

**THREE RIVERS DISTRICT COUNCIL**

**AUDIT COMMITTEE  
MINUTES**

Of a meeting held in the Penn Chamber, Three Rivers House, Rickmansworth on Tuesday 29 March 2022 from 7.30pm to 9pm

Members of the Audit Committee:

Tony Humphreys (Chair)  
Steve Drury (Vice Chair)  
Ruth Clark  
Raj Khiroya  
Shanti Maru  
Lisa Hudson  
Khalid Hussain

Officers:

Hannah Doney (Head of Finance)  
Ciara Feeny (Interim Solicitor to the Council)  
Garry Turner (Fraud Manager)  
Sarah Haythorpe (Principal Committee Manager)

Also present: Alan Cooper, Client Audit Manager (SIAS)  
Simon Luk (Ernst & Young)

**AC1/22 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Chris Mitchell and Joan King.

**AC2/22 MINUTES**

The Minutes of the Audit Committee meeting held on 29 March 2022 were confirmed as a correct record by the Committee and were signed by the Chair.

**AC3/22 NOTICE OF ANY OTHER BUSINESS**

The Chair advised Appendix 1 of item 6 (Statement of Accounts 2019/20) had not been available 5 clear working days before the meeting but the Chair had agreed to take as an urgent item so that approval of the Statement of Accounts would not be delayed further.

**AC4/22 DECLARATION OF INTERESTS**

There were no declarations in interest.

**AC5/22 2019/20 EXTERNAL AUDITORS DRAFT REPORT**

The External Auditors, EY, presented their report to the Committee and made the following points:

- Referred to the Executive Summary and advised that since the plan had been submitted in 2020 there had been big changes to the climate with Covid at the end of the financial year 2019/20 and as a result there had been some updates to the plan.

- With regard to the reporting timescales this had been delayed from 31 July 2020 to 30 November 2020. Although both dates had past it was important this was highlighted the delay was due to Covid and also a number of misstatements identified in the course of the audit.
- On the audit plans there had been changes in risk in a few areas, due to Covid, which included fixed assets valuations of land and buildings, operational land and buildings, investment properties and surplus assets and they had identified a number of issues around the valuations and classifications of PPE, IP and surplus assets.
- The adoption of IFRS 16 by CIPFA/LASAAC as the basis for the preparation of Local Authority Financial Statements had been deferred until 1 April 2024.
- Advised that the audit was substantially completed other than a few areas as highlighted in the executive summary with the most significant areas being adjustments to fixed assets, property and equipment, investment properties and assets and resolving accounting issues for the South Oxhey Initiative (SOI). A summary of the differences were provided to the Committee and the work required to overcome these.
- Details were provided on the audit focus on financial statements which had identified a number of issues on valuation of land and buildings and the valuation of the Pension Fund Assets and Liabilities and also in other areas of high value activity like the classification of the South Oxhey Leisure Centre.
- The conclusions on the significant risks were provided on Page 14 of the draft report Points 1 to 9. EY were currently working with the Council's Management Team to resolve these points.
- Noted the actuary had identified an error in the pooling assumptions on the pension fund and re-run the IAS 19 report. This meant the Valuation of the Pension Asset and Liabilities figure would have an understatement of pension liability and re-measurement of pension liability. These misstatements had been adjusted by management. EY had consulted with their pension's team on the revisions made in the revised IAS 19 report and work was ongoing.
- In relation to the South Oxhey Initiative the Council would be transferring land and properties to the developer on a 250 year financial lease. The correct accounting treatment should be to continue to recognise the land as an investment property until the lease agreement is reached. Then the land should be held as a surplus asset until the lease commences. The surplus asset is then derecognised, and a finance lease asset will be recognised instead. The land had been classified incorrectly as inventory and therefore had not been revalued by the external valuers over the previous years. Management has requested the external valuer to provide a valuation for the South Oxhey Initiative, and will amend the accounting for this lease when the valuation is available.
- Management had also previously recorded a long term debtor, and also Deferred Income based on "Phase Price" expected to be received for the lease (£14.389m net). EY consider this to be incorrect as the developer had an option to discontinue with further phases if there was a breach (e.g. failure of TRDC to acquire land).
- Highlighted details on the Minimum Revenue Provision (MRP). No MRP had been provided for despite a positive Capital Financing Requirement. EY are currently working with management to determine a prudent MRP amount for FY19/20.
- Provided details on financial controls the Council should look to implement.
- Since the Head of Finance joined the Council had seen improvements in the processes.
- Had no matters to report on Value for Money or any other reporting issues.
- EY opinion on the financial statements was provided on Page 23 of the draft report.
- Providing outstanding areas as detailed earlier are addressed they were expecting a clean audit opinion.

