

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
HELD ON 24 JULY 2019 FROM 7.00 PM TO 9.20 PM**

Committee Members Present

Councillors: Chris Smith (Chairman), Rachel Burgess, Angus Ross, Daniel Sargeant and Imogen Shepherd-DuBey

Also Present

Madeleine Shopland, Democratic & Electoral Services Specialist
Helen Thompson, Ernst and Young
Malcolm Haines, Ernst and Young
Sarah Hollamby, Director Locality and Customer Services
Andrew Moulton, Assistant Director Governance
Mark Thompson, Senior Finance Specialist
Bob Watson, Head of Finance & Deputy s.151 officer

21. APOLOGIES

Apologies for absence were received from Councillors Maria Gee and Dianne King.

22. MINUTES OF PREVIOUS MEETING

The Minutes of the meeting of the Committee held on 5 June 2019 were confirmed as a correct record and signed by the Chairman.

Councillor Burgess questioned when there would be an update on the Council Tax Reduction Scheme. The Chairman indicated that he was awaiting confirmation of a Labour Group representative for the Working Group. Councillor Burgess confirmed that it would be herself.

Councillor Burgess asked whether responses had been received to all the queries regarding treasury management. Bob Watson confirmed that they had.

The Chairman indicated that there would be Equality Act training and an update on data protection breaches at the September meeting.

23. DECLARATION OF INTEREST

A Personal declaration of interest was submitted from Councillor Daniel Sargeant in Item 27 Financial Statements 2018/19, on the grounds that he was a Non-Executive Director of Berry Brook Homes Limited, Wokingham Housing Limited and Optalis.

24. PUBLIC QUESTION TIME

There were no Public questions.

25. MEMBER QUESTION TIME

There were no Member questions.

26. EXTERNAL AUDIT - AUDIT RESULTS REPORT 2018/19

Helen Thompson, Ernst & Young, took the Committee through the draft External Audit – Audit Results Report 2018/19.

During the discussion of this item the following points were made:

- Two years ago the deadline for publishing of the statement of accounts had shifted from 30 September to 31 July.
- This year had been more challenging for many audit firms and Ernst & Young. A number of audits had been rescheduled and delayed for a number of reasons. With regards to Wokingham, resources had started from late June. Audit resources remained on site.
- Members were informed that Ernst & Young had that day received correspondence from the auditors auditing the Royal Berkshire Pension fund, stating that they anticipated that they would not be able to meet the 31 July deadline. Ernst & Young could not issue audit assurances without an opinion on the pension fund. As the auditors of the pension fund had not categorically ruled out meeting the 31 July 2019 deadline, Ernst & Young would continue to work to its plan.
- Councillor Burgess asked what the ramifications would be of not meeting the 31 July deadline. Helen Thompson indicated that there were no legal or financial penalties and that a report was no longer published which identified which authorities had not met the deadline. If such a report were published it would be made clear that the delay was not of Ernst & Young or the Council's making. Other Berkshire local authorities would also be effected.
- Councillor Smith asked which company were auditing the pension fund. Helen Thompson indicated that it was Deloitte but that it was the first year that they were taking over the audit, which could be challenging. Councillor Smith asked if he could see the correspondence with Deloitte regarding the delay. Helen Thompson indicated that this was unlikely but that she could possibly provide a summary.
- Councillor Smith requested that there be an update on the auditing of the pension fund situation prior to the signing of the letter of representation.
- The overall materiality assessment had been updated to £6.269m,
- Helen Thompson provided an update on outstanding matters including Property, Plant and Equipment (PPE), Debtors and Creditors, Income and Expenditure and Whole of Government Accounts. There remained some work still to do with regards to Journal Testing.
- A status update around pension disclosures had been included. A national issue had resulted in the consideration of the need for a relatively late change to the Council's accounts and IAS19 disclosures. It related to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements. The draft accounts did not recognise this issue as it was considered not to be sufficiently material to disclose a contingent liability. However, since the year-end there had been additional evidence, including the legal ruling by the Supreme Court on 27 June 2019 which denied the Government leave to appeal, which suggested that the amounts should in fact be able to be fully calculated and so included in the IAS19 liability disclosed within the financial statements. Bob Watson explained that the Council had not adjusted for this as it would not impact on the General Fund balance for the financial year. It would be factored into the contribution rates when they were reviewed.
- Helen Thompson indicated that there was an unadjusted error around the national non-domestic rates return (NNDR). The difference was possibly a historic discrepancy between the non-domestic rates model used and the non-domestic rates ledger. Bob Watson emphasised that further work would be undertaken regarding which required correction; the model or the ledger. In response to a question, Mark Thompson clarified that the model used was a CIPFA model, well publicised for calculating business rates and accounting. A CIPFA expert had not been able to find issue with the model but further work would be undertaken in the autumn.

