

## **AUDIT COMMITTEE**

**10 March 2022**

Present: Councillor M Hofman (Chair)  
Councillor P Kloss (Vice-Chair)  
Councillors N Bell and M Devonish

Also present: Maria Grindley (EY) and Simon Luk (EY)

Officers: Democratic Services Officer (LM)  
Client Audit Manager, Shared Internal Audit Service  
Head of Finance  
Head of Programme Management Office

### **31 Apologies for Absence/Committee Membership**

Apologies for absence were received from Councillor Turmaine.

### **32 Disclosure of Interests (if any)**

There were no disclosures of interest.

### **33 Minutes**

The minutes of the meeting held on 25 November 2021 were submitted and signed.

### **34 Annual Risk Report**

The committee received a report of the Group Head of Democracy and Governance setting out the council's Corporate Risk Register.

The Head of Enterprise Programme Management Office introduced the report on behalf of the Group Head of Democracy and Governance explaining that it was made up of two parts, firstly the council's Risk Management Strategy and secondly the corporate risk register. The Risk Management Strategy had been refreshed last year and was deemed to be working well and no changes were necessary. The Corporate Risk Register was underpinned by individual Service Risk Registers with any risks assessed with a risk score of 9 or above escalated to the Corporate Risk Register for quarterly review by the council's Leadership

Board. The Corporate Risk Register was reviewed on an annual basis by Audit Committee and represented a snap shot in time with the Corporate Risk Register regularly reviewed and updated to ensure that risks were identified and managed. The following risks were highlighted to the committee:

- An ongoing risk in relation to the delivery of programmes and projects as a result of the ambitious agenda the council had for the town
- Staff recruitment and retention as a result of the national labour market
- An increase in the risk of Cyber security threats as a result of the Ukraine conflict

In response to members' questions the Head of Enterprise Programme Management Office, advised that in regards to the increased threat of cyber-attacks, the council was receiving national briefings from central government and a range of technical and training interventions had been implemented to mitigate the risk.

RESOLVED –

that the report is noted.

35

### **SIAS Internal Audit Progress Report**

The committee received a report of the Client Audit Manager for SIAS. The Client Audit Manager introduced the report explaining that this was the standard quarterly report and outlined the current years audit plan. Of the 17 audits, seven had been completed at the time of the report and three audits had been additionally completed. Therefore, there were seven outstanding audits to be completed within 21 days. He detailed the challenges faced by the department which included organisational changes and completing audits in a new format. He concluded that it was still anticipated that all audits would be completed by the end of March, but should any be outstanding they would be completed in the first half of April and would not affect the Head of Assurance annual opinion which formed part of the Council's Annual Governance Statement.

In response to a question from Councillor Bell regarding assurance opinions, the Client Audit Manager advised that the original opinions did not change and implementation of agreed recommendations was monitored by this committee and SIAS would only conduct a formal follow-up audit if requested to do so by officers.

The Chair enquired about the overall targets for next year in regards to the challenges that had been listed earlier. The Client Audit Manager explained that

delivery lessons had been learnt and that audits would not be clustered together. The Head of Finance added that reports had been pushed back to the end of the financial year by officers due to hectic workloads. However, the council's leadership team was creating a dialog with officers and providing the right profile of the audit work.

Councillor Devonish asked if best practices had been fed back to officers. The Client Audit Manager noted that this was a good idea and that currently best practice was discussed in the department and it could be helpful in future audits if best practice was fed back to officers more widely.

RESOLVED –

1. That the change to the implementation date for one recommendations (paragraph 2.5 of the report) for the reason set out in Appendix C be agreed.
2. That the removal of implemented audit recommendations set out in Appendix C of the report be agreed.

36

### **SIAS Internal Audit Plans**

The committee received a report of the Client Audit Manager for SIAS. The Client Audit Manager introduced the report explaining that the report set out the intended programme of work for the next financial year.

The Client Audit Manager outlined the context and background to the development of the new audit plans. He explained that some audits had been scheduled in the first quarter in order to not backload the audit schedule to the final quarter. He also highlighted that it was important to keep the plan agile and that any changes agreed with officers would be highlighted to the Audit Committee.

