

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
HELD ON 1 FEBRUARY 2023 FROM 7.00 PM TO 9.15 PM**

Committee Members Present

Councillors: Rachel Burgess (Chair), Maria Gee (Vice-Chair), David Davies, Tahir Maher, Mike Smith and Mike Drake

Also Present

Madeleine Shopland, Democratic & Electoral Services Specialist

Helen Thompson, Ernst and Young (online)

Hannah Lill, Ernst and Young (online)

Graham Cadle, Assistant Director Finance (online)

Graham Ebers, Deputy Chief Executive

Andrew Moulton, Assistant Director Governance

Mark Thompson, Chief Accountant (online)

Jackie Whitney, Head of Customer Excellence (online)

Sarah Zama, Head of Digital (online)

45. APOLOGIES

Apologies for absence were submitted from Councillors Peter Harper and John Kaiser.

46. MINUTES OF PREVIOUS MEETING

The Minutes of the meeting of the Committee held on 30 November 2022 were confirmed as a correct record and signed by the Chair.

The Chair noted that the majority of actions identified had been completed. She provided an update from the Head of Internal Audit and Investigations and confirmed that additional information on how the risks were being addressed, would be provided in the Q3 report. There were no overdue high risk recommendations, and the community assets item would be considered in the 2023/24 Internal Audit programme.

47. DECLARATION OF INTEREST

There were no declarations of interest submitted.

48. PUBLIC QUESTION TIME

There were no Public questions.

49. MEMBER QUESTION TIME

There were no Member questions.

50. UPDATE ON 2020/21 STATEMENT OF ACCOUNTS

The Committee received an update on the 2020/21 Statement of Accounts.

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

- Helen Thompson, EY, introduced Hannah Lill who would be primarily focusing on the 2021/22 and 2022/23 audits, but would also be assisting with the close out of 2020/21.
- It was hoped that the 2020/21 accounts would be closed out for the Committee's March meeting.

- Members were advised that some progress had been made regarding the infrastructure issue. The statutory override had come into effect on 25 December 2022. Also, in December CIPFA had issued an update to their Code of Accounting Practice, and then a bulletin which provided guidance to Councils, the preparers of the accounts, and auditors. EY had been looking at what the required approach should be, and talking to Officers on how to progress. Revised disclosures would need to be included in the draft Financial Statements. The depreciation methodology would also need to be considered. Members were reminded that this was a temporary solution up to 31 March 2024. It was anticipated that CIPFA would make a decision on how to take the infrastructure assets matter forwards for 2024/25.
- With regards to the Pensions Fund, a letter of assurance had still not been provided by the auditor of the Pension Fund. A meeting was due to take place with Deloitte on 9 February. Work regarding any possible options and alternatives, was ongoing. However, those identified to date came with additional financial costs or time implications, and relied on the cooperation of other bodies.
- Outside of the infrastructure and pensions issues, time had been set aside with Officers to go through the updated Audit Results report. This would be presented at the Committee's next meeting.
- The Assistant Director commented that Officers were continuing to push for resolution of the pensions matter. He emphasised that closing with a qualification prior to the resolution of the pensions issue, was not a very viable option.
- The Chair commented that it would be useful if the report presented at the Committee's March meeting included possible options and the impacts of these.
- Councillor Gee commented that she sat on the Advisory Panel to the Committee that looked at the Berkshire Pension Fund. It appeared that there was no problem with the Pension Fund accounts and that they were waiting for sign off from the administering authority, Royal Borough Windsor and Maidenhead Council. She questioned what would happen if this did not occur. Helen Thompson commented that the work had been completed but that the letter sent had included a caveat, and this had not yet been removed. Some other Committees had written to the Public Sector Audit Appointments, questioning the delay.
- Councillor Gee commented that the minutes of the last Berkshire Pension Fund committee meeting stated that 'Deloitte are the Pension Fund and RBWM's auditors, and have advised that there are no material changes required to the Pension Fund Annual Report for 2021/22.' She agreed to send the link to the minutes to Helen Thompson.

RESOLVED: That the update on the 2020/21 Statement of Accounts be noted.