- Councillor Smith expressed concern that this was another issue within debtors. Bob Watson commented that historically there had been reduced resources in the Debtors Team but that he was working with Simon Price, the Assistant Director with responsibility for this area, to understand the position. In response to a question from Councillor Smith, Mark Thompson indicated that if it was written off there could potentially be an impact on the deficit on the collection fund.
- Helen Thompson took the Committee through areas of audit focus, beginning with significant risks. With regards to misstatements due to fraud or error, work carried out so far had not highlighted any concerns.
- With regards to the risk of incorrect capitalisation of revenue expenditure, REFCUS had been tested to ensure that it was appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources. No issues had been identified.
- Other areas of audit focus included;
 - Pension liability;
 - Group accounting;
 - Valuation of Property Plant and Equipment/Investment Property
 - PFI accounting;
 - IFRS 9 financial instruments; and
 - IFRS 15 Revenue from contracts with customers
- Subject to the satisfactory completion of the audit it was anticipated that an unqualified audit opinion would be issued on the accounts.
- A significant risk around considerable change in the political and senior leadership in 2018 had been identified as a value for money risk. However, Ernst & Young did not have concerns around the Council's financial planning as such.
- There were no concerns identified relating to the oversight of subsidiaries.
- Helen Thompson suggested that although the document contained all the required information, the Council's Medium Term Financial Plan could be easier to navigate. Members asked that Ernst & Young provide examples of good MTFPs which the Council could learn from.
- The Committee discussed the audit fee.
- It was agreed that Ernst & Young would circulate the report once it was finalised.
- It was suggested that the Committee delegate authority to the Chairman to sign the letter of representation should the audit be completed by 31 July 2019. If it was not, an additional Audit Committee would be arranged to consider the financial statements.

RESOLVED: That the Ernst & Young – Audit Results Report 2018/19 be noted.

27. FINANCIAL STATEMENTS 2018/19

The Committee received the draft Financial Statements 2018/19.

During the discussion of this item, the following points were made:

- Members had received a briefing on the draft Financial Statements previously. An updated version of the Financial Statements was circulated at the meeting.
- Mark Thompson took the Committee through a list of changes made since the briefing. It was suggested that if Members had further questions, that they email them to Bob Watson and Mark Thompson. Councillor Ross requested that all questions and answers be circulated to the whole Committee.
- The Committee discussed financial ratios in some detail.

- In response to a query from Councillor Shepherd-Dubey, Bob Watson indicated that he could not guarantee that the local authority trading company accounts would be signed off by the time the Council would sign its accounts off.

RESOLVED: That

- 1) if the audit and Financial Statements were complete by 31 July 2019, to delegate authority to the Chairman of the Audit Committee to sign the letter of representation and statement of responsibilities, on behalf of the Committee.
- 2) a meeting of the Audit Committee be arranged to consider the Financial Statements should the audit and Financial Statements not be completed by 31 July 2019.

28. ANNUAL GOVERNANCE STATEMENT 2018-19

The Assistant Director Governance presented the Annual Governance Statement (AGS).

During the discussion of this item the following points were made:

- The AGS formed part of the Financial Statements and would be signed by the Leader and the Chief Executive.
- The process had identified five exceptions. Andrew Moulton proposed that the Committee be updated on these at the November Committee meeting.
- Helen Thompson requested that the Head of Internal Audit's Opinion be included in the AGS if required.
- With regards to improvements identified in Corporate Services, Councillor Burgess asked how overview and scrutiny processes had been strengthened. Andrew Moulton commented that from an officer perspective there had been a lot of work undertaken on improving overview and scrutiny.
- Councillor Burgess also asked how a review of care governance was considered an improvement. Andrew Moulton referred to the work of the Strategy and Commissioning Team to support Children's and Adult's Services.
- Councillor Shepherd-Dubey asked for an update on the fine tuning of the SDL governance and management arrangements and was informed that she would receive a written response.

