

AUDIT COMMITTEE

23 November 2023

Present: Councillor M Hofman (Chair)
Councillor K Clarke-Taylor (Vice-Chair)
Councillors L Nembhard, A Khan and C Newstead

Also present: Mark Watkin, Portfolio Holder
Simon Luk, EY
Paul Grady, Azets
Reshma Ravikumar, Azets

Officers: Group Head of Democracy and Governance
Chief Finance Officer
Chief Accountant
Client Audit Manager
Revenues Manager
Democratic Services Officer (LM)

27 Apologies for Absence/Committee Membership

There were no apologies for absence.

28 Disclosure of Interests (if any)

There were no disclosures of interest.

29 Minutes

The minutes of the meeting held on 14 September 2023 were submitted and signed.

30 Freedom of Information Act Requests 1 April 2023 to 30 September 2023

The Group Head of Democracy and Governance presented the committee with the half-yearly report on Freedom of Information (FOI) Act requests from April 1, 2023, to September 30, 2023. A significant drop in the number of requests replied to on time was observed, as indicated in section 4.3 of the report. There were 65 more requests during this period. The decline was linked to a substantial staff shortage in the Customer Service Centre (CSC) during the summer. CSC,

who was responsible for triaging the FOI requests, experienced severe staffing challenges during this period. Additionally, it was brought to the committee's attention that in some services officers had failed to prioritise FOI requests. The Group Head and the Chief Executive had already addressed this concern with relevant personnel, stressing the importance of prioritisation and responding within the statutory time frame.

In response to queries from the councillors, the Group Head of Democracy and Governance stated that all outstanding FOI requests had been addressed. The clarification was provided that the CSC was not an external contractor.

The Group Head of Democracy and Governance addressed an issue concerning the number of election inquiries related to the new photo ID requirement. The period in question encompassed an election cycle, during which political parties submitted queries, specifically regarding voter ID and its implementation. The chair asked if for future reports a year-on-year comparison could be made of requests and responses.

RESOLVED –

that the report be noted.

31

SIAS Update Report on Progress Against the 2023-24 Audit Plan

The Client Account Manager presented an update to the committee. As of 10 November 2023, 45% of the planned days detailed in the 2023/24 Audit Plan for Watford Borough Council were delivered, slightly below the anticipated 51%. Nevertheless, there was confidence that the remaining audits would be completed shortly. All allocated days were assigned.

Appendix A provided a comprehensive overview of progress against the 2023/24 Audit Plan, which detailed the progress of each audit. There were 17 audits in the plan and 35% of the audits had been delivered to draft against an expectation that 41% of the plan would be achieved to date. For context, six audits had been delivered to draft report when it was hoped that seven would be achieved but 3 more were in advanced fieldwork and would be in draft shortly.

In Appendix C, progress against outstanding internal audit recommendations was detailed. Four requests for changes to implementation dates were requested, all considered reasonable. In addition, six recommendations had been successfully implemented since the last audit committee. No new instances were reported regarding high-status recommendations since the last committee meeting. Furthermore, a high priority safeguarding recommendation, discussed during the last audit committee had been resolved. In the area of safeguarding, various

measures, including safeguarding checks and spot checks for temporary staff, had been successfully implemented.

The Client Audit Manager responded to questions from councillors, she addressed questions about aspects not covered in the audit plan. She clarified that there was an audit universe that detailed all available audits, and the team engaged with each head of service during the audit planning phase of the year. During these discussions, they carefully assessed and classified high-risk areas to ensure a thorough and comprehensive audit approach and to support the achievement of the corporate plan.

In response to the chair's question, the Client Audit Manager explained the rationale behind some long implementation dates and deadlines for recommendations. Some deadlines, including March/April 2024, extended into the future, due to outstanding internal issues outside of management control. For example, a procurement exercise was completed in the case of cyber security and this had been an ongoing scoping / implementation exercise. Regarding the museum, the focus was on aligning policies and procedures with the Arts Council's accreditation process and timeline. There was no point setting in place new policy, procedures and practices if they were going to have to be amended again with the forthcoming changes for the museum.

