



**WATFORD
BOROUGH
COUNCIL**



AUDIT COMMITTEE

9 March 2023

7.00 pm

Annexe, Town Hall, Watford

Contact

Laura MacMillan

democraticservices@watford.gov.uk

01923 278377

For information about attending meetings please visit the [council's website](#).

Publication date: 1 March 2023

Committee Membership

Councillor M Hofman (Chair)

Councillor M Devonish (Vice-Chair)

Councillors K Clarke-Taylor, L Nembhard 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 24 November 2022 to be submitted and signed.

4. Annual Risk Report (Pages 3 - 27)

Report of the Group Head of Democracy and Governance

5. Progress Report against the 2022/23 Internal Audit Plan (Pages 28 - 58)

Report of the Shared Internal Audit Service

6. 2023/24 Audit Plan Report (Pages 59 - 79)

Report of the Shared Internal Audit Service

7. External Auditor update

The committee to receive a presentation.

8. Statement of Accounts Update (Pages 80 - 108)

Report of the Head of Finance

Part A

Report to: **Audit Committee**

Date of meeting: **Thursday, 9 March 2023**

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 The council’s Risk Management Strategy, updated to reflect the recent changes to the senior management structure, is attached at Appendix 1. Appendix 2 is the Corporate Risk Register which is reviewed by Corporate Management Board on a quarterly basis and by Audit Committee annually.

2 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 risks and suffers loss	Risks are regularly reviewed at both Corporate Management Board for corporate risks and EP MO for service and project related risks, with annual oversight by Audit Committee	Treat	4

3 Recommendations

- 3.1 That the Risk Management Strategy at Appendix 1 and the Corporate Risk Register at Appendix 2 be noted.

Further information:

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

Report approved by:

4 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 council's Risk Management Strategy was presented to Audit Committee last March, it has been updated to reflect the new senior management structure. The wording has also been tweaked to take on board that for the Corporate Risk Register some risks that are shared across service risk registers and score 9 or above have been amalgamated into one risk in the Corporate Risk Register.
- 4.3 The Corporate Risk Register is reviewed quarterly at Corporate Management Board, in line with the Risk Management Strategy. All services also retain Service Risk Registers which are also reviewed on a quarterly basis with any significant risks reflected in the Corporate Risk Register.
- 4.4 In line with the council's Project Management Framework, all projects have detailed risk registers which are reviewed regularly by Programme and Project Managers and by the relevant governing Programme or Project Board. All project risks are reported to the Enterprise Programme Management Office on a 6-weekly basis with an overview report subsequently provided to Corporate Management Board.
- 4.5 This approach ensures that the council maintains a robust oversight of risks and, importantly, the proposed actions to mitigate and, where possible, avoid realisation of any risks captured.
- 4.6 The Committee is asked to note the contents of the Risk Management Strategy and the Corporate Risk Register in the attached appendices.

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 Having had regard to the council's obligations under s149, it is considered that there are no equalities implications, there are also no human rights or data protection implications in this report.

5.4 Staffing

5.4.1 No implications

5.5 Accommodation

5.5.1 No implications

5.6 Community Safety/Crime and Disorder

5.6.1 No implications

5.7 Sustainability

5.7.1 No implications

Appendices

- Appendix 1 Risk Management Strategy
- Appendix 2 Corporate Risk Register

Background papers

No papers were used in the preparation of this report.



**WATFORD
BOROUGH
COUNCIL**

RISK MANAGEMENT STRATEGY

Updated February 2023

CONTENTS

1.	Purpose of the strategy	03
2.	Our vision and priorities	03
3	Background	03
4.	Risk management strategy objectives	04
5.	Key features of risk management framework	05
6.	Risk appetite and tolerance	08
7.	Types of risk	11
8	Identification of risk within committee reports	11
9.	Roles and responsibilities	11
10.	Business continuity planning	13
11.	Further advice and guidance	14
	Appendix A: Scoring risk	15

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 greener, brighter future
- 2.2 An inspiring, thriving, and creative town
- 2.3 A diverse healthy and happy town
- 2.4 A council working for our community and serving our residents

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 all 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.

Very Likely ----- ▼ Remote	Likelihood	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	<p>The council may tolerate a risk where:</p> <ul style="list-style-type: none"> • 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. <p>These risks must be monitored and contingency plans should be put in place in case the risks occur.</p>
Treat	<p>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).</p>
Terminate	<p>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.</p>
Transfer	<p>Transferring some aspects of the risk to a third party, for example by insurance or paying a third party to take the risk.</p>

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 reflected in the corporate risk register. Where there are a number of service risks with similar themes these may be amalgamated into one generic risk in the corporate risk register. Corporate Management 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:

- Reputational
- 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 <i>(treat, tolerate, terminate, transfer)</i>	Risk Rating <i>(combination of severity and likelihood)</i>

- 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 corporate management 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
Chief Executive / Elected Mayor	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none"> • Lead officer for risk management. • Owner of risk management strategy.
Cabinet / Corporate Management Board	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Monitors service and project risk registers on a quarterly basis and makes recommendation to Corporate Management Board for any risks to be elevated to the Corporate Risk Register
Audit Committee	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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.

	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 Corporate Management Board.
- By attendance at risk management training sessions (contact HR OD to express your interest).
- By reference to the risk management e-learning training module on the intranet under “management competencies”.

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, Group Head of Democracy and Governance
Date	28/02/23

Ref	Risk description	Cause	Consequence	Response	Action agreed to respond / mitigate / control	CURRENT RISK ASSESSMENT			Action Taken
						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.	Watford has a diverse population and date shows we continue to welcome people both from eastern Europe and the Asian sub continent. We have also seen a high number of people moving from London due to high house prices which has had 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.	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 Elected Mayor and local politicians with communities. Working with One Watford to understand our varied communities. Local plan up to date and looking at partnerships to create more affordable homes. Working with the community and the implementation of Council plan and Delivery Plan for 2022-24. Delivering a range of community led and focused events and attractions that bring people together and allow different groups within the community to share their experiences and engage across the Watford community as a whole.	2	3	6	New Council Plan and Delivery Plan for 2022-26 and looking to refresh partnership and community working. Raised at One Watford sought input from stakeholders. No issues raised including the police.
2	Our major projects not being delivered on time and in budget. This includes Riverwell, the Town Hall Quarter, the Surplus Sites programme and Watford Business Park	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. Cost of capital build and construction projects increase throughout the life of the project meaning that it becomes unviable.	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 Council's 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	Review of internal governance structures and introduction of a dedicated EPMO to help the oversight of projects. Implementation of Portfolios, Programmes and projects approach underway with oversight provided to Corporate Management Board via the Business Intelligence platform and a designated CMB session every 6 weeks focused on programme and project delivery. Challenges continue as a result of global market in relation to both materials and resource but a recent review of the Capital Programme has helped to inform priorities and direct resources accordingly.
3	Failure to have (and retain) a suitably skilled workforce and the capacity to deliver the council's services and objectives	The council is unable to retain and recruit staff with the appropriate skills to deliver the council's objectives and that it does not have the correct number of staff to undertake and manage the work. This may be as a result of low morale, uncompetitive salaries / terms and conditions a bouyant local job market and competition from London authorities, as well as lack of career opportunities and failure to succession plan	Services are not delivered. Contracts are not managed, more resources are spent on using external providers without appropriate management and oversight. Loss of historical knowledge	Treat	Robust Organisational Development 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. Agile working environment allows for greater work/life balance, with refreshed office space, helps to attract applicants	2	4	8	Corporate plan and delivery plan, along with OD strategy provide clear direction and objectives for Watford. This assists with retention of existing staff and recruitment to key posts. Our current experience is recruitment to posts in Watford has been successful, although still some limited areas where it is more difficult. There are good job seekers on the market and Watford has been able to attract a good calibre of applicant. Pay reviews and application of market factor supplements have also supported recruitment in difficult to fill areas. New agile working space in the Annexe designed to respond to feedback from staff and provide attractive, comfortable and flexible working environment. Development of new People Strategy underway.

4	Unable to provide our statutory services at all times	The council is unable to fulfil its statutory responsibilities to its residents and businesses due to catastrophic service failure or as a result of a civil emergency	The council is unable to perform its statutory obligations, it fails its citizens and the government intervenes to run the services in its place. National media and government criticism. Major reputational damage and loss of trust and confidence in the council	Tolerate	Belong to Herts Resilience Partnership which supports the county response to civil emergencies. Keep emergency plan up to date. Encourage staff to volunteer to assist/look to change employment contracts to compel assistance. Developed relationships with partner agencies to also provide assistance. Undertake regular EP exercises. Keep Business Continuity Plans up to date and regularly tested. Statutory Service KPIs regularly monitored by Corporate Management Board and will form part of upcoming KPI Review.	2	4	8	
5	Decline in economic prosperity and vibrancy of the borough	Global economic challenges, including those from Covid-19 and the Cost of Living Crisis. Insufficient funds to provide the necessary infrastructure to promote growth. South West Herts Joint Strategic Plan is not delivered.	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. South West Herts Joint Strategic Plan fails which would undermine South West Herts' ability to deliver the growth agenda.	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. Up to date Economic Growth Strategy. Establish a JSP Steering Group (Member and Officer)	3	3	9	Cabinet approved JSP with other SW Herts Councils and HCC to work together to produce joint policies on Housing and employment supply and infrastructure, statement of common ground being developed. Leaders in Hertfordshire agreed a Memorandum of Understanding to work together in a Hertfordshire Growth Board. Local Plan examined by the Planning Inspectorate in public January/February 2022 and adopted July 2022. Economic Growth Strategy approved at Cabinet in July 2021. EU Exit was planned for. Focus on economy in Council Plan and Delivery Plan 2022-26. Enhanced Economic Development team now in place. JSP Regulation 18 consultation complete. SPMG to agree next steps for JSP with recommendation from Steering Group to continue working towards a statutory plan.
6	Failure of investments or commercial ventures, including at Croxley Park or unable to borrow as required.	Downturn in commercial markets lead to failure in investments or reductions in income levels. Poor investment decisions. Services offered for sale may not be as high as anticipated and/or commercial properties may remain vacant for prolonged periods of time, including at Riverwell. . PWLB borrowing rules and lack of Council's own funds for investment	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. 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	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	Pre-PIB now in place and operating to actively manage income levels and investment decisions. Croxley Park sinking fund invested with RLAM.
7	Council budget is not sufficient to undertake all services and projects desired / required	Inflation, inaccurate calculation of fees and changes, ambition for projects outstrips budget, poor business casing and budget planning	Increasing income or reduction in income causing an in year budget pressure and the need to stop or reduce services and reprioritise projects	Treat	Capital programme review completed and budget setting process underway, including need to reprioritise project provision. All Associate Director areas have proposed savings which have been reviewed by Portfolio Holders and accepted into the MTFS.	3	3	9	Due to C19 losses of income on parking and Leisure Management fee have been incurred and built into budgets. Longer impact continues to be kept under review. Retention of contingency at corporate level.
8	Lack of affordable housing in the Borough to meet demand including from schemes such as Homes for Ukraine, 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 work. Housing Department being overwhelmed with homeless presentations and the system being silted up. Clients not being assessed in time to prevent their homelessness, increase in Temporary Accommodation usage.	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 council's own capital receipts	3	3	9	Joint venture with WCH and WBC to provide social rented properties. TA accommodation needs reduced. WBC seem to bucking the national trend. TA at Brindle Court Open. Review of Council owned TA underway. Local Plan now adopted. On the demand side, temporary staff in post, additional staff under recruitment, additional manager under recruitment. Additional case monitoring and management underway to secure quality outcomes for those at risk of homeless and to manage TA occupation as part of 'Strengthening Housing Services' project. Increase engagement with developers and RSLs.

