



**WATFORD  
BOROUGH  
COUNCIL**

# **AUDIT COMMITTEE**

**14 March 2019**

**7.00 pm**

**Town Hall, Watford**

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**Publication date: 6 March 2019**

# **Committee Membership**

Councillor D Scudder (Chair)  
Councillor J Johnson (Vice-Chair)  
Councillors A Khan, P Kloss and G Saffery

## **Agenda**

### **Part A - Open to the Public**

**1. Apologies for Absence/Committee Membership**

**2. Disclosure of Interests (if any)**

**3. Minutes**

The minutes of the meeting held on 6 December 2018 to be submitted and signed.

**4. Annual Ripa Report (Pages 4 - 36)**

Report of the Head of Democracy and Governance

**5. External Auditor – Certification work report 2017/18 (Pages 37 - 46)**

To receive the report of the external auditor on the certification of the housing benefit claim.

**6. External Auditor - Progress report**

**7. External Auditor – Audit Plan 2019/20 (Pages 47 - 87)**

To receive the Audit Plan for 2018/19.

**8. Accounting Policies 2018/19 (Pages 88 - 108)**

For the Audit Committee to review and comment upon the accounting policies to be adopted in the preparation of the 2018/19 Statement of Accounts

**9. SIAS – Internal Audit Progress report (SIAS) (Pages 109 - 134)**

The progress report from the Head of the Shared Internal Audit Service on progress against the 2018/19 Internal Audit Plan.

**10. SIAS – Internal Audit Plan 2019/20 (SIAS) (Pages 135 - 164)**

Report from the Head of the Shared Internal Audit Service on the Audit Plan for 2019/20

**11. Committee Work Programme (Pages 165 - 167)**

Report of the Head of Finance

# Agenda Item 4

Part A

**Report to:** Audit Committee

**Date of meeting:** Thursday, 14 March 2019

**Report author:** Head of Democracy and Governance

**Title:** Annual Ripa Report

## 1.0 Summary

- 1.1 To note that in the last year the Council has not had recourse to using the Regulation of Investigatory Powers Act (RIPA) for Directed Surveillance and that following amendments to legislation the RIPA policy has been updated
- 1.2 That following the IPCO inspection carried out in March and received in May and reported to this committee in July 2018 training for Authorising Officers was undertaken jointly with Three Rivers District Council in September and November 2018.

## 2.0 Risks

2.1

Nature of risk	Consequence	Suggested Control Measures	Response (treat, tolerate, terminate or transfer)	Risk Rating (combination of severity and likelihood)
Officers fail to apply for RIPA authorisation as required by the Act	The evidence collected using directed surveillance will be inadmissible and could result in a failure to convict	Officers are trained in RIPA	Treat	2

## 3.0 Recommendations

- 3.1 The Committee notes that no RIPA authorisations have been made in this last financial year.

**Further information:**

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#### **4.0 Detailed proposal**

- 4.1 This Committee oversees the councils use of RIPA. Since the restrictions imposed on councils use of RIPA by the Protection of Freedoms Act, which limited the ability to undertake directed surveillance to offences where the penalty was six months or more imprisonment or selling alcohol or tobacco to children, and the need to get approval from a magistrate where it was applicable, the Council now rarely uses the powers.
- 4.2 In fact the council has not applied for a RIPA approval to the Magistrates court since 2016.
- 4.3 As reported to committee in July 2018 the council had a RIPA inspection by the IPCO in March. Following that inspection it was recommended that refresher training for Authorised Officers was undertaken. This was done jointly with Three Rivers in September and November 2018.
- 4.4 There have also been some changes to the RIPA legislation and therefore the RIPA policy has been updated to reflect those changes. A copy of the RIPA policy is attached as Appendix 1

#### **5.0 Implications**

##### **5.1 Financial**

- 5.1.1 The Shared Director of Finance comments that there are no financial implications in this report
- 5.2 **Legal Issues (Monitoring Officer)**

- 5.2.1 The Head of Democracy and Governance comments that there are no legal implications in this report.

##### **5.3 Equalities, Human Rights and Data Protection**

- 5.3.1 It is a requirement of considering any application for authorisation under RIPA to have regard to the human rights of those likely to be the subject of the surveillance as well as any one indirectly affected and any collateral intrusion.

## **Appendices**

Appendix 1 RIPA policy February 2019

### **Background papers**

No papers were used in the preparation of this report.



**CORPORATE POLICY & PROCEDURES DOCUMENT  
FOR COVERT SURVEILLANCE AND THE USE OF COVERT  
HUMAN INTELLIGENCE SOURCES**

AUTHOR: CAROL CHEN, HEAD OF DEMOCRACY AND GOVERNANCE, EXT 8350

FIRST PUBLISHED: 2010

REVIEWED 2011

REVIEWED AND UPDATED NOVEMBER 2012

REVIEWED AND UPDATED MARCH 2014

REVIEWED AND UPDATED SEPTEMBER 2014

REVIEWED AND UPDATED MARCH 2016

REVIEWED AND UPDATED MARCH 2018.

REVIEWED AND UPDATED MAY 2018

REVIEWED AND UPDATED JULY 2018

REVIEWED AND UPDATED OCTOBER 2018

REVIEWED AND UPDATED NOVEMBER 2018

REVIEWED AND UPDATED FEBRUARY 2019

## CONTENTS PAGE

	<u>Page No</u>
A <b>Introduction and Key Messages .....</b>	<b>2</b>
B <b>Council Policy Statement .....</b>	<b>3</b>
C <b>General Information on RIPA .....</b>	<b>3</b>
D <b>What RIPA Does and Does Not Do .....</b>	<b>6</b>
E <b>Types of Surveillance .....</b>	<b>7</b>
F <b>Conduct and Use of a Covert Human Intelligence Source (CHIS) .....</b>	<b>17</b>
G <b>Authorising Officer Responsibilities .....</b>	<b>19</b>
H <b>Authorisation Procedures .....</b>	<b>20</b>
I <b>Working with / through Other Agencies .....</b>	<b>23</b>
J <b>Record Management .....</b>	<b>24</b>
K <b>Concluding Remarks of the Monitoring Officer .....</b>	<b>26</b>
 <b>Appendix 1    Authorising Officers .....</b>	<b>27</b>
 <b>Appendix 2    Flow Chart .....</b>	<b>28</b>

**NB:**

The Regulation of Investigatory Powers Act 2000 ('RIPA') refers to 'Designated Officers'. For ease of understanding and application within Watford Borough Council, this Corporate Policy & Procedures Document refers to 'Authorising Officers'. Furthermore, such Officers can only act under RIPA if they have been duly certified by the Council's Head of Democracy and Governance. For the avoidance of doubt, therefore, all references to duly certified Authorising Officers refer to 'Designated Officers' under RIPA.

## A. Introduction and Key Messages

1. This Corporate Policy & Procedures Document is based upon the requirements of The Regulation of Investigatory Powers Act 2000 ('RIPA'), The Protection of Freedoms Act 2012 and the revised Codes of Practice issued by the Home Office pursuant to Section 71 of RIPA and which came into effect on 6<sup>th</sup> April 2010, February 2014 and August 2018. The authoritative position on RIPA is, of course, the Act itself, regulations and the Home Office's Codes of Practice on Covert Surveillance and Covert Human Intelligence Sources. Any officer who is unsure about any aspect of this document should contact, at the earliest possible opportunity, the Council's Head of Democracy and Governance, for advice and assistance. The revised Codes of Practice can be downloaded from the Home Office web site.
2. This document and the related forms can be found on the Council's Intranet.
3. The Council will maintain, and the Head of Democracy and Governance will check, the Corporate Register of all RIPA authorisations, reviews, renewals, cancellations and rejections. It is the responsibility of the relevant Authorising Officer, however, to place all RIPA authorisations, reviews, renewals, cancellations and rejections on the Corporate Register within 1 week of the relevant authorisation, review, renewal, cancellation or rejection.
4. Officers who undertake surveillance or who manage CHIS's and Authorising Officers have the responsibility of reporting to the Head of Democracy and Governance any situations where direct surveillance or CHIS activity has been undertaken without having obtained the appropriate authority/warrant within one working day of the event having been brought to their attention. It will be the responsibility of the Head of Democracy and Governance to investigate and to report the matter to the Investigatory Powers Commissioner no later than 10 working days from the date the event occurred.
5. RIPA, The Protections Of Freedoms Act Regulations, the Codes of Practice and this document are important for the effective and efficient operation of the Council's actions with regard to covert surveillance and Covert Human Intelligence Sources. This document will, therefore, be kept under review by the Head of Democracy and Governance. Authorising Officers must bring any suggestions for continuous improvement of this document to the attention of the Head of Democracy and Governance at the earliest possible opportunity.
6. If you are in any doubt on RIPA, the Codes of Practice, this document or the related legislative provisions, please consult the Head of Democracy and Governance.

7. Local Authorities investigating criminal offences have powers to gain access to communications data – that is, information held by telecommunications or postal service providers about the use of their services by persons who are the subject of criminal investigations. Watford BC has a separate policy which is available on the council's intranet. In using such powers, officers must always have regard to the Home Office Guidance – Acquisition and Disclosure of Communication Data Code of Practice: <https://www.gov.uk/government/publications/code-of-practice-for-the-acquisition-and-disclosure-of-communications-data>

The Council has had regard to the Codes of practice produced by the Home Office in preparing this guidance. If any doubt arises, the Home Office Code of practice should be consulted. CHIS and Covert Surveillance Codes of Practice:

<https://www.gov.uk/government/publications/covert-surveillance-and-covert-human-intelligence-sources-codes-of-practice>

In addition further guidance in respect of the judicial approval process and the crime threshold has been issued by the Home Office:

<https://www.gov.uk/government/publications/changes-to-local-authority-use-of-ripa>

Furthermore the Investigatory Powers Commissioners procedures guidance can be found on the shared network under Regulation of Investigatory Powers Act. This guidance is available to all those who need to access in order to apply for and to grant authorisations for covert activities. It is also available to those who have oversight or other management responsibilities associated with the use of covert tactics. This document MUST NOT be published on the internet or through any other type of publicly available media.

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## **B. Borough Council Policy Statement**

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1. The Council takes seriously its statutory responsibilities under the Regulation of Investigatory Powers Act 2000, and will at all times act in accordance with the law, and take necessary and proportionate action in these types of enforcement matters involving the use of covert surveillance. In that regard, the Head of Democracy and Governance, is duly authorised by the Council's Leadership Team as the Council's 'Senior Responsible Officer' with responsibility to keep this document up to date and to amend, delete, add or substitute relevant provisions, as necessary.

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## **C. General Information on RIPA**

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1. The Human Rights Act 1998 (which incorporated the European Convention on Human Rights into UK law) requires the Council, and organisations working on its behalf, to respect the private and family life of the citizen, his/her home and his/her correspondence.

2. This is not an absolute right, but a qualified right. Accordingly, in certain circumstances, the Council, as a Relevant Public Authority under RIPA, may interfere in the citizen's right to privacy mentioned above, if such interference is: -
    - (a) **in accordance with the law;**
    - (a) **necessary** (as defined in this document); **and**
    - (b) **proportionate** (as defined in this document).
  3. Local authorities can only authorise the use of directed surveillance under RIPA to prevent or detect criminal offences that are either punishable, whether on summary conviction or indictment, by a maximum term of at least 6 months imprisonment **or** are related to the underage sale of alcohol and tobacco or nicotine inhaling products. Local authorities **cannot** authorise directed surveillance for the purpose of preventing disorder unless this involves a criminal offence(s) punishable (whether on summary conviction or indictment) by a maximum term of at least 6 months' imprisonment. Local authorities are no longer able to orally authorise the use of RIPA techniques. All authorisations must be made in writing and require JP (Magistrates) approval.  
*(See chapter 4 para 4.42 to 4.47 of the Home Office Covert Surveillance and Property Interference Revised Code of Practice, August 2018).*
- Directed surveillance is covert surveillance that is not intrusive and is carried out in relation to a specific investigation or operation in such a manner as is likely to result in the obtaining of private information about any person (other than by way of an immediate response to events or circumstances such that it is not reasonably practicable to seek authorisation under RIPA). *(See chapter E below).*
- Local authorities can only use RIPA in relation to their 'core functions' i.e, the 'specific public functions' undertaken by a particular authority in contrast to the 'ordinary functions' undertaken by all authorities (e.g. employment issues). *(See chapter E, section 15, below).*
- The internet may be used for intelligence gathering and/or as a surveillance tool. Local authority officers covertly conducting online monitoring or investigations (including Social Media) for the purpose of a specific investigation or operation which is likely to result in the obtaining of private information about a person or group need to consider if authorisation for directed surveillance under RIPA is required, if RIPA applies.  
*(See chapter E, section 11, below, this includes details of when CHIS authorisation may be needed for online activity)*
4. RIPA provides a statutory mechanism for authorising **covert surveillance** and the use of a '**covert human intelligence source**' ('CHIS'). A CHIS is a person used by the Council to establish or maintain a personal or other relationship with another person for the covert purpose of obtaining information (e.g. undercover agents). RIPA seeks to ensure that **any** interference with an individual's right under the Human Rights Act 1998 is **necessary** and **proportionate**. In doing so, RIPA seeks to ensure both the public interest and the human rights of individuals are suitably balanced.

5. Directly employed Council staff and external agencies working for the Council are covered by RIPA for the time they are working for the Council. All external agencies must, therefore, comply with RIPA and the work carried out by agencies on the Council's behalf must be properly authorised by one of the Council's designated Authorising Officers. Authorising Officers are those whose posts appear in **Appendix 1** to this document and, duly added to or substituted by the Head of Democracy and Governance.
6. If the correct RIPA procedures are not followed, evidence may be disallowed by the courts, the matter must be reported by the Head of Democracy and Governance to the Investigatory Powers Commissioner, a complaint of maladministration could be made to the Ombudsman, and/or the Council could be ordered to pay compensation. Such action would, of course, harm the reputation of the Council and will, undoubtedly, be the subject of adverse press and media interest. It is essential, therefore, that all Council staff involved with RIPA comply with this document and any further guidance that may be issued, from time to time, by the Head of Democracy and Governance.
7. A flowchart of the procedures to be followed appears at **Appendix 2**.
8. **Necessity and proportionality**
  - 8.1 The authorising officer must believe that the surveillance activities which are being authorised are **necessary for the purpose of preventing or detecting crime, and that the offence being investigated is one either punishable by at least 6 months imprisonment or one related to the underage sale of alcohol, tobacco or nicotine inhaling products**. This is the only statutory ground available for local authorities for the use of covert surveillance. The authorising officer must also believe that the surveillance activities are **proportionate** to what is sought to be achieved by carrying them out. This involves balancing the seriousness of the intrusion into the privacy of the person who is the subject of the operation (or any other person who may be affected) against the need for the surveillance in investigative and operational terms.
  - 8.2 The authorisation will not be proportionate if it is excessive in the overall circumstances of the case. Each action authorised should bring an expected benefit to the investigation or operation and should not be disproportionate or arbitrary. The fact that a suspected offence may be serious will not alone render intrusive actions proportionate.
  - 8.3 The following elements of proportionality should therefore be considered:
    - Balancing the size and scope of the proposed activity and the potential intrusion into the subject's personal life against the gravity and extent of the perceived crime or offence;
    - Explaining how and why the methods to be adopted will cause the least possible intrusion on the subject and others;

- Considering whether the activity is an appropriate use of RIPA and a reasonable way, having considered all reasonable alternatives, of obtaining the necessary result;
- Evidencing, as far as reasonably practicable, what other methods had been considered and why they were not used

## 9. Collateral intrusion

Before authorising applications for directed surveillance, the authorising officer should also take into account the risk of obtaining private information about persons who are not the subjects of the surveillance (members of the subject's family for example). This is referred to as collateral intrusion. All applications should include an assessment of the risk of collateral intrusion and details of any measures taken to limit this. The same proportionality tests apply to the likelihood of collateral intrusion as to intrusion into the privacy of the intended subject of the surveillance. The authorising officer must therefore consider fully the proportionality of the proposed actions.

## 10. Magistrates Approval

Before any authorisation for directed surveillance can be implemented the authorising officer must obtain the approval of a Justice of the Peace.

### D. What RIPA Does and Does Not Do

**As per paragraph 70 of the OSC (now IPCO) Procedures & Guidance 2016;**

An authorisation under Part 2 of RIPA makes authorised surveillance lawful but does not make unauthorised surveillance unlawful. Whilst not an obligation there is an expectation that Part 2 covert surveillance is authorised.

#### 1. RIPA does:

- Require prior authorisation, from the Council's authorising officer and Magistrate's Court, of directed surveillance.
- Prohibit the Council from carrying out intrusive surveillance.
- Require authorisation of the conduct and use of a CHIS
- Require safeguards for the conduct and use of a CHIS.

#### 2. RIPA does not:

- Make conduct unlawful where it would be otherwise lawful.

- Prejudice or dis-apply any existing powers available to the Council to obtain information by any means not involving conduct that may be authorised under RIPA. For example, it does not affect the Council's current powers to obtain information via the DVLA or to get information from the Land Registry as to the ownership of a property.
3. If the authorising officer or any applicant is in any doubt, s/he should ask the Head of Democracy and Governance BEFORE any directed surveillance and/or CHIS is authorised, renewed, cancelled or rejected.

## **E. Types of Surveillance**

1. **'Surveillance'** includes:

- Monitoring, observing or listening to persons, their movements, conversations, or other activities or communications, including online and social media activities.
- Recording any information obtained in the course of authorised surveillance.
- Surveillance, by or with, the assistance of appropriate and approved surveillance device(s).

**Surveillance can be overt or covert.**

2. **Overt Surveillance**

Most of the surveillance carried out by the Council will be done overtly – there will be nothing secretive, clandestine or hidden about it. In many cases, Officers will be behaving in the same way as a normal member of the public (e.g. in the case of most test purchases), and/or will be going about Council business openly (e.g. the Park Rangers patrolling the Parks).

3. Similarly, surveillance will be overt if the subject has been told it will happen (e.g. where a noisemaker is warned (preferably in writing) that noise will be recorded if the noise continues, or where an entertainment licence is issued subject to conditions, and the licensee is told that officers may visit without notice or identifying themselves to the owner/proprietor to check that the conditions are being met.

#### 4. **Covert Surveillance**

Surveillance is covert if, and only if, it is carried out in a manner calculated to ensure that any persons who are subject to the surveillance are unaware that it is or may be taking place. (Section 26(9)(a) of RIPA).

5. RIPA regulates directed surveillance, intrusive surveillance (the Council cannot carry out **intrusive surveillance**) and the use of Covert Human Intelligence Sources (CHIS).

#### 6. **Directed Surveillance**

Directed Surveillance is surveillance which: -

- is covert; and
- is not intrusive surveillance (see definition below – **the Council must not carry out any intrusive surveillance**);
- is not carried out in an immediate response to events which would otherwise make seeking authorisation under RIPA unreasonable, e.g. spotting something suspicious and continuing to observe it; and
- it is undertaken for the purpose of a **specific investigation** or operation in a manner **likely to obtain private information** about an individual (whether or not that person is specifically targeted for purposes of an investigation). (*Section 26(10) of RIPA*).

#### 7. **Private information**

The 2000 Act states that private information includes any information relating to a person's private or family life. As a result, private information is capable of including any aspect of a person's private or personal relationship with others, such as family and professional or business relationships. Information which is non-private may include publicly available information such as books, newspapers, journals, TV and radio broadcasts, newswires, web sites, mapping imagery, academic articles, conference proceedings, business reports, and more. Such information may also include commercially available data where a fee may be charged, and any data which is available on request or made available at a meeting to a member of the public. Non-private data will also include the attributes of inanimate objects such as the class to which a cargo ship belongs.

Whilst a person may have a reduced expectation of privacy when in a public place, covert surveillance of that person's activities in public may still result in the obtaining of private information. This is likely to be the case where that person has a reasonable expectation of privacy even though acting in public and where a record is being made by the Council of that person's activities for future consideration or analysis. Surveillance of publicly accessible areas of the internet should be treated in a similar way, recognising

that there may be an expectation of privacy over information which is on the internet, particularly where accessing information on social media websites. See section 11 below for further guidance about the use of the internet as a surveillance tool.