RESOLVED: That the Committee approve the Annual Governance Statement on behalf of the Council prior to it being included in the final Statement of Accounts.

29. CORPORATE RISK REGISTER

The Committee discussed the Corporate Risk Register.

During the discussion of this item the following points were made:

- Councillor Smith advised the Committee that they would be looking at the register in more detail at the September meeting.
- Sarah Hollamby, Director Locality and Customer Services, highlighted some of the risks in her area.
- Sarah Hollamby commented that one of the biggest challenges had been the bedding in of the new directorate following the 21st century Council initiative. There was still some more work to do with elements of the structure needing further tightening. There also needed to be more work regarding language as often members of the public did not know what a Lead Specialist necessarily did.

Nevertheless, good progress had been made with encouraging and facilitating greater use of self service.

- The growing demographic would create additional pressures.
- Sarah Hollamby referred to the Local Plan and many residents' concerns about housing numbers.
- Health and safety of residents, staff and contractors was a risk and ensuring that highways and other assets were maintained and remained safe. She outlined a strong culture of Health and Safety Risk Assessments and reporting, with regular review (monthly) of this and the broader Risk Register at the Directorate Leadership Team meetings. The managers in the directorate would be undergoing training on health and safety responsibilities in September.
- Councillor Burgess questioned how the Children's Services Overview and Scrutiny Committee monitored the delivering of the SEND role risk. Councillor Smith explained that the Committee was not specifically responsible for overseeing the risk, but that each risk had been assigned a committee to make sure that each risk was being monitored. It was suggested that more detail around actions that had been taken to mitigate against the risk, be included against each risk.
- Councillor Burgess asked why Brexit had been scored as a low risk. Councillor Sargeant commented that the risk was that the Council had failed to plan for the impact of Brexit rather than Brexit itself. Members were advised that there was an officer working group which was looking at the potential impact of Brexit locally. Councillor Shepherd-Dubey asked how many EU national staff were employed by the Council and its companies, who may be impacted by Brexit. Bob Watson commented that the officer working group had this information. Councillor Burgess also suggested that the risk was more long term than had been assessed. Councillor Shepherd-Dubey agreed, stating that there may be issues with property and investment following Brexit which could have a more long term impact on the Council.
- Councillor Sargeant asked about the delivering of highways capital projects and was informed that the Highways Management Board met weekly and that there was a collaborative planning meeting every 2 weeks. A capital meeting with accountants took place on a monthly basis.
- Councillor Shepherd-DuBey asked how many contractors there were within the directorate and was informed that there was approximately 25 in a directorate of 325.

RESOLVED: That the update be noted.

30. 2019/20 INTERNAL AUDIT AND INVESTIGATION Q1 PROGRESS REPORT

The Assistant Director Governance presented the 2019/20 Internal Audit and Investigation Q1 Progress Report.

During the discussion of this item, the following points were made:

- Members were advised that the Public Health audit had received a level 3 assurance. There was a detailed management plan in place to address recommendations within the report. Andrew Moulton indicated that he would bring an update to the Committee's November meeting.
- With regards to outstanding responses awaited from management, this related to a review of the Council's Corporate Governance arrangements. Member training was being looked at for the autumn. It was also noted that the Member/Officer Protocol was being updated and that Members and Officers would receive training on this.

RESOLVED: That the 2019/20 Internal Audit and Investigation Q1 Progress Report be noted.

31. FORWARD PROGRAMME 2019-2020

The Committee considered the forward programme for the remainder of the municipal year.

During the discussion of this item, the following points were made:

- Members were reminded that there would be training on the Equalities Act and an update on data protection breaches at the September meeting.
- Councillor Shepherd-Dubey commented that she would like to see details on CIL money, how it was calculated and how it was allocated. Councillor Smith suggested that it be requested that the calculation of CIL be added to Internal Audit's work programme.
- Helen Thompson indicated that the Certification of Claims and Returns – Annual Report 2018/19 scheduled for February, was no longer required.

RESOLVED: That the forward programme be noted.