

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
HELD ON 15 SEPTEMBER 2021 FROM 7.00 PM TO 9.00 PM**

Committee Members Present

Councillors: Maria Gee, Angus Ross, Daniel Sargeant (Chairman), Imogen Shepherd-DuBey, Abdul Loyes and Ian Shenton

Also Present

Helen Thompson, Ernst and Young
Stephan Van Der Merwe, Ernst & Young
Madeleine Shopland, Democratic & Electoral Services Specialist
Catherine Hickman, Lead Specialist, Audit and Investigation
Andrew Moulton, Assistant Director Governance
Mark Thompson, Chief Accountant
Bob Watson, Assistant Director Finance

23. APOLOGIES

An apology for absence was received from Councillor Shahid Younis.

24. MINUTES OF PREVIOUS MEETING

The Minutes of the meeting of the Committee held on 28 July 2021 were confirmed as a correct record and signed by the Chairman.

Councillor Shepherd-DuBey and Councillor Gee referred to the briefing note on the notice under Section 114(3) of the Local Government Finance Act 1988 issued by the Chief Finance Officer at Slough Borough Council and the analysis of the position of Wokingham Borough Council compared with the reasons given at Slough, provided by the Assistant Director Finance, which had been requested at the Committee's previous meeting. Councillor Gee commented that if the Council did not know what conditions led to Slough being in the position that it was in, it was difficult to ensure that it was not in a similar position.

25. DECLARATION OF INTEREST

Councillor Imogen Shepherd-DuBey declared a general Personal Interest on the grounds that she had money in the Berkshire Pension Fund.

26. PUBLIC QUESTION TIME

There were no Public questions.

27. MEMBER QUESTION TIME

There were no Member questions.

28. 2019/20 ANNUAL AUDIT LETTER

The Committee received the 2019/20 Annual Audit Letter.

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

- The 2019/20 Annual Audit Letter summarised the outcome of audit work during that period.
- An unqualified Audit Opinion and Value for Money conclusion had been issued. The Audit had been certified as completed on 6 August.

- Helen Thompson thanked Council Officers for their support in completing the audit.
- A summary of findings against each of the risks had been included within the report.
- The material downward adjustment to the Property, Plant and Equipment assets was highlighted. This had arisen as a result of a number of factors. The additional work required to gain assurance regarding the IF19 Pension liability, and the additional work required regarding the Group Accounting disclosures, was also highlighted.
- The fee had been drafted and would be discussed with management. The Committee would be updated in due course.
- Councillor Gee sought clarification on the 5.25% net return on the investment properties. Helen Thompson agreed to feed back to the Committee.
- Councillor Gee questioned whether the two recommendations relating to the Audit Committee were being carried out. The Assistant Director Governance referred to the review of the Audit Committee's effectiveness.
- Councillor Sargeant commented that there were a lot of recommendations from EY within the Audit Letter. He questioned how the Committee could be assured that the recommendations were being given to the appropriate officers for consideration. The Assistant Director Governance commented that he and the Assistant Director Finance undertook this. However, additional assurance could be provided to the Committee on progress made against EY's recommendations.
- In response to a question from Councillor Shepherd-DuBey regarding the Revenue Expenditure Funded from Capital Under Statute (REFCUS) and Peach Place, Helen Thompson stated that the way in which it had been treated under the REFCUS criteria was initially incorrect. It had been amended and reclassified in a revenue grant.
- Councillor Shepherd-DuBey sought clarification regarding the £1.3million of Capital Receipts. Helen Thompson explained that it had been questioned because of the way in which the Council had addressed the flexible use of capital receipts. Legislation required that a strategy be approved in advance. The Council had documented this through inclusion in the Medium Term Financial Plan, however there had not been a specific formal approval mechanism in place. This had been addressed retrospectively in the Capital Strategy. The issue identified was related to process.
- Councillor Shepherd-DuBey noted that some of the land and buildings had not been revalued as of 31 March 2020 and questioned when this would be carried out. She was informed that the Council's policy was to revalue assets on a 5 year cyclical basis, which was in accordance with CIPFA Policy.
- Work was being undertaken regarding the alignment of the accounting policies between the Council and subsidiaries.
- In response to a question regarding the Community Investment Group the Assistant Director Finance commented that the Public Works Loan Board guidance about what could be borrowed, had changed. As such the focus of the group had changed to a more community-based investment criteria. The Group's terms of reference had been revised and would be considered by the Executive in future.
- In response to a question from Councillor Loyes regarding residual risk, the Assistant Director Governance responded that whilst the Council was on an upwards trajectory with regards to how it managed risk, there were some helpful further suggestions from EY. A more detailed Corporate Risk Register would be presented to the Committee's November meeting.
- Councillor Ross asked about the inspection period for members of the public to consider the draft statement of accounts, and how this was advertised.