**Example:** Two people holding a conversation on the street or in a bus may have a reasonable expectation of privacy over the contents of that conversation, even though they are associating in public. The contents of such a conversation should therefore still be considered as private information. A directed surveillance authorisation would therefore be appropriate for the Council to record or listen to the conversation as part of a specific investigation or operation.

Private life considerations are particularly likely to arise if several records are to be analysed together in order to establish, for example, a pattern of behaviour, or if one or more pieces of information (whether or not available in the public domain) are covertly (or in some cases overtly) obtained for the purpose of making a permanent record about a person or for subsequent data processing to generate further information. In such circumstances, the totality of information gleaned may constitute private information even if individual records do not. Where such conduct includes covert surveillance, a directed surveillance authorisation may be considered appropriate.

**Example:** Council officers wish to drive past a café for the purposes of obtaining a photograph of the exterior. Reconnaissance of this nature is not likely to require a directed surveillance authorisation as no private information about any person is likely to be obtained or recorded. However, if the Council wished to repeat the exercise, for example to establish a pattern of occupancy of the premises by any person, the accumulation of information is likely to result in the obtaining of private information about that person and a directed surveillance authorisation would be required.

Prolonged surveillance targeted on a single person will undoubtedly result in the obtaining of private information about him/her and others that s/he comes into contact, or associates, with.

Private information may include personal data, such as names, telephone numbers and address details. Where such information is acquired by means of covert surveillance of a person having a reasonable expectation of privacy, a directed surveillance authorisation is appropriate.

8. Similarly, although overt town centre CCTV cameras do not normally require authorisation, if a particular camera is being used for a specific purpose, which involves prolonged surveillance on a particular person, authorisation will be required. The way a person runs his/her business may also reveal information about his or her private life and the private lives of others. (Also see section 16 below).

9. **Confidential information**

Special consideration must be given to authorisations that involve confidential personal information. Where such material has been acquired and retained, the matter should be reported to the Head of Democracy and Governance so that s/he can inform the

Investigatory Powers Commissioner's Office (IPCO) or Inspector during his next inspection and the material made available to him if requested.

Confidential personal information is information held in confidence relating to the physical or mental health or spiritual counselling of a person (whether living or dead) who can be identified from it. Such information, which can include both oral and written communications, is held in confidence if it is held subject to an express or implied undertaking to hold it in confidence or it is subject to a restriction on disclosure or an obligation of confidentiality contained in existing legislation.

Examples include consultations between a health professional and a patient, or information from a patient's medical records.

10. For the avoidance of doubt, only those Officers designated and certified to be 'Authorising Officers' and identified in Appendix 1 for the purpose of RIPA can authorise an application for 'Directed Surveillance' if, and only if, the RIPA authorisation procedures detailed in this document are followed.

**Only the Managing Director can authorise applications for covert surveillance when knowledge of confidential information is likely to be acquired.**

## 11. Online covert activity

- 11.1 The growth of the internet, and the extent of the information that is now available online, presents new opportunities for Local Authorities to view or gather information which may assist them in preventing or detecting crime or carrying out other statutory functions, as well as in understanding and engaging with the public they serve. It is important that Local Authorities are able to make full and lawful use of this information for their statutory purposes. Much of it can be accessed without the need for RIPA authorisation; use of the internet prior to an investigation should not normally engage privacy considerations. But if the study of an individual's online presence becomes persistent, or where material obtained from any check is to be extracted and recorded and may engage privacy considerations, RIPA authorisations may need to be considered. The following guidance is intended to assist council officers in identifying when such authorisations may be appropriate.
- 11.2 The internet may be used for intelligence gathering and/or as a surveillance tool. Where online monitoring or investigation is conducted covertly for the purpose of a specific investigation or operation and is likely to result in the obtaining of private information about a person or group, an authorisation for directed surveillance should be considered, as set out elsewhere in this code. Where a person acting on behalf of the Council is intending to engage with others online without disclosing his or her identity, a CHIS authorisation may be needed (*paragraphs 4.10 to 4.16 of the Covert Human Intelligence Sources code of practice provide detail on where a CHIS authorisation may be available for online activity*).

- 11.3 In deciding whether online surveillance should be regarded as covert, consideration should be given to the likelihood of the subject(s) knowing that the surveillance is or may be taking place. Use of the internet itself may be considered as adopting a surveillance technique calculated to ensure that the subject is unaware of it, even if no further steps are taken to conceal the activity. Conversely, where the Council has taken reasonable steps to inform the public or particular individuals that the surveillance is or may be taking place, the activity may be regarded as overt and a directed surveillance authorisation will not normally be available.
- 11.4 As set out in paragraph 11.5 below, depending on the nature of the online platform, there may be a reduced expectation of privacy where information relating to a person or group of people is made openly available within the public domain, however in some circumstances privacy implications still apply. This is because the intention when making such information available was not for it to be used for a covert purpose such as investigative activity. This is regardless of whether a user of a website or social media platform has sought to protect such information by restricting its access by activating privacy settings.
- 11.5 Where information about an individual is placed on a publicly accessible database, for example the telephone directory or Companies House, which is commonly used and known to be accessible to all, they are unlikely to have any reasonable expectation of privacy over the monitoring by the Council of that information. Individuals who post information on social media networks and other websites whose purpose is to communicate messages to a wide audience are also less likely to hold a reasonable expectation of privacy in relation to that information.
- 11.6 Whether the Council interferes with a person's private life includes a consideration of the nature of the public authority's activity in relation to that information. Simple reconnaissance of such sites (i.e. preliminary examination with a view to establishing whether the site or its contents are of interest) is unlikely to interfere with a person's reasonably held expectation of privacy and therefore is not likely to require a directed surveillance authorisation. But where the Council is systematically collecting and recording information about a particular person or group, a directed surveillance authorisation should be considered. These considerations apply regardless of when the information was shared online. (*See section 7 above*).

**Example 1:** A council officer undertakes a simple internet search on a name, address or telephone number to find out whether a subject of interest has an online presence. This is unlikely to need an authorisation. However, if having found an individual's social media profile or identity, it is decided to monitor it or extract information from it for retention in a record because it is relevant to an investigation or operation, authorisation should then be considered.

**Example 2:** A council officer makes an initial examination of an individual's online profile to establish whether they are of relevance to an investigation. This is unlikely to need an authorisation. However, if during that visit it is intended to extract and record information to establish a profile including information such as identity, pattern of life, habits, intentions or associations, it may be advisable to have in place an authorisation even for that single visit. (As set out in the following paragraph, the purpose of the visit may be relevant as to whether an authorisation should be sought.)

**Example 3:** The Council undertakes general monitoring of the internet in circumstances where it is not part of a specific, ongoing investigation or operation to identify themes, trends, possible indicators of criminality or other factors that may influence operational strategies or deployments. This activity does not require RIPA authorisation. However, when this activity leads to the discovery of previously unknown subjects of interest, once it is decided to monitor those individuals as part of an ongoing operation or investigation, authorisation should be considered.

11.7 In order to determine whether a directed surveillance authorisation should be sought for accessing information on a website as part of a covert investigation or operation, it is necessary to look at the intended purpose and scope of the online activity it is proposed to undertake. Factors that should be considered in establishing whether a directed surveillance authorisation is required include:

- Whether the investigation or research is directed towards an individual or organisation;
- Whether it is likely to result in obtaining private information about a person or group of people (taking account of the guidance in section 7 above);
- Whether it is likely to involve visiting internet sites to build up an intelligence picture or profile;
- Whether the information obtained will be recorded and retained;
- Whether the information is likely to provide an observer with a pattern of lifestyle;
- Whether the information is being combined with other sources of information or intelligence, which amounts to information relating to a person's private life;
- Whether the investigation or research is part of an ongoing piece of work involving repeated viewing of the subject(s);
- Whether it is likely to involve identifying and recording information about third parties, such as friends and family members of the subject of interest, or information posted by third parties, that may include private information and therefore constitute collateral intrusion into the privacy of these third parties.

11.8 Internet searches carried out by a third party on behalf of the Council, or with the use of a search tool, may still require a directed surveillance authorisation.

**Example:** Researchers within a local authority using automated monitoring tools to search for common terminology used online for illegal purposes will not normally require a directed surveillance authorisation. Similarly, general analysis of data by local authorities either directly or through a third party for predictive purposes (e.g. identifying crime hotspots or analysing trends) is not usually directed surveillance. In such cases, the focus on individuals or groups is likely to be sufficiently cursory that it would not meet the definition of surveillance. But officers should be aware of the possibility that the broad thematic research may evolve, and that authorisation may be appropriate at the point where it begins to focus on specific individuals or groups. If specific names or other identifiers of an individual or group are applied to the search or analysis, an authorisation should be considered.

## 12. Intrusive Surveillance

This is when it: -

- is covert;
- relates to anything taking place on residential premises or in any private vehicle;
- and, involves the presence of a person in the premises or in the vehicle or is carried out by a surveillance device in the premises/vehicle. Surveillance equipment mounted outside the premises will not be intrusive, unless the device consistently provides information of the same quality and detail as might be expected if they were in the premises/vehicle.

Residential premises includes any part of premises which are being occupied or used by any person, however temporarily, for residential purposes or otherwise as living accommodation. It includes hotel accommodation. However, common areas to which a person has access in connection with their use or occupation of accommodation are excluded from the definition of residential premises.

Examples of common areas of residential premises which are excluded would include:

- a communal stairway in a block of flats;
- a hotel reception area or dining room;
- the front garden or driveway of premises readily visible to the public.

A private vehicle is any vehicle which is used primarily for the private purposes of the person who owns it or a person otherwise having the right to use it. This includes, for example, a company car, owned by a leasing company and used for business and pleasure by the employee of a company.

**Local authorities are not allowed to carry out intrusive surveillance and therefore no Council officer can authorise a covert surveillance operation if it involves intrusive surveillance as defined above.**

### **13. Where authorisation is not required**

Some surveillance activity does not constitute directed surveillance under RIPA and no directed surveillance authorisation can be obtained for such activity. Such activity includes:

- covert surveillance by way of an immediate response to events;
- covert surveillance as part of general observation activities;
- covert surveillance not relating to the statutory grounds specified by RIPA;
- overt use of CCTV
- certain other specific situations (see point 17 below).

### **14. Immediate response**

Covert surveillance that is likely to reveal private information about a person but is carried out by way of an immediate response to events such that it is not reasonably practicable to obtain an authorisation under RIPA.

***Example:*** An authorisation would not be required where Council officers conceal themselves in order to observe an incident that they happen to come across where a person appears to be in the act of illegally dumping waste.

### **15. General observation activities**

The general observation duties of Council officers do not require authorisation under the 2000 Act, whether covert or overt. Such general observation duties frequently form part of the legislative functions of the Council, as opposed to the pre-planned surveillance of a specific person or group of people. General observation duties may include monitoring of publicly accessible areas of the internet in circumstances where it is not part of a specific investigation or operation.

***Example 1:*** Intelligence suggests that a local shopkeeper is openly selling alcohol to underage customers, without any questions being asked. A trained employee or person engaged by the Council is deployed to act as a juvenile in order to make a purchase of alcohol. In these circumstances any relationship, if established at all, is likely to be so limited in regards to the requirements of the Act, that the Council may conclude that a CHIS authorisation is unnecessary. However, if the test purchaser is wearing recording equipment and is not authorised as a CHIS, or an adult is observing, consideration should be given to granting a directed surveillance authorisation.

***Example 2:*** Local authority officers attend a car boot sale where it is suspected that counterfeit goods are being sold, but they are not carrying out surveillance of particular individuals and their intention is, through reactive policing, to identify and tackle offenders. Again this is part of the general duties of the Council and the obtaining of private information is unlikely. A directed surveillance authorisation need not be sought.

**16. Not related to the prevention or detection of crime punishable by 6 months imprisonment or more or related to the underage sale of alcohol, tobacco or nicotine inhaling products.**

In the case of local authorities directed surveillance can only be authorised under RIPA if it is for the purpose of preventing or detecting crime where the offence is punishable by a term of imprisonment of 6 months or more or where it is related to the underage sale of alcohol or tobacco. Covert surveillance for any other general purposes should be conducted under other relevant legislation. A local authority can only use RIPA in relation to its 'core functions' i.e, the 'specific public functions' undertaken by a particular authority in contrast to the 'ordinary functions' undertaken by all authorities (e.g. employment issues).

***Example:** A Council employee is off work due, he claims, to an injury sustained at work for which he is suing the Council. The employee's manager suspects the employee is exaggerating the seriousness of their injury and that they are, in fact, fit enough to come to work. The manager wishes to place the employee under covert surveillance outside of his normal work environment to establish that he is indeed fit for work and to gather evidence for disciplinary proceedings against the employee for deceiving the Council. Such surveillance, even though likely to result in obtaining private information, does not constitute directed surveillance under RIPA as it does not relate to the Council's core functions. It relates instead to the carrying out of its employment functions which are common to all authorities. In order to undertake surveillance of this nature the Council would need to satisfy itself that it would not be contravening the GDPR and Data Protection Act 2018 and the Council's own employment policies.*

**17. CCTV**

The use of overt CCTV cameras by the council does not normally require an authorisation under RIPA. Members of the public should be made aware that such systems are in use. For example, by virtue of cameras or signage being clearly visible, through the provision of information and by undertaking consultation. Guidance on their operation is provided in the Surveillance Camera Code of Practice issued under the Protection of Freedoms Act 2012 ("the 2012 Act") and overseen by the Surveillance Camera Commissioner. The council should also be aware of the relevant Information Commissioner's code ("In the Picture – A Data Protection Code of Practice for Surveillance Cameras and Personal Information").

The Surveillance Camera code has relevance to overt surveillance camera systems (as defined at s29(6) of the 2012 Act) and which are operated in public places by the council. The 2012 Act places a statutory responsibility upon the council, to have regard to the provisions of the Surveillance Camera code, where surveillance is conducted overtly by means of a surveillance camera system in a public place in England and Wales.

The Surveillance Camera code sets out a framework of good practice that includes existing legal obligations, including the processing of personal data under the Data Protection Act 2018 and the councils duty to adhere to the Human Rights Act 1998.

**Example:** *Overt surveillance equipment, such as town centre CCTV systems, is used to gather information as part of a reactive operation (e.g. to identify individuals who have committed criminal damage after the event). Such use does not amount to covert surveillance as the equipment was overt and not subject to any covert targeting. Use in these circumstances would not require a directed surveillance authorisation.*

However, where overt CCTV or other overt surveillance cameras are used in a covert and pre-planned manner as part of a specific investigation or operation, for the surveillance of a specific person or group of people, a directed surveillance authorisation should be considered. Such covert surveillance is likely to result in the obtaining of private information about a person (namely, a record of their movements and activities) and therefore falls properly within the definition of directed surveillance. The use of the CCTV or other overt surveillance cameras in these circumstances goes beyond their intended use for the general prevention or detection of crime and protection of the public.

**Example:** *A local police team receive information that an individual suspected of committing thefts from motor vehicles is known to be in a town centre area. A decision is taken to use the town centre CCTV system to conduct surveillance against that individual, such that he remains unaware that there may be any specific interest in him. This targeted, covert use of the overt town centre CCTV system to monitor and/or record that individual's movements should be considered for authorisation as directed surveillance.*

## 18. Specific situations where authorisation is not available

There are a number of specific situations which do not require an authorisation under RIPA. The specific situations most relevant to the Council are –

- the overt or covert recording of an interview with a member of the public where it is made clear that the interview is entirely voluntary and that the interviewer is a Council officer. In such circumstances, whether the recording equipment is overt or covert, the member of the public knows that they are being interviewed by a Council Officer and that information gleaned through the interview has passed into the possession of the council;
- the covert recording of suspected noise nuisance where the recording is of decibels only or constitutes non-verbal noise (such as music, machinery or an alarm), or the recording of verbal content is made at a level which does not exceed that which can be heard from the street outside or adjoining property with the naked ear. In the latter circumstance, the perpetrator would normally be regarded as having forfeited any claim to privacy.

19. **Examples of different types of Surveillance**

Type of Surveillance	Examples
<u>Overt</u>	<ul style="list-style-type: none"> <li>- Police Officer on patrol</li> <li>- Signposted Town Centre CCTV cameras (in normal use)</li> <li>- Recording noise coming from outside the premises after the occupier has been warned that this will occur if the noise persists.</li> <li>- Most test purchases (where the officer behaves no differently from a normal member of the public).</li> </ul>
<u>Covert but not requiring prior authorisation</u>	<ul style="list-style-type: none"> <li>- CCTV cameras providing general traffic, crime or public safety information.</li> </ul>
<u>Directed</u> (this is also covert) must be RIPA authorised. This includes relevant online covert activity.	<ul style="list-style-type: none"> <li>- Officers follow an individual or individuals over a period, to establish whether s/he is working when claiming benefit; where the offence they are investigating is punishable by a term of imprisonment of 6 months or more.</li> <li>- Test purchases where the officer has a hidden camera or other recording device to record information which might include information about the private life of a shop-owner, e.g. where s/he is suspected of selling alcohol or tobacco to underage customers.</li> </ul>
<u>Intrusive – Council cannot do this!</u>	<ul style="list-style-type: none"> <li>- Planting a listening or other device (bug) in a person's home or in their private vehicle.</li> </ul>

**F. Conduct and Use of a Covert Human Intelligence Source (CHIS)**

**Who is a CHIS?**

1. Someone who establishes or maintains a personal or other relationship for the covert purpose of helping the covert use of the relationship to obtain information. **In normal circumstances the Council will not consider the conduct or use a CHIS. If consideration is given to the conduct or use of a CHIS the Head of Democracy and Governance must be consulted first. The Council may seek the assistance of the Police to manage the CHIS**
2. The Council is not required by RIPA to seek or obtain an authorisation just because one is available (see section 80 of RIPA). The use or conduct of a CHIS, however, can be a particularly intrusive and high risk covert technique, requiring dedicated and sufficient resources, oversight and management. Authorisation is therefore advisable where the Council intends to task someone to act as a CHIS, or where it is believed an individual is acting in that capacity and it is intended to obtain information from them accordingly. The Council must ensure that all use or conduct is:

- necessary and proportionate to the intelligence dividend that it seeks to achieve;
  - in compliance with relevant Articles of the European Convention on Human Rights (ECHR), particularly Articles 6 and 8.
- RIPA does not apply in circumstances where members of the public volunteer information to the Council as part of their normal civic duties, or to contact numbers set up to receive information.
  - Watford BC does not normally ask informants to gather information on the Council's behalf as this may result in the informant forming a relationship with a subject; which could result in the informant becoming a CHIS.

### **What must be authorised?**

- The conduct or use of a CHIS requires prior authorisation.
  - **Conduct** of a CHIS = Establishing or maintaining a personal or other relationship with a person for the covert purpose of (or is incidental to) obtaining and passing on information.
  - **Use** of a CHIS = Actions inducing, asking or assisting a person to act as a CHIS and the decision to use a CHIS in the first place.
- If a CHIS is used the RIPA procedures, detailed in this document, must be followed, including obtaining the approval of a Justice of the Peace.
- Council Officers, and authorising officers, need to be clear that Online covert activity may also require the conduct and use of a CHIS. (*See chapter E, section 11, para 11.2*).

### **Juvenile Sources**

- Special safeguards apply to the use or conduct of juvenile sources (i.e. under 18 year olds). On no occasion can a child under 16 years of age be authorised to give information against his or her parents.

**Only the Managing Director or, in his or her absence, the Director of Finance or Monitoring Officer can authorise the use of Juvenile Sources, again such authorisation must be approved by a Justice of the Peace.**

### **Vulnerable Individuals**

- A 'vulnerable individual' is a person who is or may be in need of community care services by reason of mental or other disability, age or illness and who is or may be unable to take care of himself or herself, or unable to protect himself or herself against significant harm or exploitation.
- A vulnerable individual will only be authorised to act as a source in the most exceptional of circumstances.

