WATFORD BOROUGH COUNCIL

AUDIT COMMITTEE

11 March 2021

7.00 pm

Virtual meeting

Contact
Alan Garside/Jodie Kloss
democraticservices@watford.gov.uk
01923 278374/6

For information about attending meetings please visit the council's website.

Publication date: 3 March 2021

Committee Membership

Councillor M Hofman (Chair)
Councillor I Stotesbury (Vice-Chair)
Councillors P Kloss, M Parker and M Turmaine

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 25 November 2020 to be submitted and signed on return to the Town Hall.

4. Annual Risk Report (Pages 3 - 26)

Report of the Group Head of Democracy and Governance

5. SIAS Internal Audit Progress Report 2020/21 (Pages 27 - 46)

Report of the Shared internal Audit Service

6. SIAS Internal Audit Plans 2021/22 (Pages 47 - 66)

Report of the Shared Internal Audit Service

7. Accounting policies 20/21 (Pages 67 - 87)

Report of the Interim Head of Finance

Part A

Report to: **Audit Committee**

Date of meeting: **Thursday, 11 March 2021**

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

Title: **Annual Risk Report**

1.0 **Summary**

1.1 Audit Committee is responsible for overseeing the management of risk within the council. This includes the corporate risk register and Risk Management Strategy.

1.2 Attached as appendix 1 is the Risk Management Strategy and appendix 2 is the Corporate Risk Register.

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)
Risks are not adequately managed within the council	The Council takes decisions without having regard to risk and suffers loss.	Risks are regularly reviewed at both Leadership Board for corporate risks and by the EPMO for service risks and project related risks	treat	4

3.0 **Recommendations**

3.1 That the Risk Management Strategy and Corporate Risk register be noted.

Further information:
Carol Chen
carol.chen@watford.gov.uk
Tel: 01923 278350

4.0 **Detailed proposal**

4.1 Audit Committee is responsible for overseeing the management of risk, this includes looking at the Risk Management Strategy and the corporate risk register. These are attached as appendices 1 and 2.

4.2 Since the last annual report the council has adopted a new Council Plan with new corporate themes. It has also had a review of its internal governance structures and a new Executive Project Management Office has been established. The latter two changes have resulted in a change in the way the council's risks are monitored. Leadership Board continue to monitor the corporate risk register on a quarterly basis but have decided that any risks in project or service risk registers that have a score of 9 or more after mitigation should now also be included in the corporate risk register. The EPMO also now has oversight of service and project risk registers to ensure services and project boards are regularly reviewing their risks.

4.3 The Risk Management Strategy has been amended to reflect the new corporate themes and the revised arrangements. Members are asked to note the Strategy and Register

5 **Implications**

5.1 **Financial**

5.1.1 The Shared Director of Finance comments that there are no 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 implications in this report

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

5.3.1 There are no implications in this report.

Appendices
Appendix 1 Risk Management Strategy
Appendix 2 Corporate Risk Register

Background papers

No papers were used in the preparation of this report.

RISK MANAGEMENT

STRATEGY

Updated February 2021

CONTENTS

Contact:
Carol Chen, Group Head of Democracy and Governance
carol.chen@watford.gov.uk
01923 278 350

Risk Management Strategy

1.0 PURPOSE OF THE STRATEGY

1.1 Watford Borough Council is a complex organisation, delivering a range of priorities against a backdrop of financial constraint and the need to demonstrate continuous improvement, efficiency and customer focus. The management of risk, including opportunity risk, is essential to ensure the achievement of our objectives.

1.2 The effective management of risk is a key component to demonstrating good corporate governance.

1.3 A planned approach to the identification, analysis and mitigation of risk helps the council to plan and achieve a balance between being bold and progressive on the one hand and overly risk averse on the other.

1.4 The purpose of this strategy is to provide a framework for the effective management of risk within the council. By improving the management of risk, we will be better able to achieve our objectives and ensure best value in the services we provide.

2.0 OUR CORPORATE THEMES

2.1 A council that serves our residents
2.2 A thriving, diverse and creative town
2.3 A healthy and happy town

3.0 BACKGROUND

3.1 Risk management is essentially about good management practice and effective decision-making.

3.2 Risk management is embedded within both the council's project management and decision making processes.

3.3 This strategy shows how the council will continue to develop its risk management practices as part of its overall aim to demonstrate effective corporate governance and sound corporate management.

3.4 DEFINITIONS

Risk The effect of uncertainty on objectives. Effect can be positive as well as negative. Put simply, it is the combination of the likelihood of an event occurring and its consequences.

Risk Management The process that is used to manage risk.

Risk Appetite The amount and type of risk that an organisation is prepared to pursue, retain or take. This is not just concentrating on the negatives, but also the benefits that taking calculated risks can bring to achieving our priorities. Our risk appetite sets our attitude to risk taking.

Risk Tolerance The level of risk the council is prepared to expose itself to.

Control Measures The actions taken to mitigate the likelihood and impact of a risk.

4.0 RISK MANAGEMENT STRATEGY OBJECTIVES

4.1 The objectives of the council's risk management strategy are to:

- Embed risk management into the culture of the council.
- Maintain a robust and responsive risk management process as part of its governance arrangements. Anticipate and respond to changing social, environmental, economic and legislative requirements.
- Prevent injury, damage and losses and reduce the cost of risk.
- Raise awareness of and seek to continuously improve the capacity and capability of staff and partner organisations to manage risk.
- Encourage an open dialogue about risks that may affect outcomes and objectives.
- Encourage responsible risk taking in response to opportunities and challenges, based around a clearly articulated statement of risk appetite.

4.2 Good risk management is the key to the council achieving <u>all</u> of its objectives.

4.3 It is also a legislative requirement. The Accounts and Audit Regulations 2006 require the council to publish an Annual Governance Statement with the Annual Accounts. This includes its arrangements for the management of risk.

4.4 The objectives of the Risk Management Strategy will be achieved by:

- Establishing clear roles, responsibilities and reporting lines within the council for risk management.
- Enabling managers to demonstrate that risk assessment and management is taking place.
- Providing opportunities for shared learning on risk management across the council.
- Providing a means for identifying and prioritising risk areas.
- Reinforcing the importance of effective risk management as part of the everyday work of employees.
- Incorporating risk management considerations into reviews.

- Incorporating risk management into the council's corporate, financial and service planning processes.
- Reinforcing the importance of risk management as part of the council's project management, performance management and procurement processes.
- Monitoring arrangements on an ongoing basis.

5.0 KEY FEATURES OF THE RISK MANAGEMENT FRAMEWORK

5.1 The risk management process requires the identification, evaluation and ongoing management of risks with the aim of reducing them to an acceptable level where possible. Not all risks can be mitigated to an acceptable level, in which case the aim is to ensure that controls are as robust as possible and that regular monitoring takes place. It is also important to ensure any control measures are proportionate to the risk they are intending to mitigate.

5.2 Service and project managers are responsible for identifying risk on an ongoing basis and for maintaining and reviewing Service and Project Risk Registers. The requirement to consider risk is also included in reports to committees, portfolio holders and officers taking delegated decisions.

5.3 The council has a corporate risk register that reflects the high level strategic and operational risks that affect the council as a whole.

5.4 The cycle of risk management involves a number of key stages which are outlined below. The scoring and recording of risk is shown in more detail in Appendix A.

5.5 Stage 1: Identify the Risks

Identification of the risks or barriers to achieving the objectives through:

- Specifying the strategic risks to which the authority is exposed in meeting its corporate objectives.
- Creating and maintaining a corporate risk register, including a list of key strategic and operational risks to the organisation.
- Identifying and recording operational risks in service plans.
- Identifying and recording project risks within project risk registers.
- Identifying and recording partnership risks within partnership risk registers.
- Including risks affecting the achievement of objectives in the risk management section of all committee reports.

5.6 Stage 2: Assess and Score the Risks

Original Score

Having identified areas of potential risk, these are then analysed with the use of a risk matrix to give an assessment of impact and likelihood and an overall score for the risk without any mitigating controls, i.e. the **inherent risk** score.