RESOLVED: That the 2019/20 Annual Audit Letter be noted.

29. 2020/21 INDICATIVE AUDIT PLANNING REPORT

The 2020/21 indicative audit planning report was considered by the Committee.

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

- Planning had been delayed by the timing of the 2019/20 audit and annual leave. The Plan was indicative as the detailed planning process could potentially reveal further risks.
- Stephan Van Der Merwe took the Committee through the risks currently identified. New areas of focus included cash and cash equivalents and accounting for Covid 19 grant income.
- The Valuation of Land and Buildings in PPE and IP was considered a significant risk due to the high degree of material judgement and the input, and the estimation techniques used in the valuation of these properties.
- The materiality considerations that would be applied during the audit, were highlighted.
- With regards to Value for Money, the assessment was still underway. An update would be provided to the Committee in the future.
- The Committee was reminded that the way in which the Value for Money risk assessment for 2020/21 was undertaken, would differ due to changes in the Code of Audit Practice. Reporting on Value for Money would now be by exception. EY were required, against the three reporting criteria, to provide a commentary within the Auditor's Annual Report, which would replace the Annual Audit Letter. EY were required to indicate whether any weaknesses had been identified in the proper arrangements around Value for Money. This would be presented to the Committee as a future meeting or be circulated separately once the assessment was completed.
- Helen Thompson highlighted that an issue had emerged recently regarding pensions. The revised Auditing Standard on Accounting Estimates applied to the 2020/21 financial statements, and required the auditors to carry out more detailed assessments to gain assurance on any models used in the creation of an estimate. This issue would have an impact on all Councils.
- Helen Thompson highlighted the delays in the development of the data collection tool by HM Treasury for Whole of Government Accounts (WGA). Although the Council had remained under the threshold for full audit procedures on WGA, it was getting closer to this threshold. Even if the Council remained below the threshold, EY would not be able to certify the audit closed until sufficient work had been undertaken to enable the issue of a certificate on that. There would therefore be a delay in the certification of the audit.
- Councillor Sargeant questioned whether it was likely that original documents would be able to be verified for this audit. Helen Thompson indicated that EY would be able to visit Council offices, should that be necessary for the audit.
- Councillor Gee questioned why the change in the accounting of leases had not been included as a risk. She was informed that the implementation of the standard had been delayed in the public sector until 1 April 2022.

RESOLVED: That the 2020/21 Indicative Audit Planning report be noted.

30. TREASURY MANAGEMENT OUTTURN 2020-21

The Committee considered the Treasury Management Outturn report 2020-21.

