THREE RIVERS DISTRICT COUNCIL

At a meeting of the Audit Committee held in the Penn Chamber, Three Rivers House, Rickmansworth, on Thursday, 28 September 2023 from 7.30 - 8.15 pm

Present: Councillors

Tony Humphreys (Chair)
Ruth Clark,
Lisa Hudson
Khalid Hussain
Raj Khiroya
Ciaran Reed
Rue Grewal

Officers in Attendance:

Hannah Doney, Head of Finance
Anita Hibbs: Legal & Democratic Services

Also Present

Darren Williams: Shared Internal Audit Service (SIAS)
Leigha Britnell: Shared Internal Audit Service (SIAS)

External in Attendance:

Simon Luk: Ernst and Young (EY)
Paul Grady: Azets Audit Services
Reshma Ravikumar: Azets Audit Services

AC18/23 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Andrea Fraser and Jonathan Solomons.

AC19/23 MINUTES

The Minutes of the Audit Committee meeting held on 27 July 2023 were approved and the Chair was authorised to sign them as a correct record.

AC20/23 NOTICE OF OTHER BUSINESS

There were no Items of Other Business.

AC21/23 DECLARATIONS OF INTEREST

There were no Declarations of Interest.

AC22/23 UPDATE FROM THE EXTERNAL AUDITORS - EY

The Committee received an update from Mr Simon Luk of EY, the Council's External Auditors, stating that the Auditors were working on the Council's 2023 accounts having reviewed the various adjustments to date. The auditors were presently working on the adjustments in relation to Property, Plant and

Equipment (PPE), noting that there had been difficulties in relation to PPE and that EY were working with Council officers to resolve these issues.

In addition, there were concerns regarding Rent-to-Mortgage Properties and Unallocated Capital Expenditure and EY was awaiting responses to these issues as well is responses to concerns regarding Lease Workings.

In response to questions by Members, Mr Luk, and Mrs Hannah Doney, Head of Finance, provided the following information.

a) It was anticipated that the Draft Audit would be completed in time for submission to the December meeting of the Committee;

b) That the auditors had come to an impasse about the South Oxhey Initiative and would be discussing ways forward with Council officers next week.

   Mrs Doney stated that, originally, the South Oxhey Initiative ("the Initiative") was accounted for as Investment Property (IP) with the Council acquiring parcels of land in 2014/15 which was accounted for as IP until 2017/18. At that time, the Council's previous External Auditors expressed concerns and proposed that any acquisitions under the Initiative should be regarded as Inventory, which was not part of the Council's fixed assets and, therefore, subject to a different accounting treatment. In 2019/20, the External Auditors stated that these acquisitions should not be classified as Inventory but as Surplus Assets until the point of disposal of the asset to Countryside, at which time it would become a Finance Lease Asset.

   Accordingly, Council officers had completed a lot of work to reclassify the acquisitions as Surplus Assets and to produce the calculations for the Finance Lease Asset that was created when the parcels and phases of development were passed to Countryside. The first block was getting the valuations that were required to establish a fair value to create the Finance Lease Asset at the point of transfer. It took a long time to get the information from the valuers which was then passed to EY who had challenged the robustness of the valuation. This was an issue that could be resolved but was not one that was anticipated at the time of the last Committee meeting.

   Because the assets had been reclassified as Surplus Assets, EY wanted to test the additions and the amount that was recognised as Surplus Assets. Therefore, they had asked the Council to provide third-party evidence of all the spend on additions back to 2014/15. In 2014/15, the Council had a different finance system and no longer had all the supporting third-party evidence that EY had requested. In addition, there were gaps in subsequent information held by the Council because the Council had based its record-keeping on a requirement to provide information on assets which were classified as Inventory and not as Surplus Assets. Consequently, because officers were now retrospectively applying a different accounting treatment without all the necessary information, EY had asked that Three Rivers District Council confirm that it was satisfied that the accounts presented a "fair and true view" at the end of 2019/20. Accordingly, the Council was now preparing a Position Statement. As the information the Council had provided was still not sufficient to meet the relevant accountancy standards, it was necessary to find a way through the present impasse.

In response to further questions on this issue, Mrs Doney provided the following information.