**Only the Managing Director or, in his or her absence, the Director of Finance or Monitoring Officer can authorise the use of vulnerable individuals, again such authorisation must be approved by a Justice of the Peace.**

### **Test Purchases**

11. Carrying out test purchases will not (as highlighted above) require the purchaser to establish a relationship with the supplier with the covert purpose of obtaining information and, therefore, the purchaser will not normally be a CHIS. For example, authorisation would not normally be required for test purchases carried out in the ordinary course of business (e.g. walking into a shop and purchasing a product over the counter).
12. By contrast, developing a relationship with a person in the shop, to obtain information about the seller's suppliers of an illegal product (e.g. illegally imported products) will require authorisation as a CHIS. Similarly, using mobile hidden recording devices or CCTV cameras to record what is going on in the shop will require authorisation as directed surveillance. A combined authorisation can be given for a CHIS and also directed surveillance.

### **Anti-social behaviour activities (e.g. noise, violence, etc)**

13. Persons who complain about anti-social behaviour, and are asked to keep a diary, will not normally be a CHIS, as they are not required to establish or maintain a relationship for a covert purpose. Recording the level of noise (e.g. the decibel level) will not normally capture private information and, therefore, does not require authorisation.
14. Recording sound (with a DAT recorder) on private premises could constitute intrusive surveillance, unless it is done overtly. For example, it will be possible to record if the noisemaker is warned (preferably in writing) that this will occur if the level of noise continues.

## **G. Authorising Officer Responsibilities**

1. The Head of Democracy and Governance will ensure that sufficient numbers of Authorising Officers are duly certified to take action under the Corporate Policy & Procedures Document.
2. It will be the responsibility of Authorising Officers who have been duly certified to ensure their relevant members of staff are suitably trained as 'Applicants' so as to avoid common mistakes appearing on forms for RIPA authorisations.
3. Authorising Officers will also ensure that staff who report to them follow the Corporate Policy & Procedures Document. Also that they do not undertake or carry out any form of surveillance without first complying with the requirements of this document.

4. Authorising Officers must also pay particular attention to any health and safety issues that may be raised by any proposed surveillance activity. Under no circumstances, should an Authorising Officer approve any RIPA application unless, and until s/he is satisfied that a proper risk assessment has been carried out and the health and safety of Council employees/agents are suitably addressed and/or risks minimised, so far as is possible. If an Authorising Officer is in any doubt, s/he should obtain prior guidance on the same from his/her manager, the Council's Corporate Health & Safety Adviser or the Head of Democracy and Governance.
5. Authorising Officers must obtain authorisation from a Justice of the Peace (Magistrate) before any Directed Surveillance, or the conduct or use of a CHIS, can be undertaken.

#### **H. Authorisation Procedures**

1. Directed surveillance and the use of a CHIS can only be lawfully carried out if properly authorised, and in strict accordance with the terms of the authorisation. **Appendix 2** provides a flow chart of process from application consideration to recording of information.

##### **Authorising Officers**

2. Forms can only be signed by the Authorising Officers named in **Appendix 1**.

**Only the Managing Director or, in his or her absence, the Director of Finance or Monitoring Officer can authorise an application for directed surveillance when confidential information is likely to be acquired.**

**Appendix 1** will be kept up to date by the Head of Democracy and Governance, and added to as needs require. If a Chief Officer wishes to add, delete or substitute a post, s/he must refer such request to the Head of Democracy and Governance for consideration, as necessary. The Head of Democracy and Governance is authorised to add, delete or substitute posts listed in **Appendix 1**.

3. Authorisations under RIPA are separate from delegated authority to act under the Council's Constitution. RIPA authorisations are for specific investigations only, and must be renewed or cancelled once the specific surveillance is complete or about to expire.  
**The authorisations do not lapse with time!**
4. The Head of Democracy and Governance will monitor applications recorded on the central register

##### **Application Forms**

5. Only the approved RIPA forms named in this document, and found on the Council's intranet, must be used. Any other forms will be rejected by the Authorising Officer.

6. **Directed Surveillance and use of Covert Human Intelligence forms**

- |            |   |
|------------|---|
| Form RIP 1 | <b>Application</b> for Authority for Directed Surveillance                  |
| Form RIP 2 | <b>Renewal</b> of Directed Surveillance Authority                           |
| Form RIP 3 | <b>Cancellation</b> of Directed Surveillance                                |
| Form RIP 4 | <b>Review</b> of Directed Surveillance                                      |
| Form RIP 5 | <b>Application</b> for use of Covert Human Intelligence Source              |
| Form RIP 6 | <b>Renewal</b> of authorisation for use of Covert Human Intelligence Source |
| Form RIP 7 | <b>Cancellation</b> of Covert Human Intelligence Source                     |
| Form RIP 8 | <b>Review</b> of use of Covert Human Intelligence Source                    |

**Grounds for Authorisation**

7. Directed Surveillance (form RIP 1) can be authorised by the Council only on the following ground: -

- To prevent or detect criminal offences that are either punishable, whether on summary conviction or indictment, by a maximum term of at least 6 months imprisonment **or** are related to the underage sale of alcohol and tobacco or nicotine inhaling products.

**Assessing the Application Form**

8. Before an Authorising Officer signs a Form, **s/he must:** -

- (a) Have due regard for RIPA, the Home Office revised Codes of Practice, the Human Rights Act 1998, this Corporate Policy & Procedures Document and any other guidance issued, from time to time, by the Head of Democracy and Governance on such matters;
- (b) Satisfy his/herself that the RIPA authorisation is: -
  - (i) **in accordance with the law;**
  - (ii) **necessary** in the circumstances of the particular case on the grounds mentioned above; **and**
  - (iii) **proportionate** to what it seeks to achieve.
- (c) 'Proportionate' means the Authorising Officer must believe that intruding upon someone's privacy through surveillance is proportionate to the desired outcome taking into account the size of the problem as against the breach of privacy

In assessing whether or not the proposed surveillance is proportionate, the Authorising Officer must be satisfied that the application form demonstrates that every other reasonable means of gathering the information has been considered

and explains why the alternative means considered would not be likely to achieve the desired outcome. The Authorising Officer must also be satisfied that the proposed method of surveillance is the least intrusive.

The proportionality test is explained in more detail in Section C paragraph 8.

The Authorising Officer must in each case follow the “five Ws” (i.e, who, what, where, when and why) incorporated into the forms to make clear what is being authorised. They must also explain how and why they are satisfied that the proposed action is both **necessary** and **proportionate**. It is not enough simply to state that it is so – the reasons **why** it is so must be given.

Every question on the application form must be dealt with fully, following the prompts which are now incorporated in the forms.

- (d) Take into account the risk of accidental intrusion into the privacy of persons other than the specified subject of the surveillance (**Collateral Intrusion**). Measures must be taken wherever practicable to avoid or minimise (so far as is possible) collateral intrusion and the matter may be an aspect of determining proportionality;
- (e) Set a date for review of the authorisation and enter it on the Central Register. The Authorising Officer is responsible for ensuring that key dates are adhered to.
- (f) Allocate a Unique Reference Number (URN) for the application as follows: -. Year / Service / Number of Application.
- (g) Seek approval to the authorisation from a Justice of the Peace (Magistrate).
- (h) Ensure that any RIPA Service Register is duly completed, and that a copy of the RIPA Forms (and any review/cancellation of the same) are recorded on the Corporate Central Register, **within 1 week of the relevant authorisation, review, renewal, cancellation or rejection**.

#### Additional Safeguards when Authorising a CHIS

9. When authorising the conduct or use of a CHIS, the Authorising Officer **must also:** -

- (a) be satisfied that the **conduct** and/or **use** of the CHIS is proportionate to what is sought to be achieved;
- (b) be satisfied that **appropriate arrangements** are in place for the management and oversight of the CHIS and this must address health and safety issues and any risk to the CHIS arising should their role in the investigation be revealed through a risk assessment;
- (c) consider the likely degree of intrusion of all those potentially affected;

- (d) consider any adverse impact on community confidence that may result from the use or conduct or the information obtained; and
- (e) ensure **records** containing particulars are not available except on a need to know basis.
- (f) **The requirements of s29(5) RIPA and the Regulation of Investigatory Powers (Source Records) Regulations 2000 (SI:2000/2725) must be considered and applied when authorising the use of a CHIS. Contact the Head of Democracy and Governance for advice on the requirements if required.**

#### Duration

10. The authorisation **must be reviewed in the time stated (which can be any time stated in the application) and cancelled** once it is no longer needed. The ‘authorisation’ to carry out/conduct the surveillance lasts for a maximum of 3 months (from authorisation) for Directed Surveillance and 12 months (from authorisation) for a CHIS (or 4 months for a juvenile CHIS). However, whether the surveillance is carried out/conducted or not, in the relevant period, does not mean the ‘authorisation’ is ‘spent’. In other words, **the Forms do not expire and remain ‘live’ until cancelled!** The forms must be reviewed and/or cancelled (once they are no longer required)!
11. Authorisations can be renewed in writing when the maximum period has expired. The Authorising Officer must consider the matter afresh, including taking into account the benefits of the surveillance to date, and any collateral intrusion that has occurred. The Authorising Officer must still be satisfied that the surveillance is still necessary and proportionate.
12. A renewal must be approved by a Justice of the Peace in the same way as an original application.

#### I. Working With / Through Other Agencies

1. When some other agency has been instructed on behalf of the Council to undertake any action under RIPA, this document and the forms in it must be used (as per normal procedure) and the agency advised or kept informed, as necessary, of the various requirements. They must be made aware explicitly what they are authorised to do.
2. When some other agency (e.g. Police, HMRC, Home Office, etc): -
  - (a) wish to use the Council’s resources (e.g. CCTV surveillance systems), that agency must use its own RIPA procedures and, before any officer agrees to allow the Council’s resources to be used for the other agency’s purposes, s/he must obtain a copy of that agency’s RIPA authorisation for the record (a copy of which must be passed to the Head of Democracy and Governance for the Central Register) and/or

relevant extracts from the same which are sufficient for the purposes of protecting the Council and the use of its resources;

- (b) wish to use the Council's premises for their own RIPA action, the officer should, normally, co-operate with the same, unless there are security or other good operational or managerial reasons as to why the Council's premises should not be used for the agency's activities. Suitable insurance or other appropriate indemnities may be sought, if necessary, from the other agency for the Council's co-operation in the agent's RIPA operation. In such cases, however, the Council's own RIPA forms should not be used as the Council is only 'assisting' not being 'involved' in the RIPA activity of the external agency.
3. In terms of 2(a), if the Police or other Agency wish to use Council resources for general surveillance, as opposed to specific RIPA operations, an appropriate letter requesting the proposed use, extent of remit, duration, who will be undertaking the general surveillance and the purpose of it must be obtained from the Police or other Agency before any Council resources are made available for the proposed use.
4. **If in doubt, please consult with the Head of Democracy and Governance at the earliest opportunity.**

#### **J. Record Management**

1. **The Council must keep a detailed record of all authorisations, renewals, cancellations rejections, and errors and a Central Register of all Authorisation Forms will be maintained and will be monitored by the Head of Democracy and Governance.**

2. **Records Maintained**

The following documents must be retained by the each Authorising Officer for such purposes.

- a copy of the forms together with any supplementary documentation and notification of the approval given by the Authorising Officer and warrant obtained from the Magistrate; To include the date the authorisation and warrant granted and the name and job title of the authorising officer. A brief description of the investigation and the names of those being surveilled if known
- a record of the period over which the surveillance has taken place;
- the frequency of reviews prescribed by the Authorising Officer;
- a record of the result of each review of the authorisation;

- a copy of any renewal of an authorisation and warrant obtained from the Magistrate, together with the supporting documentation submitted when the renewal was requested;
  - the date and time when any instruction was given by the Authorising Officer;
  - Date authorisation cancelled
  - Date of any refusal to grant and authorisation.
  - Any errors (i.e. failures to obtain an authorisation when one was required)
  - the Unique Reference Number for the authorisation (URN).
3. Each form will have a URN. The Authorising Officer will issue the relevant URN to Applicants. The cross-referencing of each URN takes place within the forms for inspection purposes. Rejected forms will also have URN's.

#### **Central Register maintained by the Monitoring Officer**

4. Authorising Officers must place details of each application on the Central Register, within 1 week of the authorisation, review, renewal, cancellation or rejection. The Head of Democracy and Governance will monitor the same and give appropriate guidance, from time to time, or amend this document, as necessary.
5. The Council will retain records for a period of at least five years from the ending of the authorisation. The Investigatory Powers Commissioner (IPC) can inspect the Council's policies and procedures, and individual authorisations.
6. Any errors, that is failures to obtain authorisation when an authorisation should have been obtained need to be notified to the Head of Democracy and Governance within one working day of it becoming apparent that an error has been made. They should also be logged on the central register. The Head of Democracy will investigate and will no later than 10 working days after the error having become apparent will notify the Investigatory Powers Commissioner.
7. The Head of Democracy and Governance will undertake a regular review of all errors and provide advice and guidance on how to avoid continuing occurrences.

#### **Retention and Destruction of Evidence**

8. Where evidence gathered from surveillance could be relevant to future or pending court proceedings, it should be retained in accordance with established disclosure requirements for a suitable period, commensurate to any subsequent review. Particular attention should be paid to the Criminal Procedure and Investigations Act 1996 which requires evidence gathered in criminal investigations to be recorded and retained.

9. All private information obtained during the course of a directed surveillance should be maintained securely and only be made available to officers entitled to view it in order to undertake their investigation, or for the purposes of conducting criminal proceedings. Officers handling private information should familiarize themselves with Home Office codes of practice on the handling of such information;  
See chapter 9 of the Covert Surveillance and Property Interference Code of Practice, and chapter 8 of the Covert Human Intelligence Sources Code of Practice.  
<https://www.gov.uk/government/publications/covert-surveillance-and-covert-human-intelligence-sources-codes-of-practice>

## K. Concluding Remarks of the Head of Democracy and Governance

1. Where there is an interference with the right to respect for private life and family guaranteed under Article 8 of the European Convention on Human Rights, and where there is no other source of lawful authority for the interference, or if it is held not to be necessary or proportionate to the circumstances, the consequences of not obtaining or following the correct authorisation procedure set out in RIPA and this document, may be that the action (and the evidence obtained) will be held to be unlawful by the Courts pursuant to Section 6 of the Human Rights Act 1998.
2. Obtaining an authorisation under RIPA and following this document, will ensure, therefore, that the action is carried out in accordance with the law and subject to stringent safeguards against abuse of anyone's human rights.
3. Authorising Officers must exercise their minds every time they are asked to sign a form. They must never sign or rubber stamp forms without thinking about their personal and the Council's responsibilities.
4. Any boxes not needed on the form(s) must be clearly marked as being 'NOT APPLICABLE', 'N/A' or a line put through the same. Great care must also be taken to ensure accurate information is used and is inserted in the correct boxes. Reasons for any refusal of an application must also be kept on the form and the form retained for future inspections.
5. For further advice and assistance on RIPA, please contact the Council's Head of Democracy and Governance (who is also the Council's Monitoring Officer). The Head of Democracy and Governance also acts as Senior Responsible Officer (SRO)

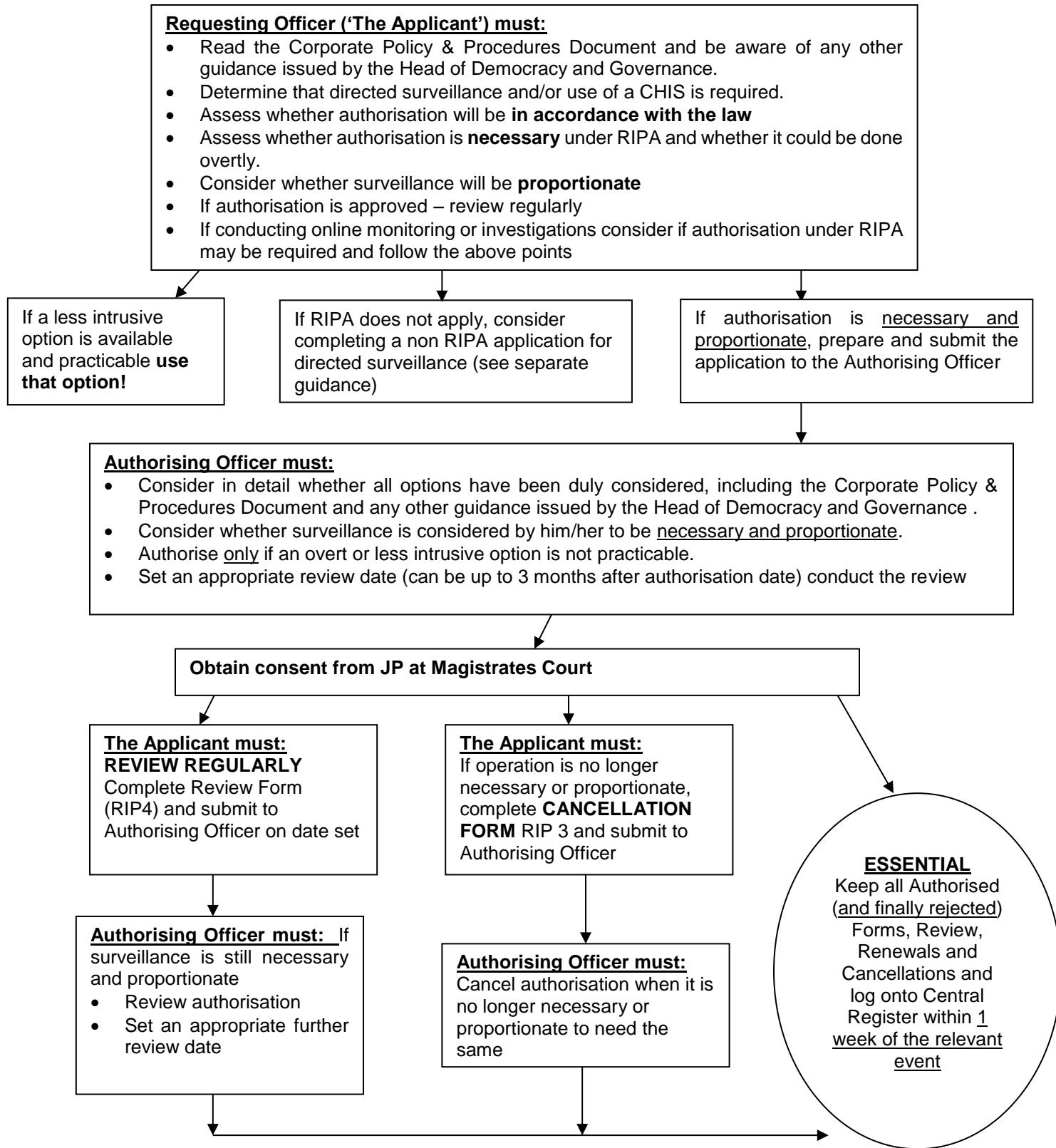
## Appendix 1 – List of Authorising Officer Posts

Officer	Service area
<b>Managing Director; Manny Lewis (only where confidential information is likely to be acquired, or where it is proposed to use juveniles or vulnerable persons as covert human intelligence sources)</b>	All
<b>Director Of Finance; Joanne Wagstaffe</b>	All
<b>Monitoring Officer; Carol Chen</b>	All
<b>Head of Finance; Alison Scott</b>	All
<b>Fraud Manager Shared Services Garry Turner</b>	All
<b>Head of Community and Environmental Services Alan Gough</b>	Environmental Services
<b>Business Compliance Officer Jamie Mackenzie</b>	Environmental Services

### **IMPORTANT NOTES**

- A. Only the Managing Director and in his absence the Director of Finance or Monitoring Officer is authorised to sign forms relating to Juvenile Sources and Vulnerable Individuals (see paragraph F).
- B. If a Chief Officer wishes to add, delete or substitute a post, s/he must refer such request to the Head of Democracy and Governance for consideration, as necessary.
- C. If in doubt, ask the Head of Democracy and Governance BEFORE any directed surveillance and/or CHIS is authorised, renewed, rejected or cancelled.

## RIPA APPLICATION FOR COVERT DIRECTED SURVEILLANCE (or use of a CHIS) FLOW CHART



NB: If in doubt, ask the Head of Democracy and Governance BEFORE any directed surveillance, and/or CHIS, application is authorised, renewed, cancelled or rejected.



