

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
HELD ON 22 MARCH 2021 FROM 7.00 PM TO 7.55 PM**

Committee Members Present

Councillors: Bill Soane (Chairman), Dianne King (Vice-Chairman), Rachel Burgess, Maria Gee, Angus Ross, Daniel Sargeant and Imogen Shepherd-DuBey

Also Present

Madeleine Shopland, Democratic & Electoral Services Specialist
Helen Thompson, Ernst and Young
Andrew Moulton, Assistant Director Governance
Mark Thompson, Chief Accountant
Bob Watson, Assistant Director Finance
Francesca Churchhouse, Ernst & Young
Stephan Van der Merwe, Ernst & Young

51. APOLOGIES

There were no apologies for absence.

52. DECLARATION OF INTEREST

Councillor Imogen Shepherd-DuBey declared a Personal Interest regarding Item 56 Statement of Accounts 2019-20 on the grounds that she had money in the Berkshire Pension Fund.

Councillor Daniel Sargeant declared a Personal Interest in Items 55 Wokingham Borough Council Audit Results Report Year ended 31 March 2020 and Item 56 Statement of Accounts 2019-20 on the grounds that he was a Non Executive Director of Wokingham Housing Limited and Berry Brook Homes.

53. PUBLIC QUESTION TIME

There were no Public questions.

54. MEMBER QUESTION TIME

There were no Member questions.

55. WOKINGHAM BOROUGH COUNCIL AUDIT RESULTS REPORT YEAR ENDED 31 MARCH 2020

The Committee received the Wokingham Borough Council Audit Result Report Year ended 31 March 2020.

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

- Helen Thompson, Ernst & Young advised that it was the third version of the report presented to the Committee. She highlighted the key changes made to the previous version of the report.
- The detailed testing and detailed work around valuations had been completed. A summary of the changes made had been included but not the detail of each element of the work because of the adjustments that had come through to the accounts. There was a total adjustment of between £45-50million downward valuation, compared to the previous figures in the Statement of Accounts.

- The adjustments that needed to be made to the Accounts had been agreed. However, if adjustments were made, particularly in relation to Property, Plant and Equipment, it impacted a number of different areas of the Accounts, and these values were yet to be fully processed for Ernst & Young to audit them. This level of detail would be included in due course.
- With regards to the pension fund audit assurance, Members were advised that the final letter from the Pension Fund auditor had still not been received. It was anticipated that this would be received early April.
- It had been requested that the accounting policies for the subsidiary companies and the Council be aligned. This was complex and time consuming and would involve prior restatements. The updated figures were expected shortly and would be checked.
- The work around going concern needed to be completed. The conclusion that the Council was a going concern was unlikely to change.

RESOLVED: That the Wokingham Borough Council Audit Results Report Year ended 31 March 2020 be noted.

56. STATEMENT OF ACCOUNTS 2019-20

The Committee received the Statement of Accounts 2019-20.

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

- The Assistant Director Finance advised that the Accounts were nearly complete, apart from the item around the Pension Fund. The Deputy Chief Executive had recently met with the Berkshire Treasurers and had been assured that this was forthcoming. Nevertheless, the numbers from the Pension Fund had come through and had been agreed with Ernst & Young and applied into the accounts.
- What had been put in the primary statements would be checked to ensure that they had cascaded through into the notes.
- There was a difference of opinion with Ernst & Young around the valuation of Carnival Pool. The Council's valuation had been based upon the capitalisation of the income. That valuation had come in at nearly £10million. There had also been valuation based on what was considered to be the market value of the property, which had been slightly under the original valuation based on capitalisation. A mid point of £9.965million had therefore been used. This was in excess of the valuation from Ernst & Young, which had been based on a South East area as opposed to a specific Wokingham area.
- No changes were expected to the numbers within the Accounts but there may be changes around the narrative in relation to going concern. Members were assured that Wokingham Borough Council was in the top 20 for resilience in unitary authorities.
- Councillor Gee questioned whether the £45-50million had been put through the Accounts yet. Helen Thompson advised that the adjustment would be made to the Accounts. How that would be made up had not been included in the report at this stage until the detail had been fully checked. The Chief Accountant added that in terms of the very specific adjustments they had not been included in the report. The adjustments agreed with the auditors had been listed. The asset numbers would be added.
- Councillor Gee questioned why Ernst & Young had not accepted the valuation of Carnival Pool from the Council. Helen Thompson explained that Ernst & Young selected a sample of assets and asked their expert valuers to look at them. The

experts would take the information used by the Council's valuers and look at it at a higher level. The valuer would provide a reasonable range in which they would expect the valuation to fall. Eleven assets had been selected for sample and the valuation of one of these, Carnival Pool, had fallen outside the range provided. There had initially been a wider difference but following discussions this had reduced.