- Valuations followed a framework that included subjective elements and, therefore, it was not unusual for valuation experts to disagree.
- Consequently, an audit firm, during the audit process, may say that something was not within their acceptable range and, therefore, the [local authority] had to agree to amend its valuation, or report the item as an unadjusted difference.
- In this case, there was a disagreement about how the lease premium paid at the beginning of the finance lease was treated in the calculation, these being 250-year finance leases with a small annual ground rent payable over the lifetime of the lease. Therefore, this was more complex than a standard valuation of a PPE asset.
- It was unusual for there to be a fundamental shift in how an asset was classified and there was a greater risk of this happening when there was a change of external auditor. However, she was satisfied that the current classification, as determined by EY, was correct.

c) EY, in accordance with their duty to ensure that the Council's accounts were a "true and fair view," was satisfied that the classification of the South Oxhey Initiative assets as Surplus Assets was correct. And, it was for this reason, that they had required that the assets be reclassified.

d) Regarding record-keeping, even if the assets were classified as Inventory, there should still be a year-on-year reconsideration of the values.

e) As part of the current exercise, there was a requirement to carry out a prior year adjustment. Accordingly, there would be a "Prior Year Adjustment" note in the accounts setting out the balance sheet and the impact on the CIES (Comprehensive Income/Expenditure Statement) which would reflect the differences if the subsequent changes in classification were considered.

f) It was not acceptable that the Council was still in the process of reconciling its 2019/20 accounts. However, if the Council could not satisfy the requirements of its external auditors, it would be necessary to draw a line under the matter and trust that this would be acceptable to the Committee.

g) It was good practice periodically to change auditors and EY had been the Council's external auditors for the last 10 years. In addition, to maintain independence, there were regulations governing how long an audit partner could work with the same local authority.

h) Areas of concern for EY included PPE; Unallocated Capital Expenditure; Rent and Lease Properties, which had been reclassified as Land & Buildings; and Lease Disclosure. However, the main area of concern was the South Oxhey Initiative.

i) The File Review process conducted by EY had the potential to raise additional queries and samples, and it was these final checks that the Council was addressing. It was believed that it would be easy to provide EY with the information required in those areas that had been identified by EY as still being areas of concern.

In conclusion, the Chair thanked Mr Luk for his update.

RESOLVED: That the Committee note the report.

AC23/23 STATEMENT OF ACCOUNTS UPDATE

Mrs Hannah Doney, Head of Finance, gave a verbal report stating that, because there had been no significant progress in completing the Council's Statement of Accounts for the years 2019 to 2023 since her last report to the Committee, she would, instead, update the Committee on information expected from the Department for Levelling Up, Housing and Communities (DLUHC) about how local authorities should address the backlog in audits. She also provided an update on the transition to the new External Auditors for 2023/24 onwards.

In her report, Mrs Doney referred to the following matters.

a) Following consultation, a ministerial statement was expected sometime in the autumn about how to address the audit backlog that was affecting local authorities across the country.

b) It was anticipated that central government would provide a means by which to draw a line under the Statement of Accounts for previous years, but it was not known how the DLHUC proposed that this be done.

   [Mrs Doney then provided some examples of how central Government might propose that this be done].

In response to a Member's question, Mrs Doney stated that there were several factors that had contributed to the current audit backlog in local authorities, including greater scrutiny of external auditors by the Financial Reporting Council (FRC) resulting in changes in External Audit standards, processes and procedures, including a greater focus on PPE; the Redmond Review recommendations in 2019 on regulating external audits of local authorities in England; difficulties faced by audit firms in recruiting suitably qualified accountants; a reluctance by Audit Firms to carry out local authority audits which were not deemed to be profitable; and the effects of the Covid pandemic, all of which contributed to a "perfect storm".

Against this backdrop, there were specific problems affecting the Three Rivers District Council 2019/20 Statement of Accounts and that the delay in completing the audit of these accounts further compounding the existing problems outlined in Item 5, above.

RESOLVED: That the Committee note the report.

AC24/23 FINANCIAL AND BUDGETARY RISKS

The Committee considered a report by Mrs Hannah Doney, Head of Finance, advising the Committee on the latest position in respect of the evaluation of financial risks faced by the Council. It was recommended that the Committee review the Risk Register and make any comments it wished to make about individual risks.