Councillor Watkin commented that the museum had undergone a temporary closure, and its day-to-day operations were transitioning. No preparatory activities were being carried out at that time. Once the situation had settled, it would have been prudent to verify the completeness of the migration process. It was further stated by the Client Audit Manager that numerous recommendations were present, emphasising that a follow-up audit for the museum may be conducted in the upcoming year, considering the number of recommendations involved.

As part of the business rates review, the HR Revenue Manager informed members that the department had been awaiting government changes. Emphasis was placed on ensuring that all anticipated modifications were appropriately integrated into existing processes and policies. Concerning sundry debtors, an audit recommendation had been addressed by relocating duplicate accounts in this category. Although the presence of duplicate accounts did not pose a risk, it was crucial to scrutinise the identified accounts that genuinely required multiple entries. This included instances where there were multiple shops and a separate commercial waste account, necessitating distinct account numbers. The manager underscored challenges with team resources, citing ongoing issues.

RESOLVED –

- that the Internal Audit Progress Report for the period to 10 November 2023 be noted

- that the amendments to the Audit Plan as at 10 November 2023 be approved
- that the change to the implementation date for four recommendations (paragraph 2.5) for the reasons set out in Appendix C be agreed
- that removal of implemented audit recommendations set out in Appendix C be agreed
- that the implementation status of high priority recommendations be noted.

32

Treasury Management Mid Term Review 2023/24

The Chief Finance Officer introduced Rob Thurlow, Chief Accountant, to the committee.

The Chief Finance Officer introduced the report to the committee, requesting them to note the report and recommend it to the next Council in January. She provided updates on the investment strategy, exposure to debt and borrowing, and specifically, the finance related to Croxley Business Park. She emphasised section 4.8 of the report during the presentation and explained the chart to the committee.

The Chief Finance Officer responded to questions about the reliability of financial forecasts and the additional information she used. She mentioned consulting with Link Group, considering forecasts from the IMF, and examining the Bank of England's approach to interest rates. Acknowledging the inherent uncertainty in forecasts, she emphasised the awareness that they were prone to inaccuracies.

There was a question to the Chief Finance Officer about the contingency plan if forecasts needed to be corrected. She responded that savings elsewhere and changes in service would have been considered. Due to higher interest rates, the treasury's impact on the budget was more significant than in previous years. She highlighted potential challenges if cash flow forecasts were off, particularly if borrowing needed to be raised.

The Chief Finance Officer responded to a question regarding changes to borrowing. In the current year, borrowing primarily originated from Watford Business Park, where additional revenue income exceeded the costs of borrowing, contributing to economic regeneration. Additionally, significant borrowing related to the Town Hall and Colosseum, with plans to reduce borrowing following this week's grant announcement. However, there were ongoing revenue costs that were associated with the delivery of the Incubation

and Innovation Hub which were not currently part of the capital programme, which would offset the savings from borrowing.

Councillor Watkin emphasised the necessity of forward-thinking, highlighting that deferred programmes might have considerably impacted ongoing initiatives. Drawing upon the recent case of Watford Signage discussed in the Financial Scrutiny Committee (FSC) earlier in the week, he noted that, for less critical aspects, the council could tolerate certain conditions.

In response to a question about the projects that Watford Council was undertaking, the Chief Finance Officer explained the situation with Watford Business Park, indicating that most of the spending occurred in the current financial year. A budget-setting review of the capital programme was being conducted considering the available resources. To align with the resources, there were plans to reduce spending in the next couple of years, necessitating the rescheduling of certain items. This included a decision to slow down both the capital programme and borrowing. The FSC reviewed part of the budget before it was presented to the Cabinet.

Councillor Khan referenced the discussion and scrutiny conducted by the FSC earlier in the week. The discussion encompassed prioritisation, budgets, revenue spends, and strategies for refining those aspects. The committee thoroughly examined treasury management, leading to a constructive dialogue. The process was deemed valuable, offering a comprehensive overview for the Cabinet to make informed decisions. Notably, the discussion avoided being influenced by party politics, be it Liberal Democrat or Labour. The emphasis was on improving the scrutiny process and honing the determination of priorities.

Councillor Watkin emphasised the importance of any capital spend being reviewed by the FSC, highlighting that it involved public money.