Likelihood Very Likely ----------▶ Remote				
	Low **4**	**High** **8**	**Very High** **12**	**Unacceptable** **16**
	Low **3**	**Medium** **6**	**High** **9**	**Very High** **12**
	Low **2**	**Low** **4**	**Medium** **6**	**High** **8**
	Low **1**	**Low** **2**	**Low** **3**	**Low** **4**
	Impact **Low** ----------▶ **Unacceptable**			

Current Score

Having evaluated the risk without controls in place, list the key controls / actions that will reduce the risk of non-achievement. Re-evaluate using the risk matrix to arrive at the **'mitigated' risk** score.

This whole risk process records the controls that are required to be put in place, including time scales, in order to reduce the likelihood of the risk occurring and the impact upon council objectives and will include such actions as:

Tolerate	The council may tolerate a risk where: • The risk is effectively mitigated by internal controls, even if it is high • The risk cannot be mitigated cost effectively • The risk opens up greater benefits. These risks must be monitored and contingency plans should be put in place in case the risks occur.
Treat	The purpose of treating a risk is to continue with the activity which gives rise to the risk, but to bring the risk to an acceptable level by taking action to control it through **either** containment actions (these lessen the likelihood or consequence of a risk and are applied before the risk materialises) **or**, contingency actions (these are put into action after the risk has happened, thus reducing the impact. These must be pre-planned).
Terminate	Doing things differently and therefore removing the risk. This is particularly important in terms of project risk. This may be difficult to achieve with the council's strategic risks.
Transfer	Transferring some aspects of the risk to a third party, for example by insurance or paying a third party to take the risk.

For positive risks

The suggested actions for opportunities, in contrast to the ones for negative risks, are:

Enhance	Take actions to increase the likelihood and / or impact of the opportunity
Exploit	Take actions to ensure the opportunity will happen and the impact will be realised
Share	With a partner, supplier, etc and in so doing, share the use of resources, technology, etc.
Reject	Take no action

5.7 **Stage 3: Recording the Risks**

Each risk needs to be allocated an accountable risk owner to take responsibility for managing the risk, ensuring controls remain effective and actions are taken.

5.8 **Stage 4: Monitoring and reporting**

Depending on the risk score, a risk is ascribed the status of red, amber or green. Risks scoring 9 or above after mitigation must be recorded and actively monitored either in the project risk register, or service register if related to a service specific operational risk and included in the corporate risk register. Leadership Board reviews the Corporate Risk Register quarterly. All service departmental management teams should review their service risk registers at least quarterly. All project managers should review their project risk registers at every project board meeting. The EPMO is responsible for oversight of service and project risk registers

The corporate risk register will be reported at least annually to Audit Committee.

A Portfolio Holder will take specific responsibility to act as risk champion. The template for recording corporate, service and project risks is on the corporate drive (X: Drive).

6.0 RISK APPETITE AND TOLERANCE

6.1 Risk management is not entirely focussed on risk avoidance. The Council recognises that calculated, responsible and informed risk is necessary if it is to innovate and ensure value for money. The risk management process therefore concentrates on the management of an acceptable level of risk.

6.2 Risk appetite is defined within BS31100 as 'the amount of risk that an organisation is prepared to seek, accept or tolerate'.

6.3 Risk is inherent in every decision we make and we need to recognise that in taking such decisions we need to have articulated a level of risk that we are willing to take in order to reap positive benefits, whilst not over-exposing the council to negative consequences.

6.4 Risk appetites exist on a scale of risk averse at one end, to risk hungry at the other. In the former position, risk is actively avoided and this may be appropriate for activities where safe options are required, but equally it may stifle innovation. In the latter position, the organisation will adopt more innovative approaches, which may offer greater long term benefits, but which have a higher level of inherent risk to them.

6.5 Risk appetite is not a 'one size fits all' statement. The Council's risk appetite will vary between types of risk and also between services.

6.6 The matrix below is designed as a tool for managers to use as part of their project evaluation and decision-making processes so that they may be clearer as to the levels of risk the council is prepared to take, accept or tolerate.

6.7 Having a clear risk appetite process has several benefits:

- It can be seen where a risk might be being over managed or an opportunity under exploited.
- Differences between risk appetite and the level of control in place can be addressed by refocussing control in priority areas.
- The council is clear in its communications about the levels of risk it is prepared to retain after having applied control and risk mitigation actions.
- Decisions can be more focussed.

The table below sets out the council's risk appetite.

Likelihood	**4 Very likely (>90%)**	**4**	**8**	**12**	**16**
	3 Likely (21-89%)	**3**	**6**	**9**	**12**
	2 Unlikely (6-20%)	**2**	**4**	**6**	**8**
	1 Remote (<5%)	**1**	**2**	**3**	**4**
		1 Low	**2 Medium**	**3 High**	**4 Unacceptable**
	Impact				

The aim of risk management should be to bring risks as close beneath the risk appetite line (shown as a thick black line above) as possible, in other words

applying enough control to manage the risk down to an acceptable level, without either over or under controlling it.

Risk Appetite Matrix

	1 Averse	2 Cautious	3 Open	4 Hungry
	Avoidance of risk and uncertainty is a key driver in decision making	There is a general preference for safe options that have a low degree of inherent risk and may only have limited potential for reward	All potential options are considered and the decision will be the course of action that is likely to result in successful delivery and an acceptable level of reward – which will include value for money	Eager to innovate and explore novel options that offer a potentially higher level of reward, but with a higher level of inherent risk
Risk category	**Examples of behaviours when taking decisions**			
Reputation	Minimal tolerance of any activity that could lead to press scrutiny of the council	Tolerance is limited to decisions where there is little chance of significant reputational repercussions for the council should there be a failure	Appetite to take decisions where there is a potential to expose the council to scrutiny but only if appropriate measures have been taken to minimise exposure	Appetite to take decisions that are likely to bring scrutiny of the council but the potential benefits outweigh the risks
Operational & Policy Delivery	Defensive approach which aims to defend or protect rather than create or innovate. Tight management controls and oversight with limited devolved decision. General avoidance of system or technological developments	Tendency to stick to the status quo with innovation avoided unless necessary. Decision making generally with senior management. Systems/technology developments are limited to protection of current operations.	Innovation is supported, with demonstrable improvements in management control. Systems and technological developments are considered to enable operational delivery. Responsibility for non-critical decisions may be devolved.	Innovation is pursued – there is a desire to challenge current working practices. New technologies are viewed as a means of improving operational delivery. Management is by trust rather than tight control and authority is devolved.

7.0 TYPES OF RISK

7.1 Categories of risk identified by the council are as follows:

- Reputation
- Operational and Policy Delivery
- Financial
- Legal and Regulatory Compliance

8.0 IDENTIFICATION OF RISKS WITHIN COMMITTEE REPORTS

8.1 Decisions should be recorded by the author of the report in the section "Potential Risks" as follows:

Nature of Risk	**Consequence**	**Suggested Control Measures**	**Response** *(treat, tolerate, terminate, transfer)*	**Risk Rating** *(combination of severity and likelihood)*

- If any of the risks after control measures have been put in place score 9, 12 or 16, explain in the body of the report why you are recommending to the decision maker that the risk should be tolerated, or how it is intended to transfer the risk.
- For all risks, explain what you will be doing to keep the risks under review and at what point you might be suggesting termination.
- For risks with scores of 9 or more after control measures are in place, ensure they are either recorded in your service risk register or project risk register and flag them for consideration by leadership board to be placed in the corporate risk register.

9.0 ROLES AND RESPONSIBILITIES

9.1 The roles and responsibilities of all those involved in the risk management process can be summarised as follows:

	Role
Managing Director / Elected Mayor	• Leads on the wider corporate governance agenda, of which risk management is a part. • Signs off the annual Governance and Assurance Statements. • Ensures that risks are fully considered in all strategic decision making and that the risk management strategy helps the council to achieve its objectives and protection of its assets.

