



**WATFORD  
BOROUGH  
COUNCIL**

# **AUDIT COMMITTEE**

**12 March 2020**

**7.00 pm**

**Town Hall, Watford**

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# Committee Membership

Councillor D Scudder (Chair)  
Councillor I Stotesbury (Vice-Chair)  
Councillors S Bashir, J Johnson and P Kloss

## 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 5 December 2019 to be submitted and signed.

4. **Annual RIPA Report (Pages 3 - 36)**  
Report of the Group Head of Democracy and Governance
5. **External auditor - Audit Plan 2019/20 (Pages 37 - 80)**  
Report of the external auditor
6. **Accounting Policies 2020/21 (Pages 81 - 105)**  
Report of the Interim Head of Finance
7. **SIAS - Internal Audit Plans 2020/21 (Pages 106 - 133)**  
Report of the Head of the Shared Internal Audit Service
8. **SIAS - Internal Audit Progress Report (Pages 134 - 185)**  
Report of the Head of the Shared Internal Audit Service
9. **Work programme (Pages 186 - 188)**  
Report of the Interim Head of Finance

Part A

**Report to:** Audit Committee

**Date of meeting:** Thursday, 12 March 2020

**Report author:** Group 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.

1.2 The RIPA policy has been updated only to reflect changes in job title and in personnel as Authorised Officers

## 2.0 Risks

### 2.1

<b>Nature of risk</b>	<b>Consequence</b>	<b>Suggested Control Measures</b>	<b>Response</b> (treat, tolerate, terminate or transfer)	<b>Risk Rating</b> (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 The RIPA Policy has been updated to reflect changes in job titles and changes in personnel within the Council as Authorised Officers. As the Council has a new Managing Director and Director and Head of Finance appropriate training will be given on their roles under this policy. The 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 Group Head of Democracy and Governance comments that there are no legal implication 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

#### **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, GROUP HEAD OF DEMOCRACY AND GOVERNANCE, EXT  
8350

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REVIEWED AND UPDATED NOVEMBER 2018

REVIEWED AND UPDATED FEBRUARY 2020

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**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 Group 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 Group 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 Group 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 Group 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 Group 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 Group Head of Democracy and Governance. Authorising Officers must bring any suggestions for continuous improvement of this document to the attention of the Group 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 Group 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 October 2007.
8. 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/uploads/system/uploads/attachment\\_data/file/118173/local-authority-england-wales.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/118173/local-authority-england-wales.pdf)

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**

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 Group Head of Democracy and Governance, is duly authorised by the Council’s Strategic 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.

## C. General Information on RIPA

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 Group 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 Group 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 Group 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**

**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 Group 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 Group 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.

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
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<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</u> but not requiring prior authorisation	<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</u> – <b>Council cannot do this!</b>	<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 Group 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.
3. 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.
  4. Watford BC does not normally ask informants to gather information on the Councils 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?**

5. 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.
6. **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.**
7. **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**

8. 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**

9. 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.

10. 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.

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## **G. Authorising Officer Responsibilities**

1. The Group 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 Group 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 Group 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 Group Head of Democracy and Governance for consideration, as necessary. The Group 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 Group 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 – See Appendix 3**

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 Group 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 Group 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.

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## I. Working With / Through Other Agencies

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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 Group 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 Group Head of Democracy and Governance at the earliest opportunity.**

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## J. Record Management

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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 Group 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 Group 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 Group 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 Group Head of Democracy and Governance will investigate and will no later than 10 working days after the error having become apparent will notify the Investigatory Powers Commissioner.
7. The Group 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>

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 Group Head of Democracy and Governance (who is also the Council's Monitoring Officer). The Group Head of Democracy and Governance also acts as Senior Responsible Officer (SRO)

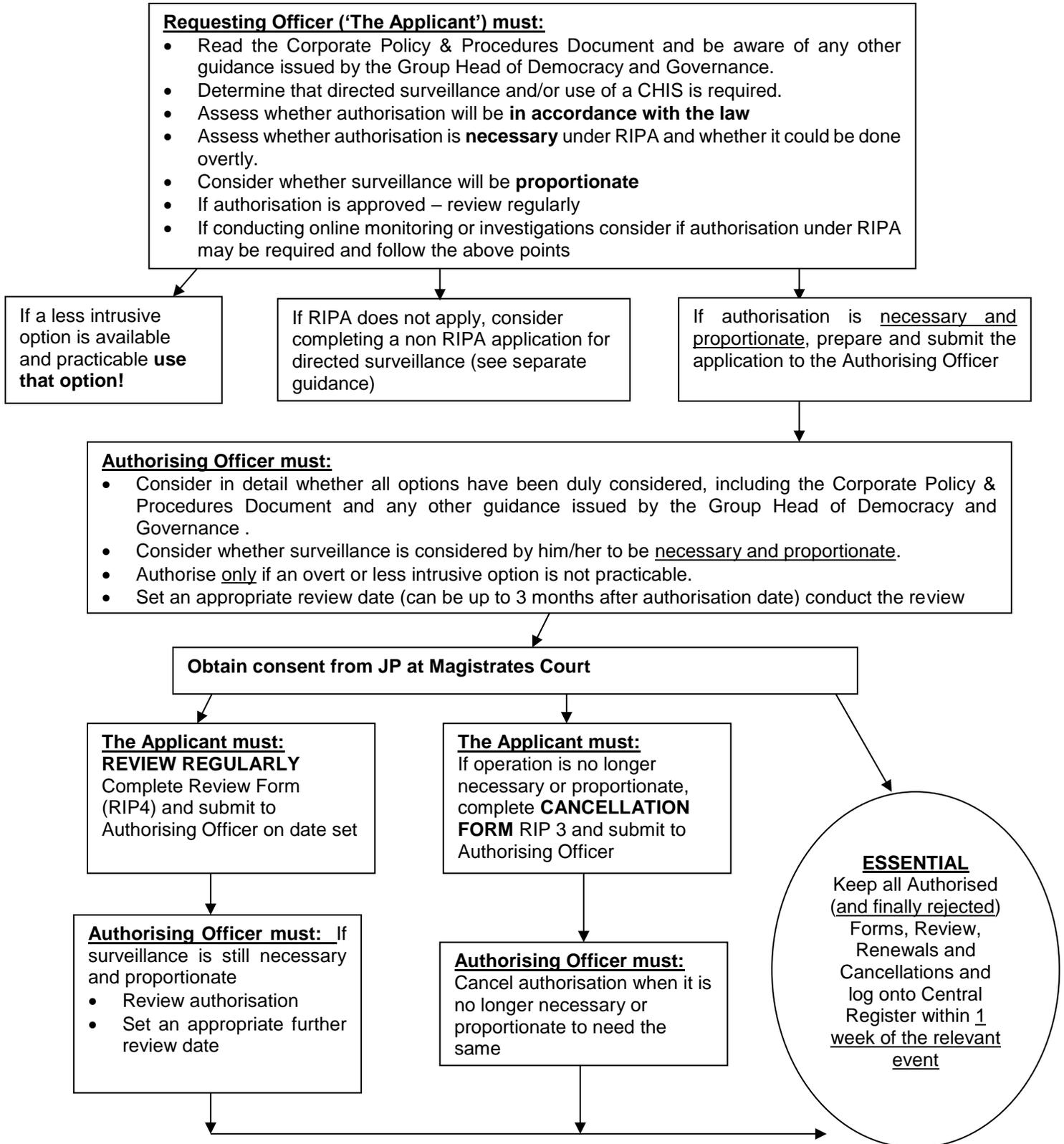
## Appendix 1 – List of Authorising Officer Posts

Officer	Service area
<b>Managing Director; Donna Nolan (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>	<b>All</b>
<b>Director Of Finance; Alison Scott</b>	<b>All</b>
<b>Monitoring Officer; Carol Chen</b>	<b>All</b>
<b>Head of Finance; Nigel Pollard</b>	<b>All</b>
<b>Fraud Manager Shared Services Garry Turner</b>	<b>All</b>
<b>Group Head of Community and Environmental Services Alan Gough</b>	<b>Community Protection</b>
<b>Business Compliance Officer</b>	<b>Community Protection</b>

**IMPORTANT NOTES**

- A.** Only the Managing Director and in her 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 Group Head of Democracy and Governance for consideration, as necessary.
- C.** If in doubt, ask the Group 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 Group Head of Democracy and Governance BEFORE any directed surveillance, and/or CHIS, application is authorised, renewed, cancelled or rejected.

# Watford Borough Council Draft audit planning report

Year ended 31 March 2020

11 March 2020



Building a better  
working world



11 March 2020



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

Dear Audit Committee Members

Draft audit planning report

We are pleased to attach our Draft 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 2019/20 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 Draft Audit 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. Our planning procedures remain ongoing; we will inform the Audit Committee if there any significant changes or revisions once we have completed these procedures and will provide an update to the next meeting of the Committee.

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 12 March 2020 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 2019/20 audit strategy



# Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the draft 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.

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Incorrect Accounting for Manual Accruals - Risk of fraud in revenue and expenditure recognition	Fraud risk/ Significant risk	No change in risk or focus	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. Manual accruals are an area where estimation is a key factor in ensuring appropriate levels of accruals are included in the financial statements. Therefore due to the judgements involved it is one of the areas where this risk could manifest and one of the relevant accounts we associate revenue and expenditure recognition risk to.
Incorrect accounting for income from investment and leasehold properties - risk of fraud in revenue and expenditure recognition	Fraud risk / Significant risk	No change in risk or focus	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. The Council has a significant income stream from investment and leasehold properties and we have identified the correct recognition of this income as the area this risk may manifest itself.
Accounting for the Acquisition of Croxley Business Park	Significant risk	No change in risk or focus	The Authority acquired a high value head lease interest in Croxley Business Park in July 2019. The Croxley Business Park acquisition will potentially materially affect not only Land and Buildings and Leasehold Creditors on the Statement of Financial Position but also other areas of the financial statements - income from investment properties, for example. We have raised this as a significant risk as we need to get assurance that the accounting treatment and disclosures are appropriate.
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 for 2019/20 will be undertaken by the Council's valuers Avis and Young. We will review the methodology and assumptions used as part of the valuations to ensure they are appropriate.

# Overview of our 2019/20 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.

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of Pension Fund Assets and Liabilities	Inherent risk	No change in risk or focus	Asset and Liability values captured in Watford Borough Council's 2019-20 accounts will derive from information issued to the Council by the actuary to Hertfordshire County Council and will involve significant estimation and judgement.
Going Concern Compliance with ISA 570	Inherent risk	Increase in risk or focus	This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21.
FRS16 - leases	Inherent risk	Increase in risk or focus	Although the new standard will not be included in the CIPFA Code of Practice until 2020/21, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020.
Valuation of NNDR Appeals Provision	Inherent risk	No change in risk or focus	Watford Borough Council's NNDR Appeal Provision was valued at £5,700,000 at 31 March 2019. This is a high value estimate driven by complex calculations.

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## Materiality

Materiality has been set at £1.59m, which represents 2% of the prior years gross expenditure on provision of services in the 2018-19 signed Statement of Accounts.

Planning materiality  
**£1.59m**

Performance materiality  
**£1.19m**

Audit differences  
**£79.3k**

Performance materiality has been set at £1.19m, which represents 75% of materiality.

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and collection fund) greater than £79,300. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

# Overview of our 2019/20 audit strategy

## Audit scope

This Draft Audit Plan covers an initial outline of 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 2020 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.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Watford Borough Council's audit, we will discuss these with management as to the impact on the scale fee.

Our final Audit Plan will be issued at the completion of our procedures for March 2020.