Watford Borough  
Council  
Certification of  
claims and returns  
annual report  
2017-18

December 2018

Page 37

Agenda Item 5

# Contents

- 01 Housing benefits subsidy claim
- 02 2017-18 certification fees
- 03 Looking forward



Private and Confidential  
Watford Borough Council  
Town Hall  
Hempstead Road  
Watford  
WD17 3EX  
Dear Audit Committee Members

December 2018

### Certification of claims and returns annual report 2017-18 Watford Borough Council

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on Watford Borough Council's 2017-18 housing benefits claim.

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified reporting accountants to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2017-18, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions. This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We checked and certified the housing benefits subsidy claim with a total value of £38,147,341. We met the submission deadline. We issued a qualification letter. Details of the qualification matters are included in section 1. Our certification work found errors which the Council corrected. The amendments had a marginal effect on the grant due.

The Council has made progress in implementing the recommendations from last year and has improved arrangements. Details are included in section 1.

Fees for certification and other returns work are summarised in section 2. The housing benefits subsidy claim fees for 2017-18 were published by the Public Sector Audit Appointments Ltd (PSAA) and are available on the PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

We welcome the opportunity to discuss the contents of this report with you at the 14<sup>th</sup> March 2019 Audit Committee.

Andrew Brittain  
Associate Partner  
Ernst & Young LLP



01

## Housing benefits subsidy claim



 Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£38,147,341
Amended/Not amended	Amended – subsidy increased by £929
Qualification letter	Yes
Fee – 2017-18	£13,787
Fee – 2016-17	£18,622
Recommendations from 2016-17	Findings in 2017-18
1. Work to an agreed timetable to ensure all work is completed by the 30 November deadline. 2. Ensure workbooks are fully completed.	1. Although some workbooks and query responses were delivered later than agreed or anticipated, we saw an improvement in this area, enabling us to certify the subsidy claim form on 29 November 2018. 2. The Authority agreed to perform standard verification testing on the initial testing performed. When the workbooks were initially sent to us, this had not been carried out, however, the Authority rectified this within an agreed timescale.
<p>Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.</p> <p>The certification guidance requires reporting accountants to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the certification of previous years claims. We found errors and carried out extended testing in several areas.</p> <p>Extended and other testing identified errors which the Council amended. They had a small net impact on the claim of £929. We have reported the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:</p> <ul style="list-style-type: none"><li>▶ Errors in the classification of expenditure relating to claimants residing in temporary accommodation;</li><li>▶ Errors in the calculation of earned income for claimants residing in temporary accommodation; and</li><li>▶ Amendments to the subsidy claimed for local schemes where insufficient evidence was available to support the amount claimed.</li></ul>	



02

## 2017-18 certification fees





## 2017-18 certification fees

The PSAA determine a scale fee each year for the certification of the housing benefits subsidy claim. For 2017-18, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) and are available on their website ([www.psaa.co.uk](http://www.psaa.co.uk)).

Claim or return	2017-18	2017-18	2016-17
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	15,268	15,268	18,622

We are not proposing any variation to the indicative fee.



03

Looking forward





## Looking forward

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2018/19 and beyond

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body.

As your appointed auditor for the financial statements audit, we are pleased that for the year ended 31 March 2019 the Council has appointed us to act as reporting accountants in relation to the Housing Benefits Certification scheme.

We welcome this opportunity to continue undertaking this work for the Council providing a seamless quality service, drawing on vast array of experienced and knowledgeable public sector professionals in these areas, whilst realising the synergies and efficiencies that are achieved by undertaking both the audit and grant work.

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ED None

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A photograph showing a person's hands and arms resting on a white desk. The person is wearing a yellow long-sleeved shirt, a gold bracelet, and a blue watch. They are surrounded by several white papers, likely audit documents. In the bottom left corner of the image, there is a bright yellow rectangular overlay containing the title text.

# Watford Borough Council

## Audit planning report

Year ended 31 March 2019

February 2019



27<sup>th</sup> February 2019



Watford Borough Council  
Town Hall, Hempstead Road,  
Watford  
WD17 3EX

Dear Audit Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 14th March 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley  
For and on behalf of Ernst & Young LLP

# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Watford Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Watford Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Watford Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01

## Overview of our 2018/19 audit strategy





# Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Page 51

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error*	Fraud risk	No change in risk	Misstatements that occur in relation to the risk of fraud due to management override could affect a number of areas of the financial statements. We believe this manifests itself in the accounting for manual journals and income from investment and leasehold property - see below.
Incorrect accounting for manual accruals*	Fraud risk	No change in risk	Misstatements that occur in relation to the risk of fraud or error in revenue and expenditure recognition could affect income and expenditure accounts. We believe that this risk is likely to manifest itself in the accounting for manual accruals.
Incorrect accounting for income from investment and leasehold properties*	Fraud risk	Increase in risk or focus	Misstatements that occur in relation to the risk of fraud or error in revenue and expenditure recognition could affect income and expenditure accounts. We believe this risk is likely to manifest itself in the accounting for income from investment properties and leasehold properties.
Acquisition of Leasehold Interest in Croxley Business Park	Significant risk	New risk	During 2018/19, an opportunity was presented to Watford Borough Council to acquire a 40 year head lease at Croxley Business Park. Broadly, the accounting will be to recognise an asset of circa £0.3bn within Property, Plant and Equipment and as a long term lease liability. This transaction is not yet complete so we have raised the significant risk at this stage and will keep this under review and will complete work on the accounting treatment should this transaction take place before the 31 <sup>st</sup> March 2019 year end.



# Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of Other Land and Buildings	Inherent risk	No change in risk	Management is required to provide material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Detailed valuation work is undertaken by the Council's valuers Bilfinger GVA.
Other Additions to the Capital Programme	Inherent risk	No change in risk	Even with routine capital acquisitions and enhancements, there is an inherent risk that revenue expenditure (e.g. repairs and maintenance) could be incorrectly capitalised.
Valuation of Pension Fund Assets and Liabilities	Inherent risk	No change in risk	Asset and Liability values captured in Watford Borough Council's 2018-19 accounts will derive from information issued to the Council by the actuary to Hertfordshire County Council and will involve significant estimation and judgement.
Valuation of NNDR Appeals Provision	Inherent risk	Reduced risk compared to prior year	Watford Borough Council's NNDR Appeal Provision was valued at £6,831,000 at 31 March 2018. This is a high value estimate driven by complex calculations.
New Accounting Standards	Inherent risk	New area of focus	New accounting standards are applicable for local authority accounts from the 2018/19 financial year and will bring a number of new requirements.

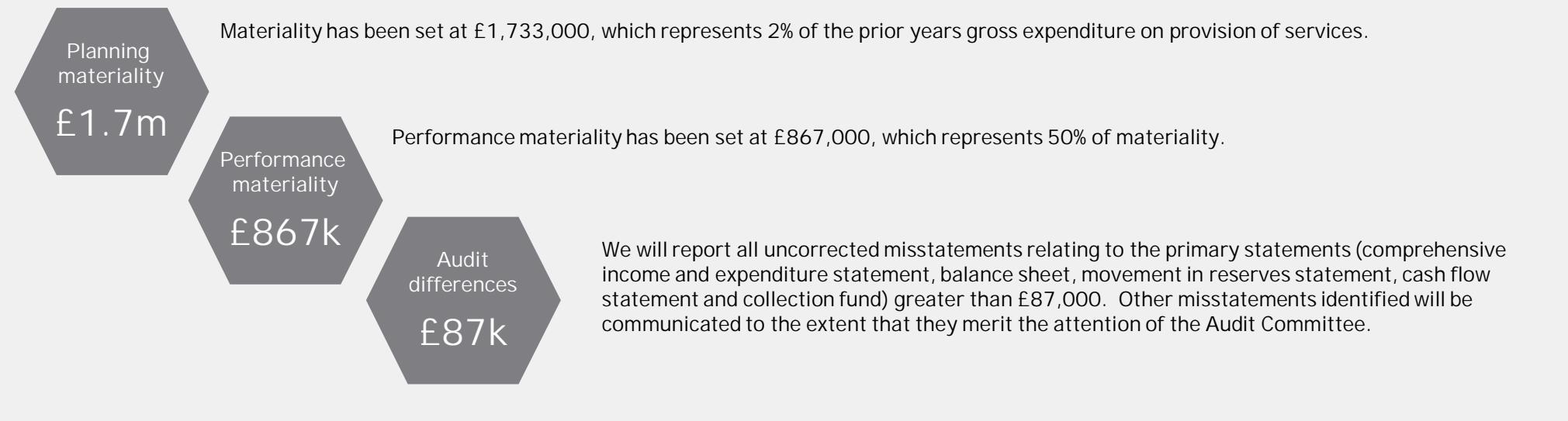


# Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Area of interest	Interest	Change from PY	Details
Group Accounting	Inherent risk	No change focus	<p>This is subject to the Croxley Park transaction and we will assess the scope of group audit work once the impact of the acquisition of Croxley Business Park head lease is known.</p> <p>If appropriate, we will review proposed consolidation accounting entries before the start of the year end audit and confirm that the proposed method of group accounting is appropriate for the relative size of the year end group.</p>

## Materiality





# Overview of our 2018/19 audit strategy

## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Watford Borough Council give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

## Audit team changes

Key changes to our team.

Associate Partner - Maria Grindley replaces Andrew Brittain as Associate Partner.

Manager - Jo Taylor replaces James Bundy as Manager.

Key team members include Samantha Wileman and Umber Irshad, both of whom have worked with the Council before. Jessal Raja will also be joining them as a key team member.



## 02 Audit risks



# Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*	What is the risk?	What will we do?
Misstatements due to fraud or error*	<p>As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.</p> <p>We identify and respond to this risk on every audit engagement.</p> <p>We believe this risk manifests itself in two areas: accounting for manual journals and investments and long term property revenues – separate risks have been raised for each of these areas.</p>	<ul style="list-style-type: none"><li>Inquire of management about risks of fraud and the controls put in place to address those risks;</li><li>Understand the oversight given by those charged with governance of management's processes over fraud; and</li><li>Consider of the effectiveness of management's controls designed to address the risk of fraud.</li></ul> <p>Perform mandatory procedures regardless of specifically identified fraud risks, including:</p> <ul style="list-style-type: none"><li>Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li><li>Assessing accounting estimates for evidence of management bias; and</li><li>Evaluating the business rationale for significant unusual transactions.</li></ul> <p>We will utilise our data analytics capabilities to assist with our work, including carrying out testing on the income and expenditure accounts and journal entry testing.</p>
Financial statement impact	<p>Misstatements that occur in relation to the risk of fraud due to management override could affect a number of areas of the financial statements.</p>	

## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Incorrect accounting for manual accruals*	What is the risk?	What will we do?
<p><b>Financial statement impact</b></p> <p>Misstatements that occur in relation to the risk of fraud or error in revenue and expenditure recognition could affect income and expenditure accounts. Manual accruals is one of the relevant accounts we associate revenue and expenditure recognition risk to. Manual accruals supported the following balances in the 2017-18 financial statements:</p> <p>Net cost of services expenditure: £34,945,000.</p> <p>Manual accruals: £2,700,000.</p>	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the financial position.</p> <p>A key way of improving the revenue position is through inappropriate timing or measurement of estimates, manual accruals around the year end being a typical estimate that could be affected.</p>	<p>We will focus our journals testing strategy around the year-end period, with a particular focus on those manual entries that impact income and expenditure.</p> <p>Where there is any management estimation or assumptions involved in the calculation of year end accruals we will ensure that the rationale provided by management is appropriate and clearly documented on file via minutes of conversations held by management.</p>

 Audit risks

# Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Incorrect accounting for income from investment and leasehold properties*	What is the risk?	What will we do?
<p><b>Financial statement impact</b></p> <p>Misstatements that occur in relation to the risk of fraud or error in revenue and expenditure recognition could affect income and expenditure accounts. Income from Investment Properties and Leasehold Properties is one of the relevant accounts we associate revenue and expenditure recognition risk to. Such income supported the following balances in the 2017-18 financial statements:</p> <p>(Income) / Expenditure in relation to investment property: £6,885,000.</p> <p>Total Reserves: £214,535,000.</p>	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the financial position.</p> <p>A key way of improving the revenue position is through the inappropriate recognition of Investment property rental income from the properties held by the council and from leasehold properties.</p> <p>We note that whilst such Income may have been £6,885,000 in 2017-18, with the acquisition of Croxley Business Park head lease, this is expected to increase significantly. The acquisition may be completed in the run up to year end and it will be particularly important to ensure that new rental income streams are recognized in the correct year of account.</p>	<p>We will review a sample of investment property and leasehold property income to confirm it is appropriately accounted for, particularly around the year end when Croxley Business Park may have been acquired. We will reconsider this risk when we know more around the timing of this significant transaction.</p>

 Audit risks

## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Page 59

### Acquisition of Leasehold Interest in Croxley Business Park

#### Financial statement impact

During 2018/19, an opportunity was presented to Watford Borough Council to acquire a 40 year head lease at Croxley Business Park. Broadly, the accounting will be to recognise an asset of circa £0.3bn within Property, Plant and Equipment and a corresponding long term lease liability. Acquisition is expected to occur before 31 March 2019 so we will keep this under review until final dates are known.

#### What is the risk?

The proposal has been structured as an “income strip” deal and the Council will have the option to acquire the freehold of Croxley Business Park at the end of the term. Under the proposal the Council will be entitled for forty years to receive the full passing rental income from occupational tenants on the Business Park in return for paying a rent to the vendor.

At inception, CTi will pay the Council a rental top up sum to cover any rent free periods on occupational leases. CTi will also pay the Council a contribution towards planned and preventative maintenance.

The strategy for valuing and impairing the asset over the forty year life of the agreement will obviously impact on the level of write down or revaluation at the end of that period.

The Minimum Revenue Provision made by the Council in connection with this agreement is expected to cover fifty years, in recognition that the life of the asset is expected to outstrip the life of the leasehold agreement with CTi.

The high value of the transactions will significantly impact on the Council’s Balance Sheet. There is a risk that financial performance could be distorted or that the oversight of financial reporting in other areas of the account could be affected by the workload of bringing this complex transaction to account at the year end.

#### What will we do?

We are currently waiting to see what progress is made by the year end and will then complete our work depending on whether the deal progresses prior to the 31 March year end. If it does we will consider the implications depending on what has happened by the year end.

For the financial statements, we will review closely the proposed accounting for Property, Plant and Equipment and Long Term Liabilities. If necessary, we will liaise with specialist EY valuer colleagues. We will also review the accounting treatment in year for the payments received from CTi and all associated presentation and disclosure in the notes to the accounts.

We will review the proposed strategy for writing down and revaluing the asset over the ensuing forty year period.

We will review presentation and disclosure across the year end draft accounts and we will be mindful of the potential impact in other areas of the financial statements. In particular, we will be mindful of the impact on scoping group accounts.

Finally, we will remain alert to the risk that this deal could create new related parties and that if it does, disclosure of transactions with those related parties will need to be considered.

## Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p><b>Valuation of Other Land and Buildings</b> Land and Buildings within Property, Plant and Equipment were valued at £80,023,000 at 31 March 2018 and Investment Properties were valued at £168,950,000 as at that date. These represent significant balances in Watford Borough Council's accounts and will be subject to valuation changes. Management is required to provide material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Detailed valuation work is undertaken by the Council's valuers Bilfinger GVA.</p> <p>Bilfinger GVA plan to undertake detailed revaluation work at the end of December and the Council plans to apply an adjustment to reflect estimated valuation movements in the last three months of the year. We note that on 29<sup>th</sup> March 2019 the UK is scheduled to leave the European Union and that fluctuations in value may be more difficult to predict around this time.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>Consider the work performed by the Council's valuers Bilfinger GVA, including the scope of the work performed on valuations at 31 December 2018 and a comparison of valuation findings with market trends and Land Registry data; data and assumptions used by the valuers; and qualifications and expertise;</li><li>Confirm effective procedures are applied by the Council to roll forward valuations from 31 December 2018 to the year end;</li><li>Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Properties. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;</li><li>Review any assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated. Consider changes to useful economic lives as a result of the most recent valuation;</li><li>Test accounting entries have been correctly processed in the financial statements;</li><li>Review valuer reports and findings to determine whether specialist EY valuer review of methodologies, data and assumptions is required; and</li><li>Horizon scan and potentially seek auditor expert input to determine whether fluctuations captured by the Council are in line with wider movements across the UK economy as the country leaves the European Union.</li></ul>
<p><b>Other Additions to the Capital Programme</b> 2017-18 saw Additions to the Capital Programme of £6,711,000. Even with routine capital acquisitions and enhancements, there is an inherent risk that revenue expenditure (e.g. repairs and maintenance) could be incorrectly capitalised.</p>	<p>We will:</p> <p>Sample test additions to Property, Plant and Equipment to confirm they meet appropriate criteria for capitalisation.</p>

 Audit risks

## Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p><b>Valuation of Pension Fund Assets and Liabilities</b></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hertfordshire County Council.</p> <p>Watford Borough Council's pension fund assets and liabilities are material estimated balances and the Code requires that the liability be disclosed on the Council's balance sheet. At 31 March 2018 the net liability was valued at £58,049,000. As noted in our Audit Results Report for 2017-18, this balance was stated gross of an adjustment to increase pension fund assets by £1,800,000, being Watford's share of the difference between the actuary's valuation of the Pension Fund's assets and the Fund's auditor's assessment of those asset values.</p> <p>Asset and Liability values captured in Watford Borough Council's 2018-19 accounts will again derive from information issued to the Council by the actuary to Hertfordshire County Council and will again involve significant estimation and judgement.</p> <p>We note that on 29<sup>th</sup> March 2019 the UK is scheduled to leave the European Union and asset values may be particularly difficult to estimate around this time. We note also that ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>Liaise with the auditors of Hertfordshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Watford Borough Council;</li><li>Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used;</li><li>Review and test the accounting entries and disclosures made within Watford Borough Council's financial statements in relation to IAS19; and</li><li>Horizon scan and potentially seek auditor expert input to determine whether fluctuations captured by the Council are in line with wider movements across the UK economy as the country leaves the European Union.</li></ul>
<p><b>Valuation of NNDR Appeals Provision</b></p> <p>Watford Borough Council's NNDR Appeal Provision was valued at £6,831,000 at 31 March 2018. This is a high value estimate driven by complex calculations.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>Consider the work performed by Inform, including the scope of the work, data provided to Inform and assumptions used; and</li><li>Compare the level of appeals at 31 March 2019 and 31 March 2018 to assess the reasonableness of amounts provided for at year end.</li></ul>

## Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p>New Accounting Standards IFRS 9 financial instruments This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"><li>• How financial assets are classified and measured;</li><li>• How the impairment of financial assets are calculated; and</li><li>• The disclosure requirements for financial assets.</li></ul> <p>There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;</li><li>• Consider the classification and valuation of financial instrument assets;</li><li>• Review new expected credit loss model impairment calculations for assets; and</li><li>• Check additional disclosure requirements.</li></ul>
<p>IFRS 15 Revenue from contracts with customers This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.</p> <p>The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. This will include Local Authority Trading Companies consolidated into the Authority's Group Accounts;</li><li>• Consider application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and</li><li>• Check additional disclosure requirements.</li></ul>

## Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p>Group Accounting Watford Borough Council holds a 50% interest in Watford Health Campus Partnership LLP and Hart Homes (Watford) Limited. Both are consolidated into the financial statements using the equity method of accounting. In the 2017-18 draft financial statements, an alternative set of accounting entries had initially been applied. As the 2017-18 Audit Results Report showed, adjusting entries were subsequently made, resulting in both prior and current year adjustments.</p> <p>We note that the timing of PWC providing an opinion on Watford Health Campus Partnership's accounts meant that the Council missed the 31 July deadline for filing its own audited group accounts.</p>	<p>We will: We will assess the scope of group audit work once the impact of the acquisition of Croxley Business Park head lease is known.</p> <p>We will review proposed consolidation accounting entries before the start of the year end audit and confirm that the proposed method of group accounting is appropriate for the relative size of the year end group.</p> <p>We will liaise early with PWC regarding timetable for group audit returns and monitor receipt of returns throughout the audit process.</p>

03

## Value for Money Risks



## Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

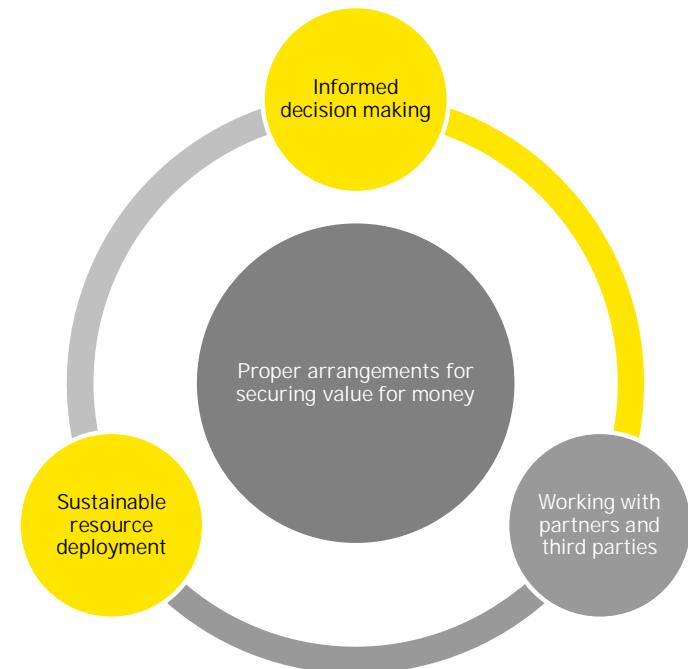
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this has included consideration of the steps taken by [the Authority] to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risks noted on the following page which we view as relevant to our value for money conclusion.





# Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
<p>Acquisition of Leasehold Interest in Croxley Business Park</p> <p>As noted earlier in this report, a high value head lease acquisition opportunity was presented to the Council in the closing part of 2018/19. The acquisition of the head lease represents a forty year commitment that will significantly change the pattern of the Council's cash flows. It will be important that robust processes support decision making on the deal and that the impact on medium to long term financial resilience is understood by those making the decision.</p> <p>The Council commissioned specialist input from a number of sources, including:</p> <ul style="list-style-type: none"><li>• Grant Thornton for financial modelling and accounting advice;</li><li>• Link Asset Services for treasury advice;</li><li>• Trowers and Hamlin LLP for due diligence, procurement, and governance advice;</li><li>• Chapman Petrie LLP for validation of assumptions used by other specialists;</li><li>• Lambert Smith Hampton Investment Management and Building Services for market and letting advice and due diligence; and</li><li>• Montague Evans- service charge analysis focusing on appropriate market supportable levels of service charge.</li></ul> <p>The scope of work commissioned; the amount of time available for analysis; the quality of information provided to specialists; and the effectiveness of the Council's processes for evaluating specialist findings will all impact on the ultimate quality of processes followed to secure value for money for the Council and its stakeholders,</p>	<p>Arrangements potentially affected are the Council's ability to:</p> <ul style="list-style-type: none"><li>• Take informed decisions; and</li><li>▪ Deploy resources in a sustainable manner.</li></ul>	<p>Subject to the transaction taking place before the year end our approach will focus on:</p> <p>Quality and timing of advice and discussion and evaluation supporting the decision making process. We will review findings the Council receives from specialists and consider: Their terms of reference and scope of work; the amount of time available for analysis; the quality of information provided to specialists; and the effectiveness of the Council's processes for evaluating specialist findings before reaching a final decision.</p> <p>Assessing the effectiveness of longer term procedures put in place for responding to leasehold occupancy and rental income information as it emerges.</p> <p>Obtaining and reviewing the February 2019 Treasury Management Strategy paper. Assessing the quality of information supporting that paper and the potential impact of any future borrowing plans on financial resilience.</p> <p>Evaluating wider arrangements to ensure financial resilience of the Council, considering factors affecting future spending and the UK economy as a whole (including for example, the departure of the UK from the European Union).</p> <p>We will review the impact of any deal entered into on the Council's financial resilience as part of our value for money testing.</p>

## 04 Audit materiality



# Audit materiality

## Materiality

### Materiality

For planning purposes, materiality for 2018/19 has been set at £1,733,000. This represents 2% of the Council's prior year gross expenditure on provision of services. Although there were a series of high value adjustments made to the accounts last year, none indicated underlying entity level control issues. A reduction in performance materiality (from 75% to 50%) and an associated increase in sampling for 2018-19 is expected to provide sufficient assurance to support our work. The 2% materiality threshold will nevertheless be reassessed throughout the audit process.

Page 68



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

### Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £867,000 which represents 50% of planning materiality. For 2017-18, performance materiality was set at 75% of planning materiality. However, the 2017-18 audit identified a higher than anticipated number of adjusted and unadjusted differences. The reduced threshold for performance materiality will prompt a higher testing level this year in response.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

Group scoping – At this stage of the audit, it is not clear what the impact of the planned Croxley Business Park head lease will be on materiality and group scope. Watford Health Campus LLP was in scope for group audit purposes last year but with a planned addition to Property, Plant and Equipment of some £296,000,000, the scope will need to be re-assessed.

Specific materiality – We have set a materiality of £1 for remuneration disclosures, related party transactions, members' allowances and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

05

## Scope of our audit





# Our Audit Process and Strategy

## Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

#### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.



## Scope of our audit

# Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

## 06 Audit team





## Audit team

Audit team structure:

Maria Grindley  
Associate Partner

Jo Taylor  
Manager

Samantha Wileman  
Umber Irshad  
Jessal Rawa  
Senior Team Members

Confirmed Specialist: EY Pensions  
Other Specialist to be considered:  
- EY Valuations  
- EY Technical team - FAAS



## Audit team

### Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Bilfinger GVA. Potentially EY Valuations Team (to be considered upon receipt of Croxley Business Park acquisition data)
Pensions disclosure	Hymans Robertson and EY Actuaries
NNDR Appeals Provision	Inform

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

## 07 Audit timeline



## Audit timeline

# Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

Audit phase	Timetable	Deliverables
Planning:	December/ January	
Risk assessment and setting of scopes.		
Walkthrough of key systems and processes	December/ January	
Testing of routine processes and controls	March	
Interim audit testing		
Audit Committee	14 March 2019	Audit Planning Report and interim audit update
Year end early visit	May	
Year end audit	July	Interim audit update
Quality Report/Account testing		
Year end audit	July	
Audit Completion procedures		
Audit Committee	30 July 2019	Audit Results Report
Annual Audit Letter	August - October	Annual Audit Letter

08

Independence



# Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

## Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Maria Grindley, your audit engagement partner and the audit engagement team have not been compromised.

## Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

## Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

## Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

## Other communications

### EY Transparency Report 2018

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>

09

## Appendices



# Appendix A

## Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2018/19 accounts of opted-in principal local government and police bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

A breakdown of our fees is shown in the table below.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Total Fee - Code work	40,021**	40,021	TBC*
Total audit	0		0
Other non-audit services not covered above (Housing Benefits)	10,602 plus £1,000 to £4,000 per 40+	N/A	15,268
Total other non-audit services	0		0
Total fees	0		0

All fees exclude VAT

\*The Scale fee for 2017/18 Code work was set as £51,975. At the time of writing this report, a Scale Fee Variation of £10,732 was under discussion with the PSAA. This reflects the cost of work on (what was last year) a new group component and the prior year adjustments.

\*\* Subject to additional work which may be required in relation to the Croxley Park transaction.

Housing Benefits work for 2018/19 will be conducted by EY under a non-PSAA contract with a fee agreed outside the PSAA Scale Fee arrangements.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

 Appendix B

## Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

Required communications	 What is reported?	 Our Reporting to you
		 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"><li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li><li>• Significant difficulties, if any, encountered during the audit</li><li>• Significant matters, if any, arising from the audit that were discussed with management</li><li>• Written representations that we are seeking</li><li>• Expected modifications to the audit report</li><li>• Other matters if any, significant to the oversight of the financial reporting process</li></ul>	Audit results report



## Appendix B

# Required communications with the Audit Committee (continued)

Required communications	 What is reported?	Our Reporting to you	
		 When and where	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>		Audit results report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Corrected misstatements that are significant</li> <li>• Material misstatements corrected by management</li> </ul>		Audit results report
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• A discussion of any other matters related to fraud</li> </ul>		Audit results report
Related parties	<ul style="list-style-type: none"> <li>• Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>		Audit results report



## Appendix B

# Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you
	When and where	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Planning Report and Audit Results Report
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>• Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of</li> </ul>	Audit results report
Internal controls	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit</li> </ul>	Management letter/audit results report



## Appendix B

# Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Group audits (if re-assessment of scope confirms group audit required)	<ul style="list-style-type: none"> <li>An overview of the type of work to be performed on the financial information of the components</li> <li>An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements</li> </ul>	Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit plan is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit planning report Audit results report
Certification work	Summary of certification work undertaken	Certification report

 Appendix C

## Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

 Appendix C

## Additional audit information (continued)

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

# Agenda Item 8

Part A

**Report to:** Audit Committee

**Date of meeting:** 14 March 2019

**Report author:** Alison Scott – Head of Finance

**Title:** Accounting Policies 2018/19

## 1.0 Summary

1.1 Changes in Accounting Policies for 2018/19

1.2 There are several changes proposed to Watford's accounting policies for the 2018/19 accounts, driven by the adoption of two new standards

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

The key changes under IFRS 9 for local authorities are outlined below.

1.3 IFRS 9 has introduced a new classification model based on the business model for holding the financial assets and on the nature of the cash flows that might flow from them. Local authorities will therefore need to identify their financial assets, consider them against the new tests in IFRS 9, remeasure any that have changed classification and prepare the relevant adjustments to opening balances and consider the possible impact of statutory reversals.

1.3 IFRS 9 has also introduced a new expected credit loss model for impairment in contrast to the incurred loss model in IAS 39. This model will require local authorities to assess the risk of default on the relevant financial assets rather than an assessment based on evidence that the default has already taken place. Local authorities will need to calculate their loss allowances based on this new model and adjust the General Fund Balance for these re-measurements.

1.4 In addition, there are substantial new disclosures to support the objective of the standard to assist users in assessing the amounts timing and uncertainty of cash flows. More detail is included in relation to the disclosure of the carrying amounts and the gains and losses on financial instruments held. The expected credit loss model requires information on the credit losses of local authorities including a new disclosure providing a reconciliation of the loss allowances and details of the

decisions authorities are likely to make in relation to the estimation and measurement of loss.

- 1.5 IFRS 15 introduces a five-step model for assessing the performance obligations in a contract for the provision of goods or services and how much of the transaction price is to be taken as each obligation is satisfied. In most cases, this will not change the way revenue is currently recognised within the accounts.
- 1.6 However, IFRS 15 might require some reconsideration of contracts where there is a significant timing difference between the authority providing goods and/or services and receiving payment. Payments in advance will bring a particular risk that the recognition point for income might have to be pushed back.
- 1.7 Revenue relating to such things as council tax, business rates, and housing rents shall be measured at the full amount receivable as these are statutory duties of the Council and there can be no difference between the delivery and payment dates
- 1.8 The appended Accounting Policies for 2018/19 incorporate the above changes. Due to the nature of the financial activities with the authority the change is not expected to have a material impact to the 2018/19 accounts.

## 2.0 Risks

### 2.1

<b>Nature of risk</b>	<b>Consequence</b>	<b>Suggested Control Measures</b>	<b>Response (treat, tolerate, terminate or transfer)</b>	<b>Risk Rating (combination of severity and likelihood)</b>
Changes to accounting policies are not properly reflected in the Statement of Accounts	Material mis-statement or qualification	Review accounting policies annually. Maintain awareness of future changes	treat	4
Changes to accounting policies have an impact on the revenue budget or capital programme.	Impact on reserves, especially where not identified at budget setting.	Maintain awareness of future changes	Tolerate	6

### **3.0 Recommendations**

3.1 Audit Committee are asked to review and comment upon the accounting policies.

#### **Further information:**

Alison Scott

Alison.scott@threerivers.gov.uk

**Report approved by:** Alison Scott, Head of Finance

### **4.0 Detailed proposal**

4.1 The detailed Accounting Policies are attached to this report.

### **5.0 Implications**

#### **5.1 Financial**

5.1.1 The Shared Director of Finance comments that changes to accounting policies can have an impact on the amounts received and charged to an the Council's revenue account and capital programme, however no material impact of the changes in accounting policies outlined above has been identified.

#### **5.2 Legal Issues (Monitoring Officer)**

5.2.1 The Head of Democracy and Governance comments that there are no legal implications of this report.

#### **5.3 Equalities, Human Rights and Data Protection**

5.3.1 There are no implications of this report.

#### **5.4 Staffing**

5.4.1 There are no implications of this report.

#### **5.5 Accommodation**

5.5.1 There are no implications of this report.

#### **5.6 Community Safety/Crime and Disorder**

5.6.1 There are no implications of this report.

## **5.7 Sustainability**

5.7.1 There are no implications of this report.

## **Appendices**

- Extract of Accounting Policies

## **Background papers**

No papers were used in the preparation of this report.

# Accounting Policies - Single Entity and Group Accounts

## 1.01 General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year end of 31 March 2018. The Council is required to prepare an annual Statement of Accounts by The Accounts and Audit (England) Regulations 2015, which require these to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and the CIPFA Service Reporting Code of Practice 2017/18 (SERCOP). SERCOP does not prescribe guidance on the Statement of Accounts. This is provided by the Code, supported by International Financial Reporting Standards (IFRS) (and statutory guidance issued under section 12 of the 2003 Act). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

## 1.02 Turnover (for Group Accounts)

Turnover in respect of property development is recognised on unconditional exchange of contracts on disposals of finished developments.

Where construction of pre-sold developments is under-taken, the revenue and profits are recognised in accordance with IFRIC 15. Revenue is determined by independently certified milestones.

## 1.03 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:-

- revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- supplies are recorded as expenditure when they are consumed — where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet
- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract

where revenue and expenditure have been recognised, but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be

settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

## 1.04 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management. The Council has no overdraft facility.

## 1.05 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period, as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. See Note 4 for an outline of PPA's within this set of accounts.

## 1.06 Charges to Revenue for Long Term Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:-

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. These entries are adjusted through the Movement in Reserves Statement.

## 1.07 Employee Benefits

### **Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for

services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer, or group of officers, or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### **Post Employment Benefits**

Employees of the Council are members of the Local Government Pension Scheme, administered by Hertfordshire County Council. The scheme provided defined benefits to members (retirement lump sums and pensions), earned as employees who worked for the Council. The schemes arrangements are summarised as follows:-

#### **The Local Government Pension Scheme**

- the Local Government Scheme is accounted for as a defined benefits scheme
- the liabilities of Hertfordshire County Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method — i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees
- liabilities are discounted to their value at current prices, using a discount rate of 3.6%-3.8% (based on the indicative rate of return on high quality corporate bonds);
- the assets of Hertfordshire County Council (HCC) Pension Fund attributable to the Council are included in the Balance Sheet at their bid value as required by International Accounting Standard (IAS)19. Full details of the assets held by the Fund are disclosed as part of the Pension scheme disclosure.

The change in the net pensions liability is analysed into seven components:

- current service cost — the increase in liabilities as a result of years of service earned this year — allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost — the increase in liabilities arising from current year decisions which relate to years of service earned in earlier years — debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
- interest cost — the expected increase in the present value of liabilities during the year as they move one year closer to being paid — debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets — the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments — the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees — debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
- actuarial gains and losses — changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions — credited to the Comprehensive income and expenditure - Other Comprehensive Income and Expenditure line and reversed through the Movement in Reserves to the Pensions Reserve;
- contributions paid to the HCC pension fund — cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense in the Comprehensive Income and Expenditure Statement.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows, rather than as benefits earned by employees.

### **Discretionary Benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## 1.08 Financial Instruments

### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. The Council currently has no long-term external debt.

### **Financial Assets - Loans and Receivables**

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument)

#### **Financial Assets Measured at Amortised Cost**

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for Statements the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

#### **Expected Credit Loss Model**

The authority recognises expected credit losses on all of its material financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to material lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Expected Credit Loss Model is not applied to debts related to Council Tax and Non Domestic Rates.

#### **Financial Assets Measured at Fair Value through Profit or Loss (FVPL)**

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices –the market price
- other instruments with fixed and determinable payments –discounted cash flow analysis.

## 1.09 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:-

- the Council will comply with the conditions of the payment
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## 1.10 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset

and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired — any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Where there is intangible asset expenditure of an immaterial nature, the Council's policy is that these be capitalised and then written off in-year.

## 1.11 Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost or net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

## 1.12 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the

Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

### **1.13 Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

#### ***The Council as Lessee***

##### **Finance Leases**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:-

- a charge for the acquisition of the interest in the property, plant or equipment — applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

##### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or

equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### ***The Council as Lessor***

#### **Finance Leases**

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property — applied to write down the lease debtor (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

#### **Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## **1.13 Overheads and Support Services**

The costs of overheads and support services are not charged to those service segments that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2016/17 (SERCOP).

But the costs of overheads and support services are accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

## **1.14 Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

### **Measurement**

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

It should be noted that at present the Council has no donated assets.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction — depreciated historical
- All other assets — fair value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value — EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. In addition, should current valuations of a similar class of asset suggest material differences in valuations, the entire class to which the asset belongs would be revalued. The current valuers have undertaken a market review of individual asset types within the Council's portfolio at year end to identify any material changes to the fair value of assets. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

When decreases in value are identified:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

## **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

When impairment losses are identified:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

## **Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on the following bases:-

- Buildings — straight-line allocation over the useful life of the asset as estimated by the valuer - up to 70 years
- Vehicles — straight-line over the estimated life of the asset - up to 20 years
- Plant, furniture and equipment — straight-line over the estimated life of the asset - up to 20 years
- Infrastructure — straight-line over the estimated life of the asset - up to 25 years
- Finance leases — over the life on the underlying asset or over the life of the lease where there is no option to acquire the asset at the end of the lease.

Please note, to ensure consistency across the Councils policies, the previous accounting policy of depreciating some plant, furniture and equipment has been changed from reducing balance to straightline. This now means all Councils assets if depreciated are depreciated based on a straightline basis. The impact was immaterial.

Depreciation commences in the year following acquisition.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately, in order to ensure the depreciation charge is realistic.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## **Disposals of Non-current Assets**

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **Construction Contracts**

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

## **1.15 Heritage Assets**

Heritage Assets are held with the objective of increasing knowledge, understanding and the appreciation of the Council's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules have been simplified in relation to heritage assets as detailed below.

The Heritage Assets are relatively static and acquisitions, donations and disposals are rare. Where acquisitions do occur, they are initially recognised at cost and donations are recognised at valuation ascertained by insurance officers, museum curators or external valuers. Proceeds from the disposal of Heritage Assets are accounted for in accordance with the Council's general policies relating to the disposals of property, plant and equipment. The Council has a rolling programme of major repair and restoration of its heritage assets and therefore the assets are deemed to have indefinite lives and the Council does not consider it necessary to charge depreciation.

The Council's collection of Heritage Assets, which includes works of art, musical equipment, sculptures, statues, war memorials and civic regalia, are reported at insurance valuations, which are based on market values, internal or external valuations. These insurance valuations are reviewed and updated on an annual basis. The carrying amounts of heritage assets are reviewed where there is evidence of impairment or where an item has suffered physical deterioration or breakage. Any impairment is recognised and measured in accordance with the Council's general policy on impairment.

## 1.16 Provisions, Contingent Liabilities and Contingent Assets

### **Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year — where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

The level of provisions are reviewed annually by the Council.

### **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### **Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## 1.17 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the

Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council — these reserves are explained in the relevant policies.

## **1.18 Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

## **1.19 Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## **1.20 Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Council in conjunction with other organisations, that involve the use of assets and resources of the Council and organisations without the establishment of a separate legal entity.

The Council recognises the assets and liabilities it controls on the Council's balance sheet. Expenditure incurred by the Council and income it earns from the operation is included in the Council's CI&E.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other organisations. The assets being used to obtain benefit to the Council and organisations. The arrangement does not involve the formation of a legal entity.

The Council accounts for only its share of jointly controlled assets, liabilities and expenses incurred in respect of its interest in the arrangement.

An agreement exists between Dacorum Borough Council, Hertsmere Borough Council, St Albans City & District Council, Three Rivers District Council and Watford Borough Council to constitute a West Herts Crematorium Joint Committee under the Local Government Act 2000.