Group Head of Democracy & Governance	• Lead officer for risk management. • Owner of risk management strategy.
Cabinet / Senior Leadership Board	• Ensures the council manages risk effectively through the development of a comprehensive risk management strategy. • Monitors progress against strategic and cross-cutting risk action plans. • Attends risk management training as appropriate. • Portfolio Holder acts as Risk Champion.
EPMO	• Monitors service and project risk registers on a quarterly basis and makes recommendation to Leadership Board for any risks to be elevated to the Corporate Risk Register
Audit Committee	• Considers and approves the council's corporate risk management strategy. • Reviews annually the council's corporate risk register. • Attends risk management training as appropriate. • Collective responsibility to understand the strategic risks that the authority faces and to oversee the effective management of these risks by officers. • Monitors the effectiveness of the authority's risk management arrangements. • Seeks assurances that action is being taken on risk related issues identified by auditors and inspectors. • Be satisfied that the authority's Annual Governance Statement including the assurance statement properly reflect the risk environment and any actions required to improve it.
All members	• Responsibility to understand the strategic risks the authority faces, to oversee the effective management of these risks by officers • Ensure that all identified risks have been considered in decision-making • Seek clarification from Portfolio Holders if risks are not specifically shown in report • Use the corporate risk register to help select items for scrutiny reviews.
Service Managers/Project Leads	• Ensure the council manages risk effectively in each service within the agreed corporate strategy. • Attend risk management training as appropriate. • Cascade the principles of good risk management to their sections, report potential strategic risks to their management team and manage all the risks associated with their service. • Ensure that risks are fully considered in the decision making process.

	• Ensure that risks are reviewed on a regular basis but quarterly as a minimum. • Ensure that risks are managed appropriately in any projects and partnerships that they are responsible for or are involved with. • Ensure that any policies or procedures for which they are responsible make the appropriate linkages to risk management.
Insurance Officer	• Day to day management of the insurance function, including administration of claims. • Monitors claims experience and provides relevant data to service managers in order to reduce risk and ensure that claims experience levels are minimised.
Project managers and managers of Partnerships	• Use the project risk register template to identify and manage their risks. • Report their risks to the appropriate partnership/project board on a regular basis. • Ensure that their risks are included in the appropriate risk register.
Employees and volunteers	• Manage risk effectively in their job. • Attend risk management training as appropriate.

10.0 BUSINESS CONTINUITY PLANNING

10.1 Business Continuity Planning is integral to risk management and is a process to ensure continuity of service delivery following an unplanned disruption to normal working. To ensure that the organisation is prepared, a Business Continuity Plan (BCP) is prepared.

10.2 A BCP will include the following elements:

- Identification of business critical systems, e.g. payment of benefits, housing the homeless.
- Details of alternative arrangements for short-term, medium and long-term continuity of service.
- Details of key contacts.
- Details of alternative accommodation and offsite ICT arrangements.

10.3 Information on Business Continuity Planning is contained on the intranet under the risk management section.

10.4 Business Continuity Plans should be tested periodically and a simulated exercise to test awareness should be held annually.

11.0 FURTHER ADVICE AND GUIDANCE

11.1 Further advice on risk management can be obtained from:

- Any member of Leadership Board.
- By attendance at risk management training sessions (contact Learning and Development to express your interest).
- By reference to the risk management e-learning training module on the intranet under “management competencies”.

Appendix A

SCORING RISK

The impact and likelihood of any risk is evaluated on a scale of 1 – 4, with the product of the two representing the risk score.

Likelihood Very Likely ----------▶ Remote				
	Low **4**	**High** **8**	**Very High** **12**	**Unacceptable** **16**
	Low **3**	**Medium** **6**	**High** **9**	**Very High** **12**
	Low **2**	**Low** **4**	**Medium** **6**	**High** **8**
	Low **1**	**Low** **2**	**Low** **3**	**Low** **4**
	Impact **Low ----------▶ Unacceptable**			

The interpretation of the scores is as follows:

Impact: Rated 1 – 4

1. Low / Negligible Impact e.g.

- Minor service disruption/short term inconvenience
- Financial loss under £25,000
- Isolated service user complaints
- Failure to achieve full objective is of minor consequence

2 Medium Impact e.g.

- Service disruption
- Minimal risk of injury to providers/customers
- Financial loss between £25,000 and £100,000
- Adverse local media coverage/lots of service user complaints
- Failure to achieve full objective is significant

2. High Impact e.g.

- Significant service disruption
- Major injury or ill health epidemic
- Financial loss in excess of £100,000
- Adverse national media coverage
- Failure to achieve objective is unacceptable

3. Extreme / Catastrophic Impact e.g.

- Total service loss for a significant period
- Fatality to customers/employees or any other person
- Financial loss in excess of £500,000
- Adverse local media coverage/lots of service user complaints
- Objective has unanticipated catastrophic consequences

Likelihood: Rated 1 – 4

1. Unlikely/rarely happens
2. Moderate chance/could happen
3. Likely
4. Almost certain

Overall Risk Score

The overall risk score can be interpreted as follows:

Overall Risk Score	
16	**Unacceptable** – if risk cannot be mitigated, consider stopping project
12	**Very High** – risk must be reduced through planned actions
8 – 9	**High risk** – take further action to manage the risk and reduce its impact and likelihood
6	**Medium risk** – consider further action
1 – 4	**Low risk** – monitor to ensure it remains low

Project	Corporate Risks
Risk Log Owner	Carol Chen
Date	Updated 08/02/21 - Risk 1 removed by LB on 16/02/21 and risks of 9 + after mitigation added from service and project plans

For Guidance Please Click Here

Ref	Risk description	Cause	Consequence	Response	Action agreed to respond / mitigate / control	CURRENT RISK ASSESSMENT		
						Likelihood 1-4	Severity 1-4	Risk Score
1	A breakdown in community cohesion within the Town and the ability to ensure our objectives meet the needs of our residents and businesses.	The census data tells us that the population of the borough continues to expand and we have a high proportion of inward migration both from eastern Europe and the Asian sub continent. We are also receiving an influx of people displaced from London due to high house prices which is having a knock on effect on house prices in the Borough. A shortage of affordable homes, a diverse population and a constrained boundary may lead to tensions in community relations. The council may not be able to deliver the services the expanding population requires leading to a reduced level of satisfaction in council services. The impact of Covid-19	Higher rates of hate crime and anti social behaviour, communities not engaging with the council or each other. Sections of communities leave the Borough. Borough gets bad reputation in the press that then discourages businesses from investing in the Town.	Treat	Good engagement by mayor and local politicians with communities. Working with LSP to understand our varied communities. Looking at reviewing our local plan policies and looking at partnerships to create more affordable homes. Working with the community and the implementation of the Road to Recovery Plan	3	3	9
2	Our major projects not being delivered on time and in budget	The Council has a number of major projects, some of which are directly within its control and some of which it has to rely on third parties. Failure to deliver these projects would affect the finances of the council and its ability to provide its statutory services, will affect the economic prosperity and well being of the Borough, this would have a knock on effect for the reputation of the council	The council will not have sufficient resources to provide statutory services. The council will not meet its 5 year land supply of housing. The council will not be able to engage with its customers in the way they would prefer. The Borough is not seen as a place for businesses to invest and the economic prosperity of the Town declines, leading to increased unemployment and homelessness and higher reliance on welfare benefits.	Treat / Transfer	Projects within the control of the council have good governance arrangements. Risks are regularly assessed by project boards and reported through the EPMO . For projects outside of the Councils control the council seeks to assert influence through its politicians and senior officers lobbying and influencing decision makers. Regular engagement with businesses and the LSP. Making use of external funding opportunities where ever possible such as the LEP, HLF or other similar funding streams to help make projects viable and achievable. Need to have plans in place in case critical staff are unavailable to keep projects going.	3	4	12
3	Failure to have a suitably skilled workforce and the capacity to deliver the councils services and objectives	The council is unable to retain and recruit staff with the appropriate skills to deliver the councils objectives and that it does not have the correct number of staff to undertake and manage the work	Services are not delivered. Contracts are not managed more resources are spent on using external providers without appropriate management and oversight.	Treat	Robust people strategy in place with clear reward and recognition. Robust job evaluation scheme. Employee well being and work life balance understood. Regular PDR process. Robust recruitment process. Good prioritisation of corporate objectives.	2	4	8

