

## **AUDIT COMMITTEE**

**26 July 2023**

Present: Councillor M Hofman (Chair)  
Councillors L Nembhard, C Newstead and T Osborn

Also present: Simon Luk (EY)

Officers: Head of Finance  
SIAS Audit Manager  
Fraud Manager  
Democratic Services Officer (LM)

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

Apologies were received from Councillor Khan.

There was a change of membership for this meeting: Councillor Osborn replaced Councillor Clarke-Taylor.

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

There were no disclosures of interest.

### **11 Minutes**

The minutes of the meeting held on 25 May 2023 were submitted and signed.

### **12 SIAS Annual Report 2022/23**

The HCC Head of Assurance introduced the report to the committee. The report highlighted the work of SIAS as a service, rather than the delivery of Watford's internal audit plan and was presented to the committee for informational purposes.

The Chair asked about recruitment after the introduction of the 'grow your own' policy. The HCC Head of Assurance responded that the policy had worked well; the service had struggled with as many as six vacancies in 2022/23. Since then, the service had recruited three new trainees and a clear structure was established within the shared service for their promotion. This was illustrated by

the promotion of three trainees to Auditor, and the service had also successfully recruited a Client Audit Manager.

RESOLVED –

that the report be noted.

### 13 **SIAS Update Report on Progress Against the 2023/34 Audit Plan**

The HCC Head of Assurance introduced the report to the committee. He highlighted to the committee the audits that had been finalised since the March 2023 Audit Committee in paragraph 2.2. The committee was directed to paragraph 2.7 of the report. A new audit of Revenues and Benefits system parameters had been added to the 2023/24 Shared Services Audit Plan to review the effectiveness of management controls over the annual system uprating for the revised parameters set by the DWP (Department for Work & Pensions). The HCC Head of Assurance spoke positively about the progress of the audits in the 2023/24 Plan.

The HCC Head of Assurance responded to a question on how the audit areas were selected. They explained that the selections were based on a risk-based plan focused on key risks. Audits recently revisited were the town hall quarter and the climate change action plan, as changes had been recommended. It was also essential to use part of the plan to address smaller areas and ensure a broad spread of coverage. The approach was risk-focused to provide coverage across the authority.

The Chair enquired about the potential risks associated with the move of Watford Museum to the Town Hall Quarter. The HCC Head of Assurance responded that the officers would best answer this question. The Head of Finance recommended that Paul Stacey, Associate Director of Environment, either attend the next committee meeting or provide a written answer to the committee.

In response to a question from Councillor Osborn regarding the cyber security update and third-party evaluation of software and password tools, the HCC Head of Assurance responded that he had to defer to officers for a reply. SIAS had made recommendations, but it was up to officers to provide an update.

RESOLVED –

1. that the Internal Audit Progress Report for the period to 14 July 2023 be noted.

2. that amendments to the Audit Plan as at 14 July 2023 be approved.
3. that the change to the implementation date for nine recommendations (paragraph 2.5) for the reasons set out in Appendix C be agreed.
4. that removal of implemented audit recommendations set out in Appendix C be agreed.
5. that the implementation status of high priority recommendations be noted.

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### **Fraud Annual Report 2023**

The Fraud Manager presented the report to the committee. This report informed members of the work of the Fraud Section for the financial year 2022/23 to date and provided updates on progress and developments. He explained that fraud did not fit neatly within the geographical boundaries of the council. Therefore, the fraud team had an important role in collaborative working, involving the exchange of information and intelligence between the council and other agencies such as DWP and the Police.

Last year, the council had revised its anti-fraud strategy and policies on sanctions, bribery, and RIPA (Regulation of Investigatory Powers Act). They were all aligned to accommodate changes in legislation. Specifically, RIPA underwent changes to accommodate new authorising officers. All policies were aligned to comply with the current legislation. In 2022/23, there were 32 separate requests, with the police providing witness statements.

Additionally, there were 137 referrals to the council, as mentioned in section 4.1.3 of the report, with the majority coming through the web instead of the hotline. The team responded to 94 requests for information known as a LAIEF (Local Authority Information Exchange Form) from the DWP (Department for Work and Pensions). DWP took responsibility for all of them due to their involvement with housing benefits. Among these cases, 82 successful resolutions resulted in six sanctions.

In response to questions from councillors regarding a comparison to last year's NFI (National Fraud Initiative) figures, the Fraud Manager explained that data match was conducted bi-annually and were slightly down compared to the previous match, mainly due to the impact of COVID-19. Previously, 20 DWP officers were assigned in Hertfordshire, but they were seconded elsewhere due to COVID-19. This impacted on joint working with the DWP. However, there was a promise that officers would be transferred back to Hertfordshire. The manager emphasised that fraud losses were only reported if investigated. An organisation

may not have any fraud losses reported because they had not looked for it. The highest number of reported fraud cases in terms of numbers related to the failure to notify the council of changes in circumstances for council tax. As for new emerging fraud, there were cases related to COVID-19 grants, but the number of such cases had reduced.

RESOLVED –

that the report be noted.

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### **Treasury Management Annual Report 2022/23**

The Head of Finance introduced the report to the committee, which consisted of the annual review of treasury management activities, covering the whole financial review and back looking at 2022/23. This report was required to be presented to the council, as mandated by the new guidance. She highlighted paragraph 1.2.1, which contained the key actual prudential and treasury indicators, detailing the impact of capital expenditure activities during the year. The external debt had increased to 85 million, rising from 40 million at the end of the previous year. She also directed the committee's attention to paragraph 4.12.4, which emphasised the importance of proactive cash flow management and forecasting.