The Joint Committee has one member from each of the constituent Councils. One Watford Councillor represents the Council on the Joint Committee. The Council's Managing Director is the Clerk to the Joint Committee. Three Rivers District Council provide the Treasurer.

## **1.21 Single Entity Financial Statements**

The financial statements presented by a parent, an investor in an associate or a venturer in a joint venture (jointly controlled entity) in which the investments are accounted for on the basis of the direct equity interest (i.e. at cost) rather than on the basis of the reported results and net assets of the investees. In the context of the Code, an Authority's single entity financial statements are deemed to be separate financial statements.

## **1.22 Group Accounts - Recognition of Group Entities and Basis of Consolidation**

Group Accounts are the financial statements of an entity together with:-

- its subsidiary undertakings,
- its investments in associates, and
- its interests in joint ventures (jointly controlled entities); presented as a single economic entity.

Subsidiary undertakings are accounted for in accordance with the implementation of IAS27 (International Accounting Standard 27) in the 2018/19 Code. The 2018/19 Code requires consolidation of subsidiaries. Consolidation is a method of accounting whereby an entity combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, reserves, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:-

- the carrying amount of the parent's investment in each subsidiary and the parent's portion of reserves of each subsidiary are eliminated;
- any non controlling interest is identified and separately disclosed;
- intragroup balances and transactions, including income, expenses and dividends, are eliminated in full.

Investments in associates are accounted for in accordance with the implementation of IAS28 in the Code. The Code requires the consolidation of an entity's interest in associates. Joint ventures are accounted for in accordance with the implementation of IFRS 11 in the Code. The Code requires use of the "equity method" of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post acquisition change in the investor's share of the net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

### **Taxation (for Group Accounts)**

Taxation on all profits is solely the personal liability of individual members. Consequently neither taxation nor related deferred taxation arising in respect of Watford Health Campus Partnership LLP are accounted for in these financial statements.

### **Subscription and Repayment of Members' Capital (for Group Accounts)**

The capital requirements of the LLP are reviewed from time to time by the Board and further capital contributions may be made at the discretion of the members. No interest is charged on capital except pursuant to a dissolution, no capital can be withdrawn by a member unless agreed by all members.

## **Allocation of Profits and Drawings (for Group Accounts)**

The allocation of profits to those who were members during the financial period occurs following the finalisation of the annual financial statements.

The allocation of profits between members is determined by entitlements outlined in the Members' Agreement and is dependent on certain profit criteria being achieved. In accordance with the SORP as a consequence of the LLPs profits being automatically divided in line with the entitlements outlined in the Members' Agreement these profits are treated as an expense in the profit and loss account.

## **Work in progress (for Group Accounts)**

Development land and work in progress is included at cost less any losses foreseen in completing and disposing of the development less any amounts received or receivable as progress payments or part disposals. Where a property is being developed, cost includes cost of acquisition and development to date, including directly attributable fees, expenses and finance charges net of rental or other income attributable to the development. Where development property is not being actively developed, net rental income and finance costs are taken to the profit and loss account.

## **1.23 Fair Value**

The Council measures some of its non-financial assets, such as surplus assets and investment properties, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting in their economic best interest).

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 – quoted prices,
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly,
- Level 3 – unobservable inputs for the asset or liability.



**Watford Borough Council  
Audit Committee Progress Report  
14 March 2019**

**Recommendation**

Members are recommended to:

- Note the Internal Audit Progress Report for the period to 22 February 2019
- Approve amendments to the Audit Plan as at 22 February 2019
- Agree removal of implemented recommendations (see Appendix C)
- Agree the change to the implementation date for 1 recommendation (paragraph 2.5) for the reason set out in Appendix C

# Contents

## 1 Introduction and Background

- 1.1 Purpose
- 1.2 Background

## 2 Audit Plan Update

- 2.1 Delivery of Audit Plan and Key Audit Findings
- 2.3 Status of Audit Recommendations
- 2.5 Proposed Audit Plan amendments
- 2.7 Performance Management

## Appendices

- A Progress against the 2018/19 Audit Plan
- B 2018/19 Audit Plan Projected Start Dates
- C Progress against Outstanding Internal Audit Recommendations

# 1. Introduction and Background

## Purpose of Report

1.1 This report details:

- a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's Annual Audit Plan for 2018/19 as at 22 February 2019.
- b) Proposed amendments to the approved 2018/19 Annual Audit Plan.
- c) Implementation status of all outstanding previously agreed audit recommendations from 2016/17 onwards.
- d) An update on performance management information as at 22 February 2019.

## Background

- 1.2 The work of internal audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.
- 1.3 The 2018/19 Annual Audit Plan was approved by Audit Committee on 15 March 2018.
- 1.4 The Audit Committee receives periodic updates on progress against the Annual Audit Plan from SIAS, the most recent of which was brought to this Committee on 6 December 2018.

# 2. Audit Plan Update

## Delivery of Audit Plan and Key Audit Findings

- 2.1 As at 22 February 2019, 92% of the 2018/19 Audit Plan days had been delivered for the combined WBC and Shared Services plans (calculation excludes 'To Be Allocated' days). Appendix A provides a status update on each individual deliverable within the audit plan.
- 2.2 Six 2018/19 reports have been finalised since the date of the last committee:

Audit Title	Date of Issue	Assurance Level	Number and Priority of Recommendations
NDR	Dec '18	Satisfactory	One medium Two low
Cyber Security	Jan '19	Satisfactory	Three medium

Council Tax	Feb '19	Satisfactory	One medium Three low
GDPR (post implementation review)	Feb'19	Good	None
Payroll	Feb '19	Good	None
Treasury Management	Feb '19	Good	None

#### Status of Audit Recommendations

- 2.3 Members will be aware that a Final Audit Report is issued when it has been agreed by management and includes an agreement to implement the recommendations made. It is SIAS's responsibility to bring to Members' attention the implementation status of all audit recommendations. It is the responsibility of officers to implement recommendations by the agreed date.
- 2.4 The table below summarises progress in implementation of all outstanding internal audit recommendations as at February 2019, with full details given in Appendix C:

Year	Recommendations made No.	Implemented	Not yet due	Outstanding & request made for extended time*	Percentage implemented %
2016/17	35	32	3	0	91%
2017/18	29	24	5	0	83%
2018/19	17	7	9	1	41%

\*or no update provided.

Since December 2018 Audit Committee, an extension to the implementation date for one recommendation from the 2018/19 Council Tax audit has been requested by the action owner.

#### Proposed Audit Plan Amendments

- 2.5 The Commercial Strategy audit has been cancelled from the 2018/19 Audit Plan at the request of management as there has been insufficient progress in developing the strategy to warrant audit involvement at this stage. However, management have requested that the audit be included in the 2019/20 Audit Plan. Ten days have been returned to the 'To be allocated' budget.
- 2.6 Additional testing has been incorporated into some of the existing key financial systems audits and a total of five days taken from the 'To be allocated' budget to cover this.

## Performance Management

### Reporting of Audit Plan Delivery Progress

- 2.7 To help the Committee assess the current situation in terms of progress against the projects in the 2018/19 Audit Plan, we have provided an analysis of agreed start dates at Appendix B. These dates have been agreed with management and resources allocated accordingly. This is designed to facilitate smoother delivery of the audit plan through the year.
- 2.8 Annual performance indicators and associated targets were approved by the SIAS Board in March 2018. Actual performance for Watford Borough Council against the targets that can be monitored for 2018/19 is shown in the table below.

Performance Indicator	Annual Target	Profiled Target to 22 February 2019	Actual to 22 February 2019
<b>1. Planned Days</b> – percentage of actual billable days against planned chargeable days completed (excluding unused contingency).	95%	94% (250 / 267 days)	92% (246 / 267 days)
<b>2. Planned Projects</b> – percentage of actual completed projects to draft report stage against planned completed projects (excludes 2017/18 completion and ‘on-going’ pieces).	95%	86% (19 out of 22 projects to draft)	77% (17 out of 22 projects to draft)
<b>3. Client Satisfaction</b> – percentage of client satisfaction questionnaires returned at ‘satisfactory’ level.	100%	100%	86% (7 received) Note (1)
<b>4. Number of Critical / High Priority Audit Recommendations agreed</b>	95%	95%	N/A – none yet made in 2018/19

Note (1) – One of those received in 2018/19 relates to a 2017/18 audit.

- 2.9 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2018/19 Head of Assurance’s Annual Report:

- **5. External Auditors' Satisfaction** – the Annual Audit Letter should formally record whether or not the External Auditors are able to rely upon the range and the quality of SIAS' work.
- **6. Annual Plan** – prepared in time to present to the March meeting of each Audit Committee. If there is no March meeting then the plan should be prepared for the first meeting of the civic year.
- **7. Head of Assurance's Annual Report** – presented at the Audit Committee's first meeting of the civic year.

## APPENDIX A PROGRESS AGAINST THE 2018/19 AUDIT PLAN AT 22 FEBRUARY 2019

### 2018/19 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	L				
<b>Key Financial Systems</b>									
Benefits (shared plan)						14	Yes	13.5	Draft Report Issued
Council Tax (shared plan)	Satisfactory	0	0	1	3	13	Yes	13	Final Report Issued
Creditors (shared plan)						10	Yes	9.5	Draft Report Issued
Debtors (shared plan)	Good	0	0	0	0	10	Yes	10	Final Report Issued
Main Accounting (shared plan)						14	Yes	10	In Fieldwork
NDR (shared plan)	Satisfactory	0	0	1	2	13	Yes	13	Final Report Issued
Payroll (shared plan)	Good	0	0	0	0	10	Yes	10	Final Report Issued
Treasury Management (shared plan)	Good	0	0	0	0	5	Yes	5	Final Report Issued
Budget Monitoring (shared plan)						5	Yes	1	In Fieldwork
<b>Operational Audits</b>									
Agency Spend (shared plan)						10	Yes	9.5	Draft Report Issued
GDPR Preparedness	Satisfactory	0	0	2	2	12	Yes	12	Final Report Issued
GDPR Post implementation review	Good	0	0	0	0	8	Yes	8	Final Report Issued
Parking						10	Yes	9.5	Draft Report Issued
Temporary Accommodation						1	N/A	1	Cancelled
Commercial Strategy						0	N/A	0	Cancelled
Grants	Good	0	0	0	1	6	Yes	6	Final Report Issued
Equality Impact Assessments	Satisfactory	0	0	1	0	5	Yes	5	Final Report Issued
Home Improvement Agency						3	Yes	2.5	Draft Report Issued

**APPENDIX A PROGRESS AGAINST THE 2018/19 AUDIT PLAN AT 22 FEBRUARY 2019**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	L				
DFG Capital Grant Certification	N/A		-	-	-	1	Yes	1	Complete
<b>Procurement</b>									
No audits									
<b>Counter Fraud</b>									
No audits									
<b>Risk Management and Governance</b>									
Risk Management						5	Yes	3	In Fieldwork
<b>IT Audits</b>									
Cyber Security (shared plan)	Satisfactory	0	0	3	0	12	BDO	12	Final Report Issued
IT Operations (shared plan)						20	BDO	15	In Fieldwork
IT Contract Management (shared plan)						15	BDO	14	In Quality Review
<b>SIAS Joint Work</b>									
Shared Learning Newsletters						3	N/A	3	Complete
Joint Reviews– topics to be determined						2	Yes	2	Complete
<b>Ad Hoc Advice</b>									
Ad Hoc Advice						2		2	Complete
<b>To Be Allocated</b>									
Unused contingency						5		0	

**APPENDIX A PROGRESS AGAINST THE 2018/19 AUDIT PLAN AT 22 FEBRUARY 2019**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	L				
(shared plan)									
<b>Strategic Support</b>									
Head of Internal Audit Opinion 2017/18						2	N/A	2	Complete
External Audit Liaison						1	N/A	1	Complete
Audit Committee						10	N/A	9	Through year
Monitoring & Client Liaison						11	N/A	10	Through year
2019/20 Audit Planning						7	N/A	7	Complete
SIAS Development						3	N/A	3	Complete
AGS						3	N/A	3	Complete
Follow-up of recommendations						10	N/A	10	Complete
<b>Completion of 2017/18 audits</b>									
Time required to complete work commenced in 2017/18 (6 days shared plan; 5 days WBC)						11	N/A	11	Complete
<b>WBC TOTAL</b>						<b>110</b>		<b>105</b>	
<b>SHARED SERVICES TOTAL</b>						<b>162</b>		<b>141.5</b>	
<b>COMBINED TOTAL</b>						<b>272</b>		<b>246.5</b>	

Key to recommendation priority levels:

C - Critical

H = High

## **APPENDIX A PROGRESS AGAINST THE 2018/19 AUDIT PLAN AT 22 FEBRUARY 2019**

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M = Medium

L = Low / Advisory

N/A = Not applicable

## APPENDIX B – 2018/19 AUDIT PLAN PROJECTED START DATES

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Apr	May	June	July	August	September
Revenues & Benefits System Parameter Testing (shared plan)* <b>Complete</b>	Grants <b>Final Report Issued</b>	Equality Impact Assessments <b>Final Report Issued</b>	Agency Staffing (shared plan) <b>Draft Report Issued</b>		Parking <b>Draft Report Issued</b>
GDPR Preparedness <b>Final Report Issued</b>					Home Improvement Agency <b>Draft Report Issued</b>
Page 119					DFG Capital Grant Certification <b>Complete</b>
					Cyber Security (shared plan) <b>Final Report Issued</b>

**\*Notes:**

- Revenues & Benefits System Parameter Testing completed in May 2018 - remainder of Benefits and NDR work due Q3.

## APPENDIX B – 2018/19 AUDIT PLAN PROJECTED START DATES

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October	November	December	January	February	March
Council Tax (shared plan) <b>Final Report Issued</b>	NDR (shared plan) <b>Final Report Issued</b>	Treasury Management (shared plan) <b>Final Report Issued</b>	Creditors (shared plan) <b>Draft Report Issued</b>	Budget Monitoring (shared plan) <b>In Fieldwork</b>	
Debtors (shared plan) <b>Final Report Issued</b>	Benefits (shared plan) <b>Draft Report Issued</b>		Main Accounting (shared plan) <b>In Fieldwork</b>		
Risk Management <b>In Fieldwork</b>	Payroll (shared plan) <b>Final Report Issued</b>		IT Operations (shared plan) <b>In Fieldwork</b>		
	IT Contract Management (shared plan) <b>In Quality Review</b>		GDPR - PIR <b>Final Report Issued</b>		

**Audit Plan 2016/17**

<b>Tree Surveying 2016/17</b> Final report issued April 2017							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved x or ✓	Revised Deadline
01	<p>We recommend that during the review process to finalise the Woodland and Tree Strategy, the Council ensures that the strategy addresses the following:</p> <ul style="list-style-type: none"> <li>a) Measurement of the aims and objectives contained within the strategy;</li> <li>b) Frequency of inspections to be completed, both routine and high risk trees; and</li> </ul> <p>Detail of the maintenance programmes to be adopted.</p>	Merits Attention	<p>The strategy is meant to be an overview of trees and woodlands and intended to take a more strategic overview of tree and woodland management in the Borough. However, what this has raised is that the specification in the Parks and Open Spaces contract documentation, detailing what is required of Veolia does not cover enough detail in relation to planned maintenance and there is a clear emphasis on reactive management rather than proactive management. A review of the specification needs to be undertaken and ensure that the Strategy is aligned with this.</p> <p>Position – June 2017 As above.</p> <p>Position – September 2017 As above but delayed due to Cassiobury Park operational issues.</p> <p>Position – November 2017 No update received.</p> <p>Position – February 2018 The overarching Green Spaces Strategy is currently being reviewed as part of the Local Plan 2 work and this has the wider view of Trees and Woodlands. An action plan will be updated within this to ensure trees, woodlands and biodiversity are included and the need to</p>	Section Head Parks, Open Spaces and Projects	30 September 2017 and to be presented to Strategic Partnership Board.	*	31 December 2017  31 May 2018  31 July 2019

Tree Surveying 2016/17							
Final report issued April 2017							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
			<p>update the Tree and Woodland Strategy. This will eventually be approved by PFH or Cabinet.</p> <p>Position – July 2018 The review of the Green Spaces Strategy is still underway and is tied up with the Local Plan 2 amends. The extension for the Veolia Contract is now currently being negotiated and this will be an opportune time to a) amend and agree the strategy and b) update the specification.</p> <p>Position – September 2019 In progress.</p> <p>Position – November 2018 In progress.</p> <p><b>Position – February 2019 In progress.</b></p>				
04	<p>We recommend that a maintenance programme is developed and implemented.</p> <p>The maintenance programme should consider the works that have been identified from inspections completed, the priority level given and the risk indicator of the tree.</p> <p>The maintenance programme should be fully costed to provide the Council with a tool for setting the budget for tree related works.</p>	Medium	<p>A proactive maintenance programme does need to be developed and costed – additional funding may be required to carry out an updated survey.</p> <p>The figure of 5,150 trees requiring work includes all work both safety and what could be described as desirable and not essential therefore gives a higher weighted figure.</p> <p>Position – June 2017 As above.</p> <p>Position – September 2017 As above but delayed due to Cassiobury Park</p>	Section Head Parks, Open Spaces and Projects	<p>30 September 2017 and to be presented to Strategic Partnership Board.</p>	✗	<p>31 December 2017</p> <p>31 May 2018</p> <p>31 July 2019</p>

<b>Tree Surveying 2016/17</b>							
Final report issued April 2017							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
			<p>operational issues.</p> <p>Position – November 2017 No update received.</p> <p>Position – February 2018 The overarching Green Spaces Strategy is currently being reviewed as part of the Local Plan 2 work and this has the wider view of Trees and Woodlands. An action plan will be updated within this to ensure trees, woodlands and biodiversity are included and the need to update the Tree and Woodland Strategy. This will eventually be approved by PFH or Cabinet.</p> <p>Position – July 2018 The review of the Green Spaces Strategy is still underway and is tied up with the Local Plan 2 amends. The extension for the Veolia Contract is now currently being negotiated and this will be an opportune time to a) amend and agree the strategy and b) update the specification.</p> <p>Position – September 2018 In progress.</p> <p>Position – November 2018 In progress.</p> <p><b>Position – February 2019 In progress.</b></p>				

Tree Surveying 2016/17							
Final report issued April 2017							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
05	We recommend that, in order to ensure continuity of service, that policies and procedures relating to tree inspections, maintenance and works are developed.	Medium	<p>As above, this needs to be re-visited and assessed by the WBC client team as was not in the original specification. A report will be presented to Strategic Partnership Board as this will impact on the current contract and will result in a contract variation.</p> <p>Position – June 2017 As above.</p> <p>Position – September 2017 As above but delayed due to Cassiobury Park operational issues.</p> <p>Position – November 2017 No update received.</p> <p>Position – February 2018 The overarching Green Spaces Strategy is currently being reviewed as part of the Local Plan 2 work and this has the wider view of Trees and Woodlands. An action plan will be updated within this to ensure trees, woodlands and biodiversity are included and the need to update the Tree and Woodland Strategy. This will eventually be approved by PFH or Cabinet.</p> <p>Position – July 2018 The review of the Green Spaces Strategy is still underway and is tied up with the Local Plan 2 amends. The extension for the Veolia Contract is now currently being negotiated and this will be an opportune time to a) amend and agree the strategy and b) update the specification.</p>	Section Head Parks, Open Spaces and Projects	30 September 2017 and to be presented to Strategic Partnership Board.	✗	31 December 2017 31 May 2018 31 July 2019

**WBC Internal Audit Recommendations Follow Up – February 2019****APPENDIX C**

<b>Tree Surveying 2016/17</b>							
Final report issued April 2017							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
			<p>Position – September 2018 In progress.</p> <p>Position – November 2018 In progress.</p> <p><b>Position – February 2019</b> <b>In progress.</b></p>				