4	Decline in economic prosperity and vibrance of the borough	The council is unable to deliver an up to date and workable local plan due to the inability of the council and its neighbouring districts to cooperate on major planning policy requirements. There is insufficient funds to provide the necessary infrastructure to promote growth	Piecemeal inappropriate development in the Borough. Resident dissatisfaction, increased legal challenges to planning decisions with resultant expense. Businesses do not locate in the Borough, rise in house prices and unemployment, more homelessness, more congestion.	Treat	Good working relationships at officer level with neighbouring authorities and joint working already taking place. Good dialogue with the County Council and input into SW Herts Transport Strategy. Making use of external funds like the LEP to bring forward infrastructure projects, robust use of s106 for site specific infrastructure, like schools. MARF, Developers Forum. Core strategy in place	3	3	9
5	Failure to provide an optimum service for our residents by not looking proactively at all service delivery models.	Fail to make the most of opportunities to provide better more cost effective service delivery	Customer dissatisfaction with level of service provided. Increasing financial burden for the cost of services may result in cuts.	Treat	Already operate a number of different delivery models, from shared services to outsourcing, to supporting self service (third sector). Officers continue to look at best practice	2	2	4
6	Failure to maintain our ambitious programme of delivery.	Our ambitious programme exceeds our funding capacity as the opportunities to generate additional income become more scarce and more difficult and council tax and non domestic rates come under pressure. Lack of internal capacity leads to issues in delivery.	Projects are not delivered on time and within budget and commitments on service levels and improvements can not be fulfilled.	Treat	Ensure governance processes are in place to actively manage programmes. Corporate ownership of major projects and budgets.	3	3	9
7	Failure of Contract Management of Outsourced Services/Contractor insolvency and failure of management capacity	Failure of contracting partner to deliver required service to agreed specification. Contractor going into administration/liquidation. Failure of adequate contract monitoring. Failure of having appropriate contractual terms in place to remedy problems. Restrictions imposed by the Government as a result of the Covid Pandemic.	Service delivery inadequate, loss of income, reputation affected, step in to deliver services directly.	Terminate	Robust procurement processes. External consultancy support used. Clear specifications and conditions. Contract monitoring officers and client teams and regular monitoring meetings in place. Legal conditions in contract. Full monitoring regime in place, and regular real time reporting procedures. Weekly / Monthly updates to review progress. Developing corporate wide "Centre of Excellence" approach in contract management and Toolkit development. Making adjustments as required as a result of the Covid pandemic.	2	4	8

8	Lack of affordable housing in the Borough to meet demand, homelessness Increases, placing pressures upon temporary accommodation & bed and breakfast	homeless / vulnerable families and individuals have no accommodation or unsuitable accommodation creating health, wellbeing and safety issues The council is unable to fulfil its statutory duty towards homeless households by offering a sufficient supply of suitable affordable accommodation within the Borough. Unable to secure sufficient suitable affordable accommodation on privately developed sites due to viability issues. Unable to source sufficient affordable accommodation in the private rented sector due to the difference between local housing allowance rates and private rental income.	Increased cost to the council in finding temporary accommodation. Increased legal challenges as homeless families placed outside of the Borough. Families split up and disconnected from their support networks, schools, and work	Treat	Joint venture with Watford Community Housing to increase amount of both temporary and affordable housing. Use of redundant garage sites to build temporary accommodation. Framework contract with accommodation providers to get better rates. Making better use of property assets to lever more affordable housing. Make use of commuted sums from developers for affordable housing and the councils own capital receipts	3	3	9
9	Failure to ensure our ICT systems remain fit for purpose and services can maintain service delivery	Inadequate resources secured both in-house and external leading to a skill set gaps. Inadequate contract management , poor process & lack of procedures, poor governance. Service not fit for purpose. Failure of hardware and software.	Services unable to operate business as usual due to service interruption and down time. Security breaches leading to loss of information and reputation. Loss of income. High resident and customer dissatisfaction	Treat	ICT strategy developed. Resources being spent to upgrade hardware. Stronger contract management and governance arrangements around new projects. Staff structure implemented.	1	4	4
10	Failure to comply with the GDPR and Data Protection Act 2018	Lack of staff awareness, failure in IT system security, failure to manage Data Processors, failure to use safe methods of sending personal data	Loss, or misuse of personal data, causing complaints to ICO with potential for heavy fines and also loss of reputation to Council	Treat	Data Protection Officer function outsourced to HCC for greater resilience. Training to be ongoing with regular refreshers. Installation of e-mail encryption. Regular IT upgrades to maintain security of systems.	3	4	12
11	Failure of investments or commercial ventures	Downturn in commercial markets lead to failure in investments or reductions in income levels. Poor investment decisions.	Council does not have sufficient funds to undertake it's day to day activities, reductions in service budgets, s151 officer constrains spending, intervention by central government	Treat	Ensure appoint appropriate advisers to consider any potential transaction. Have proper governance arrangements in place. Clear monitoring and reporting. Effective management of reserves to guard against downturns.	3	4	12
12	Commercial income may not materialise as identified in the MTFS	Take up of services offered for sale may not be as high as anticipated and/or commercial properties may remain vacant for prolonged periods of time.	The income built into the budget may be less than the estimate. This may cause a budget pressure which will need to be managed.	Treat	Regular budget monitoring should highlight income levels and allow an early warning system and appropriate action to be taken.	2	4	8
13	Failure to appropriately manage safeguarding within the Council.	Lack of understanding of the correct processes and procedures for reporting concerns or complete failure to report concerns. Lack of training for staff to identify when safeguarding might apply	Children and vulnerable adults being left at risk and not being referred to the appropriate agencies. Damage to reputation of the Council.	Treat	Action plan in place following external safeguarding review. Regular monitoring to ensure actions in action plan are achieved.	2	4	8
14	Cybersecurity attack renders ICT systems inoperable or inaccessible.	Lack of appropriate security controls, failure to report security breaches, lack of training for all staff to identify when a security incident has taken place, failure to remediate identified vulnerabilities, failure to patch systems appropriately, unsupported software in place.	ICT systems inaccessible, inoperable, or data loss is experienced. Business Continuity plans invoked.	Treat	Ongoing actions in place. Vulnerability management system in place, Qualysguard to monitor, remediation procedure in place. Staff security and awareness training module in place, security incident reporting mechanisms in place, Anti virus systems in place, annual IT health check, annual cybersecurity audit conducted. Patching policies and procedure in place, unsupported operating systems in segregated part of the network.	3	4	12

15	Failure of major investment acquisition Croxley Park	Downturn in the market leading to business failures and inability to rent units.	Significant expenditure commitment to freeholder with inadequate resource to pay and significant losses to the council	Treat	Active management of the Park with appropriately qualified staff. Regular monitoring.	2	3	6
16	Provision of incorrect procurement advice, missing of crucial deadlines, lack of suitably qualified staff internally, lack of awareness to seek advice. Loss of reputation either by being successfully challenged through court action or receive a financial penalty relating to any Procurement activity	Lack of capacity internally due to staff shortage, sickness or difficulty recruiting to posts. Lack of resources to research advice. Lack of time to consider advice being given. Lack of awareness by others that procurement advice should be sought	Council fails to follow it's own procurement procedures and faces challenges from contractors. Contracts are delayed. Possible litigation. Potential for financial and reputational loss	Treat	Dedicated Procurement Manager in post. Regular monitoring of corporate procurement activity. Maintenance of the Corporate Contract Register and pipeline register. Training opportunities taken to keep abreast of case law and other relevant events affecting this service area.	3	3	9
17	Crematorium project is not completed on time or is completed over budget	Lack of project planning, issues not predicted, pressures caused by balancing input from 5 authorities	Financial pressure on the organisation, reputational impact.	Treat	Project governance and robust project management disciplines already in place. Reporting into the EPMO Assurance Group to provide Leadership Board with transparency and oversight.	3	3	9
18	Failure to deliver anticipated efficiencies and improvements to customer experience through developing online services	- Customer take-up of web services is not in line with the anticipated levels - Insufficient organisation-wide engagement with the delivery and embedding of the outcomes of the Watford 2020 programme	- Planned savings through customers moving to self-service may not be realised. - Potential disjointed, inconsistent, unsustainable or non-strategic mix of services and delivery vehicles.	Treat	- Ensure a high quality design of all self-service transactions and web content focussing on the needs of the customer - Ensure all staff are engaged in and monitored on ensuring continuous improvement to digital channels and web content - Ensure all staff are engaged in and monitored on promoting the uptake of digital channels - Work with communications to promote online services in a strategic and planned way to drive the uptake of digital channels - CSC staff to use the same processes and knowledge base (the web) as customers to drive up quality standards	3	3	9
19	CfH Docmail implementation	Lack of resources within services to support implementation Digital mailroom	Failure to deliver digital mail room concept and associated savings successfully	Treat	Project tracked through COVID-19 Organisational Recovery work stream. Issues highlighted in regular highlight reports and reviewed by leadership board.	3	3	9
20	The council's resilience model may not be fit-for-purpose	Model has not be benchmarked or reviewed recently and requirements and expectations have changed significantly due to Covid.	The council may not be as prepared as it could be to manage an incident or business continuity situation	Treat	- Review to be conducted under the Organisational Renewal work stream with the findings reported to Leadership Board	3	3	9
21	Failure to innovate and keep up to date with communications and engagement improvements	Lack of team time and motivation	Ineffective / poor quality communications and engagement that do not reflect the council or the town. Missed opportunities	Treat	Training and mentoring to advance team and expose them to new techniques / ways of working.	3	3	9
22	Failure to engage with local businesses and build effective networks	Lack of time spent on networking and building relationships. Failure to deliver necessary communications / engagement tools for business.	Loss of council's credibility with business. Potential loss of existing and new business opportunities - loss of competitive advantage	Treat	Key accounts established to improve how the council engages with business. New business forums established.	3	3	9
23	No five year housing land supply	24 July 2018 new National Planning Policy Framework introduced new standised approach to assessing housing need. This increased significantly Watford's annual requirement and has meant that we have fallen below the 5 year housing land requirement.	Likelihood of inappropriate development having to be approved.	Treat	Planning policy team progressing new local plan and working with SW Herts authorities on new Joint Strategic Plan.	4	3	12
24	Watford Junction: Failure to secure grant funding from Homes England and other sources (e.g. LEP) to support infrastructure costs.	Inability of development partners to agree to parameters of the scheme and deliver essential infrastructure in timely and coordinated way.	Failure to secure new infrastructure improvement resulting in significant under-capacity for projected growth.	Treat	Engagement with Network Rail, the LEP and private sector partners in development of options appraisal and final business case.	3	3	9