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# 02 Audit risks

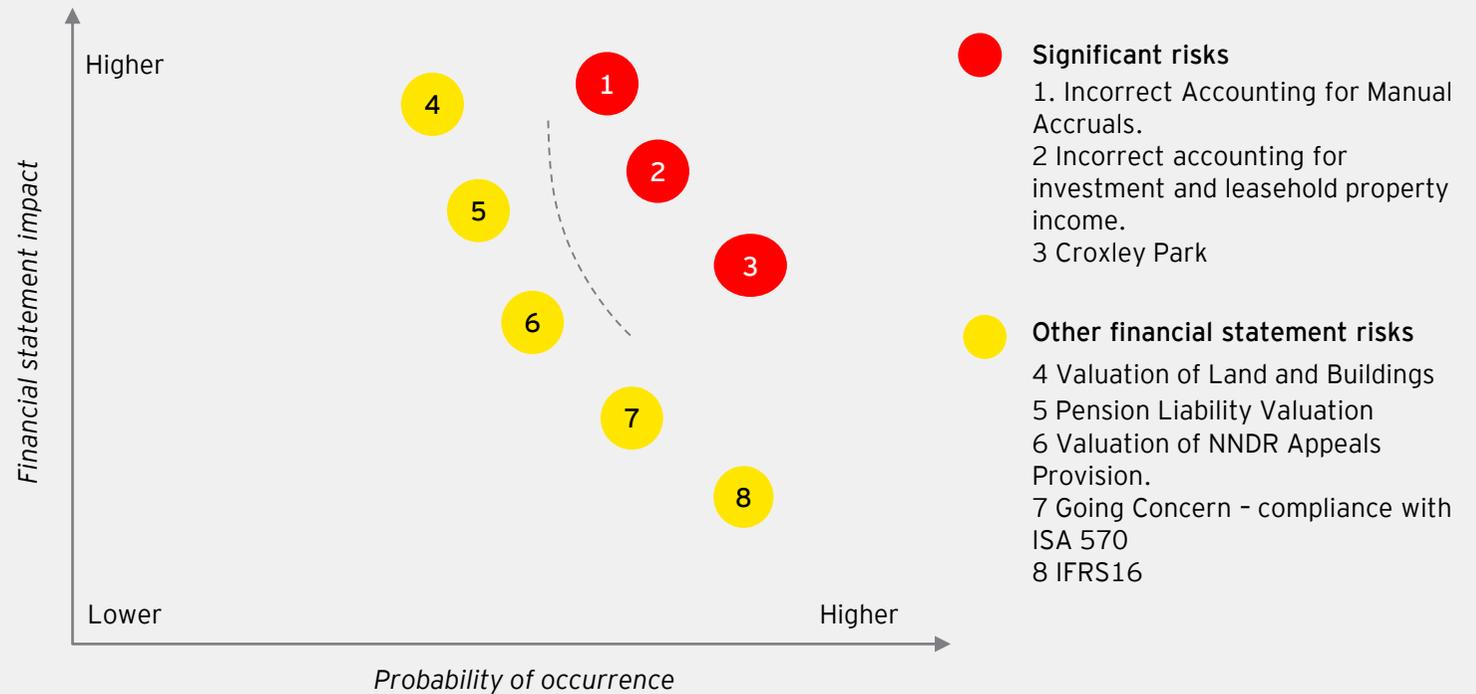


# Risk assessment

## Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2018-19 Statement of Accounts and combined it with our understanding of the sector to identify key risks that impact our audit.

The following draft 'dashboard' summarises the significant matters that are relevant for planning our year-end audit:



## 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 - risk of fraud in revenue and expenditure recognition\***

### Financial statement impact

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 2018-19 financial statements:**

**Net cost of services expenditure: £32.5 million.**

**Manual accruals: £3.8 million.**

### What is the risk?

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.

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.

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.

### What will we do?

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.

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.

In addition to the focused review of manual accruals our work will be part of a suite of mandatory procedures performed regardless of specifically identified fraud risks, including:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Assessing accounting estimates for evidence of management bias; and
- ▶ Evaluating the business rationale for significant unusual transactions.

To support our work on mandatory procedures, 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.

## Our response to significant risks (continued)

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 - risk of fraud in revenue and expenditure recognition\***

### What is the risk?

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.

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.

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.

We note that whilst such Income may have been £7,869,000 in 2018-19, with the acquisition of Croxley Business Park head lease from July 2019, this is expected to increase significantly. As 2019-20 will be the first year of managing and accounting for the Business Park, this will be the first year of allocating income streams to correct accounting periods for this asset and therefore recognized income could be more prone to fraud or error.

### What will we do?

We will review a sample of investment property and leasehold property income to confirm it is appropriately accounted for, particularly around the year end, given this is the first year of allocating income streams to correct accounting periods for this asset and could be more prone to fraud or error.

### Financial statement impact

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:

**(Income) / Expenditure in relation to investment property: £7.9 million.**

**Total Reserves: £215.7 million.**

## Our response to significant risks (continued)

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.

### Accounting for the Acquisition of Croxley Business Park

#### Financial statement impact

The Council acquired a high value head lease interest in Croxley Business Park in July 2019. Our procedures in 2018-19 included consideration of processes followed by the Council for evaluating this decision. The asset was understood at the time to be worth some £240 million. Latest indications from the Council now that acquisition has been completed, are that the asset could be worth significantly more.

#### What is the risk?

The Croxley Business Park acquisition will potentially materially affect not only Land and Buildings and Leasehold Creditors on the Statement of Financial Position but also other areas of the financial statements - income from investment properties, for example.

An accounting treatment paper was provided to the audit team in February 2020 and is under review at the time of writing this report. Areas of accounting treatment to consider include:

- valuation of the liability and the asset, including NPV calculations, asset life and incremental borrowing rate;
- financing and MRP;
- substance of cash back received at inception of the lease; and
- revisiting the conclusion last year to treat as an operational asset.

A large number of new transaction streams will be brought to account at a time when there is expected staff turnover within the Authority's finance team. It will be important that learning is captured and shared as the accounting treatment is reviewed, agreed and implemented.

#### What will we do?

We will continue to work with your finance team to understand and review your proposed accounting treatment and we will consult with our Financial Audit and Advisory Services specialist in this area. We will advise you of the scope and cost of EY accounting specialist input as the proposed accounting treatment is made clear.

We will revisit testing thresholds within affected areas and ensure that our usual procedures continue to meet the normal expectations of readers of the accounts.

We will retain documents of the agreed accounting treatment to support year on year comparisons as the asset progresses through its life cycle. We will seek to confirm that similar arrangements are in place within the authority.

Turning to testing the year end valuation of the Business Park, we will review data and assumptions and methodology of management's experts. As the asset is new and the leasehold interests are various, we anticipate engaging with EY internal valuers for an assessment of the valuation reported.

## 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?

#### Valuation of Land and Buildings

Land and Buildings within Property, Plant and Equipment were valued at £80,559,000 at 31 March 2019 and Investment Properties were valued at £174,133,000 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 was undertaken in 2018-19 by the Council's valuers Bilfinger GVA. They undertook detailed revaluation work at the end of December 2018 and the Council applied an adjustment to reflect estimated valuation movements in the last three months of the year.

The valuers for 2019-20 will be Avis and Young. Our procedures will include a review of the scope and timing of their work; data, methodology and assumptions.

### What will we do?

We will:

- ▶ Consider the work performed by the Council's valuers Avis and Young, including the scope and timing of the work performed on valuations and a comparison of valuation findings with market trends and Land Registry data; data and assumptions used by the valuers; and qualifications and expertise;
- ▶ Confirm effective procedures are applied by the Council to any roll forward valuations from 31 December 2019 to the year end;
- ▶ 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;
- ▶ Review any assets not subject to valuation in 2019/20 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;
- ▶ Test accounting entries have been correctly processed in the financial statements; and
- ▶ Review valuer reports and findings to determine whether specialist EY valuer review of methodologies, data and assumptions is required.
- ▶ Should EY specialist valuer support become necessary, we will advise you promptly of scope and cost.

## 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?

#### Going Concern Compliance with ISA 570

This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.

The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.'

'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.'

The revised standard requires:

- ▶ auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- ▶ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- ▶ improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the Council are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements;
- ▶ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- ▶ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

The revised standard extends requirements to report to regulators where we have concerns about going concern.

We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21.

## 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?

#### Valuation of Pension Fund Assets and Liabilities

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.

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 2019 the net liability was valued at £63,053,000. As noted in our Audit Results Report for 2018-19, this balance was stated gross of an adjustment to increase pension fund liabilities by £1,106,000, to reflect the impact of the McCloud ruling.

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.

#### Valuation of NNDR Appeals Provision

Watford Borough Council's NNDR Appeal Provision was valued at £5,700,000 at 31 March 2019. This is a high value estimate driven by complex calculations.

#### We will:

- ▶ 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;
- ▶ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used; and
- ▶ Review and test the accounting entries and disclosures made within Watford Borough Council's financial statements in relation to IAS19.

#### We will:

- ▶ Consider the work performed by Inform, including the scope of the work, data provided to Inform and assumptions used; and
- ▶ Compare the level of appeals at 31 March 2019 and 31 March 2019 to assess the reasonableness of amounts provided for at year end.

# Other areas of audit focus (continued)

### What is the risk/area of focus?

#### IFRS16 - leases

IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as “pay as you go” arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to be published, but in July 2019 CIPFA/LASAAC issued ‘IFRS 16 leases and early guide for practitioners’.

This early guidance provides comprehensive coverage of the requirements of the forthcoming provisions, including:

- ▶ the identification of leases
- ▶ the recognition of right-of-use assets and liabilities and their subsequent measurement
- ▶ treatment of gains and losses
- ▶ derecognition and presentation and disclosure in the financial statements,
- ▶ the management of leases within the Prudential Framework.

The guidance also covers the transitional arrangements for moving to these new requirements, such as:

- ▶ the recognition of right-of-use assets and liabilities for leases previously accounted for as operating leases by lessees
- ▶ the mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes).

### What will we do?

IFRS 16 - leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases.

The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet.

Although the new standard will not be included in the CIPFA Code of Practice until 2020/21, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020.

In particular, full compliance with the revised standard for 2020/21 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2020 in order to identify:

- ▶ all leases which need to be accounted for
- ▶ the costs and lease term which apply to the lease
- ▶ the value of the asset and liability to be recognised as at 1 April 2020 where a lease has previously been accounted for as an operating lease.

We will discuss progress made in preparing for the implementation of IFRS 16 - leases with the finance team over the course of our 2019/20 audit.



# 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 2019/20 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.

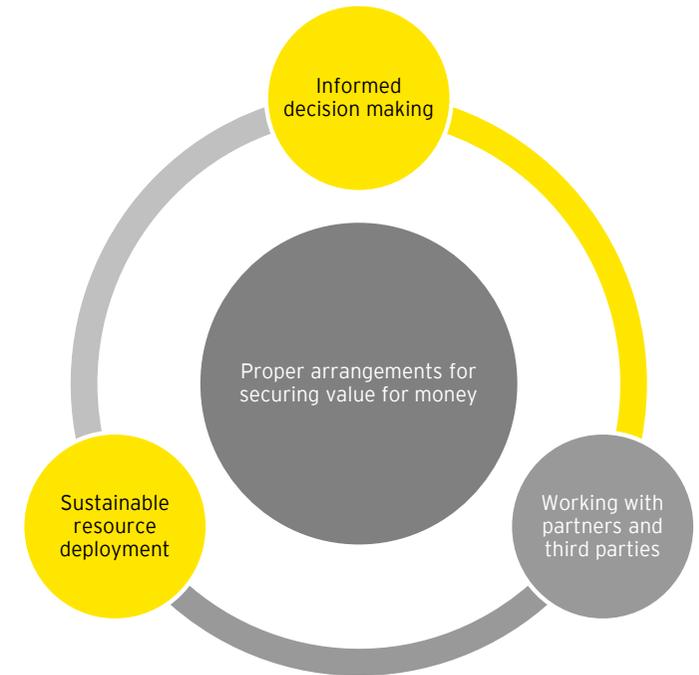
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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 Council to analyse and evaluate the decision to purchase the high value head lease of Croxley Business Park.