Councillor Clarke-Taylor asked about the fact that the average interest rate for borrowing was lower than the average rate for investments in the mid term review. In response, the Chief Finance Officer explained that she did not have the exact figures as at the end of November but that this was already likely to have changed as short term debt at low interest rates had matured since the end of September. Having withdrawn funds from the pooled investment funds, the Council was now able to generate substantial income from deposits with the Debt Management Office (DMO) in the short term. The Chief Finance Officer highlighted the perpetual reality that the cost of borrowing would invariably exceed interest income at a point in time, and the strategic stance adopted was to derive an average cost of borrowing that consistently remained lower than potential earnings.

RESOLVED –

That the Committee notes the contents of the 2023/24 mid-year review of the Treasury Management function and recommends the report to Council.

33 Draft treasury Management Strategy 2024/25

The Chief Finance Officer presented the report, outlining the draft Treasury Management Strategy Statement (TMSS) for 2024/25. Few changes were noted, with the priorities remaining consistent. Specifically, internal audit recommended a few adjustments. Balancing Environmental, Social, and Governance (ESG) considerations with security posed challenges as efforts were made to preserve the value of our cash. The incorporation of credit ratings into the decision-making process was emphasised, particularly for investments in bonds or equity.

The Chair inquired about ESG being a significant part of change and whether there would be a different type of audit report. Reference was made to Cambridgeshire, where ESG was incorporated into their auditing, covering climate change figures and performance. The Chief Finance Officer responded ESG considerations were incorporated into our contracts and tenders and were taken into account in committee reports.

The Chief Accountant added that the current makeup of our investment portfolio was dull from an ESG perspective as investments were with the DMO and Lloyds Bank. Other authorities might have a more diverse and ESG-focused approach. If there were changes in the investment approach, ESG considerations would be incorporated.

RESOLVED –

that the draft Treasury Management Strategy Statement 2024/25 be recommended to Council.

34 Draft External Audit Plan 2023/24 - Azets

Paul Grady and Reshma Ravikumar introduced themselves to the committee as the newly appointed external auditors. Paul Grady introduced the external audit draft plan for the council, covering the period from the 22-23 audit year onward as part of a five-year appointment.

Councillor Khan posed a question about principles, seeking reassurance over the past three to four years regarding any potential fraud. The query aimed to understand how the council, without external auditing, could provide assurance to the public and address concerns related to fraudulent activities.

Paul Grady responded, expressing a desire for a more reassuring answer. He highlighted a significant limitation disclaimer for the specified years and raised a question regarding opening balances. Auditors typically accepted opening balances as they were, avoiding deep scrutiny. By the end of the 23/24 audit, they would have issued their opinion, but there might still have been some catch-up work, leading to a partial fill-in. While not offering complete assurance, Paul Grady emphasised that if anything seemed out of sync during the 23/24 audit, they would investigate and keep a vigilant eye.

The Chief Finance Officer added that Azets would look at comparisons between values for this year and prior years, although this didn't provide full assurance, it would help Azets identify any areas of concern.

Councillors asked about the experience of working with Watford and other councils regarding their progress. Paul Grady responded that the experience had been encouraging so far. Many councils faced challenges in their response due to capacity issues, but Watford had performed well. The council was noted for being responsive and knowledgeable.

Councillor Nembhard inquired about the measures in place, considering the financial challenges faced by many councils. The Chief Finance Officer responded, that a public interest report would generally find areas for improvement in governance or mistakes in such scenarios. The challenges were widespread, and factors like significant resource demands and unexpected inflation played a role. Forecasts did not anticipate these issues, putting councils in vulnerable positions. However, Watford was in a different position with reserves, and specific risks were managed carefully. The emphasis was on preserving reserves, spending within available means, and reserves used as a short-term solution if needed. Although not the ideal situation, reserves provided a buffer to buy time. If used, the goal would be to realign and top up reserves in the future, ensuring they had this critical resource.

Paul Grady concurred with the Chief Finance Officer, noting that they posed numerous questions to comprehend the risks. They delved into long-term investment risks, seeking detailed responses from the management team. They requested paperwork to substantiate the information provided, emphasising the importance of mature thinking. The responses indicated awareness of longer-term risks, acknowledging that there were aspects where early warning mechanisms were lacking or not fully understood and accepted. The team

actively monitored the risks, initiating in-depth discussions and focusing on specific issues, such as the Birmingham employment tribunal and the potential impact of social care on the budget. They expressed concern about the risk of the council overextending itself with investments, emphasising the importance of a comprehensive understanding of the associated.