25	Watford Junction: failure to deliver site within timescales referred to in Housing Land Supply monitoring document could prompt a review of the Local Plan	Scheme viability, ability to secure grant and private sector funding	Failure to deliver site	Treat	Engagement with Network Rail and private sector partners in development of scheme including potential funding sources	3	3	9
26	Elections 2021 Project. Risks associated with running a triple election in a pandemic	Election cannot be managed due to lack of suitable premises and staff.	Voters disenfranchised, election petitions	Treat	Project in place. Early identification of issues with venues. Widen net of staff pool. Seek advice from Public Health	3	4	12

Watford Borough Council
Audit Committee Progress Report
11 March 2021

Recommendation

Members are recommended to:

- Note the Internal Audit Progress Report for the period to 26 February 2021
- Approve amendments to the Audit Plan as at 26 February 2021
- Agree the change to the implementation date for 1 recommendation (paragraph 2.5) for the reasons set out in Appendix C
- Agree removal of implemented audit recommendations set out in Appendix C

Contents

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 2020/21 as at 26 February 2021.
b) Proposed amendments to the approved 2020/21 Annual Audit Plan.
c) Implementation status of all outstanding previously agreed audit recommendations from 2018/19 onwards.
d) An update on performance management information as at 26 February 2021.

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 2020/21 Annual Audit Plan was approved by Audit Committee on 12 March 2020.

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 25 November 2020.

2. Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

2.1 As at 26 February 2021, 74% of the 2020/21 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 Two 2020/21 audit reports have been finalised since November 2020 Audit Committee:

Audit Title	**Date of Issue**	**Assurance Level**	**Number and Priority of Recommendations**
Creditors	Nov '20	Good	None
Customer Services Digitalisation	Feb '21	Satisfactory	4 Medium

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 2021, with full details given in Appendix C**:**

Year	**Recommendations made No.**	**Implemented**	**Not yet due**	**Outstanding & request made for extended time or no update received**	**Percentage implemented %**
2018/19	30	29	1	0	97%
2019/20	24	22	1	1	92%
2020/21	4	0	4	0	0%

2.5 Since November 2020 Audit Committee, extension to implementation dates have been requested by action owners for one recommendation from the 2019/20 Debtors audit.

Proposed Audit Plan Amendments

2.6 The following changes to the 2020/21 Audit Plan have been agreed by management since November 2020 Audit Committee:

Additions
A new audit of the Council's response to COVID-19 covering governance arrangements and health and safety.

Deletions
The SLM Subsidy Payments audit has been cancelled.

Performance Management

Reporting of Audit Plan Delivery Progress

2.7 To help the Committee assess the current situation in terms of progress against the projects in the 2020/21 Audit Plan, we have provided an analysis of agreed start dates at Appendix B. These dates have been agreed with management and resources allocated.

2.8 Annual performance indicators and associated targets were approved by the SIAS Board in March 2020. Actual performance for Watford Borough Council against the targets that can be monitored for 2020/21 is shown in the table below.

Performance Indicator	Annual Target	Profiled Target to 26 February 2021	Actual to 26 February 2021
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency).	95%	82% (190/232 days)	74% (171/232 days)
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects.	95%	63% (12/19 projects to draft)	37% (7/19 projects to draft)
3. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level.	100%	100%	100% (based on 5 received)
4. Number of Critical / High Priority Audit Recommendations agreed	95%	95%	N/A (None yet made in 2020/21)

2.9 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2020/21 Head of Assurance's Annual Report:

- **5. 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.
- **6. Head of Assurance's Annual Report** – presented at the Audit Committee's first meeting of the civic year.

APPENDIX A - PROGRESS AGAINST THE 2020/21 AUDIT PLAN AT 26 FEBRUARY 2021

2020/21 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	L				
Key Financial Systems									
Benefits (shared services plan)						12	Yes	6	In Fieldwork
Budget Monitoring (shared services plan)						6	Yes	1	Terms of Reference Issued
Council Tax (shared services plan)						10	Yes	9	In Fieldwork
Creditors (shared services plan)	Good	0	0	0	0	9	Yes	9	Final Report Issued
Debtors (shared services plan)						10	Yes	9.5	Draft Report Issued
Main Accounting (shared services plan)						8	Yes	2	In Fieldwork
NDR (shared services plan)						10	Yes	5	In Fieldwork
Payroll (shared services plan)						12	BDO	10	In Fieldwork
Revenues and Benefits Parameter Testing (shared services plan)						0	N/A	0	Cancelled
Treasury Management (shared services plan)						6	Yes	5.5	Draft Report Issued
Operational Audits									
Revenues and Benefits Payments (shared services plan)						10	Yes	8	In Fieldwork
Climate Change						7	BDO	3	In Fieldwork
Communications (inc social media)						8	Yes	7.5	Draft Report Issued
Customer Services - Digitalisation	Satisfactory	0	0	4	0	12	BDO	12	Final Report Issued
Freedom of Information						8	Yes	7.5	Draft Report Issued

APPENDIX A - PROGRESS AGAINST THE 2020/21 AUDIT PLAN AT 26 FEBRUARY 2021

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	L				
Neighbourhood Locality Funds						6	Yes	5	In Quality Review
Parking Contract						7	Yes	5	In Fieldwork
Section 106						10	Yes	8	In Fieldwork
Sports Development						0	N/A	0	Cancelled
COVID-19 Assurance						12	BDO	1	In Planning
Contract Management, Project Management & Procurement									
SLM Subsidy Payments						0	Yes	0	Cancelled
Veolia Contract Payments						0	N/A	0	Cancelled
IT Audits									
Cyber Security (shared services plan)						12	BDO	11.5	Draft Report Issued
IT Policies and Procedures (shared services plan)						0	N/A	0	Cancelled
Shared Learning / Joint Reviews									
Joint Reviews						0		0	
Shared Learning						0		0	
Ad Hoc Advice									
Ad Hoc Advice						2		2	Complete
Follow Ups									
Follow up of Audit						10		10	Complete

APPENDIX A - PROGRESS AGAINST THE 2020/21 AUDIT PLAN AT 26 FEBRUARY 2021

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	L				
Recommendations									
To Be Allocated									
Unused Contingency (shared services plan)						23		0	
Strategic Support									
2021/22 Audit Planning						7		7	Complete
Annual Governance Statement						3		3	Complete
Audit Committee						10		9.5	Through Year
External Audit Liaison						1		1	Complete
Head of Audit Opinion 2019/20						3		3	Complete
Monitoring & Client Meetings						9		8	Through Year
SIAS Development						3		3	Complete
Completion of 2019/20 audits									
Time required to complete work commenced in 2019/20 (5 days shared plan; 4 days WBC)						9		9	Complete
WBC TOTAL						**122**		**97**	
SHARED SERVICES TOTAL						**133**		**74**	
COMBINED TOTAL						**255**		**171**	

Key to recommendation priority levels: C = Critical; H = High; M = Medium; L = Low / Advisory.