At the time of writing this report, our value for money planning for 2019/20 had not yet been undertaken. Our risk assessment for 2019/20 will be communicated in the Audit Plan issued at the completion of our procedures for March 2020.





04

# Audit materiality



# Materiality

## Materiality

For planning purposes, materiality for 2019/20 has been set at £1.59m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.

## 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 £1.19m which represents 75% of planning materiality, reflecting the relatively low incidence of adjusted differences (£1,106k McCloud) and unadjusted differences (two differences with a net impact that would have increased assets by £175,000).

**Component performance materiality range** - we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group. This will be reported in our updated Audit Planning Report when Group scoping is complete.

**Audit difference threshold** - we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. 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.

**Specific materiality** - We have set a materiality of £1k 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.

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



**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.

## 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 2019/20 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.

## Scoping the group audit

### Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

- 1. Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
- 2. Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations.

At the time of writing this report, our group scoping was not yet complete.

## Scoping the group audit

### Scope definitions

**Full scope:** locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

**Specific scope:** locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

**Review scope:** locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

**Specified Procedures:** locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

**Other procedures:** For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

### Key changes in scope from last year

Key changes in scope from last year will be advised when our scoping is complete.



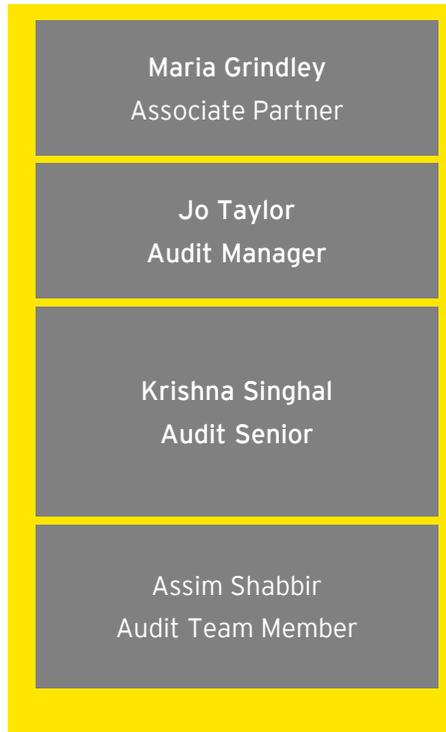
06

Audit team



# Audit team

**Audit team structure:**



\* Key Audit Partner

## 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
Accounting for Croxley Park	EY Financial Audit and Advisory Services
Valuation of Land and Buildings	EY Valuations Team
Pensions disclosure	PWC and EY Actuaries

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 2019/20.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable of Work	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	February/ March		
Walkthrough of key systems and processes	February/ March	Audit Committee 12 <sup>th</sup> March 2020	Draft Audit Planning Report
Testing of routine processes and controls Interim audit testing	March	Audit Committee Date TBC	Final Audit Planning Report and verbal update on progress
Year end audit Audit Completion procedures	August/ September	Audit Committee Date TBC	Audit Results Report Audit opinions and completion certificates
	October	Audit Committee Date TBC	Annual Audit Letter



08

Independence



## Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

### Required communications

#### Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence.
- ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]

#### Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Written confirmation that all covered persons are independent;
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

## 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.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, no non audit services were planned. No additional safeguards are required.

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.

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review 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. / The table below sets out the other threats that exist as the date of this report.

## New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

### Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
  - Tax advocacy services
  - Remuneration advisory services
  - Internal audit services
  - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

### Next Steps

We will We do not provide any non-audit services which would be prohibited under the new standard.

## Other communications

### EY Transparency Report 2019

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 end 30 June 2019:

[https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/\\$FILE/ey-uk-2019-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf)



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## Appendices



# Appendix A

## Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

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.

	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
	£	£	£
Total Fee - Code work	40,021	40,021	40,020
Other	TBC		
<b>Total audit</b>	<b>TBC</b>	<b>40,021</b>	<b>40,020</b>
Other non-audit services not covered above (Housing Benefits)	TBC		TBC
<b>Total other non-audit services</b>	<b>0</b>		<b>0</b>
<b>Total fees</b>	<b>0</b>		<b>0</b>

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### All fees exclude VAT

(1) At the time of writing this report, the 2018/19 Code work additional fees were still under calculation and the amount of any 40+ work for 2019/20 was still under consideration.

(2) The 18/19 work has just been completed and a final fee will be determined shortly. For 19/20 the planned fee represents the base fee, i.e. not including any extended testing.

(3) For 2019/20, the scale fee will be impacted by a range of factors (see page 7) which will result in additional work. An estimate of the potential additional fee for this will be provided at the completion of our procedures for March 2020. The issues which we have identified at the planning stage which will impact on the fee include:

- The need to engage EY Financial Accounting Specialists to review the accounting treatments for Croxley Park ; and
- Potentially the need to engage EY valuation specialists given for example the change of Council's valuer.

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

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.

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		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
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)

			 Our Reporting to you
Required communications	 What is reported?	 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)

 Our Reporting to you		
Required communications	 What is reported?	  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

## Appendix B

# Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	  When and where
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
Group audits	<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 planning report issued as Final at the completion of our procedures for March 2020.

## Appendix B

# Required communications with the Audit Committee (continued)

 Our Reporting to you		
Required communications	 What is reported?	  When and where
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

## 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 Group/ and 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/ and Council 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.

## 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.

Part A

**Report to:**               **Audit Committee**

**Date of meeting:**   **Thursday, 12 March 2020**

**Report author:**       **Interim Head of Finance**

**Title:**                   **Accounting Policies 2019/20**

## 1.0 Summary

- 1.1 Accounting Policies to be used in preparing the Council’s 2019/20 Statement of Accounts are set out in the Appendix.
- 1.2 There are no changes to the substance of the accounting policies for 2019/20 since the accounts were prepared for the year ended 31 March 2019 with the exception of the requirement to carry out an impact assessment regarding the implementation of IFRS16 – Leases.
- 1.3 IFRS16 will be adopted as part of the 2020/21 accounting policies to bring all leased assets worth over £15,000 on the balance sheet from 1 April 2021. Officers are working to identify the proposed accounting treatment with EY prior to the 2020/21 closedown. This change in accounting treatment should not have a material impact on the Council’s usable financial resources.

## 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)
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:**

Nigel Pollard

Nigel.pollard@threerivers.gov.uk

**Report approved by:** Nigel Pollard, Interim Head of Finance

**Further information:**

Nigel Pollard

nigel.pollard@watford.gov.uk

**Report approved by:** Alison Scott – Shared Director of Finance

### 4.0 **Detailed proposal**

4.1 The detailed Accounting Policies are attached to this report.

4.2 There are no changes to Watford's accounting policies for the 2019/20 accounts.

### 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 receipted 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.

## **1. Accounting Policies - Single Entity and Group Accounts**

### **1.01 General Principles**

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year end of 31 March 2020. 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 2019/20 and the CIPFA Service Reporting Code of Practice 2019/20 (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. The Statement of Accounts has been prepared on a 'going concern basis.

### **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, e.g. 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 cash flow 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 (i.e. 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 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 de-recognition 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 of 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.

#### **1.14 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.

#### **1.15 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).

Depreciation 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 straight-line. This now means all Councils assets if depreciated are depreciated based on a straight-line 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.

### **1.16 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.

### **1.17 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.

### **1.18 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.

### **1.19 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.

### **1.20 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.

### **1.21 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.

### **1.22 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.

### **1.23 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 2019/20 Code. The 2019/20 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.

### **1.24 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  
12 March 2020

2020/21 Internal Audit Plan Report

Recommendation

Members are recommended to approve the proposed Watford Borough Council and Shared Services Internal Audit Plans for 2020/21

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- B Proposed Watford and Three Rivers Shared Services 2020/21 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 2020/21 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 2019 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 2020/21 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 2020/21 has been characterised by:

- a) Detailed discussions with senior managers and other key officers within the council to identify auditable areas and a high-level scope for each. This process incorporates the following steps to assist in the 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 2020/21 plans for all SIAS partner councils are then scrutinised and cross-partner audits highlighted;
- d) Proposed draft plans are made available to Group Heads of Service for comment and agreement.

This approach ensures our work gives assurance on key areas of 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. Many services continue to manage increasing demand and constrained finances.
- 2.5 The resultant efficiency and transformation programme that councils are developing and implementing continue to profoundly alter 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:

- a) 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.
- b) 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.
- c) Give assurance on the control environment in relation to new developments, using current audit approaches such as 'continuous assurance' where appropriate.
- d) Retain flexibility in the audit plan and ensure the plan remains current and relevant as the financial year progresses.

Internal Audit Plan 2020/21

2.7 The draft 2020/21 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 2020/21 remains unchanged 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	80	80
Operational audits	68	10	78
Procurement / Contract Management	18	0	18
Shared Learning / Joint Reviews	5	0	5
Counter Fraud	0	0	0
Risk & Governance	0	0	0
Ad-Hoc Advice	2	0	2
IT Audits	0	27	27
To Be Allocated	0	0	0
Follow Ups	10	0	10
Strategic Support*	38	0	38
2019/20 Projects Requiring Completion	5	5	10

<b>Total audit days 2020/21</b>	<b>146</b>	<b>122</b>	<b>268</b>
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\* This covers supporting the Audit Committee, monitoring, client liaison and planning for 2021/22.

- 2.8 Members will note the inclusion of a provision for the completion of projects that relate to 2019/20. 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 2020/21 and any proposed changes will be reported to this Committee four times in 2020/21. The implementation of agreed audit recommendations will be reported to Audit Committee as part of the update reporting process.

#### Performance Indicators

- 3.2 Annual performance indicators were first approved at the SIAS Board in September 2011 and are reviewed annually. Details of the 2020/21 targets are shown below. Actual performance against target will be included in the update reports to this Committee.

<b>Performance Indicator</b>	<b>Performance Target</b>
<b>1. Planned Days</b> percentage of actual billable days against planned	95%

chargeable days completed.	
<p><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.</p>	95%
<p><b>3. Client Satisfaction</b> percentage of client satisfaction questionnaires returned at 'satisfactory' level.</p>	100%
<p><b>4. Number of High Priority Audit Recommendations agreed</b></p>	95%
<p><b>5. Annual Plan</b></p>	Presented to the March meeting of each Audit Committee.
<p><b>6. Head of Assurance's Annual Report</b></p>	Presented to the first meeting of each Audit Committee in the new financial year.