In response to a question from the Chair, the Client Audit Manager explained that any audit recommendations from the committee would be welcomed and that there was no specific deadline for the suggestions as the plan could be flexed.

Councillor Watkin raised the issue of Covid grants distributed by the council and raised concerns regarding fraudulent claims. It had been reported in national newspapers of fraudulent Covid grant claims. The Head of Finance explained that this was before her tenure in the role and she would investigate this issue in relation to the support and work provided by the Anti-Fraud Team and if an audit was worthwhile this would be added to the plan.

RESOLVED –

that the proposed Watford Borough Council and Shared Services 2022/23 Internal Audit Plans be approved.

37

### **Statement of Accounts**

The committee received a report of the Head of Finance. She thanked the committee for their patience regarding the late publication of appendices 1 and 2 which had been delayed in order to capture the most up to date information in relation to the 2019/20 audit. The 2019/20 accounts would be finalised in the near future. The 2020/21 statement of accounts draft would be completed by July 2022.

The Head of Finance gave an update on the 2021/22 statement of accounts. There had been changes to reporting measures and she pointed the committee to paragraph 4.3 of the report for further detail. This would help the sector when reporting. She highlighted that many local authorities had struggled and at the present time 70 local authorities had not completed their statement of accounts for 2019/20.

Councillor Bell asked if there was any concerns for the 2020/21 statement of accounts. The Head of Finance responded that there were no concerns at present however the main audit work was yet to be undertaken. She expanded that the team had worked well and learnt lessons from the previous years. Also that communication with external auditors had improved which had led to greater efficiency.

RESOLVED -

1. That the Statement of Accounts for 2019/20 subject to any final adjustments by the Section 151 Officer (Director of Finance) be approved.
2. that the Section 151 Officer be delegated to finalise the Statement of Accounts for 2019/20 in consultation with the Chair of the Audit Committee.
3. that the committee authorises and instructs the Chair to sign the Statement of Accounts for 2019/20 once finalised and signed by the Section 151 Officer to confirm that the Statement of Accounts presents a true and fair view of:
  - (a) the financial position of the authority at the end of the financial year to which it relates; and
  - (b) that authority's income and expenditure for that financial year

4. That the Letter of Representation for 2019/20 be approved and that the Section 151 Officer and Chair of the Audit Committee be granted delegated authority to make any necessary changes resulting from the conclusion of the audit.
5. That the draft Accounting Policies for 2021/22 be ratified

38

### **Watford Borough Council Draft Audit results report**

The committee received a late report from the external auditor which provided an overview of the council draft audit results for 2019/20. Simon Luk, representing the external auditor EY, started by thanking the Head of Finance for the team's assistance with a challenging audit in light of Covid.

Simon Luk drew the committee's attention to page 13 of the external auditor's report, which provided an overview of the material movements in the statement of accounts and highlighted the following;

- There was a large increase in property, plant and equipment, by £0.264m. There was also a £0.232m increase in the long term creditors. This movement mainly related to the new Croxley Park finance lease entered by the council in 19/20, which had led to the recognition of a finance lease asset in PPE, and a corresponding lease liability in long term creditors.
- The council had also received £92m from the developer of Croxley Park, including £72m to cover future planned property maintenance, £20m to cover future potential rental income shortfall, and another £4m where the council had chosen to ring-fence for Croxley Park. The £92m had been invested in ST deposits, and therefore there was an increase of ST investments by about that amount in the current year.
- As there were no conditions around these monies they were recognised as income in year in the comprehensive income and expenditure statement, and then moved to usable reserves.
- Financing and investment income. This was determined by investment property valuations and fluctuated due to changes in the market.
- Surplus/Deficit in evaluation of PPE which fluctuated due to valuer estimations.
- Re-measurement of the net defined benefit liability which had been affected by actuarial assumption that fluctuated year on year.

