

Audit Committee
18 March 2024

WELWYN HATFIELD BOROUGH COUNCIL

Minutes of a meeting of the AUDIT Committee held on Monday 18 March 2024 at 7.30 pm in the Council Chamber, Council Offices, The Campus, Welwyn Garden City, Herts, AL8 6AE.

PRESENT: Councillors D.Panter (Chair)
C.Watson (Vice-Chairman)

N.Pace, R.Platt and A.Hellyer

ALSO PRESENT: Victoria Welburn-Smith (Independent Person)
K Fuller, SIAS
C Paisley, KPMG

OFFICIALS PRESENT: R.Baker, Executive Director (Finance & Transformation)
H. O'Keefe, Assistant Director (Finance)
R Misir, Senior Democratic Services Officer

32. APOLOGIES & SUBSTITUTIONS

An apology for absence was received from Cllr J Boulton.

The following substitution was made in accordance with Council Procedure Rules:
Cllr A Hellyer for Cllr J Boulton.

33. MINUTES

The minutes of the meeting held on 30 January 2024 were agreed as a correct record.

34. NOTIFICATION OF URGENT BUSINESS TO BE CONSIDERED UNDER ITEM 11

None.

35. DECLARATIONS OF INTERESTS BY MEMBERS

There were no declarations of interest.

36. RISK MANAGEMENT QUARTER 3 RISK REGISTERS

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Officers introduced the Q3 risk register report which outlined the assessment of risk as at the end of December 2023. It included all strategic risks, and operational risks with a residual score of serious or severe. Since the risks were last presented, there had been further improvements to the reporting, enabling the Council to capture and report on both the inherent risk (before control measures are in place) and the residual risk (after control measures are put in place).

For strategic risks, two scores had been changed from the previous quarter. The risk for financial sustainability was increased last year when the Council undertook its medium term financial forecasts, and then when an increased budget gap for 2024/25 was identified. This risk score was reduced following the budget proposals which presented a balanced budget for 2024/25 and the proposed budget had been approved at full Council. While this risk had reduced, it still had a high score as there were some challenging targets over the medium term. The risk around service standards had also increased due to a change in the Ombudsman enquiries process; previously tenants had to go through the Council's complaints procedure before the Ombudsman would investigate, whereas they could now go straight to the Housing Ombudsman which meant the Council could be investigated for a complaint before being contacted by a tenant. This new approach meant there was likely to be an increase in the number of maladministration findings against the Council. There were no key changes to the operational risk scores to highlight.

The following points were made during the discussion:

- There was a query about the status of using key risk indicators for qualitative and quantitative purposes as it was sometimes difficult to understand whether this changed the risk status. As an example, the commentary about recruitment and retention risk indicated action was being taken but the status/ trend of vacancies was unclear. It was suggested it would be helpful to provide some quantitative information so the trend could be tracked over time. Officers said this could be reviewed and they would consider whether this could be built into the reporting framework.
- Responding to a question about whether there was a consensus about critical staff roles in terms of recruitment and retention, officers advised that all assistant directors identified critical roles within the risk register. A recent task and finish panel had looked specifically at recruitment and retention and there had been no significant recommendations as a result.
- A member noted that in terms of ICT continuity, the commentary referenced backup sites and asked what types of sites these were (hot/cold). Officers undertook to provide detail outside of the meeting and advised alternative arrangements such as potential cloud backups were being considered.
- A member asked about submission of GIS data as it seemed this was an area that could be fixed and therefore removed as a risk. Officers advised that there were a number of officer roles providing support to service specific applications; a review of the Council's approach to application support would be taking place in the coming months.

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- In terms of council run events, a member expressed concern that public safety was registered as a high residual risk. Officers agreed the residual probability should be reduced and would take this up with the relevant risk manager.
- A member queried the operational risk regarding the control centre (Lifeline Service) which showed the inherent impact at 3 but the residual impact at 5. Officers confirmed this was an error and would be revised by the risk manager.
- A member asked about the ICT VPN outage the Council had experienced earlier in the year and whether this impacted on risk assessments. Officers confirmed this would be considered when they came to the Q4 assessment of risk although the scoring might not change significantly because the controls and mitigation measures in place had worked as expected.
- A member asked about risks pertaining to new legislation which meant new requirements for voting and that the Council would not be overly zealous with rules therefore preventing eligible voters from voting. Officers responded that the Council followed national guidance: various forms of identification could be used, anyone on the electoral roll could apply for specific electoral registration ID, and information on the website and on poll cards specified what ID documents could be used.
- There was a query about whether the fact that tenants could now approach the Ombudsman without first contacting the Council meant there might be a risk in terms of staffing capacity in dealing with complaints. Officers said this had been identified as part of the budget-setting process for next year and there is now a complaints/Ombudsman lead officer currently being recruited to.
- A member noted a previous meeting had discussed adding potential industrial action to the risk register. Officers would raise this with the relevant team and ascertain whether it had been added and whether it was deemed a high residual risk.