APPENDIX B – 2020/21 AUDIT PLAN PROJECTED START DATES

Apr	May	June	July	August	September
				Communications **Draft Report issued**	NDR (shared services plan) **In Fieldwork**
				Customer Services – Digitalisation **Final Report issued**	Revenues and Benefits Payments (shared services plan) **In Fieldwork**

APPENDIX B – 2020/21 AUDIT PLAN PROJECTED START DATES

October	November	December	January	February	March
Debtors (shared services plan) **Draft Report issued**	Council Tax (shared services plan) **In Fieldwork**	Benefits (shared services plan) **In Fieldwork**	Main Accounting (shared services plan) **In Fieldwork**	Budget Monitoring (shared services plan) **Terms of Reference Issued**	Covid Assurance **In Planning**
	Payroll (shared services plan) **In Fieldwork**	Creditors (shared services plan) **Final Report issued**	Climate Change **In Fieldwork**	Neighbourhood Locality Funds **In Quality Review**	
		Treasury Management (shared services plan) **Draft Report issued**	Cyber Security (shared services plan) **Draft Report Issued**	Parking **In Fieldwork**	
			Section 106 **In Fieldwork**		
			FOI **Draft Report issued**		

Audit Plan 2018/19

Cyber Security 2018/19

Final report issued January 2019

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
02	There should be a mechanism to restrict any non-complying devices to connect to the Council's IT network. Additionally, there should be continuous monitoring in place for all devices connected on the network to be fully antivirus protected.	Medium	Position – July 2019 Continuous AV monitoring in place. Daily reports reviewed to ensure all connected devices have the most recent signatures. Where the signature has not been applied this is flagged and remediated by an engineer. New remote working solution has AV checker within Enterprise Management module. 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. Position – September 2019 As above 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. Position – February 2020 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. 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	ICT Section Head	30 September 2019	✓	31 December 2019 31 January 2020 31 May 2020 31 December 2020

Cyber Security 2018/19

Final report issued January 2019

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			processing. Position – July 2020 Request made to extend the deployment to December 2020. The deployment has been delayed due to ongoing COVID work and the requirement to continue to maintain and support all Officers to work from home. Partial deployment in place, approx. 70 staff are using the new solution, but this solution is now being reviewed with reference to the likely increase on an ongoing basis of an increasing volume of remote working. Position – September 2020 Review of product undertaken. Transition to new product underway. Position – November 2020 An extension was given in July 2020 to December 2020. The July update confirmed that the reason for this extended delay was as a result of COVID. Transitioning to a new homeworking solution (which is required to meet this audit recommendation) with the current reliance on homeworking takes additional planning and effort to ensure that we don't impact service delivery across the Councils. In parallel to this ICT have had to review the remote working solutions altogether as homeworking for all officers is not only an essential part of technology landscape, but levels of the resilience requirements etc have increased. This is not something we had planned for when the solutions were originally procured (pre-COVID), therefore a review was required, which has been taking place. **Position – February 2021** **All access to the CISCO VPN has been**				

APPENDIX C – INTERNAL AUDIT RECOMMENDATIONS FOLLOW UP - FEBRUARY 2021

Cyber Security 2018/19

Final report issued January 2019

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			removed. Users have been migrated to Forticlient. Where users have not engaged to have Forticlient installed the CISCO access has been removed.				

Benefits 2018/19

Final report issued April 2019

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
02	We recommend that testing of the module is carried out to reinstate the ability to delete obsolete data.	Medium	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. Position – September 2019 (Based on conversation with the Head of Revenues & Benefits) Issue has now been escalated with Northgate.	Benefits Manager	31 May 2019	×	31 October 2019 30 June 2020 30 Sept 2020 31 March 2021

Benefits 2018/19

Final report issued April 2019

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			Position – November 2019 No update provided by management. Position – February 2020 The Northgate system is currently being upgraded. The upgrade is now available in test and the live upgrade is due to take place 1st and 2nd May 2020. We will test this 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. Position – July 2020 The required Northgate system upgrade was due to be live now but has been delayed as a result of COVID-19. Northgate have currently rescheduled the upgrade for 8-9 September 2020 and when this takes place, we will test the module and if this is working as expected, run the necessary scripts to archive the data that should have been deleted. Position – September 2020 No update received. Position – November 2020 The required system upgrade was planned for the end of October but did not go live due to system performance issues. This is now expected in March 2021. Discussions are however, taking place with Northgate to see if an interim measure is available so that obsolete data can be removed from the system. **Position – February 2021**				

APPENDIX C – INTERNAL AUDIT RECOMMENDATIONS FOLLOW UP - FEBRUARY 2021

Benefits 2018/19

Final report issued April 2019

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			We are on schedule to upgrade the information@work system 19/20 March 2021. Once it's upgraded we can re-test the retention and destruction module.				

Audit Plan 2019/20

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
01	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. 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.	Medium	Agreed. The whole pre-application process will be reviewed so that there is clear guidance. Position – November 2019 In progress in accordance with original timescale. 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. Position – July 2020 I've conducted the review consisting of interviews with staff across the team. I have started drafting the guidance and hope to issue to staff later this month. Position – September 2020 In progress but slightly delayed. Position – November 2020 Guidance drafted in consultation with my team leaders and due to be issued with training provided to relevant staff by the end of November 2020. Spot checks of major pre-app cases will be carried out by team leaders to ensure compliance with guidance. **Position – February 2021** **Training and guidance notes are now in place.**	Interim Head of Development Management	31 December 2019	✓	~~31 August 2020~~ ~~30 Sept 2020~~ 30 November 2020

APPENDIX C – INTERNAL AUDIT RECOMMENDATIONS FOLLOW UP - FEBRUARY 2021

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
02	The pre-application guidance for should advise that meetings are not 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. Planning officers should attach a copy of any minutes provided by potential applicants to the relevant case file for information request and audit purposes. 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.	Medium	Agreed. The whole pre-application process will be reviewed so that there is clear guidance. Position – November 2019 In progress in accordance with original timescale. 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. Position – July 2020 I've conducted the review consisting of interviews with staff across the team. I have started drafting the guidance and hope to issue to staff later this month. Position – September 2020 In progress but slightly delayed. Position – November 2020 Guidance drafted in consultation with my team leaders and due to be issued with training provided to relevant staff by the end of November 2020. **Position – February 2021** **Training and guidance notes are now in place.**	Interim Head of Development Management	31 December 2019	✓	~~31 August 2020~~ ~~30 Sept 2020~~ 30 November 2020

Cyber Security 2019/20

Final report issued January 2020

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
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 Position – February 2020 In progress. Security awareness training in the process of being updated prior to being circulated to all staff for completion. Position – July 2020 Security training updated, but yet to be confirmed to all staff. Delayed due to COVID related activities. Position – September 2020 Cyber Security training module reminder to all staff as a mandatory module will be emailed through September 2020. Position – November 2020 Training module has been deployed and is available for everyone to complete. The deadline set for all is 18th of December. **Position – February 2021** **93.7% of users have completed this mandatory course for 20/21. This will be reported on an annual basis to IT Steering Group. Users not completing the course will be followed up directly and line managers notified.**	Head of ICT	30 April 2020	✓	31 December 2020