Mrs Doney introduced the report, noting that there were no changes to the residual risk score after mitigation, but that officers had updated the inherent risk for risks around inflation and worsening of the Medium-Term Financial Plan (MTFP) position. This reflected the current economic environment, including interest rate risks etc. The residual risk score following implementation of risk controls and mitigation measures had remained the same because the Council was well placed to manage these risks.

There was a good level of general balances which were there to manage financial risk and there was a robust financial planning process. Because there was a good level of general balances in place, this meant that the Council would be able to manage the economic shocks that may emerge because of high inflation, high contract inflation; and higher than budgeted-for pay awards.

In response to questions by Members of the Committee, Mrs Doney provided the following information.

a) Regarding FIN18, Business Rates Retention, there was a prospect of a change to the Business Rates Retention system. Presently, there was 50% retention which could move to 75% retention, but it was believed that this change had been put back to 2025/26.

   The Valuation Agency Office had undertaken a re-evaluation, effective from 1 April 2023, which had significantly increased the rateable value of businesses in the district. Transitional relief was in place for businesses which had seen an increase in valuation. However, as the transitional relief stepped down, it was anticipated that there was a greater risk of appeals against the re-evaluation.

   Should the appeals against re-evaluation be successful, this would have a significant impact on the income achieved by the Council as central Government had already fixed the tariffs for the amounts deducted by central Government. Therefore, there was the possibility of the Council's business rates retention income falling below the Council's minimum level which would mean that any growth within the Council's budget would be lost.

   Historically, the Council had always been a Member of the Hertfordshire Business Rates Pool ("Business Rates Pool") which gave the Council the opportunity to retain more of its growth through pooling government funding. However, because of the perceived risk, it was possible that the Council could be financially worse off if it remained a Member of the Business Rates Pool and, therefore, the Council had ceased to be a Member. The Council's membership of the Business Rates Pool for the year 2024/25 was presently under review. If it were the Council's intention to rejoin the Business Rates Pool, it would have to give notice of its intention to do so by 10 October 2023.

   Should the Council's Section 151 Officer recommend rejoining the Business Rates Pool, there would be a report to Council in December 2023 ahead of the deadline for final notification of intention to rejoin the Business Rates Pool in January 2024.

b) The purpose of Business Rate Pooling was to benefit all the Members of the Pool. Hertfordshire County Council and the respective District Councils had a combination of tariffs and top ups which, when pooled, allowed the local authorities that were Members of the Pool to retain differences in funding after a reckoning of the tariffs and top ups. If the business rates for a single Member of the Pool dropped, all the Members of the Pool were affected. Therefore, last year, the Members of the Pool took the view that, rather than risk any upside because of other Pool Member's downside, it was better not to pool business rates for the financial year 2023/24.

When pooling worked, it was to the detriment of central Government as central Government allowed local authorities with pooling arrangements to retain more of the income from business rates than they would have been permitted to retain if they were not members of a Business Rates Pool.

RESOLVED: That the Committee note the report.

AC25/23 INTRODUCTION OF NEW EXTERNAL AUDITORS FROM 2023/24

Mrs Hannah Doney, Head of Finance, introduced Paul Grady of the accountancy firm, Azets, and Ms Reshma Ravikumar, who would be the Council's Key Audit Partner and Audit Manager, respectively. Azets had been appointed through the PSAA (Public Sector Audit Appointments) procurement process and they would be the Council's auditors for the next five years beginning with the financial year 2023/24.

Mr Grady and Ms Ravikumar introduced themselves to the Members of the Committee and summarised their experience as auditors and the public sector work conducted by Azets. Mr Grady stated it was planned to start work on the Council's 2023/24 accounts in the autumn of this year, and to work with the Council as it resolved the backlog in finalising the Council's accounts from previous years with the current auditors, Ernst and Young (EY).

In response to a Member's question, Mr Grady stated that Azets were currently working under PSAA arrangements with 27 local authority bodies across England and several large Councils in Scotland. Within Hertfordshire, Azets was working with Watford, East Herts, and Stevenage District Councils.

NOTED

AC26/23 TRDC SIAS PROGRESS REPORT AGAINST THE 2023-23 AUDIT PLAN

The Committee considered a report by the Shared Internal Audit Service (SIAS) regarding the delivery of the Council's Annual Audit Plan for 2023/24 as of 15 September 2023.

The report proposed one amendment to the approved 2023/24 Annual Audit Plan and updated the Committee on the implementation status of all previously agreed Audit recommendations from 2019/20 onwards, as well as providing an update on Performance Management information as of 15 September 2023.