51. WOKINGHAM BOROUGH COUNCIL AUDIT PLANNING REPORT YEAR ENDED 31 MARCH 2022

The Committee received the Wokingham Borough Council Audit Planning Report Year ended 31 March 2022.

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

- The Plan could change on receipt of a full updated set of draft financial statements for 2021/22, and also on completion of the work for 2020/21.
- Members were advised that 2021/22 was the last year that Helen Thompson could be the auditor for Wokingham Borough Council under the PSAA rotation requirement. This left a year between EY completing the audits and the audits

being handed over to KPMG. To manage this EY had put two partners on the audit. Helen Thompson would largely run 2021/22 but Janet Dawson would be the signing partner, who would then sign 2022/23, working with Hannah Lill on that audit.

- Hannah Lill highlighted the high level overview of the 2021/2022 audit strategy.
- Misstatements due to fraud or error (management override) was identified on all audits and there was no change in this from the prior year.
- Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure continued to be identified as a significant risk and a fraud risk. EY believed that the risk of manipulation was most likely to manifest in the incorrect capitalisation of revenue expenditure through either inappropriate additions to Property, Plant and Equipment (PPE) and Investment Property (IP) or incorrect classification of expenditure as Revenue Expenditure Funded from Capital Under Statute (REFCUS), as there was an incentive to reduce expenditure which is funded from Council Tax.
- Valuation of Land & Buildings in PPE and IP continued to be a significant risk.
- A number of areas had been identified as areas of audit focus, including the Pension Liability Valuation and the Going Concern Disclosure, Accounting for Public Finance Initiative (PFI), Group Accounting, and Cash and cash equivalents.
- Due to recent guidance, there was a heightened focus on Going Concern Disclosure.
- With regards to Group Accounting, there had been changes in the Group structure during the 2021/22 financial year, and these needed to have been accounted for appropriately, and that the consolidation of the financial statements had been undertaken correctly.
- With regards to Cash and Cash equivalents, the Council had a number of imprest bank accounts within its portfolio that were not reconciled on a regular basis in prior years, resulting in unexplained differences between the Council's accounting records and statements from the relevant financial institutions. Whilst these differences had not been material, there was a need to perform reconciliations on these accounts to ensure appropriate record keeping and prevent any undetected irregularities.
- Hannah Lill outlined the approach to the auditing of the Groups.
- Members were advised that the level of tolerable error was reducing from 75% to 50%, due to the number of issues and misstatements identified with the 2020/21 audit. Sample sizes were likely to be bigger and further testing would be required.
- Hannah Lill outlined the audit timetable.
- Mike Drake asked whether Officers would present the going concern assessments and cash flows to the Committee. The Chief Accountant stated that there was a statement around going concern in the Accounting Policy. A lot of information was provided to EY as part of their going concern review, including cash flow for 12 months in the future from the date it was expected that the accounts would be signed. Helen Thompson added that it was less common for public sector Audit Committees to see a going concern paper. The Chair agreed to discuss providing a going concerns paper to the Committee, with Officers.
- Mike Drake went on to ask whether the imprest bank accounts were now regularly reconciled. It was confirmed that they were up to date and reviewed regularly. Mike Drake also sought comment on the reducing level of tolerable error. The Assistant Director Finance responded that in terms of the adjustments impacting the level of checking, Officers would accept that the number of differences had been large, the material nature of the value and outcome of those, had not been significant. He

emphasised that there had been investment in the internal Finance Team, which was now in place.

- The Chair queried why the risk around going concern remained unchanged given the poor financial climate nationally. Helen Thompson responded that largely there was a presumption that local authorities remained a going concern. Practice Note 10 issued by the Financial Reporting governed the consideration of going concern for all public sector bodies stated that if services were to continue then the entity was a going concern.
- In response to a question from Councillor Maher regarding Value for Money, Hannah Lill stated that under the previous code EY had given had an opinion regarding Value for Money, but under the current code of audit practice EY reported by exception.
- Councillor Gee asked about the governance arrangements with regards to the subsidiaries. She expressed concern regarding the possible impact of national changes to Adult Social Care and turbulence in the housing market, on the Council subsidiaries. Councillor Gee noted that the subsidiaries had different auditors and questioned whether they should have the same auditor as the Council. The Deputy Chief Executive stated that the companies were in the Internal Audit Plan. With regards to the auditors there had been a value for money consideration, but he would welcome consistency. However, it was down to the companies to appoint their own auditors.