APPENDIX C – INTERNAL AUDIT RECOMMENDATIONS FOLLOW UP - FEBRUARY 2021

Debtors 2019/20

Final report issued June 2020

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
01	We recommend that: • A check is undertaken for all cases that are on hold (this should be a routine task undertaken at suitable intervals to be determined by management); • Reminders are produced and sent in a timely manner; • Instalment reminder lists should be checked and reviewed to ensure that instalments are correctly applied and are being adhered with (this should be a routine task undertaken at suitable intervals to be determined by management).	Medium	Work has already begun on this recommendation as it forms part of the bigger Recovery Review. We have requested some different reports from the Efin system to help us better monitor s/debts. In terms of the bullet point about ensuring instalments are correctly applied, I would like it noted that we are not always responsible for applying instalments. Some of this work is done by the services themselves. As part of the Recovery review I will be meeting with all services to remind them to set up instalments plans that are reasonable etc. and we will be terminating instalment plans that currently see the arrangement going on into 2045 and beyond! As a recovery team we will then monitor the arrangement plans and chase for missing payments etc. Position – July 2020 No update received. Position – September 2020 No update received. Position – November 2020 Reminders are now issued in a timely manner as part of the usual recovery cycle. Arrangements will now be reviewed annually. This is expected to be completed by the end of the year. **Position – February 2021** **In progress.**	Revenues Manager	30 June 2020	×	31 December 2020 **31 March 2021**

APPENDIX C – INTERNAL AUDIT RECOMMENDATIONS FOLLOW UP - FEBRUARY 2021

Benefits 2019/20

Final report issued October 2020

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
02	We recommend that an exercise should be undertaken to identify historical cases that have outstanding attachment of benefit and Searchlight checks done to identify any that are in receipt of benefits and other actions explored, as appropriate.	Medium	We are currently reviewing all debts that do not have an arrangement in place. Where there is a state benefit in place that we might be able to attach to, we will send the request to the DWP and enter a diary date to review. The Recovery Team Leader and Revenues Manager will monitor that diary dates are reviewed and completed. Position – November 2020 In progress **Position – February 2021** **In progress.**	Revenues Manager	31 March 2021		

Watford Borough Council
Audit Committee
11 March 2021

2021/22 Internal Audit Plan Report

Recommendation

Members are recommended to approve the proposed Watford Borough Council and Shared Services 2021/22 Internal Audit Plans

Contents

Appendices

1. Introduction and Background

1.1 Internal Audit is an independent and objective assurance and consulting activity designed to add value and improve the organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The role of internal audit is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively. (Chartered Institute of Internal Auditors – Internal audit definition and purpose)

1.2 The Council's Internal Audit Plan sets 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 Assurance annual report.

1.3 The Shared Internal Audit Service's (SIAS) Audit Charter which was presented to the July 2020 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 and revised on 1 April 2017. An updated version of the SIAS Audit Charter will be brought to the first meeting of Audit Committee in the 2021 civic year for Member approval.

1.4 The PSIAS require that the audit plan incorporates or is 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 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. This approach includes recognition that in a resource-constrained environment, all needs cannot be met.

e) Identification of responsibilities where services are delivered in partnership.

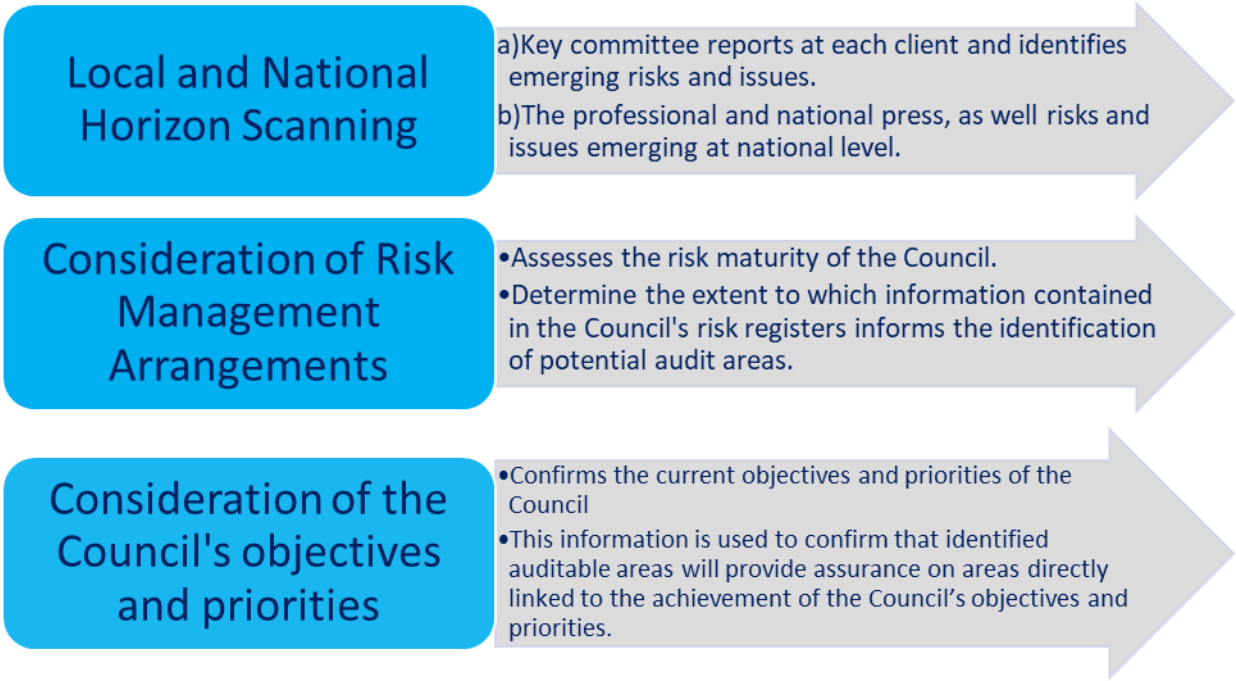
f) In-built flexibility to ensure that new risks and issues are accommodated as they emerge.

g) Capacity to deliver key commitments including governance work.

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 applies a methodology at all its partners which contains the following elements:



2.3 The approach to audit planning for 2021/22 has been characterised by:

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

Risk Assessment
Senior Managers and SIAS agree the level of risk associated with an identified auditable area and prioritise this (high, medium and low).

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

Timings
Senior 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 2021/22 plans for all SIAS partner councils are then scrutinised and cross-partner audits highlighted.

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

The Planning Context

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

- The impact of Covid-19 may not fully be known and will continue to have significant impact on the Council's operations in future years. Whilst the longer-term impacts of the pandemic remain speculative, the current challenges and risks relate to economic impacts, growth, public health and equality for local authorities.

- From 1 January 2021, the UK entered into new trading arrangements with the EU ending 11 months of transition arrangements. The result of the changes to trading with EU based companies will have an impact on Council services with additional risks needing to be considered that include compliance with customs rules, continuity of supply / services and workforce pressures related to the right to work in the UK.

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

- Demand continues to rise, driven by complex needs, an ageing population and challenges in the healthcare system. With reduced financial support, local authorities will have to continue to become more innovative and commercial.

- Digital transformation continues to offer opportunities along with significant risks. The innovative use of technology is helping to reduce costs, as well as be more efficient and transparent. However, factors such as security, privacy, ethical and regulatory compliance are a recognised concern.

- Major national programmes in areas like business rates, public health and housing mean the overall financial environment remains relatively unstable.

2.5 The resultant efficiency and transformation programme that councils are in the process of implementing and developing continues 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:

- Meet its core responsibilities, which are to provide appropriate assurance to Members and senior management on the effectiveness of governance, risk management and control arrangements in delivering the achievement of Council objectives.

- Identify and focus its effort on areas of significance and risk, assisting the organisation in managing change effectively, and ensuring that core controls remain effective.

- Give assurance which covers the control environment in relation to new developments, using leading edge audit approaches such as use of technology to achieve 'whole population testing' and new insights over sampling or 'continuous assurance' where appropriate.

- Retain flexibility in the audit plan and ensure the plan remains current and relevant as the financial year progresses, this is particularly key given the current challenges and risks of COVID-19 and the impact this has had on audit activity.

Internal Audit Plan 2021/22

2.7 The draft 2021/22 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 total number of days purchased in 2021/22 has been reduced from 402 to 362 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.

	WBC	**Shared Services**	**Total**
Key Financial Systems	0	65	65
Operational audits	71	10	81
Procurement / Contract Management	16	0	16
Shared Learning / Joint Reviews	4	0	4

Counter Fraud	0	0	0
Risk & Governance	0	0	0
IT Audits	0	15	15
To Be Allocated	0	0	0
Follow Ups	9	0	9
Strategic Support*	34	0	34
2020/21 Projects Requiring Completion	5	10	15
Total audit days 2021/22	**139**	**100**	**239**

* This covers supporting the Audit Committee, monitoring, client liaison and planning for 2022/23.