The Committee noted the Quarter 3 risk registers, and noted the comments and actions in respect of the strategic and serious/severe operational risks.

37. SHARED INTERNAL AUDIT SERVICE (SIAS) - PROGRESS REPORT

The Committee received the SIAS progress report which detailed the progress made by SIAS in delivering the annual internal audit plan for 2023/24 as at 1 March 2024. Since the last meeting there had been three completed projects - three audits with substantial audit opinion and one unqualified grant certification. No new high priority recommendations had been raised as a result of this work and there were no outstanding high priority recommendations from previous reports. A member commented on how positive it was that there were no new high priority recommendations.

The Committee noted the Internal Audit Progress Report for the period to 1 March 2024 and noted the plan amendment to the 2023/24 Annual Audit Plan.

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38. SHARED INTERNAL AUDIT SERVICE (SIAS) - INTERNAL AUDIT PLAN 2024/25

The Committee received the SIAS Internal Audit Plan 2024/25 report which set out the programme of work for the year ahead and formed part of the Council's wider assurance framework. It was expected that the work programme would be delivered by the end of March 2025 and the Committee would receive regular progress reports.

Comments from members included the following:

- A member asked whether there would be anything materially different this year from previous years and SIAS confirmed there would be a similar approach, noting that an audit would undertake a more embedded assurance approach that would be more 'real time' rather than retrospective, similar to a project management approach. Responding to a question about whether anything done this year would be done differently next year, SIAS said no as the plan was primarily risk-based; aside from horizon-scanning, they would look at the Council's risk register and meet with senior management to ensure they were aware of areas of concern, key risks or significant projects.
- A member noted there would be an audit of sickness management and asked how this had made it on to the plan. SIAS advised that as well as this having been a part of discussions with senior management, sickness management had come up in its wider scanning of risk.
- A member observed that paragraph 2.14 of the report showed the estimated allocation of times for each audit and noted the categories had previously been shown in terms of risk level, and SIAS agreed this could be done for future reports.

The Committee approved the proposed Welwyn Hatfield Council Internal Audit Plan for 2024/25.

39. SHARED ANTI-FRAUD SERVICE - ANTI-FRAUD PLAN 2024/25

Welwyn Hatfield had joined Hertfordshire's shared anti-fraud service in April 2023. The Committee received the SIAS Anti-Fraud plan report for 2024/25 which would build on the work undertaken this year. Audit Committee had a role in ensuring the Council met its anti-fraud objectives, details of which were in the report's appendix. Key performance indicators (KPIs) would be monitored throughout the year and SAFS would report on these to future committee meetings.

The Committee noted the following:

- KPI 5c) related to 6 -12 social homes secured from unlawful use or subletting, and a member asked why this KPI had specific numbers attached to it. Officers advised these were indicative numbers based on the level of housing stock and that they were taking a more proactive approach to fraud which is why a target had been set. The member noted this approach could mean such cases reduced and suggested this could

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be looked at differently, rather than specifying a number of homes. Officers would discuss the approach taken to this with SAFS outside of the meeting.

- KPI 6a) was about supporting the output from NFI 2024/25 across all Council services and a member reflected this sounded like an aim rather than a KPI. Officers agreed this would be discussed with SAFS and amended so it was more specific.
- A member wondered whether the KPIs were specific to Welwyn Hatfield. Officers explained some were similar to other targets in the shared service but adapted for the Council, while others were more general (such as 10 training events per year for SAFS members).
- KPI 1) related to a return on investment from the SAFS partnership and a member commented that this was not a quantitative figure. Officers responded that a figure could be attributed to, for example, preventing loss to the Council via housing benefit fraud. Rehousing someone meant potentially reducing the cost on the general fund for use of temporary accommodation. Work was done nationally to ascertain what the target should be and SAFS then applied local factors. A member felt that costing efficiency was more complex than the cost of anti-fraud services, while another member noted the importance of being proactive and being seen to take action.

The Committee approved the Anti-Fraud Plan for 2024/25.

