

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
HELD ON 2 FEBRUARY 2022 FROM 7.00 PM TO 8.15 PM**

Committee Members Present

Councillors: Angus Ross, Daniel Sargeant (Chairman), Imogen Shepherd-DuBey, Shahid Younis (Vice-Chairman) and Ian Shenton

Also Present

Helen Thompson, Ernst and Young
Stephan Van Der Merwe, Ernst & Young
Madeleine Shopland, Democratic & Electoral Services Specialist
Graham Cadle, Interim Assistant Director Finance
Graham Ebers, Deputy Chief Executive
Andrew Moulton, Assistant Director Governance
Mark Thompson, Chief Accountant

47. APOLOGIES

Apologies for absence were submitted from Councillors Gee and Loyes.

48. MINUTES OF PREVIOUS MEETING

The Minutes of the meeting of the Committee held on 30 November 2021 were confirmed as a correct record and signed by the Chairman subject to the following amendment:

Item 40 - Helen Thompson commented that the most prominent estimates that were included were around Property, Plant and Equipment valuations and the IAS 19 Pension Liability reported in the Financial Statements.

Councillor Shepherd DuBey referred to the Climate Emergency audit being requested by the Audit Committee in addition to the Overview and Scrutiny Committee and sought further clarification. The Assistant Director Governance agreed to update as part of the Corporate Risk Register item.

49. DECLARATION OF INTEREST

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

50. PUBLIC QUESTION TIME

There were no Public questions.

51. MEMBER QUESTION TIME

There were no Member questions.

52. CORPORATE PLAN - ANNUAL REVIEW

This item was deferred to the 30 March meeting to enable it to be considered alongside the Statement of Accounts.

Councillor Shepherd-DuBey asked that it be updated for the next Committee meeting.

**53. WOKINGHAM BOROUGH COUNCIL AUDIT COMMITTEE PROGRESS REPORT
- UPDATE ON THE 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 advised that the report had been co-authored with Council officers.
- The audit was well progressed. However, both the Council and EY teams had had to balance priorities and sickness. In addition, the delayed start to the audit had had an impact on progress.
- At the end of December there had still been 60% of local audits in progress and this number was gradually reducing.
- Helen Thompson went on to highlight how progress was assessed.
- It was noted that even had all the work within the Council's and EY's control been completed it would not have been possible to sign the Financial Statements following the Committee meeting as the letter received from the Pension Fund auditor had stated that work was ongoing and that there could still be issues arising. They were expected to report in early March, allowing the accounts to be presented at the Committee's extraordinary meeting at the end of March.
- With regards to Housing Benefits, the report had stated that the deadline was the 31 January. This had since been extended by the Department of Work and Pensions, to 28 February. Procedures were in place to monitor the Housing Benefits audit.
- The Interim Assistant Director Finance emphasised that his previous local authority had been in a similar position and faced similar challenges. He felt that the Council and EY teams had a positive relationship and way of working. He was confident that the March deadline would be met.
- Councillor Sargeant commented that the report stated that it was not possible to access the detailed models of the actuaries and that EY were producing their own estimates. He questioned whether these estimates were being used by other auditors of Berkshire authorities, and what would be the outcome should there be a material difference between EY's estimates and those of the actuaries. Helen Thompson explained that the 2021 audits had been impacted by the revised auditing standards ISA on estimates, which had brought in more rigorous requirements in terms of looking at models. A range rather than a precise materiality level was being worked to, so that if when the liability was recalculated using the same information as the actuaries, the figure arrived at was within 2% (plus or minus) of the total liability. Helen Thompson indicated that of the audits that she had been involved in, they had all come within range apart from one, and this had been as a result of an error by the actuaries, which had then been corrected. The report was expected imminently, and it was anticipated that there would be any issues.
- Councillor Shepherd-DuBey referred to the valuation of land, building property, plant and equipment, and investment properties. She questioned whether there were any material differences in the valuation of properties that remained unresolved, and if so, how much they amounted to, and the differences that would result in properties being recorded at a lower or higher value than proposed by Officers. Helen Thompson indicated that work was still ongoing, so it was not currently possible to answer this question. She explained the valuations process.
- With regards to going concern, Councillor Shepherd-DuBey asked whether EY had any concerns in this area, particularly in light of the forthcoming Adult Social Care Bill. Helen Thompson indicated that the focus was on the disclosures made by management regarding the Council's financial position, which linked to the Medium-

Term Financial Plan. EY were mindful of the pressures that the Adult Social Care Bill would create. The Deputy Chief Executive emphasised that the Council was facing unprecedented times in terms of unknowns and how big these could potentially be. The Council would do all that it could to ensure that a Section 114 declaration was not required. He was confident that it would not.

RESOLVED: That the update on the 2020-21 Statement of accounts be noted.

54. TREASURY MANAGEMENT STRATEGY 2022-2025

The Committee considered the Treasury Management Strategy 2022-2025.