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

- The Assistant Director Governance commented that the Treasury Management Outturn Report had been included in the Council agenda which had been published earlier that day. However, he assured Members that should the Audit Committee decide to reject the report or amend the recommendations, this could be tabled at the Full Council meeting.
- Councillor Gee was of the opinion that the report's inclusion in the Council agenda prior to its consideration by the Audit Committee, questioned the Committee's independence. She suggested that the report be withdrawn from the Council agenda. Councillor Shepherd-DuBey felt that its inclusion was not good governance. Councillor Sargeant indicated that there would usually be more time between the Committee meetings and that if the Outturn report was not considered at the September Council meeting, it would not be considered until November.
- Members suggested that in future there be a greater gap between the Audit Committee and Council meetings that the Treasury Management Outturn Report was considered. Councillor Sargeant reminded the Committee that typically the report was considered earlier in the year but that there had been a delay due to work pressures. Councillor Shepherd-DuBey stated that it was not the first time that timing had meant that the Committee had had insufficient time to fully consider reports prior to their consideration by Council.
- The Assistant Director Finance commented that the Outturn Report highlighted the outturn position as at 31 March 2021. It contained a summary of operations throughout the year and highlighted the balances at the year end.
- In response to a question from Councillor Sargeant regarding the internal funded borrowing move between the Mid Year and the Outturn report, the Assistant Director Finance stated that the Council was not allowed to borrow for revenue purposes other than short term cashflow reasons. He explained that the Capital Financing Requirement (CFR) changed from that what had been budgeted and predicted for at the Mid Year point. Services had slipped a large amount of capital budget at that point in time. Borrowing had been against the original CFR. In addition, towards the end of the year, a significant amount of developer contributions had been received earlier than expected. These had been used to fund capital projects and to reduce the Capital Financing Requirement. The Assistant Director Finance went on to refer to advance deals.
- In response to a question from Councillor Loyes, the Assistant Director Finance explained that the HRA was ring fenced.
- Councillor Shepherd-DuBey questioned the decrease in asset valuation. The Assistant Director Finance responded that the commercial property valuations were shown in the report. The valuations as of 31 March had been used. There may be a change in valuations once the Statement of Accounts was audited.
- Councillor Shepherd-DuBey asked how potential depreciation would be planned for, and was informed that the Council would apply depreciation across all its buildings.
- Councillor Gee questioned how the Committee could be satisfied that the prudential indicators had been adhered to when they were not included in the report. The Assistant Director Governance indicated that the indicators had been included in the Treasury Management Strategy. They could be included in future Outturn reports if required by the Committee. Officers had tried to rationalise and shorten the report, to make it easier to use.

- In response to a question from Councillor Gee regarding recommendation two, the Assistant Director Finance stated that the income received would support the revenue budget. Councillor Gee queried whether the £736,000 referred to on page 98 of the agenda would go in to revenue and was informed that it would.
- Councillor Gee referred to recommendation three. She felt that it was confusingly worded and could be reworded.
- Councillor Gee felt that recommendation four was forward looking and questioned its inclusion in the Outturn report.
- Councillor Loyes suggested that the relevant years be added to recommendation 5.
- Upon being put to the vote, it was agreed that the recommendations would be considered on-bloc.

RESOLVED: That the Audit Committee support the Treasury Management Outturn Report 2020-21, recommend it to Council and note:

- 1) that all approved indicators set out in the Treasury Management Strategy have been adhered to;
- 2) the contents of "Table A", as set out in the report, which shows the net benefit per council tax band D equivalent, from the income generated less the financing costs on all borrowing to date equates to £10.22 per band D for 2020/21. This credit provides income to the Council to invest in its priority services. This net benefit has increased from the £7.20 benefit estimated in the treasury mid-year report;
- 3) that the total external general fund debt is £458m, which reduces to £121m after taking into account cash balances (net indebtedness);
- 4) that although the Council is taking the opportunity of new borrowing at low interest rates in 2020/21, external debt is expected to reduce to c£350m by March 2022 as a result of repayment of legacy debt on maturity;
- 5) the Council's realisable asset value of approximately £400m, of which its commercial assets are estimated at approximately £240m.

31. REVIEW OF AUDIT COMMITTEE EFFECTIVENESS

Members considered a report regarding the effectiveness of the Audit Committee.

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

- CIPFA provided detailed guidance on the features of an effective local authority audit committee.
- The Assistant Director Governance took the Committee through the 5 action points identified by the Committee following the self-assessment.
 - Annual evaluation – it was good practice to look at the effectiveness of the Committee. As part of the preparation and consideration of the Committee's annual report, this evaluation would be formalised.
 - Any areas beyond the core functions of the Committee – to consider whether the Committee's terms of reference require amendment. Members needed to be mindful of the role of Overview and Scrutiny, and to ensure that there was not duplication in work programmes.
 - CIPFA guidance set out the benefits of having at least one independent member of the Audit Committee – to be considered for 2022/23.

- Individual Committee members knowledge and skill set – the Assistant Director Governance proposed that he meet with committee members individually to discuss training needs and knowledge.
- Adding value. It was noted that the annual report to Council would specifically address how the Audit Committee had added value during the year.
- Councillor Ross questioned whether an independent member would have voting rights. The Assistant Director Governance confirmed that they would in principle but would provide more detail to a future meeting before any decision. Typically, independent members came from a specialist technical background.
- Councillor Gee questioned whether the CIPFA guidance advocated that the independent member be the Chairman of the Audit Committee. The Assistant Director Governance confirmed that this was not specifically referenced but that some councils had chosen to follow this course of action.
- It was proposed that the Assistant Director Governance bring a paper to the November of February Committee meetings outlining the implications of an independent member on the Committee. Should this approach be agreed by the Committee, the terms of reference within the Constitution would require amendment.
- It was highlighted that Point 19 did not have an action assigned to it. The Assistant Director Governance suggested that the Committee receive feedback on its effectiveness from key stakeholders and other councillors as part of the annual evaluation process.