A Member asked if the SOI was on time or was delayed. The Head of Finance advised that it was not the role of the external auditors to consider whether the project delivers its outcomes. In terms of the Value for Money assessment they had reported no issues. Questions around budget management are within the remit of the P&R Committee. The expenditure for the project had now been incurred and we are now receiving capital receipts for the development as the developer delivers and were almost at the point of finishing Phase 3. The lease is a 250 year lease between TRDC and Countryside

A Member said that considering the SOI had been started in 2016 why was it only being picked up in 2019/20 accounts. The Head of Finance advised that the accounting treatment was looked at in detail by the external auditors in 2017/18 and at that point they agreed the accounting treatment to treat it as an inventory asset but the view of the external auditors (EY) had changed. The revised accounting treatment has been agreed with EY and management agreed that it better reflects the substance of the transaction. The only change was how it appeared on the balance sheet. The External Auditor advised they were happy with the new accounting treatment.

RESOLVED:

Acknowledged receipt of the External Auditors draft report.

**AC6/22 APPROVAL OF THE DRAFT STATEMENT OF ACCOUNTS 2019/20 AND ANNUAL GOVERNANCE STATEMENT 2021/22**

The Head of Finance advised that officers were seeking delegation from the Committee to sign off the draft accounts and to be able to make any further amendments to them prior to the next meeting but as the version of the accounts was only published today and as the Committee would not have had time to review them and it would not cause any significant further delay that a fully completed set of accounts be brought back to the Committee on 29 September and that they be signed there. What the Committee do need to agree tonight is the Annual Governance Statement in relation to 2021/22.

The Chair proposed, duly seconded, that the consideration of the 2019/20 Statement of Accounts be deferred to the September Committee meeting but that the Committee approve the Annual Governance Statement 2021/22 and to noted that the Director of Finance will authorise for issue a Draft Statement of Accounts 2021/22 for public inspection by 31 July 2022.

In response to a Member question on not signing off the 2019/20 accounts yet the Head of Finance advised that there is potential reputational damage but we are not the only LA to have their audit outstanding. As outlined by the external auditor there had been a number of issues around fixed assets valuations which all LA's had seen additional scrutiny around for their 19/20 accounts because there was a concept of material uncertainty around the year end date. At the valuation date of 31 March 2020 Covid had just hit and we were in a lockdown world with significant uncertainty. Valuers were therefore of the view that they could not have the usual level of confidence in their assumptions and resulting valuations. As a result audit firms had to take a more detailed valuation approach and what had been uncovered was that some of the valuations were incorrect and some of the techniques used by the valuers were incorrect. Some of the issues around classification and valuation methodology had also gone unseen for a number of years and had not been picked up over a period of time. At the time there was also a change in audit practice where there was a lot more focus on fixed asset registers as well. On the pension fund issue all Hertfordshire Authorities that are part of Herts Building Control all had the same issue in that the actuary made a mistake in the preparation of the actuarial valuation. They assigned the pension liabilities of HBC to the originating authorities although they were not instructed to do. All the Herts Authorities who are members of HBC are needing to deal with

this issue. Those who had already signed their 2019/20 accounts would need to deal with it as part of the 2020/21 audit. There was a further consideration in the Hertfordshire Pension Fund (HPF) accounts where misstatements have been identified by the Pension Fund auditor. HPF chose to correct some of the material misstatements and therefore a revised IAS19 report was issued by actuary. However, the proportion of uncorrected misstatements have that is allocated to TRDC is above the TRDC external audit reporting threshold, and therefore need to further adjusted for or reported. This is a common issue for all authorities in the HPF.

On the SOI management have had to go back to our external valuers and to respectively seek valuations. Management are still waiting to receive these but are confident will get these completed by early September and will then organise a further briefing for Members on the accounts before the Committee meeting.

Management currently have 3 years of accounts open all at one time. The 2020/21 accounts were published last July but will need to be updated to reflect all the adjustments agreed for 2019/20. However management are hopeful they will be ready for the Audit of them from 17 October. Although they are behind they still need to meet the statutory timetable for 2021/22 and get the accounts published by the end of July and will send Members a link to those accounts. They hope to have the 2020/21 audit plan for the September Committee.

The Head of Finance advised that Local Authorities are required to prepare an Annual Governance Statement (AGS) to be transparent about their compliance with good governance principles. This included reporting on how they had monitored and evaluated the effectiveness of their governance arrangements in the previous year and setting out any planned changes in the coming period. The AGS must be published alongside the Statement of Accounts for the period of Public Inspection. Based on the information set out in the AGS, the following conclusion is included:

*"It is our opinion that the Council's governance arrangements in 2021/22 were sound and provide a robust platform for achieving the Council's priorities and challenges in 2022/23. It is our opinion that this has remained the case during the COVID-19 pandemic; and that despite the challenges posed by this, the Council's governance in dealing with the pandemic and our ability to maintain sound governance during the outbreak, has been effective."*

The Head of Finance advised that a self-assessment against the FM Code for 2021/22 had been completed and included as Appendix 2 to the AGS. All areas covered by the FM Code are rated green with the exception of the assessment against external reporting requirements in relation to the completion of the annual Statement of Accounts. This is rated amber in recognition that the delay in completing the audit of the accounts for 2019/20 and 2020/21 had impacted on the timeliness of external reporting. As set out in this report, there is a clear plan in place with the Council's external auditors to bring this back on track by April 2023.