**Audit Plan 2017/18**

<b>Cyber Security 2017/18</b>							
Final report issued September 2017							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
02	<p>All devices that are running unsupported operating systems should be upgraded to run operating systems that are supported by the developer.</p> <p>Where it is not possible to upgrade the operating system of a device, it must be isolated from the Councils' IT network and appropriate security controls implemented.</p>	High	<p>Agreed – This will be discussed with the relevant IT system owners in order to agree the best way forward to migrate off of legacy operating systems.</p> <p>TRDC XP machines – down to: 2</p> <p>WBC XP machines – down to: 0</p> <p>Decommissioning is part of the core infrastructure programme. Since Jan 2017 67 servers have been decommissioned.</p> <p>Position - September 2017 As above – final report only recently issued.</p> <p>Position – November 2017 Significant progress. 96 servers have now been decommissioned. There are 45 remaining with an unsupported operating system installed. All servers have been reviewed and there is an associated plan in place to upgrade and/or decommission. The majority of these services have associated services or impact line of business applications, and need to be upgraded in line with services.</p> <p>TRDC XP machine: 1. This is a system that provides telephone reports. The hardware and OS has been further secured, reducing the</p>	ICT Section Head	30 June 2018	✓	<p>31 August 2018</p> <p>31 December 2018</p>

Cyber Security 2017/18							
Final report issued September 2017							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
			<p>risk, by removing all Internet and Email access.</p> <p>Position – February 2018 On track. Further decommissioning / upgrades of servers completed.</p> <p>Position – July 2018 Through the life of the core infrastructure programme over 150 out of support servers have been decommissioned or upgraded.</p> <p>36 servers has been identified that will remain on an unsupported operating system for the next 6 months to a year, whilst the applications are replaced, upgraded.</p> <p>Plan to move 36 servers to a “walled garden” in place and specifics dependencies identified.</p> <p>PSN (Public Services Network) submission due end of August 2018.</p> <p>Position – September 2018 PSN public services submission completed on time. Awaiting outcome from Cabinet Office. Walled Garden migration underway. Delay to movement of servers has been down to legacy systems with little to no documentation. Internally we have therefore had to map all dependencies across these systems, which has taken additional time and resources.</p> <p>Position – November 2018 Separate report from the ICT Section Head to be presented to Audit Committee on this recommendation.</p>				

<b>Cyber Security 2017/18</b>							
Final report issued September 2017							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
			<b>Position – February 2019</b> <b>All 2003 servers now either decommissioned or within the “Walled Garden.”</b>				

<b>Funding Streams 2017/18</b>							
Final report issued December 2018							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
01	We recommend that an external funding strategy should be developed, to inform the organisational approach to secure external finance to deliver key initiatives.  We recommend that an external funding lessons learned log be introduced. The log should be published on the intranet to ensure the information is accessible to all relevant staff.	Medium	Watford BC is currently in the process of appointing a Commercial Adviser. A funding strategy will be part of their remit.  <b>Position – February 2019</b> <b>In progress</b>	Commercial Adviser	30 June 2019	✗	
02	We recommend that a steering group specifically focusing on external funding is formed. Ideally, the group	Medium	This will be added as a standing item to the Contract and Relationship Management Forum.	Head of Community and Environmental	30 April 2019	✗	

<b>Funding Streams 2017/18</b>							
Final report issued December 2018							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
	should be chaired by a senior officer so that there is an effective and tangible link to the senior management / leadership team.		Regular updates to be taken to leadership team.  <b>Position – February 2019</b> <b>In progress</b>	Services.			
03	We recommend that a mechanism to track all bids for external funding end to end be introduced.	Medium	Log to be maintained by Corporate Strategy and Communications.  <b>Position – February 2019</b> <b>Deadline of 30 April 2019 will be met.</b>	Head of Corporate Strategy and Communications	30 April 2019	✗	
04	We recommend that an external funding lessons learned log be introduced. The log should be published on the intranet to ensure the information is accessible to all relevant staff.	Medium	Log to be maintained by Corporate Strategy and Communications. To report to Leadership Team.  <b>Position – February 2019</b> <b>Deadline of 30 April 2019 will be met.</b>	Head of Corporate Strategy and Communications	30 April 2019	✗	
05	We recommend that departments seeking external funding for initiatives be encouraged to innovate, using different approaches to fundraising, such as donation-based crowdfunding, corporate sponsorship and corporate donations. The town has a number of large and medium sized businesses, which through their commitment to corporate social responsibility may have funds to invest in community related projects.	Medium	Commercial Adviser to look for new sources of funding and raise awareness throughout the Council.  <b>Position – February 2019</b> <b>In progress</b>	Commercial Adviser	30 June 2019	✗	

## Audit Plan 2018/19

<b>NDR 2018/19</b>							
Final report issued December 2018							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved x or ✓	Revised Deadline
01	<p>a. NNDR Officers and Inspectors are more proactive in determining the current status of leases and account issues.</p> <p>b. Quarterly inspections are completed on all empty properties.</p> <p>c. Action is taken to obtain confirmation of exact location, verification of mast being in use / not in use or de-commissioned. Upon confirmation of the current status, a decision to be taken on whether an inspection visit or change to account is appropriate.</p>	Medium	<p>To review with much more ease once 'Total Mobile' has been implemented late 2018 / early 2019, which is a new software which enables our 2 Inspectors to download and upload their visits into the Academy software.</p> <p><b>Position – February 2019</b> <b>Awaiting implementation of Total Mobile, on target for 31 March 2019 as currently in the testing phase.</b></p>	Billing Team Leader	31 March 2019	x	
02	We recommend that the Billing and Recovery Team Leaders review system reports of all accounts on hold or suppressed, completing spot checks to ensure the reasons are appropriate and where relevant, that timely action is being taken to recover the debt.	Low	<p>Bi-monthly spot checks by Billing &amp; Recovery Team Leaders, which are documented for reasons of holds.</p> <p><b>Position – February 2019</b> <b>Started and will be on course covering all recovery notices in sync with Council Tax by deadline date.</b></p>	Billing & Recovery Team Leaders	31 March 2019	x	

<b>NDR 2018/19</b>							
Final report issued December 2018							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
03	We recommend that an exercise be undertaken to summarise what 'aged debt' has been deemed unrecoverable and consideration be given to obtaining timely committee approval to write off these debts from previous years.	Low	<p>Agreed</p> <p><b>Position – February 2019</b>  <b>Write Offs over £3k currently being prepared for both Council's with a view to authorisation before 31 March 2019.</b></p>	Revenues Manager	30 June 2019	✗	

<b>Cyber Security 2018/19</b>							
Final report issued January 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
01	<p>Management should put a defined plan in place to address all existing critical and high priority vulnerabilities in a timely manner.</p> <p>There should be a defined procedure in place to resolve vulnerabilities as and when they are encountered.</p>	Medium	<p>Update existing procedures to review and remediate vulnerabilities (other than MS patches).</p> <p>If required, implement additional system e.g. SCCM to manage deployment of "other" vulnerabilities.</p> <p><b>Position – February 2019</b>  <b>Review of products such as SCCM to manage 3<sup>rd</sup> party patching across the estate.</b></p>	ICT Section Head	30 November 2019	✗	
02	There should be a mechanism to restrict any non-complying devices to connect to the Council's IT network.	Medium	Review current AV and VPN solution and viability to restrict devices with no up to date protection from connecting to the network fully.	ICT Section Head	30 September 2019	✗	

Cyber Security 2018/19							
Final report issued January 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
	Additionally, there should be continuous monitoring in place for all devices connected on the network to be fully antivirus protected.		<p>Ensure that daily reports for AV protection are monitored against asset register and this is reported to the ICT Section Head.</p> <p><b>Position – February 2019</b>  <b>Reporting mechanism from Infrastructure monitoring through to desktop services is in place. Mechanism to ensure that desktop services remediate the gaps sufficiently is currently underway.</b></p> <p><b>Replacement VPN, for all homeworking, is within scope for replacement Wide Area Network. New VPN solution will review ability to ensure that all connected devices have up to date AV.</b></p>				
03	<p>A training needs assessment should be performed for all members of staff that have responsibility for Cyber security so as to determine their training needs.</p> <p>Compliance should be monitored and action taken when members of staff are found to have not completed the IT Security and Data Protection training.</p>	Medium	<p>Review current skills against role to assess gap, recommending appropriate training as an outcome. Note funding will have to be approved.</p> <p><b>HR Manager</b>  <b>Monitor and report against all staff who have not completed the annual requirement to refresh knowledge via the Security awareness programme.</b></p> <p><b>Position – February 2019</b>  <b>New Learning Management system will be ready approximately April 2019. This is led by the HR service. Once in place more accurate reporting mechanisms can be used to ensure staff are completing the required mandatory training.</b></p>	<p>ICT Section Head</p> <p>30 June 2019</p>	<p>30 September 2019</p>	✗	

<b>Council Tax 2018/19</b>							
<b>Final report issued February 2019</b>							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
01	We recommend that a control is put in place to ensure that the 'Return of Death' reports are actioned in a timely manner.	Low	Agreed  <b>Position – February 2019</b> <b>Billing Team Leader distributes daily / weekly once received.</b>	Billing Team Leader	Immediate	✓	
02	As previously recommended in the 2017/18 Council Tax audit :  a. Staff should be reminded to enter review and provisional end dates for Student Exemptions.  b. An exercise should be performed to check existing Student Exemptions cases to ensure that dates are in place. This review should be undertaken annually in future.	Medium	Billing Team Leader on a quarterly basis.  <b>Position – February 2019</b> <b>Billing Team Leader received training week commencing 11 February 2019, and deadline will be met whilst also reviewing on a quarterly basis.</b>	Billing Team Leader	31 March 2019	✗	
03	We recommend that:  a. inspections on second homes are completed and further action taken if found unfurnished and /or unlikely to be used as a second home.  b. The Revenues Manager completes the review of empty properties within the identified parish boundary changes and ensures appropriate action is taken.  c. Action is taken to determine the current status on the property Left	Low	Once Total Mobile up and running to be added to parameters. Go Live date mid-February, 2019.  <b>Position – February 2019</b> <b>Awaiting implementation of Total Mobile, on target for 31 March 2019 as currently in the testing phase.</b>	Billing Team Leader	31 March 2019	✗	

<b>Council Tax 2018/19</b>							
<b>Final report issued February 2019</b>							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
	Empty by Deceased with no charge made since 05/07/2016.						
04	We recommend that Team Leaders review system reports of all accounts on hold or suppressed, completing spot checks to ensure the reasons are appropriate and where relevant, that timely action is being taken to recover the debt.	Low	<p>Agreed</p> <p><b>Position – February 2019</b>  <b>Started and will be on course covering all recovery notices in sync with Business Rates by deadline date.</b></p>	Recovery & Billing Team Leaders	28 February 2019	✗	
05	We recommend an exercise is undertaken to summarise what 'aged debt' has been deemed irrecoverable and consideration be given to obtaining timely committee approval to write off these debts from previous years.	Low	<p>The aged debt analysis is not all related to write offs, some of the outstanding monies highlighted are at different recovery enforcement stages, i.e., currently in arrangements or with our Enforcement Agents (Bailiffs) for collection, therefore reducing the amount to be proposed for write off at the date of statistical analysis.</p> <p>This will also apply to the same recommendation made in the NDR Final Report issued 20 December 2018.</p> <p><b>Position – February 2019</b>  <b>Head of Service currently on sickness, however, meeting arranged for 270319, hopefully sooner to discuss recommendation exercise.</b></p>	Revenues Manager	31 March 2019	✗	<b>30 June 2019</b>



## Watford Borough Council Audit Committee

### 2019/20 Internal Audit Plan Report

14 March 2019

#### Recommendation

Members are recommended to approve the proposed Watford Borough Council and Shared Services Internal Audit Plans for 2019/20

# **Contents**

## **1. Introduction and Background**

- 1.1 Purpose**
- 1.2 Background**

## **2. Audit Planning Process**

- 2.1 Planning Principles**
- 2.2 Approach to Planning**
- 2.4 Planning Context**
- 2.7 Internal Audit Plan 2019/20**

## **3. Performance Management**

- 3.1 Update Reporting**
- 3.3 Performance Indicators**

# **Appendices**

- A Proposed Watford Borough Council Audit Plan 2019/20**
- B Proposed Watford and Three Rivers Shared Services 2019/20 Audit Plan**
- C Audit Start Dates Agreed with Management**

# 1. Introduction and Background

## Purpose of Report

- 1.1 To provide Members with the proposed Watford Borough Council and Shared Services 2019/20 Internal Audit Plans.

## Background

- 1.2 The Watford Borough Council and Shared Services Internal Audit Plans set out the programme of internal audit work for the year ahead, and forms part of the Council's wider assurance framework. It supports the requirement to produce an audit opinion on the overall internal control environment of the Council, as well as a judgement on the robustness of risk management and governance arrangements, contained in the Head of Internal Audit annual report.
- 1.3 The Shared Internal Audit Service (SIAS) Audit Charter which was presented to the July 2018 meeting of this Committee shows how the Council and SIAS work together to provide a modern and effective internal audit service. This approach complies with the requirements of the United Kingdom Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013. An updated version of the SIAS Audit Charter will be brought to the first meeting of Audit Committee in the 2019/20 Civic year.
- 1.4 The PSIAS require that the audit plan must incorporate or be linked to a strategic or high-level statement which:
  - Outlines how the service will be developed in accordance with the internal audit charter
  - Details how the internal audit plan will be delivered
  - Evidences how the service links to organisational objectives and priorities
- 1.5 Section 2 of this report details how the SIAS complies with this requirement.

# 2. Audit Planning Process

## Planning Principles

- 2.1 SIAS audit planning is underpinned by the following principles:
  - a) Focus of assurance effort on the Council's key issues, obligations, outcomes and objectives, critical business processes and projects and principal risks. This approach ensures coverage of both strategic and key operational issues.

- b) Maintenance of an up-to-date awareness of the impact of the external and internal environment on the council's control arrangements.
- c) Use of a risk assessment methodology to determine priorities for audit coverage based, as far as possible, on management's view of risk;
- d) Dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs, including recognition that in a resource constrained environment, all needs cannot be met.
- e) Identification of responsibilities where services are delivered in partnership.
- f) In-built flexibility to ensure that new risks and issues are accommodated as they emerge;
- g) Capacity to deliver key commitments including work undertaken on behalf of External Audit, governance work and counter fraud activity;
- h) Capacity to respond to management requests for assistance with special investigations, consultancy and other forms of advice.

#### Approach to Planning

- 2.2 In order to comply with the requirements of the PSIAS, SIAS has continued with a methodology for all SIAS partners which contains the following elements:

#### *Local and National Horizon Scanning*

SIAS reviews, on an ongoing basis:

- key committee reports at each client and identifies emerging risks and issues;
- the professional and national press for risks and issues emerging at national level

#### *Consideration of risk management arrangements*

SIAS determines the extent to which information contained within the council's risk registers informs the identification of potential audit areas.

#### *Confirmation of the council's objectives and priorities*

SIAS confirms the current objectives and priorities of the Council. This information is used to confirm that identified auditable areas will provide assurance on areas directly linked to the achievement of the council's objectives and priorities.

2.3 The approach to audit planning for 2019/20 has been characterised by:

- a) Detailed discussions with senior managers and other key officers within the council to confirm auditable areas and elicit high level detail of the scope of audits. This process incorporates the following four steps to assist in the later prioritisation of projects:

*Risk Assessment*

Managers and SIAS agree the level of risk associated with an identified auditable area.

*Other sources of Assurance*

Managers are asked whether assurance in the auditable area is obtained from other assurance providers e.g. External Audit or the Health and Safety Executive. This approach ensures that provision of assurance is not duplicated.

*Significance*

Managers assess how significant the auditable area is in terms of the achievement of corporate or service objectives and priorities.

*Timings*

Managers identify when an audit should be undertaken to add most value.

- b) Proposed plans are based on the information obtained from the planning meetings. Details of audits that have not been included in the proposed draft plan as a result of resource limitations are reported to senior management and the audit committee.
- c) The proposed 2019/20 plans for all SIAS partner councils are then scrutinised and cross-partner audits highlighted;
- d) Proposed draft plans are presented to Leadership Team for discussion and agreement.

This approach ensures that our work gives assurance on what is important and those areas of highest risk and thus assists the Council in achieving its objectives

The Planning Context

2.4 The context within which local authorities provide their services remains challenging:

- Latest forecasts show a cloudy outlook for the UK economy, reflecting increasing national and international uncertainties. Local authorities will need to be attuned to the impact on their local economies and any direct investments of their own.

- Demand continues to rise, driven by complex needs, an ageing population and challenges in the healthcare system. With reduced financial support local authorities will therefore have to continue to become more innovative and commercial.
  - Digital transformation continues to offer opportunities along with significant risks. The innovative use of technology is helping to reduce costs, as well as be more efficient and transparent. However, factors such as security, privacy, ethical and regulatory compliance are a recognised concern.
  - Major national programmes in areas like business rates, public health and housing mean the overall financial environment remains relatively unstable.
- 2.5 The resultant efficiency and transformation programmes that councils are in the process of implementing and developing are profoundly altering each organisation's nature. Such developments are accompanied by potentially significant governance, risk management and internal control change.
- 2.6 The challenge of giving value in this context, means that Internal Audit needs to:
- Meet its core responsibilities, which are to provide appropriate assurance to Members and senior management on the effectiveness of governance, risk management and control arrangements in delivering the achievement of Council objectives;
  - Identify and focus its effort on areas of significance and risk, assisting the organisation in managing change effectively, and ensuring that core controls remain effective;
  - Give assurance which covers the control environment in relation to new developments;
  - Retain flexibility in the audit plan and ensure the plan remains current and relevant as the financial year progresses.

#### Internal Audit Plan 2019/20

- 2.7 The draft 2019/20 audit plans are included at Appendix A and B and contain a high level proposed outline scope for each audit; Appendix C details the agreed start months. The number of days purchased in 2019/20 remains unchanged from 2018/19 and totals 402 days across the Watford Borough Council, Shared Services and Three Rivers District Council audit plans. The table below shows the estimated allocation of the total annual number of purchased audit days for the year for the Watford and Shared Services Plans.

	<b>WBC</b>	<b>Shared Services</b>	<b>Total</b>
Key Financial Systems	0	89	89
Operational audits	69	10	79
Procurement	12	0	12
Shared Learning/Joint Reviews	5	0	5
Counter Fraud	0	0	0
Risk & Governance	6	0	6
Ad-Hoc Advice	2	0	2
IT Audits	0	30	30
To Be Allocated	0	0	0
Follow Ups	10	0	10
Strategic Support*	37	0	37
2018/19 Projects Requiring Completion	5	6	11
<b>Total audit days 2019/20</b>	<b>146</b>	<b>135</b>	<b>281</b>

\* This covers supporting the Audit Committee, monitoring, client liaison and planning for 2020/21.

- 2.8 Members will note the inclusion of a provision for the completion of projects that relate to 2018/19. The structure of Internal Audit's programme of work is such that full completion of every aspect of the work in an annual plan is not always possible; especially given the high dependence on client officers during a period where there are competing draws on their time e.g. year end closure procedures.
- 2.9 The nature of assurance work is such that enough activity must have been completed in the financial year, for the Head of Assurance to give an overall opinion on the Authority's internal control environment. In general, the tasks associated with the total completion of the plan, which includes the finalisation of all reports and negotiation of the appropriate level of agreed mitigations, is not something that adversely affects delivery of the overall opinion. The impact of any outstanding work is monitored closely during the final quarter by SIAS in conjunction with the Section 151 Officer.

### 3. Performance Management

#### Update Reporting

- 3.1 The work of Internal Audit is required to be reported to a Member Body so that Watford Borough Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.

Progress against the agreed plan for 2019/20 and any proposed changes will be reported to this Committee four times in the 2019/20 civic year.

- 3.2 The implementation of agreed audit recommendations will be reported to Audit Committee as part of the update reporting process.

Performance Indicators

- 3.3 Annual performance indicators were approved at the SIAS Board in September 2011 and are reviewed annually. Details of the targets set for 2019/20 are shown in the table below. Actual performance against target will be included in the update reports to this Committee.

Performance Indicator	Performance Target
<b>1. Planned Days</b> percentage of actual billable days against planned chargeable days completed.	95%
<b>2. Planned Projects</b> percentage of actual completed projects to draft report stage against planned completed projects. Note: to be based on the judgement of the SIAS management team and representing the best estimate as to a reasonable expectation of progress on the audit plan.	95%
<b>3. Client Satisfaction</b> percentage of client satisfaction questionnaires returned at 'satisfactory' level.	100%
<b>4. Number of High Priority Audit Recommendations agreed</b>	95%
<b>5. External Auditor Satisfaction</b>	External Auditors are able to rely upon the range and quality of SIAS' work.