The Head of Finance addressed a question from Councillor Newstead regarding the significance of returns on cash and whether there was a special rate. She explained that the Council invested with other local authorities through the Debt Management Office and rates had been in excess of 5% even for overnight deposits.

In response to a question from the Chair regarding the increase in the external debt and whether it had been forecasted, the Head of Finance explained that the main reason was due to the central government recovering cash that had been paid to Councils during COVID-19 to cover the reduced business rates relief. The overpayment amounted to £21 million. This had reduced the Council's cash balances and therefore the amount of internal borrowing it was able to carry.

The Head of Finance provided a forecast for Watford Borough Council at the request of the Chair. The interest rate forecast was crucial in considering external borrowing, especially for short-term borrowing. Refinancing some of the short-term borrowing within the next 12 to 24 months was necessary. The team worked hard on the cash flow forecast to avoid financing borrowing at the peak of the interest rate. There was hope that interest rates had peaked and might start to decrease, depending on inflation, shortly. The preferred option for borrowing over a year was from PWLB (Public Works Loan Board).

Monitoring the timing and any potential additional borrowing during 23/24 was essential to assess its impact on the interest payable budget. While higher interest costs were expected, the team hoped that additional interest earned on overnight cash advances would offset it. Overall, the treasury strategy remained unchanged, but there was a greater emphasis on cash flow management.

RESOLVED –

that the report be noted.

## 16 **Draft Audit Results Report 2020/21**

Simon Luk addressed the committee concerning the Draft Audit Results. Unfortunately, there had been a delay with the 2019/20 audits, causing some setbacks. To ensure the audits' momentum, it was decided to begin the 2020/21 audit before closing the 2019/20 accounts and implementing necessary adjustments. Consequently, the first draft of the 2020/21 accounts was thoroughly reviewed, uncovering an issue related to the oversight of investments, detailed on page 23 of the report. The second draft of the accounts had been published today, and EY continued working closely with management to proceed with the audit.

In response to questions from the committee, Simon Luk responded that most of the issues had been addressed in the 2019/20 audit. He also emphasised the positive working relationship between officers and his team, highlighting their quick responses to queries from EY. Upon receiving further questions, he clarified, the version of the 2021 audit results report was a draft. A final version would be sent once the audit had concluded all of the audit procedures.

## 17 **Statement of Accounts Update**

The Head of Finance presented the Draft Audit report for 20/21 to seek approval for the statement of accounts and requested delegation for 20/21 before the next audit committee meeting in September. There was significant momentum over the summer, and the report had been published late afternoon, becoming readily available on the website. It had been thoroughly updated, incorporating changes from 19/20 and amendments made throughout 20/21.

The new auditors for 23/24, Azets, had already initiated contact and expressed their desire to meet with the Audit Committee in a closed session in September. The newly appointed lead auditor, Paul Grady, brought a wealth of experience in the public sector. They aimed to finalise the 23/24 audit plan by December while being mindful of potential caveats based on conclusions and updated audit plans. Walk-through testing would take place in November and December, and

the audit report was expected to be published, by the statutory deadline of 30th September. Although the timeline remained challenging, there was a positive impression that it could be managed, and the collaborative working relationship with Azets.

In response to questions about the tender process for the new audit firm, the Head of Finance explained that Watford Borough Council went through Public Sector Audit Appointments Limited (PSAA), who conducted the tender process and appointed six auditors, later assigning them to local authorities. Changing auditors periodically was considered good practice, and the council had been with EY for ten years.

In response to questions about the risks of transitioning to new auditors without local government audit experience, the Head of Finance assured members that the company had already recruited Paul Grady, who possessed valuable expertise in public sector audits. Additionally, Azets was actively recruiting auditors for the task. While there was a potential risk of challenges in their delivery, it was crucial to note that the same rigorous accountancy standards bound them. Although the expectation was minimal change in their approach, some differing opinions might arise during the process.

Councillor Nembhard had expressed concerns about the new accounting firm potentially playing catch-up. However, the Head of Finance reassured him that Azets' proactive plans to start their work in November and December demonstrated a forward-thinking approach, minimising potential delays or challenges.

In response to questions about the cost of the auditing services, the Head of Finance explained that the fee schedule was already set at a standard price. However, auditors were able to charge additional fees for supplementary required work. The Redmond review, conducted before COVID, identified that audit fees were lower than necessary to fulfil current local audit requirements effectively, which put a strain on resources making it insufficient to fund the audit adequately. The review recommended an increased fee, which was duly acknowledged during the process. There was a valid case to charge additional fees in the current framework, and the possibility of an additional fee for the 20/21 audit was discussed.

RESOLVED –

1. that the Statement of Accounts 2020/21 at Appendix 1 to the report be approved.

2. that the Letter of Representation 2020/21 at Appendix 2 to the report be approved.
3. that the Section 151 Officer (Shared Director of Finance), in consultation with the Chair of the Committee, be authorised to make any further changes to Statement of Accounts 2020/21 and Letter of Representation that may arise during the completion of the audit.
4. that the Committee authorises and instructs the Chair to sign the Statement of Accounts for 2020/21 once finalised and signed by the Section 151 Officer to confirm that the Statement of Accounts presents a true and fair view of:
  - (a) the financial position of the authority at the end of the financial year to which it relates; and
  - (b) that authority's income and expenditure for that financial year
5. that the progress and latest timetable for completion of the external audit of the statement of accounts for 2021/22 and 2022/23 be noted.

Chair

The Meeting started at 7.00 pm  
and finished at 8.10 pm