The Committee Members were recommended to:

1. Note the Internal Audit Progress Report for the period to 15 September 2023;
2. Approve the proposed amendment to the 2023/24 Audit Plan;
3. Agree changes to the implementation date for one audit recommendation (Paragraph 2.5 of the report) for the reason set out in Appendix 5 of the report; and

4. Agree removal of implemented audit recommendations (Appendices 3 to 6 of the report.)

Mr Darren Williams, Head of SIAS, introduced the report, noting that this was the second progress report that the Committee had received for 2023/24. Mr Williams then summarised key parts of the report, as follows.

a) Page 19: Three Final Internal Audit Reports and been issued since the July Committee, these relating to the areas of Business Continuity Planning; Payroll; and Fixed Asset Register. All three audits had been given a Reasonable Assurance Opinion.

   There were two reports in draft, these being the audits of Benefit Systems Parameter Testing, and Taxi Licensing, both of which were awaiting a Management Action Plan.

b) Page 20: Outstanding Audit Recommendation Follow-Ups. Since the July meeting of the Committee, an extension to an originally proposed implementation date for the Complaints Handling Audit has been requested by management, changing the target date from 31 May to 31 October 2023.

c) As set out in the Appendices to the report, three of the Audit Recommendations that were reported as outstanding in the July report to the Committee had been implemented.

d) Page 21: An update on current performance against Key Performance Indicators (KPIs) was provided. The delivery of planned audit days was at 28% against a profile of 32%, that is, 10.5 days behind where officers would have liked to have been at this stage in the year.

e) Projects to Draft Report Stage by 31 March 2023: 12% had been delivered against the profile of 30%, which was a difference of three projects. Two of these projects: IT Operations, and Safeguarding, were currently in fieldwork.

f) Mr Williams informed the Committee that a new Indicator, “Planned Projects to Final Report” has been introduced, that is, Final Reports for audits within the plan to be issued by the publication date of the Annual Assurance report. It was highlighted that the first measurement of this indicator could not be reported before May 2024, this being the date of the next Annual Assurance Report would be presented to the Committee.

g) Client Satisfaction: this was 100% based on two questionnaires out of 13 that had been returned,

Mr Williams introduced Leigha Britnell, who had recently been appointed as the Council’s Client Audit Manager, noting that Ms Britnell would be taking over the management of the Audit Plan and would be presenting the report at the next meeting of the Committee.

RESOLVED: That the Committee –

1. Note the Internal Audit Progress Report for the period to 15 September 2023;
2. Approve the proposed amendment to the 2023/24 Audit Plan;

3. Agree changes to the implementation date for one Audit Recommendation (Paragraph 2.5 of the report) for the reason set out in Appendix 5 of the report; and
4. Agree removal of implemented Audit recommendations (Appendices 3 to 6 of the report.)

AC27/23 AUDIT COMMITTEE WORK PROGRAMME

The Committee considered a report by Hannah Doney, Head of Finance, setting out the Audit Committee's latest Work Programme. The purpose of the report was to allow the Committee to review and update the Work Programme.

The Chair invited Members of the Committee to make any comments they might have on the Work Programme.

In response to a Member's question regarding the 2019/20 Statement of Accounts, Mrs Doney stated the Committee had agreed to delegate authority to officers to approve the Statement of Accounts. Accordingly, it was anticipated that officers would be able to report to the December meeting of the Committee that the accounts had been approved and signed by the Auditors, Chair of the Audit Committee, and Director of Finance.

Mrs Doney stated that, if the accounts had not been signed off by the time of the December meeting of the Committee, Members would be notified of this fact.

Risk Management Training

Mrs Doney noted that, regarding the schedule of training for Committee Members, the Committee was behind on the schedule by one training session. As the agenda for the December meeting of the Committee would include the Risk Management Framework report, and as it was important that the Committee consider the Treasury Management reports scheduled for that meeting, it was proposed that Mr Phil King, the Council's Risk Manager, when presenting the report, provide a detailed introduction contextualising the content of the report.

Mrs Doney went on to say that if Members of the Committee wished to have training, they inform officers so that this could be included in the Committee's Work Programme along with any other matters that the Committee might wish to have added to the Work Programme.

NOTED

CHAIR