RESOLVED: That the Wokingham Borough Council Audit Planning Report year ended 31 March 2022 be noted.

52. CORPORATE RISK REGISTER REVIEW

The Committee received the Corporate Risk Register.

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

- There was one new risk, Risk 20 Website replacement. The Committee had previously asked that this be looked at.
- Some risks had decreased. The risk around cyber security had increased.
- Councillor Gee expressed disappointment that the Director Children's Services and Executive Member Children's Services were not present to discuss the risk relating to the Safety Valve programme. The Deputy Chief Executive commented that the Director and Executive Member would likely come to the Committee following the conclusion of the submission stage.
- Councillor Gee sought an update on the Safety Valve programme. The Deputy Chief Executive explained that the Dedicated Schools Grant (DSG) had been growing at an increasingly alarming rate over the last 3-4 years, and would have a £16million accumulated deficit by the end of the year. The increase had started following a change in regulations around how money within the DSG could be used, and extending the age of those eligible for SEND support to 25 years old. Under the Safety Valve programme, the Council was required to project forwards 5 years, based on specific evidence. The Deputy Chief Executive commented that left unchecked it would have moved to approximately a £90million deficit. It was noted that the Statutory Override which ring fenced the DSG was only temporary. As Chief Finance Officer he was pleased that the Council had become part of the Safety Valve programme, and stated that whether the Council was successful or not in terms of securing financial support, the work undertaken already had been very

beneficial. He went on to highlight the importance of earlier support, a higher level of self-sufficiency, early intervention and prevention, and partnership working.

- With regards to the Safety Valve risk, the Chair commented that there was a current deficit of £10million rising to £40million in 5 years, but without the Safety Valve mitigations it would be £90million. The Safety Valve programme aimed to balance the budget. The Deputy Chief Executive confirmed that unchecked with no mitigations the deficit would escalate to approximately £90million. With mitigations, the accumulated deficit would reduce to £40million. In year 6 of the Safety Valve programme it was hoped the Council would have a balanced budget and there would be no further addition to the deficit.
- Councillor Gee expressed concern if the Council was unsuccessful in securing funding under the Safety Valve programme and the impact that it could have on the Council's General Fund balance. The Deputy Chief Executive responded that he would expect by year 6 that the Statutory Override would no longer be in place and that the deficit would sit on the balance. How much time the Council would have to respond to this was currently unknown. He went on to outline that the financial plans presented to Overview and Scrutiny showed that for each of the next 3 years an additional 1% of council tax would go into an equalisation fund, which would help to pay for the mitigations not charged to the DSG, and form a fund that could contribute to the deficit. The Deputy Chief Executive felt more assured that the recovery plan was in place.
- The Chair requested that the Director Children's Services and Executive Member Children's Services be invited to a future Committee meeting once the status of the Safety Valve programme had been confirmed.
- Councillor Smith sought further information around the website replacement project risk and asked for a more precise timeframe. The Head of Digital indicated that the project had moved into the design phase. Research had been carried out and concepts created based on this. The design phase would be followed by development and delivery. For the next 3 months the content would be built into the website and the relevant content from the existing platform, migrated to the new platform. Build for a contingency site was scheduled for the end of February, and the concept would be tested mid March.
- Councillor Smith questioned when user testing would begin for the website replacement project, and was informed that the majority of user research had been completed. Additional user testing would take place in May/June. Around 300 users had helped to map out the key user journeys, and this had helped to build the architecture of the site.
- In response to a question from Councillor Smith, the Head of Digital stated that the 'beta' version of the website would be delivered mid May depending on the success of the content upload.
- Councillor Maher asked about design. He also asked whether work was being undertaken internally or externally, and if externally if there was anything in the contract which stated that the project must be delivered on time. Members were informed that the Council was working with an external company to support the work, and that they were aware of the tight timescales. The concept and design for the Homepage was in process of being signed off and it was hoped that the additional templates would be signed off by mid February.
- Members were informed that robust governance arrangements were in place for the website replacement project.
- Councillor Maher questioned whether the website would be built on internal or external services, and was informed that it would be built on external servers, but that a contingency version would be built on the internal servers.