Watford Borough Council  
Audit Committee  
12 March 2020

Watford Borough Council 2020/21 Draft Internal Audit Plan

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>			
Customer Services – Digitalisation	Review of implementation of changes arising from rollout of the digitalisation programme, including: <ul style="list-style-type: none"> <li>a) Review of GDPR compliance specific to Customer Services;</li> <li>b) Business continuity planning within Customer Services; and</li> <li>c) Governance and support mechanisms within Customer Services specifically to the Watford 2020 plan.</li> </ul>	12	Q1
Section 106 Agreements	Review to provide assurance that processes and controls are effective over the calculation, collection and spend proposals for contributions received. Typical areas include: <ul style="list-style-type: none"> <li>a) The existence and application of a clear policy on contributions and affordable housing;</li> <li>b) Monitoring of agreed trigger points and subsequent collection of contributions payable;</li> <li>c) Compliance with policies and procedures covering the spending of contributions received,</li> </ul>	10	Q3

**WATFORD BOROUGH COUNCIL DRAFT INTERNAL AUDIT PLAN 2020/21**

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
	d) Mechanisms for reviewing the benefits of completed projects.		
Parking Contract	Review to provide assurance over the operation of the parking contract with NSL.	8	Q1
Communications (including social media)	<p>Review to provide assurance that processes and controls over the Council's communications (including use of social media) are effective. Scope to be determined at time of the review; typical areas include:</p> <ul style="list-style-type: none"> <li>a) Communication Strategy and policies;</li> <li>b) Compliance with policies and guidance;</li> <li>c) Access to writing intranet and website content; and</li> <li>d) Effectiveness of communications.</li> </ul>	8	Q2
Neighbourhood Forums	To provide assurance over the distribution of neighbourhood forum grants.	5	Q4
Freedom of Information	To provide assurance that there are policies and procedures in place for FOI requests and that these are applied in practice. The audit will focus on record keeping, responses and compliance with statutory requirements.	8	Q3
Climate Change (including joint review)	Emerging risk. To review progress following the Climate Emergency declaration. This may include:	7	Q4

**WATFORD BOROUGH COUNCIL DRAFT INTERNAL AUDIT PLAN 2020/21**

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
	<p>a) Compliance with climate change strategy and policy.                      b) The accuracy of reporting data against targets, stated aims and objectives.                      c) Energy management.</p> <p>An audit will also be carried out at several other SIAS partners. The number of proposed days includes provision for consolidating the audit reports, thereby providing a wider level of assurance and sharing any learning across partners.</p>		
Sports Development	Review of how the Council is performing one year after the implementation of the new Sports Development Framework.	10	Q4
<b>PROCUREMENT</b>			
Veolia Contract Payments	Review of the financial management of the Veolia contract, including payment mechanisms, records of checks and inspections (including annual insurance requirements), budget variations and authorisation of payments.	8	Q2
SLM Contract	Review of the contract after one year in operation.	10	Q3
<b>SHARED LEARNING / JOINT REVIEWS</b>			
Shared Learning	Shared Learning publications providing opportunities for shared learning across the partnership.	3	Through the year

**WATFORD BOROUGH COUNCIL DRAFT INTERNAL AUDIT PLAN 2020/21**

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
Joint Reviews	Joint reviews as determined by the SIAS Board.	2	As required
<b>COUNTER FRAUD</b>			
	See Shared Services Audit Plan.		
<b>RISK MANAGEMENT AND GOVERNANCE</b>			
	No audits identified for 2020/21		
<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.		

**WATFORD BOROUGH COUNCIL DRAFT INTERNAL AUDIT PLAN 2020/21**

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
<b>TO BE ALLOCATED</b>			
To Be Allocated	See Shared Services Audit Plan.		
<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 2019/20	To prepare and agree the Head of Internal Audit Opinion for 2019/20.	3	Q1
External Audit Liaison	To provide information as required.	1	Through year
Audit Committee	To provide services linked to the preparation of Audit Committee reports and presentation of reports / participation at Audit Committee. Provide Committee Member training prior to the committee meetings if required.	10	Quarterly

**WATFORD BOROUGH COUNCIL DRAFT INTERNAL AUDIT PLAN 2020/21**

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
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 as required.	11	Through year
2021/22 Audit Planning	To provide services in relation to preparation and agreement of the 2021/22 Audit Plan in conjunction with senior officers of the Council.	7	Q4
SIAS Development	Included to reflect the Council's contribution (as with all partners) to developing the partnership.	3	Q1
Annual Governance Statement	To assist the Council in the preparation of the Annual Governance Statement for 2019/20.	3	Q1
<b>2019/20 PROJECTS REQUIRING COMPLETION</b>			
2019/20 Projects to be completed	Additional time, if required for the completion of 2019/20 audit work carried forward into the 2020/21 financial year.	5	Q1
<b>TOTAL AUDIT PLAN DAYS</b>		<b>146</b>	

**2020/21 RESERVE LIST**

**(For consideration in the main audit plan should audit days become available during the year. Scopes to be agreed at the time. Plan changes are reported to Audit Committee)**

Safeguarding			
Corporate Governance			
Council Owned Trading Companies			

Watford Borough Council  
Audit Committee  
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Watford Borough Council and Three Rivers District Council Shared Services  
2020/21 Draft Internal Audit Plan

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
<p><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.</p>			
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 access controls and data retention.</li> </ul> <p>Testing will cover the 2020/21 financial year and a sample of transactions for both Watford Borough Council and Three Rivers Council.</p> <p>Includes two days to test 2019/20 system parameters which underpin benefit calculations. This will be completed in April 2020 to give assurance early in the year that the parameters have been correctly set in the system.</p>	12	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:	10	Q3

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
	<p>a) Policies, procedures and legislation,                      b) Amendment to Council Tax records including reconciliation between Valuation Office Agency and Council records,                      c) Discounts (single persons, disabled persons) and exemptions (e.g. empty property relief),                      d) Billing (annual and in-year),                      e) Refunds,                      f) Recovery, enforcement and write-offs,                      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 Academy and Anite systems are used across the Revenues &amp; Benefits service.</p> <p>Testing will cover the 2020/21 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,                      b) Ordering of goods and services,                      c) Receipt of goods and services,                      d) Payment of invoices,                      e) Credit notes and refunds,</p>	9	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 2020/21 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 2020/21 financial year and a sample of transactions for both Watford Borough Council and Three Rivers Council.</p>	9	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 2020/21 financial year and a sample of transactions for both Watford Borough Council and Three Rivers Council.</p>	8	Q4
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>	10	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 2020/21 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 2020/21 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 2020/21 financial year and a sample of transactions for both Watford Borough Council and Three Rivers Council.</p>	5	Q4
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 2020/21 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>			
Revenues and Benefits Payments	Review of controls over payments made from the Council Tax, NDR and Benefits systems.	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 Operations (policies and procedures)	Review main elements of IT Operations (policies and procedures) using the ITIL methodology. Scope to include both third party arrangements and internal elements of the IT service.	15	Q4
<b>TO BE ALLOCATED</b>			
	No budget set at outset.		
<b>STRATEGIC SUPPORT</b>			
	See local audit plans.		

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
<b>2019/20 PROJECTS REQUIRING COMPLETION</b>			
2019/20 projects requiring completion	Additional time, if required, for the completion of 2019/20 audit work carried forward into 2020/21. The proposed number of days is an estimate which will be reviewed as required.	5	Q1
<b>TOTAL AUDIT PLAN DAYS – SHARED SERVICES PLAN</b>		<b>122</b>	

<b>2020/21 RESERVE LIST – including outline scope</b> <b>(Detailed scope for each to be determined in the event that the audit is transferred to the main plan)</b>			
	No audits identified.		

Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Revenues & Benefits System Parameters( Shared Services Plan)*	Revenues and Benefits Payments (Shared Services Plan)	Customer Services – Digitalisation	Veolia Contract Payments	Comms (inc social media)	NDR (Shared Services Plan)	Debtors (Shared Services Plan)	Council Tax (Shared Services Plan)	Benefits (Shared Services Plan)	Main Accounting (Shared Services Plan)	Budget Monitoring (Shared Services Plan)	
Page 133	Parking Contract					Section 106 Agreements	Payroll (Shared Services Plan)	Creditors (Shared Services Plan)	Treasury Mgmt (Shared Services Plan)	Neighbourhood Forums	
						SLM Contract	Sports Development	FOI	Climate Change		
						Cyber Security (Shared Services Plan)			IT Operations - policies and procedures (Shared Services Plan)		

\*Revenues & Benefits System Parameter Testing scheduled for April 2020 - remainder of work expected in Q3.



Watford Borough Council  
Audit Committee Progress Report  
12 March 2020

Recommendation

Members are recommended to:

- Note the Internal Audit Progress Report for the period to 28 February 2020
- Approve amendments to the Audit Plan as at 28 February 2020
- Agree the change to the implementation date for 5 recommendations (paragraph 2.5) for the reasons set out in Appendix C
- Agree removal of implemented audit recommendations (Appendix C)
- Note the status of High and Medium priority recommendations from the Hertfordshire Home Improvement Agency audit

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## Appendices

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- C Progress against outstanding Internal Audit recommendations
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# 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 2019/20 as at 29 February 2020.
  - b) Proposed amendments to the approved 2019/20 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 28 February 2020.

## 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 2019/20 Annual Audit Plan was approved by Audit Committee on 14 March 2019.
- 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 5 December 2019.

# 2. Audit Plan Update

## Delivery of Audit Plan and Key Audit Findings

- 2.1 As at 28 February 2020, 82% of the 2019/20 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 One 2018/19 report has been finalised since December Audit Committee, marking closure of the Audit Plan for that year.

<b>Audit Title</b>	<b>Date of Issue</b>	<b>Assurance Level</b>	<b>Number and Priority of Recommendations</b>
Agency Staffing	Dec '19	Satisfactory	Two medium

Three 2019/20 audit reports have been finalised since December Audit Committee as follows:

<b>Audit Title</b>	<b>Date of Issue</b>	<b>Assurance Level</b>	<b>Number and Priority of Recommendations</b>
Financial Account Reconciliations	Dec '19	Satisfactory	One medium One low
Temporary Accommodation	Dec '19	Satisfactory	One medium One low
Play Safety Inspections	Dec '19	Limited	Two high Five medium
Cyber Security	Jan '20	Satisfactory	One medium
Payroll	Feb '20	Good	One medium
Main Accounting	Feb '20	Good	None
Treasury Management	Feb '20	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 2020, with full details given in Appendix C:

<b>Year</b>	<b>Recommendations made No.</b>	<b>Implemented</b>	<b>Not yet due</b>	<b>Outstanding &amp; request made for extended time*</b>	<b>Percentage implemented %</b>
2016/17	35	34	0	1	97%
2017/18	29	29	0	0	100%
2018/19	30	26	2	2	87%
2019/20	17	3	5	9 *(see note below)	18%

\*or no update provided.

2.5 Since December 2019 Audit Committee, extension to implementation dates have been requested by action owners for 5 recommendations as follows:

- a) One from the 2016/17 Tree Management audit,
- b) One from the 2018/19 Cyber Security audit,
- c) One from the 2018/19 Benefits, and
- d) Two from the 2019/20 Development Management (pre-apps) audit.

- 2.6 In respect of the seven recommendations from the 2019/20 Play Safety Inspections audit which was finalised in December 2019, the actions had a target date of 31 January 2020 onwards. These actions are currently in progress and management have confirmed that revised deadlines where any remain outstanding will be provided for the next meeting of Audit Committee.
- 2.7 Hertfordshire County Council lead on the implementation of the Hertfordshire Home Improvement Agency audit recommendations and as a contributing partner, an update on the status of the outstanding recommendations is detailed in Appendix D of this report.

#### Proposed Audit Plan Amendments

- 2.8 The following plan changes have occurred since December Audit Committee:
- Customer Services – Digitalisation: audit cancelled at the request of management as the allotted time does not allow for the breadth of review now required. The audit has been included in the draft 2020/21 Audit Plan and the scope will be extended to cover GDPR compliance specific to Customer Services, business continuity planning within Customer Services and governance and support mechanisms within Customer Services specifically linked to Watford 2020. Unused days returned to contingency.
  - IT Policies and Procedures: audit cancelled at the request of management as the service cannot currently resource the audit. The audit has been included in the 2020/21 Shared Services Audit Plan. Unused days returned to contingency.

#### Performance Management

##### Reporting of Audit Plan Delivery Progress

- 2.9 To help the Committee assess the current situation in terms of progress against the projects in the 2019/20 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.
- 2.10 Annual performance indicators and associated targets were approved by the SIAS Board in March 2019. Actual performance for Watford Borough Council against the targets that can be monitored for 2019/20 is shown in the table below.

