme in March.

Contract Management, with reference to the roll-out of the updated Risk Register as noted earlier, was to be monitored and if necessary added to the Work Programme.

RESOLVED:-

That the Committee considered the additional items to be added to the Work Programme as noted above.

AC 45/16 OTHER BUSINESS

There was no other business.

CHAIRMAN