- Mike Drake was pleased to see the risk level of several risks reducing. He questioned that if the specific mitigating actions were carried out the risk would reach the target level of risk. The Assistant Director Governance explained that the Council's needed to improve in making a connection between the current and target risk, and the gap between them being addressed through the mitigating actions.
- The Chair queried why the Climate Emergency risk had reduced when it was still unlikely that the Council would meet its target of being carbon neutral by 2030. The Deputy Chief Executive stated previously the scoring had taken a more worldwide perspective regarding climate change into account. The positive movement of the risk related to the Council's delivery against its own Climate Emergency Action Plan.
- Members questioned why the risk around voter ID had reduced when the issue remained outstanding. The Assistant Director Governance commented that the risk was still significant but some mitigations had taken place. Some additional funding had been provided, guidance had been produced, and a national campaign to raise awareness had begun.

RESOLVED: That the Corporate Risk Register Review be reviewed and that it be determined that the strategic risks were being actively managed.

53. AUDIT COMMITTEE EFFECTIVENESS AND ACTION PLAN

The Committee received the Audit Committee Effectiveness and Action Plan.

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

- The Chair took the Committee through the report. A significant amount of work had been undertaken on the overall assessment and the terms of reference. Some actions for improvement, such as the appointment of an Independent Member, had already been taken.
- The Committee was asked whether they agreed with the self-assessment. Mike Drake noted that Requires Significant Improvement had been selected for the question *Has the committee maintained its advisory role by not taking on any decision-making powers?*. He questioned if this was because the Committee had been taking decisions that it should not have been. The Chair commented that the Committee had taken some decisions such as approving the Treasury Management Strategy, which it was now less appropriate for an Audit Committee to take. The Assistant Director Governance indicated that the latest CIPFA guidance had been published in autumn, so the rating was not intended as a criticism of current or historic practice. However, the guidance had now changed, and the Committee would take on more of a scrutiny role than previously, advising the decision makers.
- Councillor Smith noted that the Committee had been marked as Does not comply with the following questions - *Has the committee met privately with the external auditors and head of internal audit in the last year?*, *Has an evaluation of knowledge, skills and the training needs of the chair and committee members been carried out within the last two years?*, and *Across the committee membership, is there a satisfactory level of knowledge, as set out in the 2022 guidance?* The Chair commented that the Committee had not privately met with the Head of Internal Audit or external audit, but choose to do so. The Assistant Director Governance stated that an evaluation of skills had not been carried out recently. There was more that could be done around skills, training and how Members were selected to sit on the Committee.

- Councillor Gee questioned whether the Chair should be an Independent Member. It was suggested that the Chair not be part of the ruling Group.
- The Committee considered the proposed actions. Members agreed that it should be recommended that an additional Independent Member be appointed as per good practice.
- The Committee considered the proposed changes to the Committee's terms of reference.
- Mike Drake questioned whether the voting arrangements should be clarified in the terms of reference. The Assistant Director Governance indicated that it was referred to elsewhere but could be clarified. Councillor Davies suggested that a reference be included as to where the information could be found elsewhere in the Constitution.
- It was clarified that the Executive would agree the Treasury Management Strategy. Councillor Gee questioned which Committee would agree the Statement of Accounts in the future. The Chair commented that the Committee could still request reports such as the Statement of Accounts and the Treasury Management Strategy, for review and to make recommendations, but would no longer approve them.
- Councillor Gee questioned the value of the Committee reviewing the Treasury Management Strategy.
- Helen Thompson commented that she welcomed a conversation around the approval of the accounts. The Committee approving the accounts were those charged with governance, and would therefore receive the reports from the external auditors. The Assistant Director Governance commented that the CIPFA guidance had stated that the accounts should not be approved by the Audit Committee but agreed to look into this further.
- Councillor Smith questioned whether the section relating to the duration of the meeting should be aligned with the Full Council meeting procedures.
- Mike Drake felt that Committee had a role in looking at the Financial Statements.