<b>Performance Indicator</b>	<b>Annual Target</b>	<b>Profiled Target to 28 February 2020</b>	<b>Actual to 28 February 2020</b>
<b>1. Planned Days</b> – percentage of actual billable days against planned chargeable days completed (excluding unused contingency).	95%	92% (235/256.5 days)	89% (229.5/256.5 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%	80% (16/20 projects to draft)	80% (16/20 projects to draft)
<b>3. Client Satisfaction</b> – percentage of client satisfaction questionnaires returned at 'satisfactory' level.	100%	100%	86% (7 received)
<b>4. Number of Critical / High Priority Audit Recommendations agreed</b>	95%	95%	100% (7 made)

2.11 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2019/20 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 2019/20 AUDIT PLAN AT 28 FEBRUARY 2020**

**2019/20 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>									
Revenues and Benefits System Parameter Testing (shared plan)	Good	0	0	0	0	2	Yes	2	Final Report Issued
Benefits (shared plan)						13	Yes	12.5	Draft Report Issued
Council Tax (shared plan)						13	Yes	12.5	Draft Report Issued
Creditors (shared plan)						10	Yes	9.5	Draft Report Issued
Debtors (shared plan)						11	Yes	10.5	Draft Report Issued
Main Accounting (shared plan)	Good	0	0	0	0	10	Yes	10	Final Report Issued
NDR (shared plan)	Good	0	0	0	0	12	Yes	12	Final Report Issued
Payroll (shared plan)	Good	0	0	1	0	12	Yes	12	Final Report Issued
Treasury Management (shared plan)	Good	0	0	0	0	5	Yes	5	Final Report Issued
Budget Monitoring (shared plan)						5	Yes	2	In Fieldwork
<b>Operational Audits</b>									
Financial Account Reconciliations (shared plan)	Satisfactory	0	0	1	1	10	Yes	10	Final Report Issued
Commercial Strategy						12	BDO	2	Terms of Reference Issued
Temporary Accommodation	Satisfactory	0	0	1	1	10	Yes	10	Final Report Issued
Project Management	Good	0	0	0	1	10	Yes	10	Final Report Issued
Customer Services - Digitalisation						0.5	N/A	0.5	Cancelled
Play Safety Inspections	Limited	0	2	5	0	11	Yes	11	Final Report Issued
Safeguarding						0	N/A	0	Cancelled

**APPENDIX A - PROGRESS AGAINST THE 2019/20 AUDIT PLAN AT 28 FEBRUARY 2020**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	L				
Sports Development						1	N/A	1	Cancelled
Herts Home Improvement Agency - Follow Up						2	Yes	1.5	In Fieldwork
Development Management (pre-application process)	Satisfactory	0	0	2	0	6	Yes	6	Final Report Issued
Community Safety						10	BDO	1	Terms of Reference Issued
<b>Contract Management</b>									
Contract Management						12	Yes	11.5	Draft Report Issued
<b>Counter Fraud</b>									
No audits						0		0	
<b>Risk Management and Governance</b>									
Corporate Governance						1	N/A	1	Cancelled
<b>IT Audits</b>									
Cyber Security (shared plan)	Satisfactory	0	0	1	0	12	BDO	12	Final Report Issued
IT Policies and Procedures (shared plan)						1	N/A	1	Cancelled
<b>SIAS Joint Work</b>									
Shared Learning and Joint Reviews						5	N/A	5	Through Year
<b>Ad Hoc Advice</b>									
Ad Hoc Advice						2	N/A	2	Through Year

**APPENDIX A - PROGRESS AGAINST THE 2019/20 AUDIT PLAN AT 28 FEBRUARY 2020**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	L				
<b>To Be Allocated</b>									
Unused contingency (shared plan)						24		0	
<b>Strategic Support</b>									
Head of Internal Audit Opinion 2018/19						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
2020/21 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 2018/19 audits</b>									
Time required to complete work commenced in 2018/19 (6 days shared plan; 5 days WBC)						11	N/A	11	Complete
<b>WBC TOTAL</b>						<b>134.5</b>		<b>112.5</b>	
<b>SHARED SERVICES TOTAL</b>						<b>146</b>		<b>117</b>	
<b>COMBINED TOTAL</b>						<b>280.5</b>		<b>229.5</b>	

## **APPENDIX A - PROGRESS AGAINST THE 2019/20 AUDIT PLAN AT 28 FEBRUARY 2020**

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Key to recommendation priority levels:

C = Critical; H = High; M = Medium; L = Low / Advisory; N/A = Not applicable

**APPENDIX B – 2019/20 AUDIT PLAN PROJECTED START DATES**

Apr	May	June	July	August	September
Revenues & Benefits System Parameter Testing (shared services plan)* <b>Final Report Issued</b>			Temporary Accommodation <b>Final Report Issued</b>	Contract Management <b>Draft Report Issued</b>	Financial Account Reconciliations (shared services plan)** <b>Final Report Issued</b>
			Project Management <b>Final Report Issued</b>		Play Safety Inspections <b>Final Report Issued</b>
			Development Management (pre-application process) <b>Final Report Issued</b>		

**\*Notes:**

\* Revenues & Benefits System Parameter Testing completed in May - remainder of Benefits and NDR work due quarter 3 of 2019/20

\*\* Financial Account Reconciliations – start of audit moved from May to September to allow for completion of external audit work.

**APPENDIX B – 2019/20 AUDIT PLAN PROJECTED START DATES**

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October	November	December	January	February	March
NDR (shared services plan) <b>Final Report Issued</b>	Council Tax (shared services plan) <b>Draft Report Issued</b>	Benefits (shared services plan) <b>Draft Report Issued</b>	Creditors (shared services plan) <b>Draft Report Issued</b>	Budget Monitoring (shared services plan) <b>In Fieldwork</b>	
Debtors (shared services plan) <b>Draft Report Issued</b>	Payroll (shared services plan) <b>Final Report Issued</b>	Treasury Management (shared services plan) <b>Final Report Issued</b>	Commercial Strategy <b>Terms of Reference Issued</b>	Community Safety <b>Terms of Reference Issued</b>	
Cyber Security (shared services plan) <b>Final Report Issued</b>		Main Accounting (shared services plan) <b>Final Report Issued</b>		Herts Home Improvement Agency (follow up) <b>In Fieldwork</b>	

## Audit Plan 2016/17

Tree Surveying 2016/17							
Final report issued April 2017							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * 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> <p>a) Measurement of the aims and objectives contained within the strategy;</p> <p>b) Frequency of inspections to be completed, both routine and high risk trees; and</p> <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.	*	<p>31 December 2017</p> <p>31 May 2018</p> <p>31 July 2019</p> <p>30 Sept 2019</p> <p>31 January 2020</p> <p><b>31 March 2020</b></p>

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>Position – February 2019 In progress.</p> <p>Position – July 2019 The Tree and Woodland Strategy has been completed and is due at Cabinet in September 2019 and highlights a number of actions within.</p> <p>Position – September 2019 As above.</p> <p>Position – November 2019 The strategy is out for consultation and will go to Cabinet when that is completed. This may be either December or January.</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
			<b>Position – February 2020</b> The Tree and Woodland Strategy is complete along with the review of the Green Spaces Strategy and is on the Agenda for March 2020 Cabinet for adoption.				

**Audit Plan 2018/19**

<b>Cyber Security 2018/19</b>							
<b>Final report issued January 2019</b>							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
02	<p>There should be a mechanism to restrict any non-complying devices to connect to the Council's IT network.</p> <p>Additionally, there should be continuous monitoring in place for all devices connected on the network to be fully antivirus protected.</p>	Medium	<p>Review current AV and VPN solution and viability to restrict devices with no up to date protection from connecting to the network fully.</p> <p>Ensure that daily reports for AV protection are monitored against asset register and this is reported to the ICT Section Head.</p> <p>Position – February 2019 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.</p> <p>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.</p> <p>Position – July 2019 The following management update was received on 30 July:</p> <p>"Continuous AV monitoring in place. Daily reports reviewed to ensure all connected devices have the most recent signatures.</p>	ICT Section Head	30 September 2019	<p>*</p> <p>Part resolved.</p> <p>Extension requested to deploy new remote working solution.</p>	<p>31 December 2019</p> <p>31 January 2020</p> <p><b>31 May 2020</b></p>

Cyber Security 2018/19							
Final report issued January 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>Where the signature has not been applied this is flagged and remediated by an engineer.</p> <p>New remote working solution has AV checker within Enterprise Management module.</p> <p>Request to extend the new remote working solution roll out to December 2019. The rollout will have commenced in August 2019 but needs to be deployed to all users across all sites, in line with the deployment of new personal IT kit and Unified Communications.”</p> <p>Position – September 2019 As above</p> <p>Position – November 2019 This is in progress, and a key issue/dependency resolved. Slight delay in roll out means that this is likely to completed mid-end of January 2020.</p> <p><b>Position – February 2020</b> <b>The solution is ready to deploy. This has been tested. The deployment has been paused due to the coronavirus outbreak. Migration to a new home working solution during a period where there is a high possibility of large scale home working required has meant a decision to pause.</b></p> <p><b>I have made a request to extend to the end of May to accommodate other business risk also, elections and revenues and benefits year end processing.</b></p>				

Benefits 2018/19							
Final report issued April 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	<p>We recommend that declaration of interests forms are completed by all staff annually.</p> <p>A process for new staff should be put in place to form part of the induction programme to complete a declaration of interests form.</p>	Medium	<p>Declarations of interests will be completed by all Revs and Bens staff for 19/20.</p> <p>A prompt for this form to be signed will be added to our corporate wide new starter form so that we pick up new starters as and when required.</p> <p>Position – July 2019 No management update received.</p> <p>Position – 21 August 2019 All officers with access to the Revenues and Benefits systems need to sign a declaration annually. This work is underway. We amended our internal Revs and Bens Information Security Policy in May of this year. We are now making some amendments to the declaration itself before it is sent out to all staff for signing. All signed declarations will be held on the Revs and Bens drive electronically for internal and external audit to view whenever necessary. We anticipate this work being completed by 31.08.19. The form will also form part of the new starter process being developed within Firmstep so that we capture new starts as and when.</p> <p>Position – September 2019 (Based on conversation with the Head of Revenues &amp; Benefits) Revised declaration of interest form to be reviewed by SIAS before issue to staff.</p>	Head of Revenues and Benefits	30 April 2019	✓	<p>30 Sept 2019</p> <p>31 December 2019</p>

Benefits 2018/19							
Final report issued April 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>Position – November 2019 There are some amendments that need to be made to the declarations of interest form and I anticipate having all of the forms signed by 31.12.19.</p> <p><b>Position – February 2020</b> <b>The new form has been signed off in terms of design and was emailed across both councils to those who have access to the Revs and Bens systems. The majority of the forms have now been returned and we are just chasing the last few replies.</b></p>				
02	We recommend that testing of the module is carried out to reinstate the ability to delete obsolete data.	Medium	<p>The Retention and Destruction module is currently suspended from use as it has been destroying documents incorrectly that we are still relying on to support 'live' housing benefit claims.</p> <p>We have reported this to the system supplier (Northgate) and have requested their assistance with correcting the issue so that we can start using the module again and remain GDPR compliant.</p> <p>During a meeting with Northgate on 21.03.19 we agreed we needed a Retention &amp; Destruction refresher training day during which they would help us set up the system so that the system does not destroy documents we still need. We are now awaiting a date for the training to take place.</p> <p>Position – July 2019</p>	Benefits Manager	31 May 2019	*	<p>31 October 2019</p> <p><b>30 June 2020</b></p>

Benefits 2018/19							
Final report issued April 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved x or ✓	Revised Deadline
			<p>No management update received.</p> <p>Position – 21 August 2019 The system is designed to destroy all documents that are older than 6 years plus current. We discovered that the system was not working properly and has destroyed some documents that are still required to support live Benefit claims and therefore we need to retain. Clearly we could not allow that to continue so the system was been suspended. We have sought advice on how to fix this issue from the system provider and are awaiting their response. I have chased this today and have also now asked if it's possible to use the system in part so that we can carry on destroying old documents that we no longer require for Council Tax and Business Rates and unsuspend the Benefits part of the system once we have fixed the problem. I will escalate this issue in a week if I have not had a response.</p> <p>Position – September 2019 (Based on conversation with the Head of Revenues &amp; Benefits) Issue has now been escalated with Northgate.</p> <p>Position – November 2019 No update provided by management.</p> <p><b>Position – February 2020</b> <b>The Northgate system is currently being upgraded. The upgrade is now available in test and the live upgrade is due to take place 1<sup>st</sup> and 2<sup>nd</sup> May 2020. We will test this</b></p>				

Benefits 2018/19							
Final report issued April 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			module of the system as part of the overall testing. If this module works, we will be able to run scripts which will 'back archive' documents that would have been due to be archived since it was discovered the system was not working properly.				