- Councillor Gee stated that the councillors had been told that they could rely on the accounts because they had been considered by the external auditors. She had concerns about the difference in opinion regarding the valuation. Helen Thompson emphasised that Ernst & Young were content that the Accounts were materially accurate. The difference in the valuation was below the tolerable level.
- With regards to the valuation of investment properties, Councillor Gee stated that in the interpretation of what properties should be investment properties, there was a statement that if they were in Wokingham then they would not be investment properties. She stated that whilst it might seem necessary for them to be in Wokingham to be considered Property, Plant and Equipment, she questioned whether it was sufficient reason. Helen Thompson indicated that the CIPFA Code was clear that an asset could only be designated as an investment property if it was solely for capital appreciation.
- Councillor Gee questioned why Barclay's Bank was considered an investment property. The Assistant Director Finance indicated that it was part of the protection of the high street and the Town Centre regeneration to ensure that it remained a commercial building. Only the Wickes building in Basingstoke and Stapletons Tyre Building in Peterborough were investment properties.
- Councillor Shepherd-DuBey asked about the old Marks and Spencer building and was informed that it was under Property, Plant and Equipment. She expressed concern that it was not being valued as regularly as some properties. The Assistant Director Finance indicated that a further valuation could be obtained if required.
- Councillor Shepherd-DuBey questioned whether Property, Plant and Equipment was revalued annually or every five years. The Assistant Director advised that they were valued on a rolling programme. A number of assets would be selected that it was thought may be suffering from a downward or upward valuation based on market conditions and it requested that they be valued annually. A desktop valuation would be undertaken which would allow for it to be determined whether any assets had significantly moved since the previous valuation.
- The investment properties, whilst they fell under Property, Plant and Equipment, had their own valuation cycle.
- With regards to the regeneration properties, the Chief Accountant advised that as part of the £45-50million downward evaluation, there were a handful of assets that had gone up in value, particularly around some of the regeneration properties. Where an asset had been recently purchased, they were held on the balance sheet under Asset Construction then moved to Property, Plant and Equipment when they became operational. The Council's current policy was that these would be revalued the year after they became operational. This year some of the regeneration properties, particularly around Elm's Field and Peach Place had been considered, and these had seen a 7% increase in value.
- Councillor Sargeant asked about the suggestion to amend the cyclical Property, Plant and Equipment evaluation programme. The Assistant Director Finance indicated that this would be put in place.
- In response to a question from the Chairman, the Assistant Director Finance indicated that changes to accounting policies were usually presented to the Committee.

- The Assistant Director Finance explained what was meant by revenue expenditure funded by capital under statute (REFCUS). Councillor Gee questioned whether there had been an impact on the net income line or the general reserves. The Chief Accountant responded that there had been no impact on the usable reserves. The £6.7 million had been treated as REFCUS but it had been agreed with Ernst & Young that it should be treated as a revenue grant.
- Councillor Gee questioned why there was nothing recorded in the Group column for this year or last year for debtors and creditors. The Chief Accountant explained that the accounting policies would be consolidated and that some of the specific notes in the Accounts would be expanded and then the figures would be updated.
- Councillor Ross questioned when the final Statement of Accounts would be available. The Assistant Director Finance commented that the final Statement of Accounts, letter of representation and final Wokingham Borough Council Audit Results Report Year ended 31 March 2020, would be circulated to the Committee.
- In response to a question from Councillor Ross, the Assistant Director Governance clarified that it was recommended that the Committee delegate the final sign off of the Statement of Accounts to the Chairman in consultation with the Deputy Chief Executive, subject to no significant changes being required, and would not meet during purdah.
- Councillor Gee felt that it was too early to delegate the sign off to the Chairman.

RESOLVED: That the Committee

- 1) Review the annual Statement of Accounts in conjunction with Annual Audit Report produced by the external auditor (EY), to ensure the accounts have been compiled correctly and in accordance with the Council's accounting policies (contained with the Statement).
- 2) note that accounts are substantially complete except for a review of the work of the external auditors of the Berkshire Pension Fund,
- 3) note that EY need to complete their internal consultation around the going concern disclosures and proposed emphasis of matter in relation to the material uncertainty caveat attached to the property valuations undertaken at 31 March 2020.
- 4) Delegate to the Chair of the Committee the authority to sign the Statement of Accounts and the Letter of Representation subject to there being no significant changes from the final review by the external auditors.

57. DRAFT ANNUAL AUDIT COMMITTEE REPORT 2020-21

The Assistant Director Governance presented the draft Annual Audit Committee report 2020-21.

RESOLVED: That

- 1) the Committee consider the draft Annual Audit Committee report 2020-21 and if they wish to make any changes.
- 2) the final report be recommend to Council for agreement.