RESOLVED: That

- 1) the annual assessment of the Committee's effectiveness at Appendix A based on the October 2022 CIPFA guidance on local authority audit committees be reviewed and agreed;
- 2) the associated action plan at Appendix B be reviewed and agreed including:
 - a) Approving the recruitment and appointment of a second independent member of the Committee for the 2023/24 municipal year;
 - b) Recommending to Council the proposed constitutional changes to the Audit Committee's terms of reference as set out at Appendix C, with the exception of the approval of the Financial Statements removal and the checking of internal consistencies with other areas of the Constitution.

54. LEARNING FROM COUNCIL'S WITH SEVERE FINANCIAL CHALLENGES

The Committee received a report regarding learning from Council's with severe financial challenges.

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

- Members were advised that the Council was a learning organisation and that CIPFA had produced a report on learning from Council's with severe financial challenges, and any actions that other councils may need to take.
- An action plan had been produced.
- The Deputy Chief Executive emphasised that leadership weakness, inadequate governance and weak financial management and lack of reserves were common themes of Councils that had experienced severe financial challenges.
- In response to a question from Mike Drake around the presentation of budgets to the Audit Committee, the Deputy Chief Executive indicated that currently the different components of the draft budget was presented to and scrutinised by the Corporate and Community Overview and Scrutiny Committee.
- Councillor Gee expressed concern that the CIPFA financial resilience index was from 2019, and questioned how useful it now was. The Deputy Chief Executive stated that it was updated each year. The historical graph had been referenced because it was the first time that the index had been produced, and the only time that a comparison against all local authorities had been provided. He was clear of the trajectory since that time.
- Councillor Smith expressed concern regarding question 8 *Does the Audit Committee have sufficient oversight of Council owned companies?* and question 9 *Do senior officers and Members have the skills to govern and oversee Council owned companies?*, and felt that the Committee did not know the answer to these. Whilst the companies were included in the Internal Audit Plan 2023/24, the audits had not yet taken place. The Assistant Director Governance indicated that the 2023/24 Internal Audit Plan would be presented at the next Committee meeting, and that Members could request that it be moved up the plan should they have particular concerns around this area.
- Councillor Gee commented that she had concerns around the companies and felt that their budgets should be scrutinised by the Council. Members were informed that previously the companies' performance had been reported to the Executive, with the budget monitoring. It was intended to provide a half year performance and a forecast for year end, going forwards.
- The Chair indicated that she would circulate an additional lessons learnt report from Internal Audit to the other Committee members.

RESOLVED: That

- 1) the CIPFA report be considered;
- 2) the suggested actions for the Audit Committee be considered.

55. TREASURY MANAGEMENT STRATEGY 2023-2026

The Committee received the Treasury Management Strategy 2023-26.

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

- The Assistant Director Finance advised the Committee of the proposal to change the minimum credit rating from High to Upper Medium. The Council had worked with external experts on this and the rating was still within recommended safety limits. This change would allow greater flexibility and for the Council to manage its cash more robustly.
- The Chair asked why the change in credit rating had not been undertaken before. The Assistant Director Finance indicated that this area was kept under constant review.