9	Failure to actively manage growth within the borough, including in relation to major infrastructure schemes such as Watford Junction, Watford to Croxley Link, major sites and associated sustainable transport provision and social infrastructure for anticipated housing growth	Lack of available funding and lack of viable business case. Lack of leadership taking project forward, including inability of development partners to agree parameters of schemes and deliver in a timely and coordinated way. South West Herts Joint Strategic Plan not being delivered. Lack of political support for growth.	Impedes Watford's sustainable growth e.g. congestion of roads and unable to deliver against Local Plan. Planning applications being rejected, developers not willing to work with council to deliver strong good designs, lack of consensus with the growth of the town	Treat	Determine feasible and practical delivery options. Working closely with HCC and clear on WBC's involvement to deliver for the town and its residents. Establish a JSP Steering Group (Member and Officer)	3	3	9	Local Plan now adopted. Transforming Travel in Watford Strategy adopted to support sustainable transport options across the town.
10	Failure to ensure our ICT systems, including our customer front end, remain fit for purpose and services can maintain service delivery. This includes the risk of significant cyber attacks and the discovery of a global vulnerability discovered - LOG4 - which impacts thousands of vendors, thousands of applications and pieces of software, both cloud based and on-premise systems.	Inadequate resources secured both in-house and external leading to a skill set gap. Inadequate contract management, poor process & lack of procedures, poor governance. Service not fit for purpose. Failure of hardware and software. Increased likelihood of cyber attack.	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 reviewed. Resources being spent to upgrade hardware. Stronger contract management and governance arrangements around new projects. Staff structure being implemented. - Systems regularly backed up - IT Health check conducted once a year and follow-up actions completed - All non-supported operating systems and third party software either removed or isolated from the network - Annual external audit focussing on Cybersecurity - Threat alerts and advice received from National Cyber Security Centre In relation to a specific threat as result of the Russian invasion of Ukraine: - Direct user communications regarding vigilance and asking for help and support - Block at the perimeter known bad threat actors – prevention from entering our network - Review and update disaster recovery plan - Additional checks – out of hours – related to recovery and mitigation e.g. backups and anti-virus.	3	4	12	Oct 2020: De-Supported operating systems removed from the estate. 3 servers remaining. April 2021: Increased risk of cyber attack related to elections activities. Increase back frequency and volumes. July 2021: Increased all backup frequencies across all major systems. Reviewing options to increase threat management on desktops October 2022: To provide an extra layer of defence, Bullwall Ransom Care has been deployed to provide an extra layer of security from Ransom ware. Mimecast has been implemented to provide email and web content security as well as email continuity. NCSC Early Warning, PDNS, Mail and Web Check services had been implemented to provide additional layer of protection
11	Failure of Contract Management of Outsourced Services / Contractor insolvency / Increased contract costs	Failure of contracting partner to deliver required service to agreed specification. Contractor going into administration/liquidation or contract increases as a result of inflation. Failure of adequate contract monitoring. Failure to have appropriate contractual terms in place to remedy problems.	Service delivery inadequate, loss of income, reputation affected, step in to deliver services directly increasing costs	Treat	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. Public Procurement Contract regulations complied with.	2	4	8	New governance arrangements in place to monitor contracts. Also regularly monitor financial health of companies we partner with or outsource to via Dunn and Bradstreet alerts and sharing intelligence via networks. Officers are also working with contractors to review contract performance. Development of updated Contract Management Framework underway, as per Delivery Plan 2022-24.
12	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	EPMO oversees major projects. Contract register and pipeline monitored by services. Have watch list for key suppliers. Updated Procurement Strategy approved.

13	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, data breach, causing complaints to ICO with potential for heavy fines and also loss of reputation to Council	Treat	Data Protection Officer post created, 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.	2	4	8	From 1 April 2020 established HCC as DPO for Watford. Email encryption is operational. E-learning module is live and mandatory for all staff. Periodic review of privacy notices. HCC employed to assist as DPO
14	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 adults at risk 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	Safeguarding plan being monitored. Safeguarding Manager in post and working additional hours to get us to acceptable practices. HCC audit findings being implemented.
15	Pandemic	Virus or other noxious substance causes major health concerns throughout the population	Potential substantial impact on the operations of the council and our businesses and residents, dependent on the nature of the pandemic situation.	Tolerate	- Robust business continuity planning and incident management planning - Ensure lessons learned from Covid-19 Pandemic - Be prepared to mobilise and take action in accordance with government advice and requirements as per the actions needed for the specific pandemic situation	3	4	12	
16	The council is unable to be sufficiently involved or engaged with initiatives and changes across the broader Local Authority landscape	Lack of internal capacity to engage sufficiently	Council unable to sufficiently engage and influence resulting in reputational damage and changes which are not considered politically acceptable or in the best interest of our residents, businesses and communities. Political concern about lack of influence.	Treat	Executive Support Officer in post to provide additional capacity to the Managing Director. Work underway in relation to shared services, agreed by Cabinet and Council. Strategic Group retains a horizon scanning focus for the organisation.	2	4	8	As an organisation and following a focus on the strategic direction of the council, additional engagement with broader county initiatives is underway with the structure in place to allow this to continue in the future.
17	Cost of living crisis	Inflation and rising bills caused by the global economic situation	Customers unable to pay council tax, further requirement for council services, challenges for staff, over-occupied council offices, outsourced service providers viability and general service delivery	Treat	Regular updates provided to CMB on progress against plan. Budget monitoring. Maintain contractual relations through SPB's and horizon scan. Budget planning and political engagement	3	4	12	Some inflation costs managed through 2023 budget and efficiency savings discussed with Veolia. SLM energy costs locked until 2024. Financial risks updated as part of 22.23 budget process. Savings exercise undertaken as part of 2023/24 budget setting and continuous improvement programme development underway.
18	The council is unable to meet its goal of achieving net carbon zero by 2030	No strategy agreed or plan undeliverable. Ambitions do not align with reality.	Damage to reputation, additional impact of climate change on council operations leading to increased costs	Treat	Development of Environmental Strategy covering the period 2023-2030 and 2 yearly delivery plan, accompanied by additional programme management resource to support delivery and benefits management. Existing Sustainability action plan underway, including decarbonisation of the Town Hall, Colosseum and PSDS funding for other council buildings, as well as the implementation of the Transforming Travel in Watford Strategy.	3	4	12	Sustainability Board established. Sustainable Transport Strategy prepared - now a programme of action (TTIW), Property services undertaking reviews.
19	Council activities are impacted by the inability to mitigate against, and adapt to, the challenges created by climate change, such as extreme weather events.	Climate change and lack of action to address impact	Impact on service delivery, additional mitigation costs, inability to support customers adequately.	Treat	Development of Environmental Strategy covering the period 2023-2030 accompanied by additional programme management resource to support delivery and benefits management. Work with HCCSP to develop and implement the climate adaptation sub-group actions. Climate change risks addressin all service risk plans.	2	3	6	
20	Home Office places significant numbers of Asylum seekers within Watford.	Significant increase in asylum seekers arrivals to the UK, need for Home Office to secure satisfactory interim accommodation.	Increase in a community tensions, potential for rough sleeping, demands on partner agencies such as health and staff capacity to support arrivals and manage/mitigate impacts.	Treat	Continue to monitor situation locally, engage in SMP meetings and activity, respond effectively and actively to approaches from accommodation providers.	2	4	8	Ongoing engagement with County and East of England meetings and responses. Actively responded to approaches from Clear Springs.

21	Failure to have suitable capacity and arrangements to provide sufficient response for all rough sleepers in the event of severe weather	Increase in demand for temporary accommodation and units within the SHP has removed void capacity. Hotels and B&Bs unwilling to house rough sleepers on nightly lets due to failure to manage impacts of previous use.	Death/severe illness for rough sleepers not accommodated. Reputational impact. Increased costs of provision if alternatives can be found.	Treat	Work with local partners to develop solution. Enquire with neighbouring LAs to understand any options for joint working. Explore alternative hotels and B&Bs for nightly lets. Explore vacant properties for temporary use managed by partners. Explore options for communal humanitarian solutions in community spaces. Explore bid to Health Protection Board for warmer space at The Haven until early hours of the morning throughout winter.	2	4	8	Contract secured with OYMCA for 4 bed spaces and New Hope for 6. Protocol agreed with New Hope for activation and sourcing hotel accommodation for any additional bed spaces needed during SWEP activation periods.
22	Increased resource and capacity needed to respond to damp and mould housing conditions within social housing, WBC accommodation and privately owned properties following government guidance and the need to provide suitable assurance on the council's response if issues are identified locally.	Increased service demand due to changes in guidance, government requirements, internal review and action plan findings, increase in service requests from residents due to publicity of fatal case and inadequate response from social landlords within the town. Review finds inadequate competency of EHOs, inadequate processes and procedures, inadequate arrangements with property managers of WBC owned accommodation and inadequate arrangements of social landlords.	Delays in service provision, ongoing health impact on residents, reputational damage to council and housing providers, increased pressures on EHOs. Increased capacity and resource needed to implement review outcomes. Delays to service provision, increased risks to residents health, reputational risks. Need to bring in additional specialist services. Need to review previous service provision. Reduced motivation and increased anxiety of EHOs. Need to review contract with WCH and challenge contractual performance.	Treat	Create action plan. Review current provision of services and arrangements, after approval implement agreed findings.	3	3	9	Action plan approved being implemented, reporting to CMB. DLUCH information returns made. Meeting with Health and Care Director from HCC and ICP being arranged. Complaints reduced from pre Xmas, capacity being managed.
23	Upcoming election is not successfully delivered	Changes to voter ID requirements, lack of resource, Elections Act 2022	Polling stations not sufficiently staffed, residents unable to vote	Treat	Elections delivered in line with project management framework, pro-active communications in relation to changes to voter ID, early engagement with Polling Station staff.	2	3	6	



Watford Borough Council
Audit Committee Progress Report
9 March 2023

Recommendation

Members are recommended to:

- Note the Internal Audit Progress Report for the period to 24 February 2023
- Approve amendments to the Audit Plan as at 24 February 2023
- Agree the change to the implementation date for five recommendations (paragraph 2.5) for the reasons set out in Appendix C
- Agree removal of implemented audit recommendations set out in Appendix C
- Note the implementation status of high priority recommendations

Contents

- 1 Introduction and Background
 - 1.1 Purpose
 - 1.2 Background

- 2 Audit Plan Update
 - 2.1 Delivery of Internal Audit Plan and Key Audit Findings
 - 2.3 Status of Internal Audit Recommendations
 - 2.7 Proposed Internal Audit Plan Amendments
 - 2.8 Performance Management
 - 2.11 Service Update and Current Plan Delivery Position

Appendices

- A Progress against the 2022/23 Internal Audit Plan
- B 2022/23 Internal Audit Plan Projected Start Dates
- C Progress against Outstanding Internal Audit Recommendations
- D Assurance and Priority Levels

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 Internal Audit Plan for 2022/23 as at 24 February 2023.
 - b) Proposed amendments to the approved 2022/23 Internal Annual Audit Plan.
 - c) Implementation status of all outstanding previously agreed internal audit recommendations from 2018/19 onwards.
 - d) An update on performance management information at 24 February 2023.