IT Contract Management 2018/19							
Final report issued July 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
02	A review of retention systems should be undertaken to ensure IT contracts are held in a central location.	Low	Action will be undertaken to ensure that soft copies of all current contracts are stored in the appropriate folders on the service drives.  Position (September 2019) In progress.  Position (November 2019) In progress  <b>Position – February 2020                      Completed</b>	Head of ICT	31 March 2020	✓	

Agency Staffing 2018/19							
Final report issued December 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	We recommend that an HR led workforce strategy for the use of agency staff is formally established, jointly agreed and implemented by both Councils. It should cover the financial, administration and overall control benefits of using providers such as Comensura as well as providing clarity about the circumstances when it is appropriate / necessary to consider alternative suppliers. It should also include clearly defined responsibilities for overseeing and monitoring the overall use of agency staff and for carrying out periodic reviews of agency staff.	Medium	<p>Work has commenced on producing a guide for managers in both Watford and Three Rivers regarding compliance with agency worker regulations and IR 35. This guide once agreed will be provided to Audit for information.</p> <p><b>Position – February 2020</b>  <b>The guidelines have been drafted and will be available on the intranet shortly. The action will be completed in accordance with the original timescale.</b></p>	Group Head of Human Resources & Organisational Development	1 April 2020	*	
02	<p>We recommend that appropriate corporate policies and procedures are established, formally agreed and then implemented in both Councils regarding the use of agency staff.</p> <p>This should provide clarity about the engagement process and the use of Comensura or alternative suppliers. Also, it should provide confirmation of the key roles and responsibilities of the local Service Areas, the shared HR Service, and for financial administration, including appropriate coding, in relation to the use of agency staff.</p>	Medium	<p>As above, we believe the guide will cover the requirements for both councils.</p> <p><b>Position – February 2020</b>  <b>The guidelines have been drafted and will be available on the intranet shortly. The action will be completed in accordance with the original timescale.</b></p>	Group Head of Human Resources & Organisational Development	1 April 2020	*	

<b>Agency Staffing 2018/19</b>							
Final report issued December 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline

### Audit Plan 2019/20

<b>Development Management (pre-app process) 2019/20</b>							
Final report issued October 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	<p>Management should produce written guidance to inform the minimum acceptable retention requirements for major and minor pre-application enquiries. This should make to clear to planning officers if meetings, telephone conversations and emails with potential applicants during the advisory period need to be documented and stored on case files for information request and auditing purposes.</p> <p>Management should periodically spot check a sample of case files for major pre-applications as a way to ensure that the minimum acceptable retention requirements are being adhered to in practice.</p>	Medium	<p>Agreed. The whole pre-application process will be reviewed so that there is clear guidance.</p> <p>Position – November 2019 In progress in accordance with original timescale.</p> <p><b>Position – February 2020 Delayed as the Interim Head of Development Management was replaced by a permanent appointment at the beginning of February. Revised deadline of 30 April 2020.</b></p>	Interim Head of Development Management	31 December 2019	*	<b>30 April 2020</b>
02	The pre-application guidance for should advise that meetings are not	Medium	Agreed. The whole pre-application process will be reviewed so that there is clear guidance.	Interim Head of Development	31 December 2019	*	<b>30 April 2020</b>

Development Management (pre-app process) 2019/20							
Final report issued October 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	<p>minuted by the Council, and if a record of what is discussed and agreed by the parties during a meeting is required then the onus is on potential applicants rather than the lead planning officer to provide the administrative support for this.</p> <p>Planning officers should attach a copy of any minutes provided by potential applicants to the relevant case file for information request and audit purposes.</p> <p>Planning officers should ensure that after each meeting with a potential applicant (for a major project proposal) the relevant case file is updated with the date and main outcomes for information request and auditing purposes.</p>		<p>Position – November 2019 In progress in accordance with original timescale.</p> <p><b>Position – February 2020 Delayed as the Interim Head of Development Management was replaced by a permanent appointment at the beginning of February. Revised deadline of 30 April 2020.</b></p>	Management			

Financial Account Reconciliations 2019/20							
Final report issued December 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	We recommend that the Payroll system is reconciled monthly to the general ledger to ensure the timely identification of any possible	Medium	We recognise that during Apr – June, the payroll reconciliations fell behind due to the focus on the annual accounts. For this year additional support is in place to cover this	Section Head - Financial Accounting and Technical	30 June 2020	*	

Financial Account Reconciliations 2019/20							
Final report issued December 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	differences.		period.  <b>Position – February 2020</b> <b>We have recruited temporary cover for reconciliations and closing the accounts. The person started on 17<sup>th</sup> Feb 2020 and will be with us until 31 July 2020.</b>				
02	We recommend that all identified reasons for differences are carried forward and clearly shown in the next periods explained comments column where unresolved or action is pending.  In addition, a date be detailed in the reason / comment column to provide a time trail leading back to the original date the difference occurred.	Low	A review of financial procedures is currently underway that will ensure a consistent approach is taken.  <b>Position – February 2020</b> <b>We are currently working on the financial regulations and we are on target to implement a consistent approach for all reconciliations.</b>	Section Head - Financial Accounting and Technical	31 March 2020	*	

Temporary Accommodation 2019/20							
Final report issued December 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	We recommend that Housing Case Workers are reminded to link 'Risk Assessment and Referral for Interim Accommodation' forms electronically to the 'Home Connections' system.	Low	Alongside Watford 2020 review, new service wide procedures are being developed which will cover the risk assessment referral process (Housing Section Head).	Housing Section Head, Housing Demand Manager &	30 April 2020	✓	

Temporary Accommodation 2019/20							
Final report issued December 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>Once the new procedures have been agreed management will monitor cases to ensure they are being implemented and adhered to (Housing Demand Manager).</p> <p>The risk assessment form will also be reviewed to make sure it is user friendly and contains the necessary information needed (Housing Properties Manager).</p> <p><b>Position – February 2020 Resolved</b></p>	Housing Properties Manager			
02	<p>We recommend that:</p> <p>a) The Excel spreadsheet is password protected and access restrictions are put in place to limit officers that can make direct changes to the document. 'Read-only' access should be made available where appropriate;</p> <p>b) Temporary Accommodation Officers should be required to enter their name and the date alongside notes to support the chronological record and transparency;</p> <p>c) Consideration should be given to retaining details of individuals that leave temporary accommodation, e.g. through the addition of an Excel sort field to hide previous</p>	Medium	<p>Recommendation B and D can be implemented with immediate effect and staff involved shown how and what to record.</p> <p>Recommendation A and C will need further thought as to how best to set up to ensure sort and count functionality is effective plus retaining usable layout of sheet.</p> <p><b>Position – February 2020</b></p> <p>a) Password protecting did not work. 5 officers open sheet each morning and leave it open all day so unprotected all day. Alternative solution is that we have started daily copies of TA sheet not weekly. So, if lost we have previous days.</p> <p>b) Started</p> <p>c) And d)</p>	Housing Properties Manager	<p>31 December 2019</p> <p>31 January 2020</p>	✓	

Temporary Accommodation 2019/20							
Final report issued December 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	occupiers;  d) Consideration should be given to the inclusion of additional columns showing details of the date that accommodation becomes void to enable the identification of information to support council tax liability dates and aid monitoring.		Can't make this function as clients move too frequently to record on the spreadsheet each previous occupant plus void dates. It is too extensive. We have daily copies of TA list backed up so can look back to see who was previous occupant via the daily copies then look into home connections to see when they left for void period.				

Play Safety Inspections 2019/20							
Final report issued December 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	We recommend that the Contractor maintains a complete list of all play areas detailing the agreed inspection regime in place for each site in accordance with the Contract Service Specification - Play Areas.  The Council should complete regular spot checks of the records to ensure compliance with the agreed inspection regime and that they are sufficient to provide an overview of the current status of all play areas for which the council has responsibility.  The Council should request that an agenda item be added to the monthly contract meetings in order to summarise actual inspections being	High	Noted and this will be discussed with Veolia and added to the monthly ops meetings as an agenda item. Random inspections by the Contract Manager (Parks and Streets) will be carried out quarterly.  <b>Position – February 2020</b> <b>Currently working with Veolia on this.</b> <b>Processes being reviewed and clarified.</b>	Head of Parks, Open Spaces & Projects	Jan 2020 onwards	*	<b>Not yet ascertained.</b>

Play Safety Inspections 2019/20							
Final report issued December 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	completed and receipt of appropriate operational and annual inspection reports.						
02	<p>We recommend that operational inspections are completed 3 times per year for all play areas and reports of each inspection should be submitted to the Council.</p> <p>As for the daily/weekly inspections, all repairs and maintenance identified by the 'operational' inspections should be recorded in a spreadsheet and be used to prioritise and monitor completion of works in a timely manner.</p> <p>In addition, at the monthly contract meetings, assurance should be gained on the completion of the remedial works required from the operational inspections.</p>	High	<p>This will be discussed with Veolia and the Contract Manager (Parks and Streets) to ask for all records to be updated and will be checked quarterly - this will also feature as a part of the monthly ops meetings.</p> <p><b>Position – February 2020</b>  <b>Currently working with Veolia on this.</b>  <b>Processes being reviewed and clarified.</b></p>	Head of Parks, Open Spaces & Projects	Jan 2020 onwards	*	<b>Not yet ascertained.</b>
03	<p>We recommend that annual inspection reports are revised to include details of the company, inspectors name (initials only) and their qualifications or registration.</p> <p>In addition, the presentation and clarity of the inspection and risk assessment information be improved to make a clear distinction and relative link between the equipment inspection scores and risk assessment score.</p> <p>A key to the scoring and expected</p>	Medium	<p>This will be discussed with Veolia and the Contract Manager (Parks and Streets) to ask for all records to be updated and will be checked annually.</p> <p><b>Position – February 2020</b>  <b>Currently working with Veolia on this.</b>  <b>Processes being reviewed and clarified.</b></p>	Head of Parks, Open Spaces & Projects	Jan 2020 onwards	*	<b>Not yet ascertained.</b>

<b>Play Safety Inspections 2019/20</b> Final report issued December 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	actions should be provided.  The Council to ensure it receives the annual inspection reports for all play areas within the expected timeframes.						
04	We recommend that an agreed accident reporting protocol should be documented and implemented to ensure accidents and reports relevant to play areas are investigated appropriately and outcomes stored in a database available to the Council.  Any agreed protocol should include when the Council should see any draft responses / communications prior to being sent to the persons (public) involved in reporting the accident.  It is recommended that any accident reported to the contractor is immediately notified to the Council for awareness and monitoring purposes.  All accident inspection outcomes should be reviewed by the Council and the inspection regime adjusted as appropriate.  Any lessons learned could form part of the monthly contract meeting.	Medium	Noted and will be discussed with Veolia and a protocol developed.  <b>Position – February 2020</b> <b>Currently working with Veolia on this.</b> <b>Processes being reviewed and clarified.</b>	Head of Parks, Open Spaces & Projects	Jan 2020 onwards	*	<b>Not yet ascertained.</b>
05	The Contractor should be required to maintain an overview spreadsheet of	Medium	Noted and will be discussed with Veolia and a protocol developed.	Head of Parks, Open Spaces &	Jan 2020 onwards	*	<b>Not yet ascertained.</b>

Play Safety Inspections 2019/20							
Final report issued December 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	<p>all inspections completed to include the following:</p> <ul style="list-style-type: none"> <li>• details of all works required,</li> <li>• priority of works,</li> <li>• date works order passed to sub-contractor or completed in house, and</li> <li>• any equipment taken out of use pending assessment or repair.</li> </ul> <p>This spreadsheet should be used to monitor completion of works in a timely manner.</p> <p>We also recommend that the various templates in use for inspections are standardised to ensure a consistent approach for all inspections.</p>		<p><b>Position – February 2020</b>  <b>Currently working with Veolia on this.</b>  <b>Processes being reviewed and clarified.</b></p>	Projects			
06	<p>We recommend that upon receipt of the annual reports a programme of works required is completed which is prioritised and planned. The timely completion of works should be monitored, and appropriate action taken if necessary.</p> <p>Where items of equipment are considered at risk, these should be reassessed and reported at the next contract meeting.</p>	Medium	<p>To be discussed with Veolia and a programme developed.</p> <p><b>Position – February 2020</b>  <b>Currently working with Veolia on this.</b>  <b>Processes being reviewed and clarified.</b></p>	Head of Parks, Open Spaces & Projects	Jan 2020 onwards	*	<b>Not yet ascertained.</b>
07	<p>We recommend that a planned maintenance / service schedule be created for all play equipment as per the manufacturer's instructions.</p>	Medium	<p>To be discussed with Veolia and a programme developed.</p> <p><b>Position – February 2020</b></p>	Head of Parks, Open Spaces & Projects	Jan 2020 onwards	*	<b>Not yet ascertained.</b>

Play Safety Inspections 2019/20							
Final report issued December 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			Currently working with Veolia on this. Processes being reviewed and clarified.				