40. INDICATIVE EXTERNAL AUDIT PLAN 2023/24

Christopher Paisley, KPMG director, advised that he would be leading on the 2023/24 year-end audit. There had been well-publicised delays to the external audit process in local government and it was anticipated that the borough's 2022/23 year-end accounts would not receive an unqualified audit opinion. This was not specific to Welwyn-Hatfield and was in tandem with a consultation led by the Financial Reporting Council (FRC), DHLUC and Public Sector Audit Appointments (PSAA) around bringing in a backstop arrangement in respect of previous orders due to the significant number of prior audits that were unsigned; the consultation was complete and the outcome was awaited. Legislative provision for a disclaimer of opinion from the previous audit firm was anticipated which would identify what had not been audited, effectively drawing a line under it in order to deal with the audit process and deal with the backlog. From an audit perspective, KPMG was the borough's new auditor and would not have any assurance on the 2022/23 year-end numbers due to the absence of an audit process for that year. There were expected to be provisions within legislation to allow KPMG to effectively audit the 2023/24 year-end and provide a disclaimer in its first-year opinion to say it had not audited the opening balance sheet in order to manage the process. KPMG had received a strong steer from the previous auditors that a disclaimer would be provided, and expected that once the legislative process had taken place it could start the audit for 2023/24 in the summer as planned. It had set out in its report how the audit was planned, key decisions it had made in respect of materiality etc.

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KPMG noted some key points in the report. There were three levels of materiality it worked with: 1) a material amount (around 2.5% of the Council's overall expenditure, ie £3m) for the statement of accounts from the perspective of stakeholders; 2) performance materiality which directed its work and meant they actually audited to £1.9m and dealt with issues like the absence of a previous year's audit, that it was a first year audit for KPMG and to deal with aggregation risk; and 3) a reporting threshold of £150,000.

The report set out the significant risks KPMG anticipated addressing through its audit which were representative of the sector as a whole. These included evaluation of land and buildings as this was subject to uncertainty and subjectivity; management override of controls (which was governed by international auditing standards); Local Government Pension Scheme pensions liability; and expenditure recognition. This was a standard suite of risks that would be expected to be addressed by an audit of a council. KPMG had considered the additional services provided and did not consider there were any threats to its independence as the Council's external auditor.

The following points were made as part of the discussion:

- The Chair asked whether the significant risks highlighted were by KPMG rather than the previous auditors. KPMG confirmed that was the case.
- The Chair noted the ratio of non-audit fees to audit fees for the year was to be confirmed and asked when this would happen. KPMG said this was undertaken elsewhere in KPMG and the fee would be agreed with officers; the non-audit fees were of a low enough level that meant there was no threat to its independence.
- A member asked if there was only one year (2022/23) that had not been fully audited and this was confirmed.
- A member asked whether different auditors used the same criteria to assess value for money. KPMG explained the value for money scope of work was governed by an auditor guidance note from the National Audit Office.
- There was a query about how often properties were valued and officers confirmed this was done on a rolling basis over five years although high value properties were valued annually.
- A member asked why an audit for 2022/23 was not taking place, why audits did take place if it was possible not to have one, and if there were any risks to the Council as a result. KPMG said that as the Council's new auditors, if they were required to audit the opening position there would be resource implications that would be untenable. There had been moves to simplify the process as that had been a contributory factor to the delays. The final backstop date for the 2023/24 year end accounts was May 2025 whereas for the following financial year it would be January 2026, and this would continue so that the backstop dates got progressively closer to the respective year-end. Responding to the issue about why audits took place, KPMG said it was widely recognised there was a lack of accountability particularly in cases where there were several years that had been unaudited and an increase in issues with accounts or misstatements due to not having the rigour of external assurances; audit

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was important as it was a crucial component of public accountability. It was far from ideal to have a missing audit but there had been pragmatic reasons for this. Officers added that the major risk was around the material statement of the accounts; this did not affect the Council's ability to borrow and while there had been previous misstatements about pensions and assets, that was down to a difference of evaluation opinion and had no impact on the taxpayer. The biggest risk for unaudited accounts would be if misclassified expenditure was not picked up. However based on controls and previous audits, these had not been issues for the Council and officers were comfortable with the controls in place, did not feel that those risks were increased by the fact that the 2022/23 audit would be missed and noted that anything ongoing would be covered by KPMG when it picked up the next audit. A member responded that the accounts were regularly scrutinised so it was likely any major issue would be noted and actioned.

- A member asked how the situation had arisen. KPMG identified some of the key reasons as technical issues with accounts (although that was less accurate for smaller councils like Welwyn Hatfield); issues around infrastructure assets and how they were accounted for had been significant for some councils; the complexity of local government accounts; the level of experienced resource in the audit sector to effectively audit the accounts (existing firms had experienced difficulties in recruitment and retention); and the impact of the pandemic. Officers noted the Redmond review had highlighted some of the issues relating to the audit market including resources and significantly increased audit fees. It was agreed officers would circulate the Redmond review to members of the committee. KPMG added that over the last five years there had been a significant increase of FRC interest in the sector and scrutiny of the level of work, such as how much management estimates were challenged, which had led to increased work to provide an audit opinion safely.

The Committee noted the indicative external audit plan and strategy for the year ending 31 March 2024.

Meeting ended at 8.43 pm