<b>6. Annual Plan</b>	Presented to the March meeting of each Audit Committee.
<b>7. Head of Assurance's Annual Report</b>	Presented to the first meeting of each Audit Committee in the new financial year.

Watford Borough Council  
Audit Committee  
14 March 2019

Watford Borough Council 2019/20 Draft Internal Audit Plan

## WATFORD BOROUGH COUNCIL DRAFT INTERNAL AUDIT PLAN 2019/20

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Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
<b>KEY FINANCIAL SYSTEMS</b>			
	See Shared Services Audit Plan		
<b>OPERATIONAL AUDITS</b>			
Commercial Strategy	Review to consider the robustness of the Commercial Strategy in terms of maximising current income and generating new income streams and application of the strategy in practice.	12	Q4
Temporary Accommodation	Review to provide a base line from which progress against the Temporary Accommodation Strategy can be monitored on an annual basis.	12	Q2
Project Management	<p>Review to consider whether project learning is shared and used to influence future projects. To also provide assurance over the project management framework.</p> <p>Typical scope to include:</p> <ul style="list-style-type: none"> <li>a) Project Management Framework - there is an agreed Project Management Framework which is consistent with recognised best practice.</li> <li>b) Project Delivery - projects are undertaken in a controlled manner and the agreed Project Management Methodology is used in a proportionate and reasonable way. Key project stages, including project initiation, business</li> </ul>	10	Q2

## WATFORD BOROUGH COUNCIL DRAFT INTERNAL AUDIT PLAN 2019/20

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Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
	<p>case, start up, delivery and completion are followed.</p> <p>c) Post Implementation Review – a post implementation review is carried out to evaluate that the project has achieved expected goals and lessons learnt are documented and shared across the Council.</p>		
Customer Services – Digitalisation	Review of implementation of changes arising from rollout of the digitalisation programme, including for example privacy notices and other data protection requirements.	6	Q2
Play Safety Inspections	To provide assurance that the inspection programme is risk assessed, evidenced and responsive work is undertaken as required.	8	Q2
Safeguarding	A review of the Council's role in promoting the welfare of children and vulnerable adults and protecting them from harm - policy statements, training, record keeping, using and referring information received (particularly when concerns are raised about abuse, harm or neglect) to stakeholders and / or the police for further investigation, working with partners (multi-agency response) such as the police, health agencies, other regulators and government departments.	10	Q4
Sports Development	Review of how the Council is performing against other Council's in respect of sports development.	8	Q4

## WATFORD BOROUGH COUNCIL DRAFT INTERNAL AUDIT PLAN 2019/20

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Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
HHIA Follow-Up	Follow up of agreed actions arising from the 2018/19 audit of the HHIA as hosted by HCC.	2	Q3
DFG Capital Grant Certification	To provide Head of Internal Audit sign-off on the annual Disabled Facilities Capital Grant return, due at the end of September each year.	1	Q2
<b>PROCUREMENT</b>			
Contract Management	<p>To continue selection of contracts from the Contracts Register not previously tested. Typical scope to include:</p> <ul style="list-style-type: none"> <li>a) Governance, relationship management and contract administration – clarity of contract requirements, officer roles, contractor relationship management, service user satisfaction, dispute resolution and best value review process. Mechanisms to identify key contract ‘trigger points’ (such as notice periods and expiry dates), periodic checks and lessons learned.</li> <li>b) Performance monitoring – performance management framework, SLAs and performance indicators, reviews and action plans when failing. Compliance with the specification, contract terms and conditions including agreed delivery timescales and value for money requirements, records management.</li> <li>c) Financial management of contracts – payment mechanisms, records of checks and inspections (including annual insurance requirements), budget variations and authorisation of payments.</li> </ul>	12	Q2

## WATFORD BOROUGH COUNCIL DRAFT INTERNAL AUDIT PLAN 2019/20

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Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
	d) Contractual and supplier risk management – corporate and individual risk management of contracts. Monitoring supplier financial health.		
<b>SHARED LEARNING / JOINT REVIEWS</b>			
Shared Learning Newsletters / Summary Themed Reports / Joint Reviews	Shared Learning Newsletters and Summary Themed Reports providing opportunities for shared learning across the partnership.  Joint reviews as determined by the SIAS Board.	5	Through the year
<b>COUNTER FRAUD</b>			
	See Shared Services Audit Plan.		
<b>RISK MANAGEMENT AND GOVERNANCE</b>			
Corporate Governance	Scope to be determined but typical scope includes:  a) Members and officers serving on Outside Bodies, b) Local Government Transparency Code, c) Culture, Ethics and Standards,	6	Q2

## WATFORD BOROUGH COUNCIL DRAFT INTERNAL AUDIT PLAN 2019/20

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Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
	<p>d) Council Strategies, Policies and Procedures, and</p> <p>e) Governance structures - effective Council, committee and reporting structure, terms of reference for each committee and group, work plans for Cabinet / committees, minuting and action tracking, Members and senior staff possessing the appropriate mix of skills and receive any required training and development and delegating decision-making.</p>		
<b>AD HOC ADVICE</b>			
Ad Hoc Advice	This planned time has been allocated to provide for ad hoc advice to management on matters, issues or queries relating to risk, control, governance and anti-fraud.	2	As required
<b>IT AUDITS</b>			
	See Shared Services Audit Plan.		
<b>TO BE ALLOCATED</b>			
To Be Allocated	See Shared Services Audit Plan.		

## WATFORD BOROUGH COUNCIL DRAFT INTERNAL AUDIT PLAN 2019/20

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Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
<b>FOLLOW-UP OF AUDIT RECOMMENDATIONS</b>			
Follow-up of audit recommendations	Obtaining quarterly updates on the status of internal audit recommendations from action owners and reporting outcomes to Audit Committee.	10	Quarterly
<b>STRATEGIC SUPPORT</b>			
Head of Internal Audit Opinion 2018/19	To prepare and agree the Head of Internal Audit Opinion for 2018/19.	2	Q1
External Audit Liaison	To meet the external auditors and provide information as required.	1	Through year
Audit Committee	To provide services linked to the preparation and agreement of Audit Committee reports and presentation of reports / participation at Audit Committee. Provide Committee Member training prior to the committee meetings.	10	Quarterly
Monitoring and Client Meetings	To produce and monitor performance and billing information, work allocation and scheduling, and to meet with the Council's Audit Champion and other key officers.	11	Through year

## WATFORD BOROUGH COUNCIL DRAFT INTERNAL AUDIT PLAN 2019/20

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Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
2020/21 Audit Planning	To provide services in relation to preparation and agreement of the 2020/21 Audit Plan.	7	Q3/4
SIAS Development	Included to reflect the Council's contribution to developing the partnership.	3	Q1
Annual Governance Statement	To assist the Council in the preparation of the Annual Governance Statement for 2018/19.	3	Q1
<b>2018/19 PROJECTS REQUIRING COMPLETION</b>			
2018/19 Projects Requiring Completion	Additional time, if required for the completion of 2018/19 audit work carried forward into the 2019/20 financial year.	5	Q1
<b>TOTAL AUDIT PLAN DAYS</b>			<b>146</b>

<b>2019/20 RESERVE LIST</b> <b>(For consideration in the main audit plan should audit days become available during the year. Plan changes are reported to Audit Committee)</b>			
	Communications (including social media)		
	Business Continuity Planning & Emergency Planning		

Watford Borough Council  
Audit Committee  
14 March 2019

Watford & Three Rivers Shared Services 2019/20 Draft Internal Audit Plan

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
<b>KEY FINANCIAL SYSTEMS</b> Key financial systems are of critical importance to sound financial management and financial reporting. Management need to be assured that these systems are soundly controlled in order to meet organisational objectives.			
Benefits	<p>Review of Housing Benefit and Local Council Tax Support to confirm that controls are adequate and are operating effectively and that previous internal audit recommendations have been implemented. Scope to be agreed with management – typical areas include:</p> <ul style="list-style-type: none"> <li>a) Policies, procedures and set-up of standing data,</li> <li>b) Assessments, backdating, spare room subsidy, benefit cap,</li> <li>c) Recovery and write-off of overpayments,</li> <li>d) Reconciliation between the benefits system and general ledger,</li> <li>e) System controls and data retention.</li> </ul> <p>Testing will cover the 2019/20 financial year and a sample of transactions for both Watford Borough Council and Three Rivers Council.</p> <p>Testing of 2019/20 system parameters underpinning benefit calculations will be completed April 2019 to give assurance early in the year that these have been correctly set.</p>	13	Q3 (Q1 for system parameter testing)
Council Tax	Review of the Council Tax system to confirm that existing controls are adequate and are operating effectively and that previous audit recommendations have been implemented. Scope to be agreed with management – typical areas include:	12	Q3

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
	<p>a) Policies, procedures and legislation,</p> <p>b) Amendment to Council Tax records including reconciliation between Valuation Office Agency and Council records,</p> <p>c) Discounts (single persons, disabled persons) and exemptions (e.g. empty property relief),</p> <p>d) Billing (annual and in-year),</p> <p>e) Refunds,</p> <p>f) Recovery, enforcement and write-offs,</p> <p>g) Reconciliation between the Council Tax system and general ledger.</p> <p>(System access controls and data retention are included in the scope of the Benefits audit as the same systems (Academy and Anite) are used across the Revenues &amp; Benefits service).</p> <p>Testing will cover the 2019/20 financial year and a sample of transactions for both Watford Borough Council and Three Rivers Council.</p>		
Creditors	<p>Review of the Creditors system to confirm that existing controls are adequate and are operating effectively and that previous audit recommendations have been implemented. Scope to be agreed with management – typical areas include:</p> <p>a) Set-up and amendment of supplier accounts,</p> <p>b) Ordering of goods and services,</p> <p>c) Receipt of goods and services,</p> <p>d) Payment of invoices,</p> <p>e) Credit notes and refunds,</p>	10	Q3

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
	<p>f) Reconciliation between the Creditors module and general ledger.</p> <p>Access controls over the purchasing module within the main financial system will be covered in the Main Accounting system audit.</p> <p>Testing will cover the 2019/20 financial year and a sample of transactions for both Watford Borough Council and Three Rivers Council.</p>		
Debtors	<p>Review of the Debtors system to confirm that existing controls are adequate and operating effectively and that previous audit recommendations have been implemented. Scope to be agreed with management – typical areas include:</p> <ul style="list-style-type: none"> <li>a) Policies and procedures,</li> <li>b) Set-up and amendment of customer accounts,</li> <li>c) Debtor invoices,</li> <li>d) Credit notes and refunds,</li> <li>e) Recovery and write-offs,</li> <li>f) Reconciliation between the Debtors module and general ledger.</li> </ul> <p>Access controls over the Debtors module within the main financial system will be covered in the Main Accounting system audit.</p> <p>Testing will cover the 2019/20 financial year and a sample of transactions for both Watford Borough Council and Three Rivers Council.</p>	10	Q3

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
Main Accounting System	<p>Review of the Main Accounting system to confirm that existing controls are adequate and are operating effectively and that previous audit recommendations have been implemented. Scope to be agreed with management – typical areas include:</p> <ul style="list-style-type: none"> <li>a) Access controls to the financial system,</li> <li>b) Accounting codes and structure,</li> <li>c) Journals and virements,</li> <li>d) Bank reconciliations,</li> <li>e) Feeder system / control account reconciliations,</li> <li>f) Suspense accounts.</li> </ul> <p>Testing will cover the 2019/20 financial year and a sample of transactions for both Watford Borough Council and Three Rivers Council.</p>	10	Q3/4
NDR	<p>Review of the NDR system to confirm that existing controls are adequate and operating effectively and that previous audit recommendations have been implemented. Scope to be agreed with management – typical areas include:</p> <ul style="list-style-type: none"> <li>a) Policies, Procedures and Legislation,</li> <li>b) Amendment to NDR records, including reconciliation between the Valuation Office Agency and Council records,</li> <li>c) Multiplier Setting,</li> <li>d) Voids and Reliefs,</li> <li>e) Billing (annual and in-year),</li> <li>f) Refunds,</li> </ul>	12	Q3

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
	<p>g) Recovery, Enforcement and Write offs, h) Reconciliation between the NDR System and general ledger.</p> <p>(System controls and data retention are included in the scope of the Benefits audit as the same systems (Academy and Anite) are used throughout the Revenues &amp; Benefits service).</p> <p>Testing will cover the 2019/20 financial year and a sample of transactions for both Watford Borough Council and Three Rivers Council.</p>		
Payroll	<p>Review of the Payroll system to confirm that existing controls are adequate and are operating effectively and that previous audit recommendations have been implemented. Scope to be agreed with management – typical areas include:</p> <p>a) Payroll system – standing data, b) Starters and leavers, c) Payroll payments, including scheduling and BACS, d) Pension contribution rates, e) Payroll deductions and third party payments, f) Reconciliations between the Payroll system and general ledger, g) Management exception reporting, h) Payroll contract management.</p> <p>Testing will cover the 2019/20 financial year and a sample of transactions for both Watford Borough Council and Three Rivers Council.</p>	12	Q3

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
Treasury Management	<p>Review of the Treasury Management system to confirm that existing controls are adequate and operating effectively and that previous audit recommendations have been implemented. Scope to be agreed with management – typical areas include:</p> <ul style="list-style-type: none"> <li>a) Treasury Management (TM) Practices, TM Procedures,</li> <li>b) TM Reporting Arrangements,</li> <li>c) Cashflow Management,</li> <li>d) Counter-Party Risk,</li> <li>e) Transactions – to include online banking and placing of investments, capital and Interest Payments, Reconciliations, External Service Providers / Contracts and Performance Monitoring,</li> <li>f) Access controls to the online banking system.</li> </ul> <p>Testing will cover the 2019/20 financial year and a sample of transactions for both Watford Borough Council and Three Rivers Council.</p>	5	Q3
Budget Monitoring	<p>Review of the Budget Monitoring system to confirm that existing controls are adequate and operating effectively and that previous audit recommendations have been implemented. Scope to be agreed with management – typical areas include:</p> <ul style="list-style-type: none"> <li>a) Budget monitoring process,</li> <li>b) Accuracy and timeliness of budget data,</li> <li>c) Budget variance approval,</li> <li>d) Member involvement in budget monitoring and reporting.</li> </ul> <p>Testing will cover the 2019/20 financial year and a sample of transactions for both</p>	5	Q4

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
	Watford Borough Council and Three Rivers Council.		
<b>OPERATIONAL AUDITS</b>			
Financial Account Reconciliations	Review of a sample of key general ledger account reconciliations to ensure the methodology applied is robust.	10	Q1
<b>PROCUREMENT</b>			
	No shared procurement reviews identified.		
<b>JOINT REVIEWS</b>			
	See local plans.		
<b>COUNTER FRAUD</b>			
	None identified.		

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
<b>RISK MANAGEMENT AND GOVERNANCE</b>			
	See local audit plans.		
<b>IT AUDITS</b>			
Cyber Security	To provide assurance that cyber security strategies and arrangements are appropriately designed and operated to manage the risk of cyber attacks.	12	Q3
IT Policies and Procedures	To provide assurance over the adherence to IT policies and procedures following changes made in some areas.	18	Q4
<b>FOLLOW-UP AUDITS</b>			
	See local audit plans.		
<b>TO BE ALLOCATED</b>			
	No budget set at outset.		

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
<b>STRATEGIC SUPPORT</b>			
	See local audit plans.		
<b>2018/19 PROJECTS REQUIRING COMPLETION</b>			
2018/19 projects requiring completion	Additional time, if required, for the completion of 2018/19 audit work carried forward into 2019/20. The proposed number of days is an estimate which will be reviewed as required.	6	Q1
<b>TOTAL AUDIT PLAN DAYS – SHARED SERVICES PLAN</b>		135	

<b>2019/20 RESERVE LIST</b>		
	None identified during planning process.	

Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
	Revenues & Benefits System Parameter Testing (Shared Services Plan)*		Temporary Accommodation	Customer Services – Digitalisation	Play Safety Inspections	NDR (Shared Services Plan)	Council Tax (Shared Services Plan)	Benefits (Shared Services Plan)	Main Accounting (Shared Services Plan)	Budget Monitoring (Shared Services Plan)	
	Financial Account Reconciliations (Shared Services Plan)		Contract Management		Corporate Governance	Debtors (Shared Services Plan)	Payroll (Shared Services Plan)	Creditors (Shared Services Plan)	Commercial Strategy	Safeguarding	
Page 164			Project Management		DFG Grant Certification	Home Improvement Agency (follow up)	Treasury Mgmt (Shared Services Plan)		IT Policies and Procures (Shared Services Plan)		
						Cyber Security (Shared Services Plan)			Sports Development		

\*Revenues & Benefits System Parameter Testing scheduled for May 2019 - remainder of work due Q3.

## Part A

**Report to:** Audit Committee  
**Date of meeting:** 4 February 2019  
**Report of:** Head of Finance (shared services)  
**Title:** Committee Work Programme

### 1.0 **Summary**

1.1 To review and make necessary changes to the Audit Committee's Work Programme

### 2.0 **Recommendations**

2.1 That the Committee considers and makes necessary changes to its Work Programme.

#### **Contact Officer:**

For further information on this report please contact: -

Alison Scott, Head of Finance (Shared Services)

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**Report approved by:** Joanne Wagstaffe, Director of Finance

### 3.0 Details

3.1 The work programme is presented at each meeting of the Committee to enable any changes to be made and to provide Members with updated information on future meetings. The programme of reports scheduled to be presented to this Committee in financial year 2019/20 and 2020/21 are shown below;

Date	Reports
<b><u>Financial Year 2019/20</u></b>	
July 2019	<ul style="list-style-type: none"> <li>▪ External Auditors Report and Approval of the 2018/19 Statement of Accounts</li> <li>▪ SIAS Internal Audit Annual Report 2018/19</li> <li>▪ Fraud Annual Report 2018/19</li> <li>▪ Annual Governance Statement 2018/19</li> <li>▪ Treasury Management Annual Report 2018/19</li> <li>▪ Freedom of Information 2018/19</li> <li>▪ Standing items</li> </ul>
September 2019	<ul style="list-style-type: none"> <li>▪ External Auditors Annual Audit Letter 2018/19</li> <li>▪ SIAS Board Annual Report 2018/19</li> <li>▪ Ombudsman report?</li> <li>▪ Standing items</li> </ul>
December 2019	<ul style="list-style-type: none"> <li>▪ Treasury Management Mid-Year Report 2019/20</li> <li>▪ Risk Management Strategy</li> <li>▪ Draft Treasury Management Strategy 2020/21</li> <li>▪ Freedom of Information 2019/20</li> <li>▪ Standing items</li> </ul>
March 2020	<ul style="list-style-type: none"> <li>▪ External Audit Certification Work Report 2019/20</li> <li>▪ Accounting Policies 2019/20</li> <li>▪ SIAS Internal Audit Plans 2020/21</li> <li>▪ External Auditor Audit Plan 2019/20</li> <li>▪ RIPA</li> <li>▪ Standing items</li> </ul>
<b><u>Financial Year 2020/21</u></b>	
July 2019	<ul style="list-style-type: none"> <li>▪ External Auditors Report and Approval of the 2019/20 Statement of Accounts</li> <li>▪ SIAS Internal Audit Annual Report 2019/20</li> <li>▪ Fraud Annual Report 2019/20</li> <li>▪ Annual Governance Statement 2019/20</li> <li>▪ Treasury Management Annual Report 2019/20</li> <li>▪ Freedom of Information 2019/20</li> <li>▪ Standing items</li> </ul>

Standing items are: -

- SIAS Internal Audit Progress Report
- External Audit Progress Report – Recommendations
- Annual Governance Statement – Action Plan update
- Committee's Work Programme

3.2 The annual statement accounts are to be produced and signed by the council's Chief Financial Officer by 31 May for the preceding financial year. The audited accounts need to be agreed and signed by Committee by 31 July.

4.0 **Implications**

4.1 **Financial**

4.1.1 None Specific.

4.2 **Legal Issues (Monitoring Officer)**

4.2.1 None Specific.

4.3 **Equalities**

4.3.1 None Specific.

4.4 **Potential Risks**

4.4.1 There are no risks associated with the decisions members are being asked to make.