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 2022/23 Annual Audit Plan was approved by Audit Committee on 10 March 2022.
- 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 24 November 2022.

2. Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

- 2.1 As at 24 February 2023, 79% of the 2022/23 Audit Plan days had been delivered for the combined WBC and Shared Services audit plans (excludes 'To Be Allocated' days). Appendix A provides a status update on each individual deliverable within the audit plan.
- 2.2 The following 2022/23 report has been finalised since November 2022 Audit Committee:

Audit Title	Date of Issue	Assurance Level	Number and Priority of Recommendations
Project Management	Feb '23	Substantial	Two low

Status of Audit Recommendations

- 2.3 Audit Committee 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 24 February 2023, with full details in Appendix C:

Year	Recommendations made No.	Implemented	Not yet due	Outstanding & a request made for extended time, or no update received	Percentage implemented %
2018/19	30	30	0	0	100%
2020/21	28	26	1	1	93%
2021/22	37	32	1	4	86%
2022/23	8	1	7	0	13%

2.5 Since 24 November 2022 Audit Committee, extension to implementation dates have been requested by action owners for five recommendations as follows:

- One from the 2020/21 Debtors audit, with a revised target date of 30 June 2023 (was 31 December 2022).
- One from the 2021/22 Safeguarding audit, with a revised target date of 1 June 2023 (was 1 April 2023).
- One from the 2021/22 Cyber Security audit, with a revised target date of 30 June 2023 (was 31 March 2023).
- One from 2021/22 Creditors audit, with a revised target date of 15 March 2023 (was 31 December 2022).
- One from the 2021/22 Operational Buildings Compliance audit, with a revised target date of 31 March 2023 (was 16 December 2022).

2.6 No new high priority recommendations have been made since November 2022 Audit Committee. The target date for the final high priority recommendation (from the 2021/22 Operational Buildings Compliance audit) has been extended from 16 December 2022 to 31 March 2023. Further details of this recommendation is provided within Appendix C of this update report.

Proposed Audit Plan Amendments

2.7 Since the November 2022 meeting of Audit Committee, the Asset Management System Data audit has been cancelled at the request of management and the unused audit days returned to contingency.

Performance Management

2.8 To help the Committee assess the current situation in terms of progress against the projects in the 2022/23 Audit Plan, we have provided an analysis of agreed start dates at Appendix B. These dates have been agreed with management and resources allocated.

2.9 Annual performance indicators and associated targets were approved by the SIAS Board in March 2022. Actual performance for Watford Borough Council against the targets that can be monitored for 2022/23 is shown in the table below.

Performance Indicator	Annual Target	Profiled Target to 24 February 2023	Actual to 24 February 2023
1. Internal Audit Annual Plan Report – approved by March Audit Committee or the first meeting of the financial year should a March committee not meet	Yes	N/A	Yes
2. Annual Internal Audit Plan Delivery – the percentage of the Annual Internal Audit Plan delivered (excludes unused contingency days)	95%	83% (185 / 224 days)	79% (177 / 224 days)
3. Project Delivery – the number of projects delivered to draft report stage against projects in the approved Annual Internal Audit Plan	95%	50% (9 out of 18 projects to draft)	44% (8 out of 18 projects to draft)
4. Client Satisfaction* – percentage of client satisfaction questionnaires returned at 'satisfactory overall' level (minimum of 39/65 overall)	95%	100%	100% (based on 3 received in 22/23)
5. Chief Audit Executive's Annual Assurance Opinion and Report – presented at the first Audit Committee meeting of the financial year	Yes	N/A	Yes

2.10 With regard to performance indicator 3 (project delivery) in the above table, the project not yet at draft report stage that was originally expected to be completed at this point in the year is the Climate Emergency Follow Up. The audit was scheduled to commence in September, but the start was delayed until late November due to capacity issues in the SIAS Team. Subsequent delays in getting this review completed have been a result of it taking longer than expected for us to obtain information / responses from the service.

Service Update and Current Plan Delivery Position

- 2.11 As reported above and at the last Audit Committee meeting in November 2022, SIAS are currently behind profile for both billable days and projects delivered to draft report status. In respect of the above, 2022/23 has been a significantly challenging year for SIAS in relation to recruitment and retention, with as many as 6 FTE vacancies (36% of the establishment) during earlier periods of the financial year. Whilst this has now reduced to 4.5 FTE (25% of the establishment), the specialist nature of Internal Audit means that SIAS are competing with the private sector to recruit to our higher-level roles, and this has proved challenging given the pay constraints Local Authorities operate under. In respect of the remaining vacancies, a further recruitment campaign is currently in progress. The internal audit market remains challenging across all sectors, and SIAS's experience has been replicated elsewhere. Our recruitment of trainee auditors has been successful, however our 'grow your own' strategy is a medium to long term solution and does not resolve immediate capacity challenges.
- 2.12 As Committee Members will be aware, SIAS operates as a partnership. The resource gap within the partnership was previously reported to members as being 200 days. Whilst this would normally have been allocated to SIAS's external delivery partner (currently BDO), they reached their delivery and resourcing capacity for the financial year. SIAS therefore undertook a procurement process to commission additional external delivery partners for quarter four to assist in completion of the remaining projects. This led to the appointment of Mazars, with two audit projects at Watford Borough Council and the Shared Services Plan being allocated to them.
- 2.13 It is also important to reiterate that the delivery profile is not straight line, with the profile often impacted not only by delivery capacity, but also by the required timing of some audits, or where council departments at Watford Borough Council and / or other SIAS partners have requested later start dates for audits. This is outside the control of SIAS. When considering the current delivery position, it is important to note that any projects that have had specific key deadlines, such as grant certifications, advice, or support for projects, have been prioritised and agreed deadlines met.
- 2.14 Based on current resource availability (including our external partners), we can provide assurance to the Committee that all but one of the audits within the 2022/23 have been allocated for completion before the end of the financial year. The final audit is expected to be completed during April 2023. However, should additional vacancies occur, SIAS experience significant staff sickness, or there are client engagement issues in relation to the timing or supporting the delivery of audits, there would be a risk to the overall delivery of the 2022/23 audit plan.
- 2.15 The above position is subject to continual monitoring, and we are currently satisfied that all available mitigating actions have been taken forward to manage the above risks, and that any uncompleted projects could be concluded during April 2023 to support the Annual Assurance Opinion if required. However, regular updates will be provided to both the Committee and the Council's Deputy Section 151 Officer as the remainder of the financial year progresses.

APPENDIX A - PROGRESS AGAINST THE 2022/23 AUDIT PLAN AT 24 FEBRUARY 2023

2022/23 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									
Council Tax (shared services plan)						10	SIAS	9.5	Draft Report Issued
Financial Reconciliations (shared services plan)						13	BDO	8	In Fieldwork
Fixed Asset Register (shared services plan)						10	BDO	8	In Fieldwork
NDR (shared services plan)						10	SIAS	9.5	Draft Report Issued
Payroll (shared services plan)						12	Mazars	8	In Fieldwork
Sundry Debtors (shared services plan)						10	BDO	9.5	Draft Report Issued
Treasury (shared services plan)						8	SIAS	1	In Planning
Operational Audits									
Climate Emergency Follow Up						4	SIAS	3	In Fieldwork
Asset Management System Data						0.5	BDO	0.5	Cancelled
Museum	Limited	0	0	5	1	11	SIAS	11	Final Report Issued
FOI						8	Mazars	1	In Planning
Trees						10	SIAS	5	In Fieldwork
Website Redesign						9	BDO	6	In Fieldwork
Green Homes Grant	Unqualified	-	-	-	-	3	SIAS	3	Final Report Issued
COMF Grant Certification	Unqualified	-	-	-	-	0.5	SIAS	0.5	Final Report Issued

APPENDIX A - PROGRESS AGAINST THE 2022/23 AUDIT PLAN AT 24 FEBRUARY 2023

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	L				
Contract Management, Project Management & Procurement									
Project Management	Substantial	0	0	0	2	12	BDO	12	Final Report Issued
Contract Management						12	BDO	8	In Fieldwork
Governance									
Corporate Governance						12	BDO	11.5	Draft Report Issued
IT Audits									
Cyber Security (shared services plan)						15	BDO	10	In Fieldwork
Shared Learning / Joint Reviews									
Shared Learning / Joint Reviews						4		4	Complete
Follow Ups									
Follow up of Audit Recommendations						8		8	Complete
To Be Allocated									
Unused Contingency (shared services plan)						1.5		0	To Be Allocated
Strategic Support									
2023/24 Audit Planning						6		6	Complete
Annual Governance Statement						3		3	Complete

APPENDIX A - PROGRESS AGAINST THE 2022/23 AUDIT PLAN AT 24 FEBRUARY 2023

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	L				
Audit Committee						10		9	Through Year
Head of Internal Audit Opinion 2021/22						3		3	Complete
Monitoring & Client Meetings						7		6	Through Year
SIAS Development						3		3	Complete
Completion of 2021/22 audits									
Time required to complete work commenced in 2021/22 (7 days shared plan; 3 days WBC)						10	N/A	10	Complete
WBC TOTAL						129		106.5	
SHARED SERVICES TOTAL						96.5		70.5	
COMBINED TOTAL		0	0	5	3	225.5		177	

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

APPENDIX B – AUDIT START DATES 2022/23

Apr	May	June	July	August	September
	Museum Final Report Issued	Corporate Governance Draft Report Issued	Website Redesign* (See Footnote)		Sundry Debtors (Shared services plan) Draft Report Issued
		Green Homes Grant Final Report Issued	COMF Grant Certification Final Report Issued		Contract Management* (See Footnote)

October	November	December	January	February	March
Project Management Final Report Issued	Asset Management System Data Cancelled	FOI (See Footnote)	Trees In Fieldwork	Cyber Security (Shared services plan) In Fieldwork	
Climate Emergency Follow Up In Fieldwork	Council Tax (Shared services plan) Draft Report Issued	Financial Reconciliations (Shared services plan) In Fieldwork	Treasury (Shared services plan) In Planning	Payroll (Shared services plan) In Fieldwork	

APPENDIX B – AUDIT START DATES 2022/23

<p>NDR (Shared services plan) Draft Report Issued</p>	<p>Contract Management In Fieldwork</p>	<p>Fixed Asset Register (Shared services plan) In Fieldwork</p>	<p>Website Redesign* In Fieldwork</p>	<p>FOI In Planning</p>	
--	--	--	--	-----------------------------------	--

* Website Redesign audit moved from July 2022 to January 2023 at the request of the service due to staff absence.