RESOLVED: That

- 1) the self-assessment of our Audit Committee arrangements against the good practice guidance recommended by CIPFA, attached as Annex A be considered and endorsed;
- 2) the Action Points included in Annex B to help ensure that all aspects of CIPFA's good practice can be reflected, be noted;
- 3) it be agreed that the self-assessment undertaken will form the basis of an annual report from Audit Committee, which will be prepared for presentation to Council in March 2022, demonstrating how Audit Committee meets its Terms of Reference and providing a summary of the work of the committee during the year.

32. 2021-22 INTERNAL AUDIT AND INVESTIGATION WORK PROGRAMME AND PROGRESS UPDATE TO 31 AUGUST 2021

Members considered the 2021-22 Internal Audit and Investigation Work Programme and Progress Update to 31 August 2021.

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

- Now that the situation was beginning to stabilise Officers were able to present a Work Programme for the whole year.
- The work for the remainder of the year would concentrate on key financial systems.
- Where coverage had been reduced in 2020/21 or had had to be reprogrammed due to Covid, Officers were looking to bring the work up to date by the financial year end.
- A number of key corporate risks would be reviewed. In addition, a piece of work on Corporate Governance would be carried out prior to the Peer Review in November.

- The Audit Committee had previously requested an audit of the Public Protection Partnership. This had been programmed for Quarter 3.
- Officers would work with the Committee to further enhance its effectiveness.
- Members were reminded of the dissolution of the Shared Audit and Investigation Service at the end of March 2022. A redesign proposal for Wokingham was under discussion.
- Further updates would be provided at future Committee meetings.
- Councillor Gee praised the achievement of the Audit and Investigations team.

RESOLVED: That the 2021/22 Internal Audit and Investigation Work Programme (including Quarters 1 and 2, previously approved), be approved, and progress made in achieving this Work Programme in the first five months of the year to 31 August 2021, be noted.

33. CORPORATE RISK REGISTER

The Committee received the Corporate Risk Register.

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

- A more comprehensive update had been presented at the July Committee meeting. A light touch update had since been considered by the Risk Management Group and a more comprehensive review would be presented at the November Committee meeting.
- There had been no new risks added or removed to the register since the last report to the Committee.
- Changes to this update of the register were solely to reflect where mitigating actions had been achieved.
- The Assistant Director Governance commented that the scoring of the Public Protection Partnership risk had been reviewed by the Directorate following Councillor's Shenton's querying of the score. The Directorate were satisfied with the scoring of this risk. Members were informed that Overview and Scrutiny had been updated on the project plan.
- Councillor Shenton questioned whether the new solar farm would be included on the Corporate Risk Register, given the high level of investment involved. The Assistant Director Governance explained the risk management framework and commented that the solar farm would be included on the Directorate Risk Register and that projects also had individual risk registers. If necessary, risks could be escalated to the Corporate Risk Register.
- Councillor Ross questioned whether the reintroduction of inflation and a shortage of jobs seekers against vacancies would be included on the risk register. The Assistant Director Governance referred to the risks around financial management and workforce. Councillor Sargeant referred to vulnerabilities in specific areas of the workforce such as Adult Social Care.
- In response to a question from Councillor Loyes, it was confirmed that the risk around home to school transport would be managed at a Directorate level.
- Councillor Shepherd-DuBey questioned how risks were managed if the lead officer was unavailable. The Assistant Director Governance indicated that the Corporate Leadership Team as a body owned the Corporate Risk Register, but that arrangements would be put in place should a specific lead officer be unavailable.

RESOLVED: That the risks and mitigating actions of the Council's corporate risk register be noted.

34. FORWARD PROGRAMME

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

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

- The Assistant Director Governance would bring a report to either the November or February Committee on the implications of adding an independent member to the Audit Committee.

RESOLVED: That the forward programme be noted.