Simon Luk then addressed the significant risk section of the report, with an overview on page 15 and further details on subsequent pages. He highlighted the following findings from areas of significant risks and areas of audit focus to the committee;

- Misclassification of Avenue Car Park due to an error of £190m of longer term creditors being labelled as short term creditors that was corrected (page 15).
- £0.105m was overstated in short term creditors due to incorrect cut off of Croxley Park rental receipts that was corrected (page 15).
- 5 further uncorrected projected misstatements had been identified (page 15)
- A £0.137m variance between the interest charged for the year end 31/03/2020 per the lease schedule (£3.8m) and the amount recorded in the general ledger (£3.950m) was identified (page 16).
- A reclassification error of £1.1m relating to rental deposits for Croxley Park where they were not expected to be repaid within a year, from short term to long term creditors (page 16).
- Accounting for the Acquisition of Croxley Business Park, as 2019-20 would be the first year of managing and accounting for the Croxley Business Park, this would be the first year of allocating income streams to correct accounting periods for this asset and therefore recognised income could be more prone to fraud or error. (page 17) Errors had been identified in the accounting of the £92m monies received as receipts in advance, a liability, when these should have been accounted for in usable reserves. There was also a misclassification of £3.7m capital payment of Croxley Park Finance Lease due in 1 year had been classified as a long term creditor instead of a short term creditor.
- Valuation of Land and Buildings, following the Covid-19 outbreak in March 2020, there was potential for significant impact on the estimations and assumptions applied to asset valuations with qualified valuers reporting 'material uncertainty' within valuation reports. (page 18)
- A number of mis-statements arising from the PPE, IP and surplus assets (page 18-20). This had led to adjustments in the current year, as well as prior period adjustments. The overall amendment to PPE (net book value) was 2017/18: £14.432m, 2018/19: £17.711m, and 2019/20: £13.357m. The overall amendment to IP was 2017/18: £0.389m, 2018/19: -£2.422m, and 2019/20: -£11.905m. The overall amendment to surplus assets was 2017/18: £0.225m, 2018/19: £0.125m, and 2019/20: £0.579m.

- The McCloud ruling meant that the remeasurement of the defined pension liability needed to be amended by £0.137m, but the authority had adjusted past service cost instead of other operating income. Pension assets was overvalued by £0.648m. (page 23)
- The valuation of NDR appeals provision was a high value estimate, with complex calculations. This meant that there could be a material misstatement in the accounts if this had been calculated incorrectly.
- The Council had not charged minimum revenue provision (MRP) despite having a positive Capital Financing Requirement (CFR)(page 25). The Council had charged £0.083m for FY19/20 although it was recommended that the Council reviewed the breakdown of its unfinanced capital and reviewed its MRP policy to ensure that a prudent amount of MRP was being charged.
- There were other uncorrected misstatements that were above reporting threshold that had been brought to the attention of the committee (page 35).
- As a result of the above findings, a number of control deficiencies had been identified and recommendations had been made (summarised on page 44).

Councillor Watkin raised the issue with the external auditors that the summary of the audit results was difficult to comprehend for people without a professional financial background and requested a more top level summary. The committee members agreed with this statement.

The Head of Finance went on to explain that the external auditors had listed the changes that had occurred from the draft statement of accounts to the revised statement of accounts at appendix 1. The changes made were necessary in order for the auditors to provide an unqualified audit opinion as set in the auditor's report. However, it should be noted that the adjustments were accounting adjustments that had no impact on the tax payer or the council's general fund position. There was one exception to this relating to an £83k adjustment for MRP which had been funded from reserves and built into budgets in future years. Following on from Councillor Kloss's query the Head of Finance expanded that the amended rental valuation on the Harlequin Shopping centre was a red book valuation at the balance sheet date and did not reflect the value that could be achieved if the asset was sold. She then went on to clarify that the council's accounts were prepared following proper accounting practice as set out in the CIPFA Code of Practice and based on International Financial Reporting Standards (IFRS ) which made the council's balance sheet comparable with a private company accounts. However, the impact of valuations was reversed out through the Movement in Reserves Statement. In practice the movement on the general fund should be the main focus for users of local authority accounts as

this was the area that had the most impact on the financial sustainability of the council and had the possibility to impact on council tax payers.

Councillor Bell requested further information regarding the understatement in long term investments in relation to the Watford Health Campus noted within the auditor's report. The Head of Finance advised that she would obtain further detail behind this to provide further clarity.

RESOLVED –

that the report is noted.

Chair

The Meeting started at 7.00 pm  
and finished at 8.45 pm