* Contract Management audit moved from September to November 2022 to meet resourcing availability at BDO, the SIAS external partner.

* FOI audit moved from December 2022 to February 2023 to meet resourcing availability at Mazars, the SIAS external partner.

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

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	<p>Position – 21 August 2019 The system is designed to destroy all documents that are older than 6 years plus current. We discovered that the system was not working properly and has destroyed some documents that are still required to support live Benefit claims and therefore we need to retain. Clearly, we could not allow that to continue so the system has been suspended. We have sought advice on how to fix this issue from the system provider and are awaiting their response. I have chased this today and have also now asked if it's possible to use the system in part so that we can carry on destroying old documents that we no longer require for Council Tax and Business Rates and unsuspend the Benefits part of the system once we have fixed the problem. I will escalate this issue in a week if I have not had a response.</p> <p>Position – 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.</p> <p>Position – July 2021 The system upgrade planned for March 2021 did not go-ahead as we had limited time to carry out testing and were not in a position to be able to sign off the product. A new go-live date has been set for 7/8 September 2021 and testing has commenced.</p>	Benefits Manager	31 May 2019	✓	31 October 2019 30 June 2020 30 Sept 2020 31 March 2021 30 Sept 2021 30 November 2021 31 January 2022 15 March 2022 31 August 2022 31 October 2022 30 November 2022

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Benefits 2018/19 Final report issued April 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>Position – September 2021 We currently are unable to upgrade due to not having a fully operational Test system. All parties are in communication and are trying to identify the issue so that we can progress with testing.</p> <p>Position – February 2022 The long-awaited upgrade took place on 04.02.22. We are now amending the scripts that will destroy the old documents. The scripts are being amended to do two things that they did not do before: 1. To look for claims that have an outstanding housing benefit overpayment but a non-live housing benefit claim, and 2. Live housing benefit claims. Where the script identifies claims under 1 & 2 no documents will be destroyed regardless of their age as they may be required for audit, for fraudulent investigations and for recovery of overpayments.</p> <p>Position – July 2022 Consultancy is being arranged to assist with a complete re-write of the scripts to destroy unwanted documents. Whilst the writing and testing of a new script is in progress which will automate the whole process, we will manually start identifying old documents and destroy them.</p> <p>Update received September 2022 but after reporting deadline for September 2022 Audit Committee: Training on how to write the script required to make the retention & destruction module work took place on 12.09.22 (a re-write of the scripts was necessary as the original script could not be located and the officers who wrote and</p>				

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Benefits 2018/19 Final report issued April 2019							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>implemented the original scripts no longer work for the authority). We have a few matters to check in terms of the corporate retention polices and a few system parameters to check and then we can switch the module on. Once the script has run once, we will know how many documents we have to destroy and how long it will take to destroy them all on the basis we can run the script for a couple of hours every evening and longer at the weekend.</p> <p>Position – November 2022 Some testing and prep work carried out, things were delayed a little due to delivery of the Energy Fuel Rebates and testing for a server migration. Going live week commencing 14.11.22 with a selection of document types which will be increased until all document types are included.</p> <p>Position – February 2023 The Retention & Destruction Module went live on 17.12.22 and the recommendation is now resolved.</p>				

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Communications 2020/21 Final report issued May 2021							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	<p>We recommend that the service updates all its policies to ensure that they reflect the current process followed.</p> <p>Going forward, the service should ensure that the policies are updated at regular intervals, and proper version control introduced.</p>	Low	<p>These policies were due to be updated in 2020 but due to the impact of Covid-19 this has been delayed.</p> <p>Position – July 2021 No update received.</p> <p>Position – September 2021 The service has had a very busy summer leading on the communications and engagement for a range of priority council initiatives and projects (e.g. mass vaccination clinics, Sustainable Transport Strategy). An additional resource provided by a Kickstart appointment will be supporting this work.</p> <p>Position – November 2021 Overall guidance on publicity and communications has been updated. The team is still working through additional policies.</p> <p>Position – February 2022 Main policies updated.</p> <p>Position – July 2022 Review of all policies underway for 2022/23.</p> <p>Position – August 2022 Main policies updated – additional ones under review.</p> <p>Position – November 2022 In progress.</p> <p>Position – February 2023 In progress to meet March deadline.</p>	Communications and Engagement Lead	31 October 2021	*	<p>28 February 2022</p> <p>31 March 2023</p>

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Debtors 2020/21							
Final report issued June 2021							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
03	Consideration should be given to an annual review of debtor accounts to identify duplicate or dormant for deletion or deactivation.	Low	<p>Position – July 2021 We will speak to Finance about the best way of doing this.</p> <p>Position – September 2021 A complete review of the entire Sundry Debtor service has recently been commenced and this will be included as part of the review.</p> <p>Position – November 2021 No update received.</p> <p>Position – February 2022 No update received.</p> <p>Position – July 2022 To date we have not been able to resource this review as we have had to prioritise Grant work and more recently the Council Tax Energy Rebates. We will pick up this project towards the end of the calendar year once the Energy rebate work is completed.</p> <p>Position – August 2022 No update received – target date not yet reached.</p> <p>Update received September 2022 but after reporting deadline for September 2022 Audit Committee: Finance are going to run and extract this data from the Finance System which Revs & Bens will then check. It may be completed before 30 October 2022, it really depends on how many are on the list.</p> <p>Position – November 2022 The lists were provide by Finance mid-September but work has not yet commenced</p>	Recovery Team Leader, Revenues Manager and Finance.	31 August 2021	*	<p>31 October 2021</p> <p>31 October 2022</p> <p>31 December 2022</p> <p>30 June 2023</p>

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Debtors 2020/21 Final report issued June 2021							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>as the entire Revs and Bens Service was delivering the Energy Fuel Rebate payments. Work will commence on the lists week commencing 14.11.22.</p> <p>Position – February 2023 Revs and Bens have not had the capacity to carry out this work yet as resource has diverted to Energy Fuel Rebate schemes and resource has been very low due to long term staff sickness. Revs and Bens will take ownership of checking duplicate customer account and deleting those where we are certain there is no current billing rule. Finance and the individual services will need to take responsibility for deleting or de-activating old accounts. We will remind them of this requirement.</p>				

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Safeguarding 2021/22							
Final report issued April 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	<p>When temporary staff members are being appointed, the Council should ensure that necessary safeguarding checks have been completed prior to the employee starting work, and that appropriate records are maintained.</p> <p>If there is an expected delay to such checks being performed, a decision should be recorded to delay the start date until completed</p>	High	<p>HR Management will remind Comensura of the pre-employment checks required by Watford prior to someone starting.</p> <p>HR will carry out spot checks of temporary staff and ask Comensura [or any other provider] to provide evidence of the checks undertaken at least annually.</p> <p>HR will ensure the specification for a future agency partner includes all requirements for pre-employment checks to be undertaken and the checking process to be in place to ensure compliance.</p> <p>Recruiting Managers across the council will be reminded of the need to ensure all compliance documentation is received prior to commencement of staff in post and the different requirements if agency staff come through Comensura or direct through agency to the council.</p> <p>Position – July 2022 Comensura have been reminded of the pre-employment checks required. Their booking system has the requirement for a DBS check as a pre-requisite. The tender specification for the current tender process for future agency partner has included the requirement for DBS checks to be carried out. HRBPs have reminded managers of the compliance documentation required and this will be raised as new bookings are made.</p> <p>Position – August 2022 All recommendations are complete except the one action in progress (spot checks) This has a due date of 1 April 2023.</p>	HR Operations Lead	<p>1 June 2022</p> <p>1 April 2023</p> <p>When required.</p> <p>1 June 2022</p>	<p>✓</p> <p>*</p> <p>✓</p> <p>✓</p>	<p>1 June 2023</p>

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Safeguarding 2021/22							
Final report issued April 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>Position – November 2022 The position regarding spot checks will be taken up with Hays (the new contractor/agency partner who commence their contract with the Council on 05 December 2022).</p> <p>Position – February 2023 Hays took up the contractor/agency partner in December 2022. Spot checks will be carried out after 6 months of the contract running when sufficient appointments for spot checking have been made.</p>				

Main Accounting 2021/22							
Final report issued April 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
03	<p>We recommend that procedure notes are produced for feeder system reconciliations to enable them to be carried out correctly and checked in a timely manner.</p> <p>We also recommend that Benefits system reconciliations are signed and dated by another person in Finance.</p>	Low	<p>Procedure documents will be reviewed and updated/created as required.</p> <p>Timeliness of reconciliation will be monitored and managed as part of the tracking processes referenced in the response recommendation 2, above.</p> <p>Position – July 2022 On target.</p> <p>Position – August 2022 In progress and on target - target date is 31 October 2022.</p> <p>Position – November 2022 In progress – we have a reconciliation tracker and have most of the procedures notes</p>	Finance Section Head / Finance Systems Manager	31 October 2022	✓	31 December 2022

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Main Accounting 2021/22							
Final report issued April 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>however this has provided an opportunity to rework and improve a small number of processes, which is currently being done as part of this work.</p> <p>Target date is now 31 December 2022.</p> <p>Position – February 2023 We have process notes for each reconciliation on our Tracker. Each reconciliation is signed off by another person. We are currently undertaking an internal audit on reconciliations. Resolved.</p>				