On being put to the Committee the motion to defer the 2019/20 Statement of Accounts to the September meeting was declared CARREID by the Chair the voting being by general assent.

**RESOLVED:**

That the consideration of the draft Statement of Accounts 2019/20 be deferred to 29 September 2022 meeting.

In relation to the 2021/22 Statement of Accounts:

- Approve the Annual Governance Statement 2021/22
- note that the Director of Finance will authorise for issue a Draft Statement of Accounts 2021/22 for public inspection by 31 July 2022.

#### **AC7/22 FRAUD ANNUAL REPORT**

This report informed Members of the work of the Fraud Section for the financial year 2021 to date and provided updates on progress and developments.

The Fraud Manager made reference to and highlighted the following points to the Committee:

- Councils Regulation of Investigatory Powers Act 2000 (RIPA) policy and the use of the policy, training of staff and inspection by DVLA.
- The work of the Council in investigating a cross border fraud involving applications for Business Rates Covid-19 restart grants. On the first set of grants administered there was reduced guidance and pressure on LA's to process. On the second set much more experience and details were provided from the Government and checks were in place on the processing of the grants. It is hoped that there is to be government audit of the payments gone through regarding post assurance work and we are working with NFI.
- In respect of Council Tax Reduction, a local legal framework is in place to define who is entitled to the reduction and to reduce fraud from entering the system at inception.
- Details on data matching on the discount for council tax and the savings identified for the Council.
- Noted that the P&R Committee in September will be asked to approve the revised Anti-Fraud and Corruption Strategy and Anti Bribery Policy
- Noted that the Councils whistleblowing policy and money laundering policy had both been updated.

A Member said it was comprehensive report and some of the figures quoted were alarming. They referred to Paragraph 2.18 on the Business Rates Covid 19 restart grants and the work staff did in getting the grants paid but now some post grant work was required to make some checks.

RESOLVED:

That Members note the content of this report and notes the Fraud and Corruption strategy attached to the report.

#### **AC8/22 TREASURY MANAGEMENT ANNUAL REPORT 2021/22**

The Head of Finance advised that this report gave details of the 2021/22 year-end review of the Treasury Management function.

Members were referred to details on the external borrowing balance which we were well within, the CFR and Operational Boundary estimates and outturn, the money held in the accounts and details on our investment portfolio. The CFR is subject to restatement following the finalisation of the Statement of Accounts audits for 2019/20 and 2020/21.

The overall performance for the year was below the benchmark for 2020/21 because treasury investments for 2021/22 were short-term. This reflected the prioritisation of security and liquidity over yield, as cash was available for investment only for short-periods during the year and the returns on the shorter

term loans are generally lower than the Bank of England base rate for counterparties of a very high credit quality.

A Member referred to a loss detailed in Paragraph 21.6 of the report. This is a long term investment which would continue to be closely monitored but performance should be measured over the long term.

On being put to the Committee the Chair declared the recommendation CARRIED the voting being unanimous.

RESOLVED:

Noted the annual 2021/22 Treasury Management report.

**AC9/22**

### **THREE RIVERS DISTRICT COUNCIL 2021/22 ANNUAL ASSURANCE STATEMENT AND INTERNAL AUDIT ANNUAL REPORT**

The Committee received a report on SIAS 2021/22 Annual Assurance Statement and Internal Audit Annual Report.

The Client Audit Manager advised that the report set out:

- a) Details the Shared Internal Audit Service's (SIAS) overall opinion on the adequacy and effectiveness of Three Rivers District Council's (the Council) framework of governance, risk management and control. Reference was made to significant matters and key themes.
- b) Shows the outcomes of the self-assessment against the Public Sector Internal Audit Standards (PSIAS) incorporating the requirements of the Quality Assurance and Improvement Programme (QAIP).
- c) Summarises the audit work that informs this opinion.
- d) Shows SIAS performance in respect of delivering the Council's audit plan.
- e) Presents the 2022/23 Audit Charter for approval.

Details on the audits undertaken were provided in Appendix A to the report both key financial system audits, operational audits and other audits carried out. Following all the audits the Council were given a reasonable assurance level overall for both financial systems and non-financial systems which was the second highest rating. In order to deliver the work a number of performance indicators are set by the SIAS Board and had to deliver their work against those performance indicators. The indicators were all met for the year.

