

MINUTES OF A MEETING OF THE
AUDIT COMMITTEE HELD IN THE
COUNCIL CHAMBER, WALLFIELDS,
HERTFORD ON WEDNESDAY 21
NOVEMBER 2012, AT 7.00 PM

PRESENT: Councillor J Ranger (Chairman)
Councillors W Mortimer, M Pope, N Wilson
and J Wing.

OFFICERS IN ATTENDANCE:

Lorraine Blackburn	- Democratic Services Officer
Simon Chancellor	- Head of Finance and Performance
Chris Gibson	- Manager of Corporate Risk
Paul Mitchell	- Principal Accountant
George A Robertson	- Chief Executive and Director of Customer and Community Services
Kevin Steptoe	- Head of Planning and Building Control Services
Adele Taylor	- Director of Finance and Support Services

ALSO IN ATTENDANCE:

Nick Taylor	- Grant Thornton
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430 TREASURY MANAGEMENT - TRAINING PRESENTATION

Following an earlier request by Members in developing the work programme for Audit Committee, a training presentation was provided by SECTOR on the Council's Treasury

Management strategy. SECTOR summarised the key variables influencing UK interest rates; SECTOR's interest rate forecast and those of Capital Economics/UBS; the credit environment; a review of the balance sheet; the current investment position and Fund Manager performance.

In response to a query by the Chairman concerning what the Council could invest in, SECTOR explained the key parameters for Councils' investment, as recommended by the Secretary of State. These included security, liquidity and yield. He explained investments for security usually meant lower levels of interest. The Chairman referred to some Councils which had invested in property. SECTOR explained that the Council could invest in property but that a different set of accounting rules and principles would need to be applied in terms of revenue and capital streams.

The Committee Chairman sought SECTOR's view concerning the optimum period of investment. SECTOR advised that the suggested duration with UK banks would be one year. In response to a query concerning investment in Gilts, SECTOR advised that there was no value in investing in Gilts but that Corporate Bonds would give a better return if the Council was moving away from security.

The Chairman referred to the Council's treasury meeting in January 2013. He thanked the Director of SECTOR for attending and giving his presentation to Members

RESOLVED – that the presentation be received.

431 APOLOGIES

An apology for absence was received from Councillor R Radford.

432 MINUTES

RESOLVED – that the Minutes of the meeting held on 19 September 2012 be confirmed as a correct record and signed by the Chairman.

433 CHAIRMAN'S ANNOUNCEMENTS

The Chairman, on behalf of Members welcomed Adele Taylor, Director of Finance and Support Services to the meeting.

The Chairman stated that, with Members consent, he intended to change the order of the agenda and take the urgent item of business first. This related to the Shared Internal Audit Services' report on Section 106 Agreements. This was supported.

434 URGENT BUSINESS

The Chairman explained that he had agreed that this item be included on the agenda for the meeting as an urgent item of business following the publication of the Shared Internal Audit Service report which had made a number of high priority recommendations.

435 SHARED INTERNAL AUDIT SERVICES - SECTION 106 AGREEMENTS

The Chairman referred to the fact that nearly £1Million had not been spent with the possibility that some of this might be clawed back.

The Head of Planning and Building Control explained the general approach to planning legal agreements. He explained that the area where services had been less effective was the process after the agreement had been signed, i.e. the implementation process. This might require the involvement of a number of service areas and which could take a number of years to see through.

The Head of Planning and Building Control explained that as a result of the audit, there had been rigorous monitoring of the long term process and an appropriate management response developed to each of the internal audit recommendations.

The Head of Planning and Building Control explained that there was some flexibility with regard to the use of income secured through the Section 106 process and that a lot

depended on the wording of the Section 106 agreement and how general or specific the wording was. By way of an example he explained that play and open spaces could be fairly focussed, but that housing provision would be more generalised as provision was district wide.

The Chairman suggested that planning agreements should be widely termed in order for the Council to retain flexibility. The Head of Planning and Building Control acknowledged this and explained the Council was obliged to observe and apply certain regulations in framing the Section 106 agreements.

In response to a query from the Chairman concerning the monetary split between the County Council and East Herts, the Head of Planning and Building Control explained that this was generally formulaic, with the County Council receiving a significant element. The Head of Planning and Building Control referred to the new Community Infrastructure Levy (CIL) which would be introduced in 2014 and what this would mean for the District Council.

In response to a query from Councillor J Wing, the Head of Planning and Building Control explained the “triggers” which alerted the Council that monies were owed to the Council, e.g. on signature of agreement, on occupation reaching 50% of housing.

The Head of Planning and Building Control guided Members through each of the Internal Audit recommendations and the appropriate Management Response.

In response to a query from Councillor J Wing, the Head of Planning and Building Control explained that approximately 20 Section 106 agreements were generated annually and their value ranged from £5,000 to more significant amounts running into several hundred thousand pounds.

Councillor J Wing suggested that there might be some merit in having a separate Section 106 Unit to ensure monies were spent. The Head of Planning and Building Control explained that, historically, the income from Section 106 agreements was between £50,000 to £100,000 per annum and that up

until the mid 1990s, the Council rarely had an agreement which had any financial arrangements or implications. Now there was a wider remit, this had changed matters, however, the overall element of workload remained modest given the overall numbers. The Head of Planning and Building Control explained that legal advice would have to be sought on a suggestion of the potential use of Consultants to use and manage the income. The issue of “ring fencing” certain projects was explained.