Cyber Security 2021/22							
Final report issued April 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	<p>1.1 Management should ensure that appropriate monitoring controls are in place for the password monitoring and management activities. These should include but not be limited to the following:</p> <ul style="list-style-type: none"> brute-forcing of account passwords including password spraying, login attempts from unexpected geographic areas, unexpected account lockouts 	Medium	<p>01 Mar 2022 the Azure AD Password Protection was implemented. Users will not be able to change passwords to weak passwords nor known passwords nor passwords from our Ban List of passwords.</p> <p>1.1 – requires a third-party tool and associated funding would be required. The implementation of the password protection for Azure AD lowers the risk.</p> <p>1.2 - this would be dependent on the ability to fund with a third-party tool – 1.1.</p> <p>Position – July 2022 Third party tools currently being reviewed and costed. Item not yet due.</p>	Associate Director of ICT and Shared Services	31 March 2023	*	31 March 2024

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Cyber Security 2021/22 Final report issued April 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	<ul style="list-style-type: none"> password database for the deny list hashes, other unusual behaviour from users. <p>1.2 The above proposed controls, once in place, should be actively reported upon, through the periodic cyber security reports, to the senior management.</p>		<p>Position – August 2022 1.1 - Third party tools have been evaluated and Netwrix has been selected as the preferred tool.</p> <p>1.2 – Netwrix had demonstrated the tool in detail and a 30-day trial to test the system further is available.</p> <p>1.3 – Quotation for 1- and 3-year option has been provided.</p> <ul style="list-style-type: none"> 1-year option - £7,806 3-year option - £16,483 <p>1.4 – Implementation of the tool will be dependent on the ability to fund the third-party tool, this will require an approval by ITSG for an additional spend. A paper to review this recommendation and request any growth in budget 2022.</p> <p>Position – November 2022 1.1 – Due to the audit which was performed by DLUHC, the scope of the security posture has extended. The grant to address the sections of the new recommendations within the scope has been successfully secured. 1.2 – The evaluation of the third-party tool has been extended, due to the new requirements within the scope presented post the DLUHC audit. 1.3 The new proposed completion dates recommended by DLUHC is end of Q4 March 2024.</p> <p>Position – February 2023 In progress. Produce options and costs continue to be reviewed and costed</p>				

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Cyber Security 2021/22 Final report issued April 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			against all recommendations included within the DLUHC cyber grant budget.				
03	Management should conduct regular monthly vulnerability scans across the entire IT estate including endpoint, to identify and mitigate vulnerabilities including software flaws, missing patches, misconfigurations and malwares.	Low	This would require additional budget and would need a growth item approved, as there are licence implications for the Qualys scanner. Position – July 2022 Extension of current third-party tools currently being reviewed and costed. Item not yet due. Position – August 2022 1.1- Third party Qualys had introduced a new module which will enable the management of remote devices through the cloud. 1.2 – Both options are currently being evaluated and costed. Decision made will be based on cost, functionality, and management. Position – November 2022 1.1 – Due to the allocation of a new Account Manager at Qualys and the changes within the licensing structure, Qualys are currently reviewing the proposed quotation to align the requirements with the new licensing structure. 1.2 – Workshop with Qualys has been scheduled to discuss the new proposed licensing structure and the modules which are required to enable the management of the devices remotely through the cloud and not relaying on the VPN. Position – February 2023	Associate Director of ICT and Shared Services	31 March 2023	*	30 June 2023

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Cyber Security 2021/22							
Final report issued April 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>Remains in progress, however Associate Director of ICT and Shared services requests an extension of 3 months. This is due to</p> <ul style="list-style-type: none"> a. Qualys licencing for public sector has recently changed. Awaiting updated quotations. b. In terms of funding, a recent grant award from DLUHC will cover this item. Therefore no requirement for additional growth within the ICT service budget. 				

Creditors 2021/22							
Final report issued July 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
02	<p>We recommend:</p> <ol style="list-style-type: none"> 1. The Council creates a policy/procedure covering the use of CHAPS and Faster Payments. This will include: <ul style="list-style-type: none"> • The criteria which must be met to use CHAPS and Faster payments, • The process for requesting and approving these payments, • Which officers can request and approve these payments and how delegated limits will be set. 2. The Council updates the Payment Voucher request procedure to outline the types of payments which are 	Medium	<p>A process note for CHAPS and Faster Payments will be written along with a scheme of delegation, agreed by S151 Officer and published on the intranet.</p> <p>Agreed and will be published as per the above.</p>	Finance Manager (Systems)	26 August 2022	* - part 1 and 2 resolved. Revised deadline for part 3.	<p>31 October 2022</p> <p>31 December 2022</p> <p>15 March 2023</p>

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Creditors 2021/22							
Final report issued July 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	<p>eligible and ineligible to be made using this method.</p> <p>3. The policy and procedures for CHAPS, Faster Payments and Payment Vouchers are communicated/re-communicated to all relevant staff across the Council (e.g., in a corporate communication) and placed on key staff systems such as the Intranet for reference</p>		<p>Agreed they will be published on the intranets and a communication to all staff.</p> <p>Position - July 2022 Not yet due.</p> <p>Position – August 2022 1 is resolved ✓ process note created. 2 is resolved ✓ process updated.</p> <p>3 We will publish revised note and new note on the intranet along with Delegated authority listings.</p> <p>New deadline: 31 October 2022</p> <p>Position – November 2022 Process notes have been written.</p> <p>There are issues with intranet, so these will be circulated by email,</p> <p>Delegated authority lists to be run and agreed.</p> <p>Again, there are issues with intranet so these will be published when intranet issues resolved.</p> <p>Position – February 2023 There has been an issue with intranet however two Finance staff undertake training next week and will publish as agreed. New deadline 15th March 23.</p>				

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Operational Buildings Compliance 2021/22							
Final report issued July 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
03	<p>The Compliance & Maintenance Officer should generate monthly reports for the Facilities Manager and the Leadership Board to review on the compliance rates in relation to the following health and safety areas:</p> <ul style="list-style-type: none"> • Gas Safety • Electrical Safety • Fire Safety • Legionella Safety • Lift Safety <p>The reports should outline the risk assessments undertaken, progress, outcomes, remedial actions completed, due and those delayed for greater oversight. The remedial actions should have an assigned action owner and due date for completion.</p>	High	<p>FM to provide programme on a monthly basis to Leadership Board. This will include information on risk assessments and progress with remedial actions.</p> <p>Position – August 2022 Compliance report to be provided to senior management on a monthly basis. New asset management system (concerto) will be able to generate regular management reports. FM produce a spreadsheet on current status of compliance that can be provided in the meantime.</p> <p>Position – November 2022 All compliance information has been uploaded on asset management system but testing and training still required for FM. Training to be undertaken in November with reports generated from December.</p> <p>Position – February 2023 All compliance information has now been uploaded on the asset management system (Concerto) and is now operational. Specific training in how to generate compliance reports in Concerto is scheduled for week beginning 6th March and compliance reports will then be generated from end March on a regular basis using Concerto. In the meantime, manual reports are capable of being produced and are available to senior management, FM are approaching the agenda organiser to ensure that a regular spot is included in the Corporate Management Teams' agenda for these reports.</p>	Head of Corporate Asset Management / Facilities Manager	31 July 2022	*	<p>30 September 2022</p> <p>16 December 2022</p> <p>31 March 2023</p>

Audit Plan 2022/23

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Watford Museum 2022/23 Final report issued October 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	<p>We recommend that the statement of purpose for the Watford Museum provides a clear link and reference to the Council's cultural strategy.</p> <p>We also recommend that the existing delegated authority arrangements are reviewed to ensure that they are sufficiently clear, with a local scheme of delegation created where sub-delegations are in place (for example responsibilities assigned from the Group Head or Head of Service to the Museum Curator).</p>	Medium	<p>The statement of purpose will be developed as the forward plan is revised and to align with the ambitions for the Town Hall Quarter and to link to the cultural strategy.</p> <p>Position – November 2022 Being planned.</p> <p>Position – February 2023 Being planned, resources allocated and work commencing in April 23 to align with Town Hall Quarter Programme and ACE requirements.</p> <p>Museum Governance will be reviewed as part of the process of developing the Arts Council Accreditation Forward Plan and Associated Policies (Action 2) and Town Hall Quarter redevelopment plans.</p> <p>Position – November 2022 Being planned.</p> <p>Position – February 2023 Being planned, resources allocated and work commencing in April 23 to align with Town Hall Quarter Programme and ACE requirements.</p> <p>Longer term a more substantive governance model will be developed in key areas such as exhibitions, audience development and collections management.</p> <p>Position – November 2022</p>	Associate Director of Environment	<p>30 April 2023 (subject to Arts Council Submission date)</p> <p>30 April 2023 (subject to Arts Council Submission date)</p> <p>30 April 2023 (subject to Arts Council Submission date)</p>		

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Watford Museum 2022/23 Final report issued October 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			Being planned. Position – February 2023 Being planned, resources allocated and work commencing in April 23 to align with Town Hall Quarter Programme and ACE requirements.				
02	We recommend that all documents or policies are fully completed or subject to review and update prior to the end of the financial year, with policies passed to the Executive for approval. We also recommend that a log is kept of all policies, including the last and the next review dates, to ensure that they are reviewed in a timely manner in future years.	Medium	Arts Council re accreditation is due for submission in April 2023 at the earliest. (The Arts Council will inform us when they require us to submit). A project will be created using EPMO protocols to oversee delivery and approval of the forward plan and policies, linked to the Museum Project and THQ programme boards and revised governance. Some policies are in development already. Monitoring of policies will be brought into service delivery and as a KPI or service plan output. Position – November 2022 Being planned. Position – February 2023 Being planned, resources allocated and work commencing in April 23 to align with Town Hall Quarter Programme and ACE requirements.	Associate Director of Environment	30 April 2023 (subject to Arts Council Submission date)		
03	The current investigation of the one item identified as missing should be concluded at the earliest opportunity, with further advice on required actions being sought if the item cannot be located.	Medium	Complete investigation. Position – November 2022 On hold due to staff absence, deadline will be met. Position – February 2023		31 December 2023		