- Councillor Davies asked for an example of an investment in the upper medium range, which would not have been previously possible. The Assistant Director Finance commented that the change in rating would increase the number of organisations that the Council could use.
- Mike Drake stated that the list of loans and their maturity dates, was helpful.
- With regards to the table on the General Fund, on page 157 of the agenda, Mike Drake questioned how 2023/24 and 2024/25 figures agreed. The Assistant Director Finance agreed to check this.
- Councillor Smith added that on p158 it referred to the General Fund Capital Programme having an estimated shortfall of £28million over three years, but that this was not reflected in the tables. The Chief Accountant explained that the £28million was the difference between the table setting out the Capital Programme budget and the table setting out how the Council proposed to fund this, and was the capital funding gap across the three years. Officers would check the figures and report back to Members.
- With regards to Minimum Revenue Provision (MRP), Councillor Gee felt that the Council's MRP approach did not comply with the understanding of the current statutory guidance which stated that all debt associated with investing should be provided for. The Council did not charge on the loan capital in WBC Holdings and only provided 10% of assets that could be disposed of for appreciation, a maximum 15 years asset life. Thurrock Council which had experienced severe financial challenges now provided for everything.
- The Deputy Chief Executive commented that MRP was a complex and fluid area. He clarified that there was not a statutory requirement to provide in the way stated in the Thurrock Council statements. The current statutory provision sat under the prudential code, which referred to a prudent provision determined by the Section 151 Officer. The new prudential code which would be enacted in April 2023 still stated this. The Deputy Chief Executive commented that his biggest concern around changes to MRP was around Strategic Development Locations and forward funding the infrastructure to unlock the development. Under the most extreme interpretation this would no longer be possible. However, the Government, during the consultation process, which had begun over 2 years ago, had indicated that it did not want to generate unintended consequences for Councils, particularly around development, regeneration, and housing provision. Members were reminded that there had been two consultations over two years, and that no new regulations had come in during that period. The earliest any changes would be made would be April 2024.
- In response to a question from Councillor Gee regarding MRP and capital loans, the Deputy Chief Executive re-emphasised that Treasury Management advisors and the Council's External Auditors were satisfied with the Council's approach.
- Councillor Smith referred to a table detailing expenditure type and the WBC MRP charging policy (p162 of the agenda) and stated that it would be helpful to have information on any departures from Department for Levelling Up, Housing and Communities principles.
- The Assistant Director Finance added that at the March 2022 committee meeting a report on the closing of the accounts. The report contained confirmation from the Council's External Auditors that they were satisfied that the Council was acting within the arrangements for MRP.
- The Chair took the Committee through items on the agendas for the next Committee meeting on 13 March.

RESOLVED: That the Committee supports the Treasury Management Strategy 2023-2024 and recommends to Council to:

- 1) approve the Treasury Management Strategy as set out in Appendix A including the following additional appendices;
 - Prudential Indicators (Appendix B)
 - Annual Investment Strategy 2023/24 (Appendix C)
 - Minimum Revenue Provision (MRP) policy (Appendix D)

ACTION	OFFICER
The Chair commented that it would be useful if the report presented at the Committee's March meeting included possible options and the impacts of these. – Statement of accounts	Assistant Director Finance/EY
Invite the Director Children's Services and Executive Member Children's Services to a Committee meeting following the conclusion of the submission stage (Safety Valve)	Audit Committee
Helen Thompson commented that she welcomed a conversation around the approval of the accounts. The Committee approving the accounts were those charged with governance, and would therefore receive the reports from the external auditors. The Assistant Director Governance commented that the CIPFA guidance had stated that the accounts should not be approved by the Audit Committee, but agreed to look into this further.	Assistant Director Governance/EY
The Chair indicated that she would circulate an additional lessons learnt report from Internal Audit to the other Committee members.	Chair, Councillor Burgess
With regards to the table on the General Fund, on page 157 of the agenda, Mike Drake questioned how 2023/24 and 2024/25 figures agreed. The Assistant Director agreed to check this. (Treasury Management)	Chief Accountant/Assistant Director Finance
Councillor Smith added that on p158 it referred to the General Fund Capital Programme having an estimated shortfall of £28million over three years,	Chief Accountant/Assistant Director Finance

<p>but that this was not reflected in the tables. The Chief Accountant explained that the £28million was the difference between the table setting out the Capital Programme budget and the table setting out how the Council proposed to fund this, and was the capital funding gap across the three years. Officers would check the figures and report back to Members.</p>	
<p>Councillor Smith referred to a table detailing expenditure type and the WBC MRP charging policy (p162 of the agenda) and stated that it would be helpful to have information on any departures from Department for Levelling Up, Housing and Communities principles.</p>	<p>Chief Accountant/Assistant Director Finance</p>