2.8 Members will note the inclusion of a provision for the completion of projects that relate to 2020/21. 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 2021/22 and any proposed changes will be reported to this Committee four times in 2021/22. 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 are reviewed annually by the SIAS Board and details of the 2021/22 targets are shown below. Actual performance against target will be included in the update reports to this Committee.

Performance Indicator	Performance Target
1. Planned Days percentage of actual billable days against planned chargeable days completed.	95%
2. Planned Projects percentage of actual completed projects to draft report stage against planned completed projects. Note: based on the judgement of the SIAS management team and representing the best estimate as to a reasonable expectation of progress on the audit plan.	95%
3. Client Satisfaction percentage of client satisfaction questionnaires returned at 'satisfactory' level.	100%
4. Number of High Priority Audit Recommendations agreed	95%
5. Annual Plan	Presented to the March meeting of each Audit Committee.
6. Head of Assurance's Annual Report	Presented to the first meeting of each Audit Committee in the new financial year.

APPENDIX A

Watford Borough Council
Audit Committee
11 March 2021

Watford Borough Council 2021/22 Draft Internal Audit Plan

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
KEY FINANCIAL SYSTEMS			
	See Shared Services Audit Plan		
OPERATIONAL AUDITS			
Development Management (enforcement)	Review to provide assurance over enforcement of planning regulations.	8	3
CIL Spend	Review to provide assurance that processes and controls are effective over spend proposals for contributions received, including the existence of and compliance with policies and procedures and monitoring and reporting of spend.	8	3
Housing Nomination Policy	The Council is due to review the policy by September 2021. The review may be undertaken in two stages.	10	2
Operational Buildings Compliance	Review of compliance with statutory requirements for the Council's operational buildings.	10	3

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
Asset Management System Data	Review of data in the new asset management system.	10	2
Safeguarding	A review of the Council's role in promoting the welfare of children and vulnerable adults and protecting them from harm – to include policy statements, training, record keeping, using and referring information received to stakeholders and / or the police for further investigation and working with partners (multi-agency response).	8	4
Customer Services Digitalisation – follow up	Review of progress since original audit in 2020/21 .	7	1
Project Management – Oxhey Activity Park	Review of the Oxhey Activity Park project.	10	3
PROCUREMENT			
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	2

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
Contract Spend	Review of the Council's arrangements for monitoring contract spend and maintaining the contract register.	8	1
SHARED LEARNING / JOINT REVIEWS			
Shared Learning / Joint Reviews	Shared Learning publications providing opportunities for shared learning across the partnership. Joint reviews as determined by the SIAS Board.	4	Through the year
RISK MANAGEMENT AND GOVERNANCE			
	No audits identified for 2021/22		
IT AUDITS			
	See Shared Services Audit Plan.		
TO BE ALLOCATED			

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
To Be Allocated	See Shared Services Audit Plan.		
FOLLOW-UP OF AUDIT RECOMMENDATIONS			
Follow-up of audit recommendations	Obtaining quarterly updates on the status of internal audit recommendations from action owners and reporting outcomes to Audit Committee.	9	Quarterly
STRATEGIC SUPPORT			
Head of Internal Audit Opinion 2020/21	To prepare and agree the Head of Internal Audit Opinion for 2020/21.	3	Q1
Audit Committee	To provide services linked to the preparation of Audit Committee reports and presentation of reports / participation at Audit Committee.	10	Quarterly
Monitoring and Client Meetings	To produce and monitor performance and billing information, work allocation and scheduling, and to meet with the Council's Audit Champion and other key officers.	9	Through year
2022/23 Audit Planning	To provide services in relation to preparation and agreement of the 2022/23 Audit Plan in conjunction with senior officers of the Council.	6	Q4

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
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 2020/21.	3	Q1
2020/21 PROJECTS REQUIRING COMPLETION			
2020/21 Projects to be completed	Additional time, if required for the completion of 2020/21 audit work carried forward into the 2021/22 financial year.	5	Q1
TOTAL AUDIT PLAN DAYS		**139**	

2021/22 RESERVE LIST (For consideration in the main audit plan should audit days become available during the year. Plan changes are reported to Audit Committee)			
Rough Sleepers			
Ways of Working			

APPENDIX B

Watford Borough Council
Audit Committee
11 March 2021

Watford Borough Council and Three Rivers District Council
Shared Services 2021/22 Draft Internal Audit Plan

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
KEY FINANCIAL SYSTEMS			
Revenues & Benefits	Review of Council Tax, NDR, Housing Benefits and Sundry Debtors systems to confirm that controls are adequate and effective. Scope to be agreed with management at the time and may involve a detailed review of a restricted number of areas to provide additional assurance over those aspects of these systems. Testing will cover the 2020/21 financial year for both Councils.	30	Q2/3
Finance	Review of Finance systems to confirm that controls are adequate and are effective. Scope to be agreed with management at the time and may involve a detailed review of a restricted number of areas to provide additional assurance over those aspects of these systems. Testing will cover the 2020/21 financial year for both Councils.	25	Q3/4
Payroll	Review of the Payroll system to confirm that controls are adequate and effective. Testing will cover 2021/22 and include starters and leavers, additional payments, statutory deductions and payroll period end checks.	10	Q3
OPERATIONAL AUDITS			
Payroll System	Review of the implementation of the new payroll system.	10	Q1

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
IT AUDITS			
Cyber Security	To provide assurance that cyber security strategies and arrangements are appropriately designed and operated to manage the risk of a cyber attack.	15	Q4
TO BE ALLOCATED			
	No budget set at outset.		
2020/21 PROJECTS REQUIRING COMPLETION			
Outstanding 2020/21 audits	Time for completion of 2020/21 audits carried forward into 2021/22 (unused time will be reallocated).	10	Q1
TOTAL AUDIT PLAN DAYS – SHARED SERVICES PLAN		**100**	

WATFORD BOROUGH COUNCIL 2021/22 AUDIT PLAN PROJECTED START DATES

APPENDIX C

Apr	May	June	July	August	September
	New Payroll System	Contract Spend	Veolia Contract Payments	Housing Nomination Policy	Revenues and Benefits Audits
					Asset Management System Data

October	November	December	January	February	March
Finance Audits	Payroll	Customer Services Digitalisation – follow up	Cyber Security	Safeguarding	
CIL Spend	Operational Building Compliance	Development Management (enforcement)			
	Project Management – Oxhey Activity Park				

Part A

Report to: **Audit Committee**

Date of meeting: **11 March 2021**

Report author: **Tina Stankley – Interim Head of Finance**

Title: Accounting Policies 2020/21

1.0 **Summary**

1.1 Accounting Policies to be used in preparing the council's 2020/21 statement of accounts are set out in appendix.

1.2 There are no changes to the substance of the accounting policies for 2020/21 since the accounts were prepared for the year ended 31 March 2020.

1.3 IFRS16 was due to 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 had been working with EY to identify the proposed accounting treatment prior to the 2020/21 closedown. However the adoption has been delayed again due to the impact on services that COVID-19 has had. IFRS 16 will now be effective from 1 April 2022. The 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:
Tina Stankley
tina.stankley@threerivers.gov.uk

Report approved by: Alison Scott, Director of Finance

4.0 **Detailed proposal**

4.1 The detailed Accounting Policies are attached to this report.

5.0 **Implications**

5.1 **Financial**

5.1.1 The Shared Director of Finance comments that changes to accounting policies can have an impact on the amounts 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 Group 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 2020/21 financial year and its position at the year end of 31 March 2021. 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 2020/21 and the CIPFA Service Reporting Code of Practice 2020/21 (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).
Deprecation is calculated on the following bases:-

- Buildings — straight-line allocation over the useful life of the asset as estimated by the valuer - up to 70 years
- Vehicles — straight-line over the estimated life of the asset - up to 20 years
- Plant, furniture and equipment — straight-line over the estimated life of the asset - up to 20

  years
- Infrastructure — straight-line over the estimated life of the asset - up to 25 years

- Finance leases — over the life on the underlying asset or over the life of the lease where there is no option to acquire the asset at the end of the lease.

Please note, to ensure consistency across the Councils policies, the previous accounting policy of depreciating some plant, furniture and equipment has been changed from reducing balance to 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.