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Watford Museum 2022/23 Final report issued October 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			Due to staff absence this has been on hold. To be completed by 1st May 2023.				
04	<p>We recommend that all staff are reminded of what paperwork needs to be completed for loans including the log which would summarise what items were currently on loan.</p> <p>We also recommend that policies are updated to reflect the approval delegation authorities included within the constitution.</p> <p>Finally, consideration should be given to clarifying within the constitution the value and time thresholds above which loans of objects are required to be authorised, and below this value the local delegation that has been agreed.</p>	Medium	<p>Staff training on loans process to be implemented. Develop log of loans and regularly monitor.</p> <p>Position – November 2022 On hold due to staff absence, deadline will be met.</p> <p>Position – February 2023 Due to staff absence this has been on hold. To be completed by 1st May 2023.</p> <p>See action against recommendation 1.</p> <p>Position – November 2022 Being planned.</p> <p>Position – February 2023 Being planned, resources allocated and work commencing in April 23 to align with Town Hall Quarter Programme and ACE requirements.</p> <p>See action against recommendation 1.</p> <p>Position – November 2022 Being planned.</p> <p>Position – February 2023 Being planned, resources allocated and work commencing in April 23 to align with Town Hall Quarter Programme and ACE requirements. Constitution has had an interim update to reflect this.</p>	Curator	31 December 2023		

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Watford Museum 2022/23 Final report issued October 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
05	<p>We recommend that an action plan is put in place to support the identification, control and monitoring of remaining key actions in respect of the accreditation preparation. This should include the actions required, target dates and action owners.</p> <p>The above action plan should also include the recommendations made in this report and progress should be monitored by Senior Managers on a monthly basis.</p>	Medium	<p>See actions against recommendations 2 and 3.</p> <p>Position – November 2022 Being planned.</p> <p>Position – February 2023 This is now part of the Museum Project board to oversee.</p>	Associate Director of Environment			
06	<p>We recommend that advice is sought from the Council’s insurers as to the frequency of review of valuations. Upon completion of any future revaluations, this should also support a review of the existing levels of insurance.</p> <p>Upon the above clarity being obtained, the required frequencies (or process for determining review periods) should be incorporated into the relevant policies and procedures.</p>	Low	<p>Follow recommendation and link to action against recommendation 2.</p> <p>Response from Zurich Commercial Insurance: Our Fine Arts team in Zurich Commercial usually work to a valuation every 3 years, however we would be comfortable with valuations every 5 years. That said I would always apply a flexible common-sense approach to the 5-year average guide. If for instance you know some items are subject to rapid increases in value then obviously, I would look to revalue every 3 years, whereas you may have some other items that don’t move much at all in value and these items you could push out to say 7 years and everything else falls in between.</p> <p>Naturally the onus is on the council to prove the value of an item in the event of a loss and this is always made harder after the event if the item is stolen or destroyed with no recent valuations to hand.</p> <p>Position – November 2022</p>	Curator	1 May 2023		

APPENDIX C – AUDIT RECOMMENDATIONS FOLLOW UPS – FEBRUARY 2023

Watford Museum 2022/23							
Final report issued October 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			Existing valuations being reviewed by staff and considering commissioning new valuations. Position – February 2023 Due to staff absence this has been on hold. Quotes for valuation to be obtained by 1st May 2023.				

Project Management 2022/23							
Final report issued February 2023							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	All projects should either have a Project Brief or Project Initiation Document completed and retained to evidence a clear audit trail and compliance alongside the Project Management Framework. The Council may also want to consider introducing a checklist or audit review document to ensure all key information is completed and in place, as per the Project Management Framework.	Low	This recommendation is noted and accepted. It will be implemented over the next period.	Associate Director of Customer and Corporate Services and Project Manager	1 April 2023	*	
02	For all documents that require approval, including Project initiation Documents and Closure reports, ensure approval has been documented to evidence a clear audit trail of review and approval from appropriate members.	Low	This recommendation is noted and accepted. This point has already been raised at the EPMO Assurance Group and a process is now in place whereby the EPMO Coordinator received final versions of the documents with the approval date attached.	Associate Director of Customer and Corporate Services and Project Manager	1 February 2023	✓	

APPENDIX D – ASSURANCE AND PRIORITY LEVEL DEFINITIONS

Audit Opinions	
Assurance Level	Definition
Assurance Reviews	
Substantial	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Not Assessed	This opinion is used in relation to consultancy or embedded assurance activities, where the nature of the work is to provide support and advice to management and is not of a sufficient depth to provide an opinion on the adequacy of governance or internal control arrangements. Recommendations will however be made where required to support system or process improvements.
Grant / Funding Certification Reviews	
Unqualified	No material matters have been identified in relation the eligibility, accounting and expenditure associated with the funding received that would cause SIAS to believe that the related funding conditions have not been met.
Qualified	Except for the matters identified within the audit report, the eligibility, accounting and expenditure associated with the funding received meets the requirements of the funding conditions.
Disclaimer Opinion	Based on the limitations indicated within the report, SIAS are unable to provide an opinion in relation to the Council's compliance with the eligibility, accounting and expenditure requirements contained within the funding conditions.
Adverse Opinion	Based on the significance of the matters included within the report, the Council have not complied with the funding conditions associated with the funding received.
Recommendation Priority Levels	
Priority Level	Definition
Corporate	Critical Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
Service	High Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	Medium Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.



Watford Borough Council
Audit Committee
9 March 2023

2023/24 Internal Audit Plan Report

Recommendation

Members are recommended to approve the proposed 2023/24 Watford Borough Council and Shared Services Internal Audit Plans

Contents

1. Introduction and Background

2. Audit Planning Process

2.1 Planning Principles

2.2 Approach to Planning

2.10 Planning Context

2.13 2023/24 Internal Audit Plan

3. Performance Management

3.1 Update Reporting

3.2 Performance Indicators

Appendices

A Watford Borough Council Draft 2023/24
Internal Audit Plan

B Watford and Three Rivers Shared
Services Draft 2023/24 Internal Audit Plan

C Internal Audit Start Dates Agreed with
Management

1. Introduction and Background

- 1.1 The mission of Internal Audit is “to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”. The Public Sector Internal Audit Standards (PSIAS) encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). These Standards note that a professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector. The SIAS Board has approved the SIAS Internal Audit Strategy in December 2021 and this strategy outlines how SIAS will achieve the mission of Internal Audit and ensure ongoing compliance with the PSIAS. The following report follows the key principles within the Strategy related to Audit Planning and Resourcing, with the Strategy document itself being available to Members upon request.
- 1.2 The PSIAS set out how we must approach audit planning. The specific standards that we must adhere to are as follows:

Standard	Description
2010	A risk-based plan, setting out audit priorities consistent with the goals of the organisation.
2010	Linked to annual opinion need and internal audit Charter
2010.A1	Based on documented risk assessment, updated at least yearly and consulting Senior Management and Members
2010.A2	Reflect expectations of Senior Management, Members and other stakeholders
2020	Communicated to Senior Management for review and to Members for approval
2030	Ensure internal audit’s resources are fit and effectively used
2030	Must explain how resource adequacy assessed, and set out results of any limits

- 1.3 The Council’s Internal Audit Plans set out the programme of internal audit work for the year ahead, and forms part of the Council’s wider assurance framework. It supports the requirement to produce an audit opinion on the overall internal control environment of the Council, as well as a judgement on the robustness of risk management and governance arrangements, contained in the Chief Audit Executive’s Annual Opinion Report.
- 1.4 The Shared Internal Audit Service’s (SIAS) Audit Charter which was presented to the July 2022 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 July 2023 Audit Committee meeting for Member approval.

- 1.5 Section 2 of this report details how SIAS complies with these requirements.

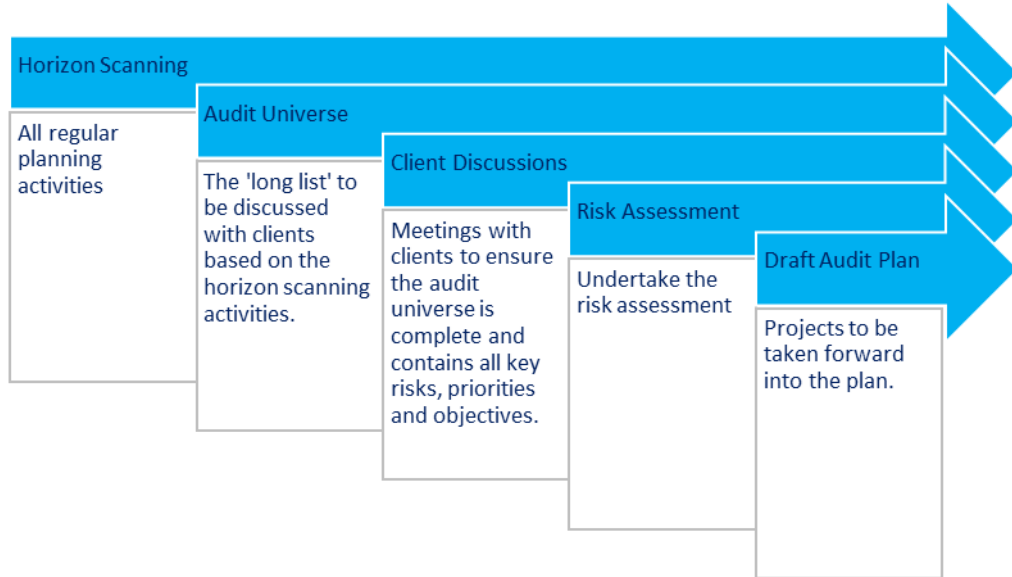
2. Audit Planning Process

Planning Principles

- 2.1 SIAS audit planning is underpinned by the following principles:
- a) Focus of assurance effort on the Council's key issues and controls, 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 SIAS has developed an approach to annual planning that ensures ongoing compliance with the requirements of the PSIAS, SIAS applies the following methodology at its partners:



Horizon Scanning and Audit Universe

- 2.3 SIAS conducts horizon scanning to ensure that it is aware of the key issues and risks locally and nationally as well as the corporate and service objectives of the Council. To do this, SIAS undertakes the following activities:



- 2.4 Following the horizon scanning work, SIAS creates an Audit Universe based on all auditable areas and entities. The Audit Universe forms the basis of discussions with Senior Managers.

Client Discussions

- 2.5 SIAS undertook 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 steps to assist in the prioritisation of proposed internal audit projects:

Risk Assessment

Senior managers and SIAS agree the level of risk associated with an identified auditable area and prioritise this accordingly.

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.

Risk Assessment

- 2.6 The overarching risk that SIAS bases planning against is the risk that audit work completed does not provide sufficient coverage and significance for SIAS to provide a robust annual assurance opinion. Therefore, SIAS risk assesses each auditable area to ensure that their resources are directed appropriately.
- 2.7 The risk assessment behind the development of the 2023/24 Internal Audit Plan was strongly correlated to the Council's plans and associated Council monitoring through risk assessments, KPI's and project progress.
- 2.8 SIAS also include considerations of financial materiality, corporate significance, vulnerability and change and management concerns, as part of the risk assessment, including alternative sources of assurance through the Three Lines (of Defence) model.