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

- The Committee had received the Mid Year report in November 2021.
- Councillor Sargeant referred to the graph detailing the Capital Funding Programme 2022/23 to 2024/25, and questioned whether the CIL and S106 forwarded funding was expected to continue beyond 2022/2023. The Interim Assistant Director Finance indicated that this represented the CIL that was currently being funded in advance of receiving, and could be subject to change.
- With regards to capital assets, such as Carnival Pool car park, Councillor Shepherd-DuBey questioned whether the impact of losses to property values had been taken into consideration and what impact they would have on the Strategy. The Interim Assistant Director Finance commented that the immediate effect of a loss on the valuation would not affect the General Fund. An adjustment was made so that the Revenue Account properly reflected the financial rather than the accounting position. The Chief Accountant indicated that a revaluation exercise would be carried out as part of the accounts. Any losses or gains would be at the point that an asset was disposed of, in terms of realisable losses or gains.
- Councillor Shepherd-DuBey stated that some local authorities were not charging Minimum Revenue Provision (MRP) on debt related to certain assets. Whilst some authorities were making Minimum Revenue Provision for commercial investments funded by borrowing, some were still not paying MRP regarding borrowing related to borrowing associated with investment assets or capital loans. The statutory guidance was clear that financing for investment assets and capital loans required the provision to be made. She asked what the Council was doing to prepare for these changes and what the implications would be for revenue and services. The Interim Assistant Director Finance advised that the current provision was in line with the regulations which allowed for the Chief Financial Officer to make a prudent provision. There was currently a consultation to change those arrangements, which would finish on 8 February. Officers were feeding into this.
- In response to a question from Councillor Ross regarding the rate of inflation, the Interim Assistant Director Finance, indicated that future borrowing could become more expensive as interest rates grew. Advice from external partners around future borrowing was being sought. Inflation could affect the cost of capital programmes. Monitoring was being undertaken and contingencies were being built into a number of the capital programmes.
- In response to a question from Councillor Shepherd-DuBey, the Interim Assistant Director Finance stated that the Strategy and approach were kept under review and would be changed as required. The Chief Accountant added that with regards to the Town Centre regeneration, all the income generated was covering the financing costs so there was no impact to the tax payer. It was forecasted that this income would be in excess of financing costs over the next few years and would contribute returns to the General Fund. The Deputy Chief Executive added, that with all the supported borrowing where the Council was undertaking a scheme that paid for the costs of the financing, and often generated income in addition to that, Officers kept the performance under review. If it was not achieving its intended return, this would be factored into future Medium Term Financial Plans.

RESOLVED: That the Audit Committee support the Treasury Management Strategy 2022-2025 and recommend to Council to:

- 1) approve the Treasury Management Strategy as set out in Appendix A including the following additional appendices;
 - a) Prudential Indicators (Appendix B)
 - b) Annual Investment Strategy 2022/23 (Appendix C)
 - c) Minimum Revenue Provision (MRP) policy (Appendix D)
- 2) note the cumulative financial impact on the Council of its borrowing activities equates to a net credit to the general fund for the taxpayer of £42.70 per band D equivalent at end of 2022/23 and noting this credit increases to £62.47 at the end of 2024/25.

55. CORPORATE RISK REGISTER

The Committee considered the Corporate Risk Register. In addition the Deputy Chief Executive took Members through risks that related to his Directorate.

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

- There were no new risks.
- The Assistant Director highlighted follow up actions taken with regards to three areas previously raised.
- More detail had been provided about the Climate Emergency risk. Members were advised that the internal audit of Climate Emergency was underway, and the Internal Audit team were working in collaboration with Price Waterhouse Cooper. It was expected that the findings of the audit would be reported to the next Committee meeting. A query had been raised around carbon accounting, which was a very new area for local authorities. Options were being looked at around the 2022/23 internal audit plan to provide assurance around that particular specialist area. Climate Emergency UK, another independent source of assurance, had rated the Council's Climate Emergency Action Plan as 8th in the country amongst single tier authorities. The Deputy Chief Executive added that it had been rated 1st for governance and development.
- With regards to the Adult Social Care supplier risk a more detailed description had been provided around the mitigations.
- With regards to the High Needs Block risk and the delay around the opening of the Winnersh Farm School, which was now due to open in 2023, the impact was being quantified and would continue to be monitored.
- A correction to the summary matrix was noted.
- The Deputy Chief Executive provided an update on the financial risks. The nature of local government finance meant that work was undertaken to mitigate the risks, but additional risks and challenges continued to arise. The Chief Finance Officer's report highlighted many of these risks. There was a significant number of unknowns in terms of impact. Monitoring and mitigations would continue to be carried out.
- The level of inflation over the course of the next year and beyond was unknown. The Council would try to provide for the impact of inflation, in the context of individual schemes and a corporate contingency. The Deputy Chief Executive emphasised the need for a sufficiency of safeguard but not an over sufficiency.
- The Adult Social Care reform did not start until October 2023 although onboarding staff to deal with its implications would begin prior to this, so costs would be felt earlier. The reforms could potentially have an impact on the Council of over

£20million a year, although the full impact was not likely to be felt until year 5, suggesting a graduated impact.