Cyber Security 2019/20							
Final report issued January 2020							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	<p>We recommend that Management should define the Councils' cyber security incident management procedure, which should include but not be limited to:</p> <ul style="list-style-type: none"> <li>The procedures for confirming and validating cyber security incidents,</li> <li>The actions to be taken by members of staff in the event of a cyber attack occurring,</li> <li>The responsibilities of cyber security incident handlers,</li> <li>The actions to be taken to recover a service or services following a cyber attack,</li> <li>The contact details for all relevant members of staff and any third parties involved,</li> <li>The arrangements for identifying lessons learned and reporting on cyber security incidents.</li> </ul>	Medium	<p>Agreed.</p> <p><b>Position – February 2020</b>  <b>In progress. Draft procedures for confirming and validating cyber security incidents, and the associated actions under review.</b></p>	Head of ICT	31 March 2020	*	

<b>Cyber Security 2019/20</b> Final report issued January 2020							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	The defined procedure should be approved and made available to all relevant members of staff.						
02	Furthermore, there should be requirement to have a process to perform a full scan on the end point devices and servers on a regular basis.	Medium	Agreed  <b>Position – February 2020 No action as yet.</b>	Head of ICT	30 September 2020		
03	The Councils should determine an appropriate percentage of staff that should complete the cyber security training – best practice would be 100%. Performance against this target should be monitored and reported.	Medium	Agreed  <b>Position – February 2020 In progress. Security awareness training in the process of being updated prior to being circulated to all staff for completion.</b>	Head of ICT	30 April 2020		

<b>Payroll 2019/20</b> Final report issued February 2020							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	We recommend that leaver forms are forwarded to the payroll provider before the leaving date to avoid the risk of overpayments being made.	Medium	Noted and agree with recommendation. We will forward leavers form to Payroll prior to leaving date on the basis that managers get the leaving form to HR in time.  <b>Position – February 2020 Implemented</b>	Head of HR (Ops)	Immediate	✓	

<b>Payroll 2019/20</b>							
Final report issued February 2020							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline



**APPENDIX D – IMPLEMENTATION STATUS OF HIGH AND MEDIUM PRIORITY RECOMMENDATIONS FROM THE HERTS HOME IMPROVEMENT AGENCY AUDIT**

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (February 2020)
		<p>sustainable within the business model, nor does it provide the required workforce stability that the HHIA requires to provide a consistent level of service and drive through key business change activities.</p>	<p>replaced by Business Analyst (fixed term 1 year)                      Work with HR colleagues to review current structure, with particular focus on technical roles, although there needs to be an acceptance that there will be short-term reliance on agency staff in technical roles until these can be reviewed.                      Undertake Financial Analysis to understand potential to grow staffing with revenue                      Review of processes to improve productivity and stop blockages. To be incorporated in recovery plan.</p>		<p>Oct/Nov 2019</p> <p>Oct/Nov 2019</p> <p>In progress</p>	<p>The new Business Analyst is now in post and will provide both strategic and operational statistics alongside case monitoring infrastructure .</p> <p>A new caseworker started in November and technical officer have been recruited and due to start on 9 Dec 19.</p> <p>Senior Technical Officer role was re-graded and interviews are taking place this month for the second time.</p> <p>A review of the HIA team structure is due to take place in early 2020. As the HIA moves towards a client centred approach.</p> <p><u>February 2020</u></p>	

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						No update from HIA or yet available from SIAS follow-up audit currently in-progress.	
2.	Herts Home Improvement Agency 2018/19. <i>As above.</i>	<p><u>High Priority</u> Further training should be provided to HHIA staff to ensure that the case management system is completed and updated in line with expectations.</p> <p>Regular data quality checks should be performed on the case management system to obtain assurance that records are updated in an accurate and timely manner (including a review of data exceptions – e.g. blank fields).</p> <p>A mapping exercise should be performed to identify the key fields within the case management system that support key monitoring and KPI routines, with data quality checks</p>	<p>Undertaking review of CMS system</p> <p>Process mapping exercise completed to understand how staff currently use the system and where changes need to be made</p> <p>Identification of training needs for staff and resource to undertake these. Training to include inputting and quality of data.</p> <p>Super-user / system manager to be identified to oversee data checks, develop the system e.g. for mobile working, and work with Finance to develop reporting suite.</p> <p>Review access to CMS/ other reporting suites</p>	Head of HHIA and Business Improvement Manager.	<p>In progress completion by August 2019.</p> <p>Mapping complete.</p> <p>Further recommendation by Aug 2019.</p> <p>By August 2019 Training by Oct 2019.</p> <p>Autumn 2019 (funding and resource dependent)</p>	<p><u>August 2019</u> Review and process mapping complete. Some training completed July 2019 and Business Analyst (when in post) to oversee superusers and work with Finance to develop reporting protocols. Due to issues raised in review, a meeting is to be held with Foundations and systems developer in August 2019 to raise issues around outstanding development of the system. Report will be made to HHIA Board regarding potential options which could include replacing the system when the current contract ends</p>	<p>Partially implemented – continue to monitor.</p> <p>Revised implementation date 1 March 2020.</p> <p>Confirmation of status not yet available from the SIAS follow-up audit which is currently in-progress.</p>

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		<p>focusing in particular on these areas.</p> <p>We also recommend that HCC Finance is provided with access to a reporting suite within the case management system, sufficient to support the production of financial monitoring / Board reports.</p>	<p>for Finance to allow for improved financial reporting or define how this will be achieved e.g. Business Analyst to report on non-SAP data.</p>		<p>Autumn 2019</p>	<p>(Sept 2020)</p> <p><u>October 2019</u> A full review of the CMS system has now been completed. Report is available - with recommendations now being incorporated into the audit tracker for monitoring.</p> <p>All current HIA staff will undertake " Ferret Training" in January 2019 to ensure all staff are "up skilled" and we are resilient as a team.</p> <p>The new Business Analyst will be the Super user of the team, followed by Senior Business Support after training</p> <p>The Business Analyst has begun working with finance to align CMS and SAP reporting.</p>	

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						<p>The Business analyst starting from November to undertake random monthly "spot check" audits.</p> <p><u>February 2020</u> A full review of the CMS system has been completed, with a draft report now out showing expected recommendations for the future. This is the CMS Improvement Plan and takes into account audit findings as well as other points raised as part of the review.</p> <p>A process map has been made to show the high-level responsibilities and then for each key team member. These have been created in an 'as is' form to highlight the current pitfalls, and in as 'to be' form, which is to be used moving</p>	

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						<p>forwards given the recommendations made as part of the audit.</p> <p>The training needs for team members are outlined within a training matrix per financial year. These can be updated mid-year as required. The training required is outlined in three levels (1-3), which is mandatory, service specific, and upskilling. This keeps a track of all of the training that is required.</p> <p>The Business Analyst has Super user access which gives control over the system. Before, all users could make changes without an audit trail - so super user means that any requests for changes come to them and there</p>	

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						<p>is an audit trail of changes.</p> <p>Finance and BIM project manager are now working closely together to ensure that the link between CMS and SAP is clearly working together.</p> <p>Everything that hasn't been allocated is now at business report stage.</p>	
3.	Herts Home Improvement Agency 2018/19. <i>As above.</i>	<p><u>High Priority</u> A formal review of the current format, approach and underlying information to support reporting of financial position of the HHIA should be undertaken. This should include:</p> <ul style="list-style-type: none"> <li>- Review of the structure of financial performance reports, in particular ensuring that financial projections are clearly linked to performance and</li> </ul>	Review Finance reporting with the Finance team. Utilise Finance Graduate capacity to put in place systems to capture staff	Head of HHIA, Head of HES and Head of Accountancy Services.	September 2019	<p><u>August 2019</u> No update as actions not yet due.</p> <p><u>October 2019</u> A current review is taking place to build a more a cost effective structure. A business case is being developed and will be presented early 2020.</p> <p>The new Business</p>	<p>Not yet implemented – continue to monitor.</p> <p>Revised implementation date 1 March 2020.</p> <p>Confirmation of status not yet available from the SIAS</p>

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		<p>other key information (such as staff capacity, job over-runs etc).</p> <ul style="list-style-type: none"> <li>- Where assumptions are being included, in particular significant increases in activity, appropriate identification of key risks to their achievement should be included.</li> <li>- Clearer evidence should be provided of existing performance of the HHIA against anticipated performance profiles (financial and non-financial), with clear statements provided of corrective actions being taken where targets are not being met.</li> <li>- A mapping process should be considered between the financial information required to populate Board Reports and the sources where this could be derived from, with an assessment also made on the reliability of</li> </ul>	<p>capacity.</p> <p>Review 2018/19 data to identify activity trends and predict for 2019/20. Identify current risks and report on those to Board.</p> <p>Develop KPI projections and report to Board where action is being taken to address issues or meet/exceed projections.</p> <p>Finance Graduate to work with CMS Project Manager to look at financial reporting within both CMS and SAP to improve accuracy and reliability of reporting.</p>		<p>September 2019</p> <p>November 2019</p> <p>September 2019</p>	<p>Analyst is now in post and beginning to provide strategic and operational statistical analysis and case monitoring infrastructure.</p> <p>A new caseworker has been recruited and started on the 4 Nov 2019. A Technical Officer has been appointed and due to start in Dec 19.</p> <p>The Business Analyst has developed a set of Key Performance Indicators and will present to HHIA Board in November 2019.</p> <p>The financial reporting review has now been completed. Improvements which were introduced have resulted in the HHIA finance reporting now being delegated to an</p>	<p>follow-up audit which is currently in-progress.</p>

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		<p>that information.</p> <p>- Finally, further clarity should be provided on the respective roles and responsibilities of HCC Finance and HHIA management in relation to creating financial / performance reports for the HHIA Board. Should reports continue to be substantially prepared by Finance, these should be subject to final authorisation by the Head of Service or relevant Assistant Director to reduce the risks of a lack of future ownership.</p>	<p>Review of above actions when complete to agree on future reporting protocol. Consider potential options such as preparation of reports by Business Analyst or Finance having access to CMS/ financial spreadsheets.</p>		<p>December 2019</p>	<p>accountancy officer.</p> <p><u>February 2020</u> No update currently available.</p>	
<p>4.</p>	<p>Herts Home Improvement Agency 2018/19. <i>As above.</i></p>	<p><u>Medium Priority</u> Acknowledging that the Board are currently developing a revised suite of key performance indicators for the HHIA, we recommend that this review includes consideration of:</p> <p>- Whether, given the</p>	<p>Revised suite of KPIs</p>	<p>Head of HHIA</p>	<p>Sept 2019</p>	<p><u>August 2019</u> Due to identified issues with CMS system, new KPIs cannot be agreed as it is unclear what data the system will provide. Contractor KPIs awaiting implementation but delayed due to issues</p>	<p>Partially implemented – continue to monitor.</p> <p>Revised implementation date 30 June 2020</p>