Draft Audit Plan

- 2.9 The results of the risk assessment and discussions with Senior Mangers provides a draft Internal Audit Plan. SIAS has presented this draft plan to the Corporate Management Board to provide any further updates or comments. The outcome is now presented to Members as part of this report for their approval of the 2023/24 Draft Internal Audit Plans.

The Planning Context

- 2.10 The context within which local authorities provide their services remains challenging:
- The longer-term impacts of the pandemic are beginning to emerge and there are ongoing challenges and risks relating to economic growth, public health and equality for local authorities.
 - 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, including rising interest rates and inflation, increased salary levels, rising material and construction costs, the potential reduction in business rates and recruitment and retention challenges, on their local economies and services 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.
 - Cyber security (ransomware and malware) remains a consistent threat to organisations and there are a growing number of local authorities that have been subjected to successful attacks recently. Continued vigilance and awareness remain key to protecting the information assets of local authorities.
 - 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 changes to the retention of business rates, public health and housing mean the overall financial environment remains relatively unstable.
- There have been high profile governance issues, conflicts of interest, probity, and procurement, at both national and local levels creating a culture of mistrust in all tiers of government.
- Local authorities are facing significant challenges in relation to talent management, both in terms of recruitment and retaining staff meaning ability to remain resilient and deliver high quality services may become a concern in short term.
- Many local authorities have declared a Climate and Ecological Emergency in the past couple of years and made commitments to become Net Zero. Whilst the pandemic has distracted some from this priority, it cannot be ignored and is now a greater challenge to maintain focus and deliver the necessary carbon reductions.

2.11 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.

2.12 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.

2023/24 Internal Audit Plan

2.13 The draft 2023/24 audit plans are included at Appendix A and B and contain a high-level proposed outline scope for each audit. Appendix C

details the indicative start months. The total number of days purchased in 2023/24 covering the Watford Borough Council, Shared Services and Three Rivers District Council audit plans has reduced from 362 days to 346 days. The table below shows the estimated allocation of the total annual number of purchased audit days for the year for the Watford Borough Council and Shared Services audit plans.

	WBC Internal Audit Plan Days	Shared Services Internal Audit Plan Days	Total Internal Audit Plan Days
Key Financial Systems	0	54	54
Operational audits	75	12	87
Grant Certifications	3	0	3
Procurement / Contract Management	0	0	0
Risk & Governance	8	0	8
IT Audits	0	30	30
Contingency	0	0	0
Recommendation Follow Ups	8	0	8
Strategic Support*	27	0	27
2022/23 Projects Requiring Completion	5	4	9
Total Internal Audit Days 2023/24	126	100	226

* This covers supporting the Audit Committee, monitoring, client liaison and planning for 2024/25.

- 2.14 Members will note the inclusion of a provision for the completion of projects that relate to 2022/23. 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.
- 2.15 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 SIAS is required to report its work 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. Progress against the agreed internal audit plan for 2023/24 and any proposed changes will be reported to this Committee four times in 2023/24.
- 3.2 SIAS will report on the implementation of agreed audit recommendations as part of the update reporting process.

Performance Indicators

- 3.3 Annual performance indicators are reviewed annually by the SIAS Board and details of the 2023/24 targets are shown below. Actual performance against target will be included in the update reports to this Committee.

Performance Indicator	Performance Target	Reporting Frequency
1. Public Sector Internal Audit Standards – the service conforms with the standards	Yes	Annually
2. Internal Audit Annual Plan Report – approved by the March Audit Committee or the first meeting of the financial year should a March committee not meet	Yes	Annually
3. Annual Internal Audit Plan Delivery – the percentage of the Annual Internal Audit Plan delivered	95%	Quarterly
4. Project Delivery – the number of projects delivered to draft report stage against projects in the approved Annual Internal Audit Plan	95%	Quarterly
5. Client Satisfaction* – percentage of client satisfaction questionnaires returned at ‘satisfactory overall’ level (minimum of 39/65 overall)	TBC*	TBC*
6. Chief Audit Executive’s Annual Assurance Opinion and Report – presented at the first Audit Committee meeting of the financial year	Yes	Annually

*The approach for obtaining client feedback is currently being reviewed, therefore this indicator will be added, if it remains relevant, upon completion of this exercise.

Watford Borough Council
Audit Committee
9 March 2023

Watford Borough Council Draft 2023/24 Internal Audit Plan

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
FINANCIAL SYSTEMS			
	See Shared Services Internal Audit Plan		
OPERATIONAL AUDITS			
Project Management – Town Hall Quarter	Review of project governance and management of the Town Hall quarter project.	12	Q1
Shared Services	Review of shared services with a focus on recent arrangements with St. Albans City and District Council. Review to cover governance and monitoring / reporting of performance / outcomes.	15	Q1
Operational Buildings Compliance Follow Up	To follow up implementation of agreed audit recommendations from the 2021/22 Operational Buildings Compliance audit, including a review of evidence to support the current status of each recommendation.	6	Q1
Performance Management / Data Quality	Review of the Council's performance management systems, including data quality and reporting.	12	Q2

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
Play Safety Inspections Follow Up	To follow up implementation of agreed audit recommendations from the 2019/20 Play Safety Inspections audit, including a review of evidence to support the current status of each recommendation.	5	Q2
Asset Management System	Review of the new asset management system. Detailed scope to be confirmed at the time of the audit.	10	Q3
Croxley Business Park	Review of management of investment risk and rental income.	15	Q4
GRANT CLAIM CERTIFICATIONS			
Miscellaneous Grants	To certify any grant claims required during the year	3	As required
PROCUREMENT			
	No audits identified		
RISK MANAGEMENT AND GOVERNANCE			

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
Risk Management	Review of the Council's risk management arrangements.	8	Q1
IT AUDITS			
	See Shared Services Internal Audit Plan.		
CONTINGENCY			
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.	8	Quarterly
STRATEGIC SUPPORT			
Head of Assurance Opinion 2022/23	To prepare and agree the Head of Assurance Audit Opinion for 2022/23.	3	Q1
Audit Committee	To provide services linked to the preparation of Audit Committee reports and presentation of reports / participation at Audit Committee.	8	Quarterly

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
Monitoring and Client Meetings	To produce and monitor performance and billing information, work allocation and scheduling, and to meet with the Council's Audit Champion and other key officers.	8	Through year
2024/25 Internal Audit Planning	To provide services in relation to preparation and agreement of the 2024/25 Internal Audit Plan in conjunction with senior officers of the Council.	5	Q4
SIAS Development	Included to reflect the Council's contribution (as with all partners) to developing the partnership.	3	Q1
2022/23 PROJECTS REQUIRING COMPLETION			
2022/23 Projects to be completed	Time for completion of 2022/23 audits carried forward into 2023/24 (any unused time will be reallocated).	5	Q1
TOTAL DAYS – WATFORD BOROUGH COUNCIL INTERNAL AUDIT PLAN		126	

Reserve List

<u>Title</u>	<u>Purpose</u>
Procurement Strategy	To provide assurance over the implementation of the Procurement Strategy.
Community Protection	To provide assurance over the Council's response to national initiatives such as the standard of private rented housing.
Premises and Personal Licences	To provide assurance over the processing and issue of premises and personal licences.
Museum Follow Up	To provide assurance that recommendations from the original audit in 2022/23 have been implemented.

Watford Borough Council
Audit Committee
9 March 2023

Watford Borough Council and Three Rivers District Council
Shared Services Draft 2023/24 Internal Audit Plan

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
KEY FINANCIAL SYSTEMS			
Main Accounting – Assurance Mapping	Mapping the various sources of assurance, the associated control framework and identifying any gaps. Areas may include journals, virements, accounting codes and key account reconciliations.	12	Q2
Debt Recovery	To provide assurance over debt recovery systems and processes to ensure adequate controls are in place to recover outstanding debts owed to the Councils. Scope to be agreed with management 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 2022/23 financial year.	12	Q2
Benefits	To provide assurance over the Housing Benefit and Council Tax Support schemes to confirm that controls are adequate and effective. Scope to be agreed with management 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 2022/23 financial year.	10	Q3
Payroll	To provide assurance over the Payroll system to confirm that controls are adequate and effective. Scope to be agreed with management 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 2022/23 financial year.	10	Q3

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
Key Financial Controls Testing	To provide targeted assurance over selected financial controls, using data analytics and other tools to provide whole population testing. Specific areas to be determined at the time of scoping.	10	Q3
OPERATIONAL AUDITS			
Agency Staffing	To provide assurance on the monitoring of agency staff spend levels and off-contract spend, agency staff employment rights and recruitment and selection checks and processes.	12	Q2
IT AUDITS			
IT Operations	To provide assurance that elements of the IT service are operating in accordance with agreed procedures and practices. Scope to be determined at the time but will include both third party arrangements and internal elements of the IT service.	15	Q1
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
CONTINGENCY			

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
Contingency	No initial budget set.	0	
2022/23 PROJECTS TO BE COMPLETED			
2022/23 Projects to be completed	Time for completion of 2022/23 audits carried forward into 2023/24 (any unused time will be reallocated).	4	Q1
TOTAL DAYS – WATFORD & THREE RIVERS SHARED SERVICES 2023/24 INTERNAL AUDIT PLAN		100	

April	May	June	July	August	September
Project Management – Town Hall quarter	Risk Management	IT Operations (shared services plan)	Agency Staffing (shared services plan)	Main Accounting – Assurance Mapping (shared services plan)	Debt Recovery (shared services plan)
Operational Buildings Compliance Follow Up			Play Safety Inspection Follow Up		Performance Management / Data Quality
					Shared Services

October	November	December	January	February	March
Key Financial Controls Testing (shared services plan)	Benefits (shared services plan)	Payroll (shared services plan)	Cyber Security (shared services plan)		
Asset Management System			Croxley Business Park		

The above is an indicative spread of audits and is subject to change. Significant changes will be brought to the attention of the Audit Committee.

Agenda Item 8

Part A

Report to: Audit Committee

Date of meeting: Thursday, 9 March 2023

Report author: Head of Finance

Title: Statement of Accounts Update

1.0 Summary

1.1 This report sets out the latest position for the external audit of the Statement of Accounts for 2020/21 and 2021/22 and the timetable for the 2022/23 Statement of Accounts.

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)
The Council's Statement of Accounts are not approved and audited within the statutory timeframe	Failure to comply with statutory timeline impacts on audit opinion	Proactive liaison with the external audit team	Tolerate	4
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 To note the latest timetable for completion of the external audit of the statement of accounts for 2020/21, 2021/22.
- 3.2 To note the timetable for the 2022/23 Draft Statement of Accounts and Annual Governance Statement.
- 3.3 To ratify the Accounting Policies for 2022/23 as approved by the Director of Finance as set out in Appendix 1.