- The Local Government Finance settlement was another area of uncertainty, which had been received for 2022/23 only. A longer-term settlement had been expected and would have provided more financial security, which helped the Council's financial planning. A strong levelling up agenda was not likely to be favourable to Wokingham, which was the lowest funded unitary. The Council would continue to make the case for funding.
- The outcome of the MRP consultation was awaited. The outcome could mean that the Council could be required to pay back debt, or provide for the repayment of debt, quicker.
- The Council was in strong financial position, particularly in comparison to some other authorities. The General Fund indicators were moving in a positive direction. The only less positive indicator was HRA reserves which were reducing, but were still at a reasonable level.
- With regards to monitoring performance against the budget, Councillors received the Capital Monitoring reports and Treasury Management reports. Councillor Sargeant asked what additional monitoring processes were in place. The Deputy Chief Executive explained that the publicly reported figures were high level. More frequent and detailed monitoring was carried out, some of which was on a daily basis.
- Councillor Younis referred to the workforce risk and questioned how confident Officers were that the Council could appoint the right people. He emphasised the importance of the Council's workforce to its success. The Deputy Chief Executive commented that there would always be some challenges around recruitment and a level of interims and agency staff. It was about managing this to an acceptable level. Paying at the right level to attract and retain, was important. Other factors such as the Council being considered a good place to work, were also important. These factors were part of the work being undertaken as part of the Workplace Imagined Project.
- Councillor Shepherd-DuBey asked about the likely cost of the delay of the opening of the Winnersh Farm School and was informed that negotiations with the Department of Education were in progress.
- Councillor Shenton commented that one of the actions required regarding the Climate Emergency risk was a behaviour change leading to increased public transport usage. Public transport usage was down on pre pandemic levels and working from home had increased. Bus operators could potentially say that existing services or routes could not be maintained without further financial contribution from the Council. He questioned whether this had been taken into consideration for the risk level for Climate Emergency. The Deputy Chief Executive stated that this was a big emerging issue. There was likely to be Government consideration as to how public transport would be supported going forwards. The Council would need to keep this issue under review and work with the Government and partners.
- Councillor Shepherd-DuBey questioned whether increased construction costs and the impact of this on capital projects had been considered under the financial risks and was informed that this was part of the considerations around inflation.
- In response to a question from Councillor Ross, the Deputy Chief Executive commented that many local authorities were far less financially resilient, and problems would reveal themselves elsewhere, earlier.

RESOLVED: That the risks and mitigating actions of the Corporate Risk register be noted.

56. INDEPENDENT MEMBER OF AUDIT COMMITTEE

The Assistant Director Governance presented a report regarding an independent member of the Audit Committee.

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

- The Audit Committee had undertaken a self-assessment against CIPFA guidance on best practice for audit committees in local government. One of the areas identified for further consideration was the inclusion/appointment of an independent member to the Committee. The Corporate Peer Challenge had also highlighted that it should be considered whether the appointment of an independent member to the Audit Committee would strengthen governance.
- It was noted that the primary considerations when considering Audit Committee membership should be maximising the committee's knowledge base and skills, being able to demonstrate objectivity and independence, and having a membership that will work together.
- It was clarified that an independent member would not have voting rights.
- Councillor Shepherd-DuBey queried how the independent member's performance would be assessed and what action would be taken (e.g., no longer paid) should they not attend meetings. The Assistant Director Governance indicated that there would be a robust selection process. What would be expected of the independent member would be made clear and built into the selection process as would any assessment criteria.
- Members questioned how the appointment of an independent member would re-enforce political neutrality and the independence of the committee. The Assistant Director Governance indicated that the CIPFA guidance advised they would help ensure that the Committee focused on the Council's overall governance arrangements, as apolitically as possible. Councillor Sargeant added that he felt that the level of debate and political neutrality was already good, but an independent member would help to give the debate an even more open and neutral feel.
- Councillor Younis commented that it was important that it was made clear to the independent member, what the consequence would be should they not meet expectations.
- Councillor Ross asked whether job descriptions used by other Council's when appointing an independent Audit Committee member had been consulted and was informed that they were.
- Councillor Ross questioned whether the allowance amount should be referred to in the recommendation to Council. The Assistant Director Governance explained that this would be taken from an existing budget so additional funds would not be required.
- It was confirmed that it would be a 5 year appointment and that this would be made clear at the time of appointment.

RESOLVED: That the proposal to co-opt an independent member onto the committee having been reviewed and discussed, Audit Committee agree that:

- 1) the independent member role profile be approved.
- 2) it be recommended to Council that:
 - a) an Independent member be co-opted on to the Audit Committee on a non-voting basis and that the Constitution be updated accordingly to reflect this.

- b) the role profile be approved.
- c) the appointment of the independent member be delegated to the Audit Committee
- d) the process for selecting and recommending an appropriate candidate be delegated to the Assistant Director Governance in consultation with the Chair of the Audit Committee.

This page is intentionally left blank