Councillor Watkin raised two critical points during the session. Firstly, he sought reassurance that the same principles and standards would be applied in the audit transition from EY to the Azets. He specifically inquired about the materiality threshold of £80,000, questioning whether this figure was universally agreed upon or determined internally. Secondly, Councillor Watkin asked about the challenges faced by Azets as the new auditors. He highlighted that the delay in audits across local councils resulted from external factors.

Paul Grady responded, affirming that they adhered to international standards of auditing, identical to those followed by EY, ensuring uniform application of these standards. He anticipated that the risks outlined in the audit plan for 2023/24 would be familiar, mirroring those identified in previous plans shared by EY. Regarding materiality, the figure set was 1.6 million, considered headline materiality. In the event of errors, as long as they did not exceed this figure, they were reported, but if under £80,000, they were deemed trivial. This threshold aimed to balance reporting key issues without overwhelming with trivial matters. In terms of the transition, mechanisms for dealing with the backlog and consultation were becoming more apparent. As EY's conclusions approached, direct engagement with them was planned. The transition process adhered to routine arrangements specified in the PSAA contract. Acknowledging the sensitivity of timing for the finance team, Paul Grady emphasised ongoing communication and balancing engagement to ensure enough time for team-building and interaction with EY while not staying too long to hinder the handover efficiency. Ongoing communication and careful planning were vital in this process.

In response to queries from councillors, Paul Grady affirmed that both himself and Reshma Ravikumar, along with a broader team, would serve as the representatives of Azets to Watford Council.

35

Statement of Accounts Update

The Chief Finance Officer presented the report to the committee. She highlighted to the committee Appendix 1, Lee Rowley, former Local Government Minister's proposal to assist with the backlog of Audits. She directed the committee's focus to section 4.4 of the report, highlighting the alterations to audit fees for the fiscal year 2023/24.

The Chief Finance Officer responded to a question from the committee about the then-current state of outstanding audits in local government. She acknowledged the use of qualification or limitation of opinion as a solution but deemed it not very satisfactory.

Councillor Newstead inquired about the convenient outcome amid the chaos of COVID-19, expressing concern that hastily executed actions would not undergo auditing. The Chief Finance Officer responded, stating that COVID grants, specifically those in 20/21, were formally audited, but additional audits for 21/22 still needed to be completed. Small instances of fraud, amounting to 80k, were identified.

The Accounts Manager added that they had conducted reconciliations and implemented robust checks, and demonstrated forward-thinking. Additionally, they requested comprehensive information on every grant paid to the local authority for thorough and robust checking, to be addressed later.

In response to a question from the committee, the Chief Finance Officer confirmed that the accounts for 2019/20 had been signed off. She also noted that Dacorum Borough Council had completed its audits but still awaited the County Council pension fund audit before they could sign as there were interdependencies.

RESOLVED –

1. that the update in relation to the 2021/22 and 2022/23 external audits be noted.
2. that the progress in relation to onboarding the new external auditors for 2023/24 be noted.

36

Update from the External Auditors - EY

Simon Luk provided an update on the completed 20/22 audit, highlighting progress in the second draft of the statements. Procedures were updated, and additional samples were taken, collaborating with management. The goal was to complete the work before Christmas, ensuring full resources were allocated to expedite the process amid the backlog. Recognising the government's decision on backlog audits, resolving this audit became a top priority. If the audits for 2021/22 and 2022/23 were not completed, EY would still be required to complete value-for-money work for these years. Simon Luk mentioned that further guidance from the government would prompt an update on the firm's position.

Councillor Khan inquired about the assurance regarding the completion of the 20/21 audit. The Chief Finance Officer responded, expressing concern for everyone if the delay persisted. She explained the process, that following the revised statement of accounts, which took account of 2019/20 balance sheet changes, EY had requested additional samples and the team were expediting the turnaround as far as possible. New team members with EY had taken on the work, leading to a repetition of some questions, but ongoing conversations with Simon Luk were helping to resolve these. The review process at EY involved senior members, and any delays were attributed to the process rather than specific issues. Simon Luk mentioned that two team members were available the following week, hopefully contributing to progress.

Chair

The Meeting started at 7.00 pm
and finished at 8.35 pm