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		<p>activity-based model, the suite of proposed indicators is sufficiently wide to provide assurance over the robustness of outturn estimates. For example, indicators on areas such as capacity, productivity and contribution margins (per job) would assist the Board in gaining assurance that the use of resources is on track to achieve targets.</p> <p>- In relation to quality measures, the Board should also ensure that these provide sufficient assurance over both contractor performance and also internal processes designed to embed quality.</p>	<p>to be agreed with HHIA Board – this needs to include finance and non-finance.</p> <p>Quality KPIs for contractors to be developed and reported to Board.</p>		<p>1<sup>st</sup> report Nov'19 for period Jun-Sept 19</p>	<p>with Framework concerning VAT queries.</p> <p><u>October 2019</u> No update sourced.</p> <p><u>February 2020</u> This is currently delayed and a revised date for Q2 is set for 2020.</p>	
5.	Herts Home Improvement Agency 2018/19. <i>As above.</i>	<u>Medium Priority</u> As part of the development of the final business plan for 2018 to	Management Team and project support to revise business plan once recovery project	Head of HHIA and Head of HES	Dec 2019	<u>August 2019</u> No update as actions not yet due.	Not yet implemented – continue to monitor.

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		<p>2021, consideration should be given to further expanding the document to address the comments included within the audit finding.</p> <p>Prior to approving the revised Business Plan, the Board should ensure objectives and financial projections included are sufficiently evidence based and achievable, as opposed to aspirations that without significant additional resource would not be achievable.</p>	<p>plan in place Support will be sought from Finance team to assist with financial projections. Board to approve.</p> <p>Project work to include review of Discretionary Policy and potential demand its full implementation may create to help map any increased staffing need.</p>		Dec 2019	<p><u>October 2019</u> No update sourced.</p> <p><u>February 2020</u> Financial business case has been prepared. This will then be used to develop a full business case for Spring 2020.</p>	Revised implementation date 31 May 2020
6.	Herts Home Improvement Agency 2018/19. <i>As above.</i>	<p><u>Medium Priority</u> The HHIA should revise existing systems to ensure that post work inspection and sign-off are completed and documented in all cases, with this also being recorded within the case management system.</p>	Pre and post-works schedules for inspection to be developed and implemented and to be included on CMS as part of the DFG process. Periodic checks to be performed by MA or Business Analyst to ensure processes are being	Head of HHIA	January 2020	<p><u>August 2019</u> No update as actions not yet due.</p> <p><u>October 2019</u> No update sourced.</p> <p><u>February 2020</u> There is now a technical Officer who</p>	Implemented





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		<p>chargeable activities performed by staff. We highlight that the implementation of a timesheet system would also ensure that appropriate evidence is available to support claims made against the DFG and will allow an increased level of management information to be produced on staff productivity.</p> <p>Should the HHIA not be financially viable without 100% recovery of all staff costs or overheads through the DFG, consideration should be given as to whether this issue could be resolved through DFG funding being retained by the individual partners, allowing the HHIA to invoice as a third party, although further legal and finance advice would be required.</p>				<p>maintenance agreements into applications of specific adaptations</p> <p>We are currently looking at a supervision system to evidence/support the head of service analyse staffing time against capitalisation.</p> <p><u>February 2020</u> No update currently available.</p>	

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		Alternatively, the HHIA would need to investigate whether it is viable to increase the volume of non-DFG funded adaptations, thereby providing a separate income route to address any shortfalls in costs that are recoverable from the DFG.					
8.	Herts Home Improvement Agency 2018/19. <i>As above.</i>	<u>Medium Priority</u> As part of reviewing the wider strategic business plans for the HHIA, the HHIA Board should consider commissioning analysis on the wider costs associated with the speed of addressing adaptation referrals (Care and Housing). The above should be used to identify whether potential cross sector savings could be unlocked through potential further investment within the HHIA (outside of DFG funding) to increase capacity, referral	Delivery of capital grant for 2018/19 was in line with business case. Board note the risk but think this is part of a wider-systems approach to managing disabled clients across health and social care. The HHIA role in system would be reviewed at Peer Review.  Board is actively considering a range of other areas of activity e.g. way of	HHIA Board	In progress	<u>August 2019</u> No further action at this stage.  <u>October 2019</u> No update sourced.  <u>February 2020</u> No update available and not yet due.	Not yet implemented – continue to monitor.  Revised implementation date 30 September 2020

**APPENDIX D – IMPLEMENTATION STATUS OF HIGH AND MEDIUM PRIORITY RECOMMENDATIONS FROM THE HERTS HOME IMPROVEMENT AGENCY AUDIT**

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (February 2020)
		opportunities, or facilitate investment in additional resources / tools to improve the efficiency of the end to end adaptation pathway.	commissioning works with Housing Associations. Discussed at Board on 26.6.19 opportunities for further use of capital. Peer review to identify further best practice.				
9.	Herts Home Improvement Agency 2018/19. <i>As above.</i>	<p><u>Medium Priority</u> Should the contractor referred to in the audit finding still be required to complete any outstanding works for legacy projects, the HHIA should consider undertaking a full Dun and Bradstreet financial report to provide assurance over the company structure and financial stability, given the potentially confusing company structures that appear to be in place.</p> <p>In addition, further advice should be sought from Legal to confirm that the contracts in place for the works (which may have</p>	<p>Contractor suspended from working with HHIA</p> <p>Specific credit checks to be made in the event that works are felt to be either sensitive or high value. Procedure to be developed. Otherwise,</p>	Head of HHIA, Head of HES and Head of Accountancy Services	<p>Complete</p> <p>End Financial Year 19/20</p>	<p><u>August 2019</u> No update as actions not yet due.</p> <p><u>October 2019</u> Contractor has been suspended from our use and credit checks will occur when high value or sensitive. No further duplicate payments outstanding and remedial works being completed. All actions completed aside from sign off on remedial works.</p>	<p>Partially implemented – continue to monitor.</p> <p>Revised implementation date 30 March 2020.</p>

**APPENDIX D – IMPLEMENTATION STATUS OF HIGH AND MEDIUM PRIORITY RECOMMENDATIONS FROM THE HERTS HOME IMPROVEMENT AGENCY AUDIT**

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (February 2020)
		<p>originally been assigned to Eco Friendly) are still valid based on the company structure.</p> <p>The HHIA should investigate the two duplicate payments referred to in the audit finding, seeking additional support from Finance and Legal to identify if the overpayments have been recovered, and if not, how these may be able to be recovered (i.e. if Eco Friendly is no longer a trading entity).</p> <p>Finally, the HHIA should confirm that the client for the works (referred to in audit finding) received appropriate compensation for the damage to property during the project.</p>	<p>yearly check made of all contractors</p> <p>Review of 2018/19 payments to identify any duplicates with aim to recover with Finance and Legal</p> <p>Agreement with client that remedial works are to be undertaken and contractor moved from site rather than offer of compensation paid. Matter has not been raised as a formal complaint by client, who wants works rectified.</p>		<p>September 2019</p> <p>In progress</p>		

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10.	Herts Home Improvement Agency 2018/19. <i>As above.</i>	<p><u>High Priority</u></p> <p>We recommend that the service create more formal guidelines on the extent of monitoring visits required, based on the complexity and length of works. As part of this it should be a minimum requirement that pre-start site meetings and completion / sign off meetings are held for all projects, irrelevant of length / complexity, with these involving the client, HHIA and the Contractor. Finally, we recommend that more stringent monitoring is undertaken by management to ensure that such standards are maintained.</p>	<p>Develop agreed process for pre- and post-works site meetings and sign off with expectations for interim site visits for longer works</p> <p>Ensure meetings are recorded and captured on CMS system so information can be reported on</p> <p>Monitoring undertaken by Business Analyst (subject to recruitment) as part of reporting process.</p>	Head of HHIA	<p>January 2020</p> <p>January 2020</p> <p>January 2020</p>	<p><u>August 2019</u> No update as actions not yet due.</p> <p><u>October 2019</u> There is now a technical Officer who conducts all pre-starts and Practical Completions Sign off independent of the Trusted Assessor and other technical officers.</p> <p>Regular spot check audits are taking place now by the Business Analysts to ensure that all documents are uploaded.</p> <p>The Business Analyst has now started and performance reporting has now began.</p> <p><u>February 2020</u> All work has must have a sigh off with a completed check list-</p>	Implemented

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						<p>which is now documented on CMS and quarterly audits are completed to ensure this is happening.</p> <p>The Business analysts now undertaken spot checks as part of staff CMS monthly case review meetings. This includes, documentation, recording and all sections analysed. Approvals now will not get completed unless all evidence is listed and funding section completed.</p> <p>CMS review meetings (for each member of staff) and Business Analyst undertakes spot check audit site visits as part of oning business process.</p>	

# Agenda Item 9

Part A

**Report to:** Audit Committee

**Date of meeting:** Thursday, 12 March 2020

**Report author:** Interim Head of Finance

**Title:** Work Programme

## 1.0 Summary

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

## 2.0 Risks

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

## 3.0 Recommendations

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

### **Further information:**

Nigel Pollard

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**Report approved by: Alison Scott – Shared Director of Finance**

## 4.0 Detailed proposal

4.1 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 2020/21 and 2021/22 are shown below;

Date	Reports
<b><u>Financial Year 2020/21</u></b>	
July 2020	<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>
September 2020	<ul style="list-style-type: none"> <li>▪ External Auditors Annual Audit Letter 2019/20</li> <li>▪ SIAS Board Annual Report 2019/20</li> <li>▪ Ombudsman Annual report</li> <li>▪ Standing items</li> </ul>
December 2020	<ul style="list-style-type: none"> <li>▪ Treasury Management Mid-Year Report 2020/21</li> <li>▪ Risk Management Strategy</li> <li>▪ Draft Treasury Management Strategy 2021/22</li> <li>▪ Freedom of Information 2020/21</li> <li>▪ Standing items</li> </ul>
March 2021	<ul style="list-style-type: none"> <li>▪ External Audit Certification Work Report 2020/21</li> <li>▪ Accounting Policies 2020/21</li> <li>▪ SIAS Internal Audit Plans 2021/22</li> <li>▪ External Auditor Audit Plan 2020/21</li> <li>▪ RIPA Annual Report</li> <li>▪ Standing items</li> </ul>
<b><u>Financial Year 2021/22</u></b>	
July 2021	<ul style="list-style-type: none"> <li>▪ External Auditors Report and Approval of the 2020/21 Statement of Accounts</li> <li>▪ SIAS Internal Audit Annual Report 2020/21</li> <li>▪ Fraud Annual Report 2020/21</li> <li>▪ Annual Governance Statement 2020/21</li> <li>▪ Treasury Management Annual Report 2020/21</li> <li>▪ Freedom of Information 2020/21</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

- 4.2 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.

### **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 There are no Equalities, Human Rights and Data Protection implications in this report.

#### **5.4 Staffing**

- 5.4.1 There are no staffing implications in this report.

#### **5.5 Accommodation**

- 5.5.1 There are no accommodation implications in this report.

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

- 5.6.1 There are no Community Safety/ Crime & Disorder implications in this report.

#### **5.7 Sustainability**

- 5.7.1 There are no sustainability implications in this report.

### **Appendices**

None

### **Background papers**

None