In terms of how SIAS operate and professional standards they are members of the Institute of Internal Auditors and governed by a Code of Conduct with CIPFA called the Public Sector Internal Audit Standards

Members were referred to Appendix C of the report which provided details on the self-assessment which identified two areas of agreed non-conformance, these reflecting the unique nature of a partnership arrangement and were not considered material.

Assurance was given to the Committee that SIAS were able to carry out their work without any limitations.

In response to a Member question on the difference between reasonable and substantial assurance the Client Audit Manager advised that it would depend on what the outcomes of the audit were and if there was anything significant. It was a subjective call when considering the findings, whether there were any recommendations and what priority level you attach to them.

The Head of Finance advised that some areas which were audited regularly could receive a reasonable assurance which did not mean that it was not meeting all the requirements it was because the environment was changing all the time.

The Head of Finance confirmed that the scope and resources for internal audit were not subject to inappropriate limitations in 2021/22

On being put to the Committee the recommendations were declared CARRIED by the Chair with the voting being unanimous.

**RESOLVED:**

Noted the Annual Assurance Statement and Internal Audit Annual Report.

Noted the results of the self-assessment required by the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP).

Approved the SIAS Audit Charter 2022/23.

Noted that Management assurance was given that the scope and resources for internal audit were not subject to inappropriate limitations in 2021/22

**AC10/22 TRDC SIAS PROGRESS AGAINST THE 2022/23 AUDIT PLAN**

The Client Service Manger presented the report to the Committee which provided the following details and which had been agreed by the Committee in March:

- 1 Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's annual audit plan for 2022/23 as at 15 July 2022.
- 2 Proposed amendments to the approved 2022/23 Annual Audit Plan.
- 3 Implementation status of all previously agreed audit recommendations from 2018/19 onwards.
- 4 An update on performance management information as at 15 July 2022.

The original approved Shared Services 2022/23 Audit Plan included an allocation of 30 days for audits within the Revenues and Benefits Service. Following a meeting with the Head of Revenues and Benefits and agreement with the Director of Finance (Section 151 Officer) the following audits have been agreed for use of this time and are brought to the attention of this Committee:

Council Tax

- NDR (Business Rates)
- Sundry Debtors

SIAS would continue to progress through the plan but are where expected at this time.

The Client Audit Manager advised that in respect of the following four recommendations, no updates had been received from the action owner:

- One from the 2018/19 Benefits audit (target date 15 March 2022),
- One from the 2019/20 Risk Management audit (target date 31 January 2022),
- One from the 2020/21 Debtors audit (target date 31 December 2021), and
- One from the 2021/22 NDR audit (target date 31 March 2022).

On the Benefits audit and the deletion of data it had been a long process to try and get the scripts written to be able to do this automatically and a revised date had been set of 31 August 2022. At this time SIAS were not aware if the date related to the implementation of the required scripts or manual removal of obsolete data.

The Committee asked that the Lead Manager for the audit be contacted to provide an update as requested and that this be circulated to the Committee

Members to consider and make a decision on whether they should be asked to attend the next Audit Committee meeting to provide a further explanation.

On being put to the Committee the recommendations with the amendment were declared CARRIED by the Chair with the voting being unanimous.

RESOLVED:

Noted the Internal Audit Progress report for the period to 15 July 2022.

Approved amendments to the Audit Plan as at 15 July 2022  
Agreed changes to the implementation dates for 6 audit recommendations (paragraph 2.6) for the reasons set out in Appendices 3 to 6 but requested that explanations be provided to the Committee by email on the extensions requested for the audits in Paragraph 2.7 and that if these explanations are not considered satisfactory that the Lead Manager be asked to attend the September meeting.

Agreed removal of implemented audit recommendations (Appendices 3 to 6

## **AC11/22 FINANCIAL AND BUDGETARY RISKS**

The Head of Finance presented the report to the Committee and advised that the high rate of inflation (currently 9.1%) would be a challenge for the Council. Further details would be provided to the P&R Committee in September as part of the budget monitoring report.

An update has been provided for risk FIN24 in relation to loss of key personnel. Two key positions had now been filled on a permanent basis following successful secondments. Recruitment was underway to fill four other vacancies within the team, two of which are currently covered by interim appointments to ensure that there is sufficient capacity within the team to meet business needs.

FIN07 risk would be lowered once the accounts were signed off.

On being put to the Committee the Chair the recommendation was declared CARRIED the voting being unanimous.

RESOLVED:

Reviewed the Financial and budgetary risks and made comments as detailed above.

## **AC12/22 COMMITTEE WORK PROGRAMME**

The Committee received their work programme.

RESOLVED:

That the work programme be noted and that the date of the next meeting be flexible so that the accounts could be finalised.

**CHAIR**