The Head of Planning and Building Control assured Members that the Shared Internal Audit Services recommendations were now being implemented. Council officers already undertook negotiations with developers on sites where Section 106 agreements were seen to be an excessive cost to the development. It was noted that reports on Section 106 agreements would be reported to Corporate Management Team quarterly. Members asked that the Head of Planning and Building Control report back in a year.

Members noted that the recommendations were being implemented and received the report.

RESOLVED – that the report be received.

436 EXTERNAL AUDIT REPORT ANNUAL AUDIT LETTER
2011/12

The External Auditor, Grant Thornton submitted their Annual Audit Letter for the year ended 31 March 2012. In summary, the main audit conclusions for the year were that the accounts gave a true and fair view of the Council’s financial affairs and of the income and expenditure recorded by the Council. Secondly, that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

The External Auditor advised that the public challenge of the accounts was still in process as legal advice was still awaited. This issue would be reported back to the next meeting.

In response to a query from Councillor M Pope about grants,

the External Auditor advised that there was nothing of significance and that any changes would be included within next year's timeframe.

The issue of internal borrowing was explained in terms of "disinvesting" and the loss of interest.

The Chairman, on behalf of Members, thanked the External Auditor for the Audit Letter. He also thanked Officers for supporting the audit process.

Members received the report.

RESOLVED – that the report be received.

437 COUNCIL'S RESPONSE TO ANNUAL AUDIT LETTER
2011/12

The Director of Finance and Support Services submitted a report responding to the issues raised in the Annual Audit letter 2011/12. The Head of Finance and Performance advised that action plans relating to the ISA 260 and arrangements for securing financial resilience were also addressed and set out in the report now submitted and supporting Essential Reference Paper "B".

The Head of Finance and Performance advised that he was content with the Auditor's recommendations and that Essential Reference Paper "B" of the report now submitted, set out the approach to be taken. It was anticipated that these actions would be in place within the next six months.

A typographical error was noted in the date for recommendation (1) in that it should show as "April 2013".

Members endorsed the response to the Annual Audit Letter and the action plans relating to the ISA 260 report and on the arrangements for securing financial resilience.

RESOLVED – that the response to the Annual Audit Letter and actions plans relation to the ISA 260 report and the report on arrangements for securing financial resilience be

approved.

438 EXTERNAL AUDIT REPORT - PLANNED AUDIT FEE
2012/13

The External Auditor had submitted a letter setting out the Planned Audit Fee for 2012/13. It was noted that for 2012/13 the Audit Commission had independently set the scale of fee. The fee for East Herts was £68,875 which was a 40% reduction on last year's fee.

The Chairman hoped that the Officers' support in the audit process had positively affected the fee process. The External Auditor was unable to say what next year's fee would be, but that it would be determined by the Audit Commission whose contract would end in 2017. The External Auditor explained that Paul Dossett had been "rotated off" the audit following his completion of seven years service.

Members noted the content of the letter.

RESOLVED – that the contents of the letter be noted.

439 UPDATE ON IMPLEMENTATION OF THE ANNUAL
GOVERNANCE ACTION PLAN

The Director of Finance and Support Services submitted a report in relation to 2011/12 Annual Governance Statement and the nine measures recommended to enhance East Herts Council's internal control framework during 2012/13, the detail of which was set out in the report now submitted.

The Manager of Corporate Risk updated Members on the two areas which had significantly changed since the last meeting of Audit Committee.

The Chairman expressed concern about IT and shared services and the need to spend a lot of money on new systems. The Chief Executive and Director of Customer and Community Services explained that North Herts had decided not to recommend the business case for shared services but that Stevenage Council was keen to work with East Herts. He

advised that Officers were in discussions with Stevenage.

Members noted the progress made against implementing the action plan contained in the 2011/12 Annual Governance statement and asked Officers to record Members' concerns around IT arrangements.

RESOLVED – that (A) the progress made against implementing the action plan contained in the 2011/12 Annual Governance statement be noted; and

(B) Members' concerns around IT arrangements be recorded.

440 RISK MANAGEMENT MONITORING REPORT 1 JULY TO 30 SEPTEMBER 2012

The Leader of the Council submitted a report setting out what action had been taken to mitigate and control strategic risks during the July to September 2012 period.

The Manager of Corporate Risk updated Members on changes to SR4 (Risk that investment and effort does not deliver benefits and returns in Shared Services) that will be made following the decision by North Herts not to share services. Secondly, SR7 (availability and performance of IT systems and resources impacting on service delivery) continued to be allocated a high risk rating.

The Manager of Corporate Risk explained that the Risk Management Strategy was currently being reviewed and that it was hoped to bring this to the next meeting.

Members noted the report and the action taken to mitigate and control strategic risks.

RESOLVED – that the action taken to mitigate and control strategic risks be approved.

441 WORK PROGRAMME

The Director of Finance and Support Services submitted a

report detailing the proposed work programme for Audit Committee. Members did not feel it necessary for any training to be delivered at the next meeting of Audit Committee but requested that Asset Management training be included on the agenda for the meeting on 13 March 2013.

RESOLVED – that the work programme, as amended, be approved.

The meeting closed at 8.45 pm

Chairman
Date