Further information:

Hannah Doney
hannah.doney@threerivers.gov.uk

Report approved by:

Alison Scott, Shared Director of Finance

4.0 Detailed proposal

4.1 Statement of Accounts 2020/21

- 4.1.1 Progress towards concluding the audit has been slower than expected as a result of the complexity of amendments brought forward from the 2019/20 audit. In updating the brought forward balances in the 2020/21 accounts, the accounting team are ensuring that the accounting ledger is fully updated and reconciled to the final version of the 2020/21 accounts. The external auditors also require a full reconciliation between the original closing balances in the draft accounts and the final closing balances. Preparing these additional working papers will provide additional assurance over the values in the accounts but is time consuming.
- 4.1.2 The audit is now expected to conclude by the end of April with signing of the accounts in May. An update from the external auditors, Ernst and Young (EY) is elsewhere on the agenda.

4.2 Statement of Accounts 2021/22

- 4.2.1 The draft Statement of Accounts 2021/22 was authorised for issue by the Director of Finance and [published on the Council's website](#) on 31 July 2022 in line with the statutory timeframe. The period of public inspection ran from 1 August to 12 September 2022.
- 4.2.2 It is anticipated that the audit of the 2021/22 accounts will commence in July 2023. The gap between the expected conclusion of the 2020/21 audit at the end of April 2023 and the start of the 2021/22 in July is necessary for three reasons. Firstly, there is insufficient external audit resource available during this period due to the local authority audit team working on NHS audits. Secondly, the accounting team will be preparing a revised draft of the 2021/22 accounts, taking in account adjustments agreed in relation to 2019/20 and 2020/21. Thirdly, the accounting team will be preparing draft 2022/23 accounts in line with the timetable set out below.
- 4.2.3 The audit duration is expected to return to the standard period of four to six weeks, reflecting the fact that the impact of the 2019/20 adjustments will already be fully accounted for in the ledger, reducing the need for manual adjustments and additional audit work.

4.3 Statement of Accounts 2022/23

- 4.3.1 The extensions to the statutory timetable which were agreed for the 2020/21 and 2021/22 accounts have not been extended to 2022/23. This means that the timetable reverts to that set out in the Accounts and Audit Regulations 2015. This requires that draft statement of accounts to be authorised for issue by the 31 May 2023, the 30 day period for the exercise of public rights to commence by 1 June 2023 and the audited accounts to be published by 31 July 2023. The Annual Governance Statement (AGS) must also be approved by 31 May 2023 and published alongside the draft accounts for the period for the exercise of public rights.
- 4.3.2 It will not be possible to meet the deadline of 31 July for publication of the audited accounts due to the expected timeline for the 2021/22 audit. However, the statutory deadline for publishing the draft accounts and AGS by 31 May 2023 will be met.
- 4.3.3 This timetable will necessitate the Audit Committee meeting in May to approve the AGS and note the draft accounts for 2022/23.
- 4.3.4 This will also provide an opportunity for the Audit Committee to approve the final audited accounts for 2020/21, receive the Auditor's Audit Results Report for 2020/21, and the Draft Audit Plan for the 2021/22 external audit.

- 4.3.5 It is likely that a significant number of Councils will miss the statutory deadline to issue draft accounts and for the publication of final audited accounts for 2022/23. In January 2023, the National Audit Office (NAO) issued a [progress update report](#) on the timeliness of local auditor reporting on local government in England. The statistics quoted in the report are stark, including that only 9% of 2020/21 audits and 12% of 2021/22 audits were completed by the extended statutory deadlines.
- 4.3.6 The Local Government Association (LGA) has issued a response to the report calling on the Government to ‘set out a detailed timetable by which it expects to restore timely audited accounts.’ The statement also recognised that Councils will be ‘under greater pressure’ to finalise draft accounts if the deadline reverts to 31 May 2023 as currently proposed by the Department for Levelling Up, Housing and Communities (DLUHC).
- 4.3.7 Following the release of the report, DLUHC issued a survey which closed on 2 March seeking views from the sector on the adverse consequences of retaining the current timetable. The outcome of this is not yet known. If an extension is granted the current timetable will be reviewed.

4.4 **Accounting Policies 2022/23**

- 4.4.1 The Council’s Statement of Accounts is prepared in accordance the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Council is required to adopt accounting policies which describe how the Council has interpreted and applied the Code.
- 4.4.2 The Code defines Accounting Policies as ‘the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements.’
- 4.4.3 The significant accounting policies adopted by the Council are disclosed within note 1 to the Core Financial Statements in the Statement of Accounts, ‘Accounting Policies – Single Entity and Group Accounts’.
- 4.4.4 The Code prescribes that ‘authorities shall apply the objective, underlying assumption and qualitative characteristics of useful financial information, in the selection and application of accounting policies and estimation techniques.’
- 4.4.5 The Code provides a detailed framework within which accounting policies must be set:
- When the Code specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Code. Those policies need not be applied when the effect of applying them is immaterial.

- Where the Code does not specifically apply to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:
 - a) relevant to the decision-making needs of users, and
 - b) reliable, in that the financial statements:
 - i) represent faithfully the financial position, financial performance and cash flows of the authority
 - ii) reflect the economic substance of transactions, other events and conditions and not merely the legal form
 - iii) are neutral, i.e. free from bias
 - iv) are prudent, and
 - v) are complete in all material respects.
- In making the judgement management shall refer to, and consider the applicability of, the Code requirements dealing with similar and related issues. Management may also consider the most recent pronouncements of standard-setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these do not conflict with the requirements of the Code.
- An authority shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless the Code specifically requires or permits different treatment.
- An authority shall change an accounting policy only if the change is required by the Code or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the authority's financial position, financial performance or cash flows.
- Where an authority changes an accounting policy, it shall apply the changes retrospectively unless the Code specifies transitional provisions that shall be followed. A change in accounting policy shall be applied retrospectively by adjusting the opening balance of each affected component of net worth for the earliest period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied, except to the extent that it is impracticable to so do. Approval of Accounting Policies

4.4.6 The code states that the Chief Finance Officer is responsible for selecting 'suitable' accounting policies and ensuring that they are applied consistently in the preparation of the statement of accounts. The Chief Finance Officer (Director of Finance) has approved Note 1. Accounting Policies for 2022/23 as set out in Appendix 1. All significant accounting policies have been selected with reference to the Code.

4.4.7 The Council's auditors will review the adopted accounting policies as part of the audit of the statement of accounts. There is also an expectation that the auditors

will be able to evidence that the accounting policies have been approved by the Audit Committee in its capacity as 'Those Charged with Governance'. The Audit Committee is therefore asked to ratify the accounting policies as set out in Appendix 1.

4.4.8 There are no significant changes to the Accounting Policies which have been updated to reflect the latest statutory guidance. This includes updating the definition of Investment Property at paragraph 1.12 to specifically exclude assets held for the purposes of community benefit and economic development and regeneration.

4.5 **Appointment of External Auditors for 2023/24 to 2027/28**

4.5.1 It was reported to the Committee in November that the Public Sector Audit Appointments Limited (PSAA) had proposed Azets Audit Services as the auditor for the Council for 2023/24 to 2027/28. This appointment was confirmed by the PSAA in December 2022.

5.0 **Implications**

5.1 **Financial**

5.1.1 The Shared Director of Finance comments that there are no direct financial implications arising from this report.

5.2 **Legal Issues** (Monitoring Officer)

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

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

5.3.1 Under s149 (1) of the Equality Act the council must have due regard, in the exercise of its functions, to the need to –

- eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Act
- advance equality of opportunity between persons who share relevant protected characteristics and persons who do not share them
- foster good relations between persons who share relevant protected characteristics and persons who do not share them.

Having had regard to the council's obligations under s149, it is considered that there are no equalities or human rights implications.

5.4 Staffing

5.4.1 There are no staffing implications arising from this report.

5.5 Accommodation

5.5.1 There are no accommodation implications arising from this report.

5.6 Community Safety/Crime and Disorder

5.6.1 There are no community safety/crime and disorder implications arising from this report.

5.7 Sustainability

5.7.1 There are no sustainability implications arising from this report.

Background Papers

Statement of Accounts Update report to Audit Committee 24 November 2022

Appendices

Appendix 1 – Accounting Policies 2022/23

1. Accounting Policies - Single Entity and Group Accounts

1.01 General Principles

The Statement of Accounts summarises the Council's transactions for the 2022/23 financial year and its position at the year end of 31 March 2023. 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 2022/23 (the Code). The Code prescribes guidance on the preparation of the Statement of Accounts, 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. [IF APPLICABLE] 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, for the provision of community benefit, for the purpose of economic development and regeneration, 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 SERCOP.

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

1.15 Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. In addition, should current valuations of a similar class of asset suggest material differences in valuations, the entire class to which the asset belongs would be revalued. The current valuers have undertaken a market review

of individual asset types within the Council's portfolio at year end to identify any material changes to the fair value of assets. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

When decreases in value are identified:

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

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

Impairment

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

When impairment losses are identified:

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

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

Depreciation

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

Depreciation is calculated on the following bases:-

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

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

Depreciation commences in the year following acquisition.

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

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

Disposals of Non-current Assets

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

asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

Construction Contracts

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

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

1.16 Heritage Assets

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

The Heritage Assets are relatively static and acquisitions, donations and disposals are rare. Where acquisitions do occur, they are initially recognised at cost and donations are recognised at valuation ascertained by insurance officers, museum curators or external valuers. Proceeds from the disposal of Heritage Assets are accounted for in accordance with the Council's general policies relating to the disposals of property, plant and equipment. The Council has a rolling programme of major repair and restoration of its

heritage assets and therefore the assets are deemed to have indefinite lives and the Council does not consider it necessary to charge depreciation.

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

1.17 Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

The level of provisions are reviewed annually by the Council.

Contingent Liabilities

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

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

Contingent Assets

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

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

1.18 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

1.19 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account

then reverses out the amounts charged so that there is no impact on the level of council tax.

1.20 Value Added Tax (VAT)

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

1.21 Jointly Controlled Operations and Jointly Controlled Assets

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

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

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

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

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

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

1.22 Single Entity Financial Statements

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

1.23 Group Accounts - Recognition of Group Entities and Basis of Consolidation

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

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

Subsidiary undertakings are accounted for in accordance with the implementation of IAS27 (International Accounting Standard 27) in the 2019/20 Code. The 2019/20 Code requires consolidation of subsidiaries. Consolidation is a method of accounting whereby an entity combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, reserves, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:-

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

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

Taxation (for Group Accounts)

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

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

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

Allocation of Profits and Drawings (for Group Accounts)

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

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

Work in progress (for Group Accounts)

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

1.24 Fair Value

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

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

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

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

The Council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This

takes into account the three levels of categories for inputs to valuations for fair value assets:

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