AUDIT AND PERFORMANCE REVIEW PANEL

WEDNESDAY, 6 SEPTEMBER 2017

PRESENT: Councillors Sayonara Luxton (Chairman), Stuart Carroll, Jack Rankin, MJ Saunders, Edward Wilson and Wisdom Da Costa

Also in attendance: Darren Gilbert, KPMG

Officers: Steve Mappley, Karen Shepherd, Richard Bunn and Rob Stubbs

APOLOGIES

Apologies for absence were received from Councillor Dr L Evans.

DECLARATIONS OF INTEREST

There were no declarations of interest received.

ORDER OF BUSINESS

RESOLVED UNANIMOUSLY: That the order of business as detailed in the agenda be amended.

MINUTES

The Part I minutes of the meeting held on 14 June 2017 were approved as a true and correct record.

AUDIT MEMO - ISA 260 REPORT

The Panel considered the External Audit Report 2016/17. Darren Gilbert of KPMG explained that the report set out summary outcomes of the process for both the council and the Pension Fund. He thanked the borough's Finance team for their support in the process.

The report began by setting out areas of significant audit risk; those that were considered particularly complex or inherently at risk of material mistakes. The report included two main risks: changes in the pension liability and the valuation of the longevity hedge fund. Work on both areas had given KPMG assurances that were needed therefore it had been concluded that there were no issues. There was a small quantified item detailed later in relation to the longevity hedge, a technical aspect relating to £6m. In the context of the size of the fund this was considered small and not material. In relation to the valuation of hard to price investments, particular attention had been paid. Again, all assurances needed had been given.

Councillor Rankin joined the meeting at 7.13pm.

Members noted that CIPFA had introduced changes to the code as detailed on page 10 of the report. Pages 11-12 of the report detailed a number of subjective areas on which judgements had been made. Given the indicative figures, KPMG was happy with the process and that the numbers were within the anticipated range. Mr Gilbert highlighted that KPMG had challenged the method and assumptions used by the actuary in determining the pension liability. The figures for inflation and the discount factor were at the outer edge of what would be expected but counterbalanced each other.

One misstatement of valuation had been identified in relation to the value of an investment property, which had been loaded to the fixed asset register but only as a draft. This had now been rectified.

In relation to the responsibility to ensure the council was securing value for money, the audit had looked in particular at the governance processes around the Transformation programme. KPMG had been content with how this had been put together.

Councillor Smith commented that he felt the presentation was clearer than the previous format. Mr Gilbert explained that CIPFA had previously required a standardised way to categorise and describe income and expenditure. Local authorities were now however able to report on a structural basis to mirror the internal process. This had been allowed to provide consistency with the information provided to Members. The EFA statement was a new addition to bridge between the two methods.

Councillor E. Wilson commented that not many public bodies consistently achieved an unqualified audit; this highlighted the excellent work of the Finance team and across the organisation.

In relation to demographic data supplied to the pension fund, Mr Gilbert confirmed that the audit was required to look at the risk, but this did not mean it was an issue.

Councillor da Costa raised a number of questions in relation to the Pension Fund statement. Councillor Saunders commented that no other council that was a member of the Pension Fund would perform such a review at their Audit and Performance Review Panel. This was a consequence of the fact that the borough was the administering authority for the fund. He felt it was more appropriate for the review to be undertaken by the Pension Fund Panel. The Head of Finance confirmed that the Pension Fund Panel would consider it as part of the Annual Report later in the year.

Mr Gilbert explained that the borough's statement and that of the Pension Fund were published as one audit report as the council published one set of financial statements. KPMG had spent a lot of time looking at the longevity hedge and had taken advantage of an actuarial specialist and also liaised with the actuary. Councillor Saunders commented that there was a clear distinction between the diligence and scrutiny the Panel could apply to the council's audit compared to the pension fund audit. The relevant specialist officers were not present to answer detailed questions on the pension fund. Councillor Da Costa commented that in retrospect it would have been useful for specialist officers to be present.

Mr Gilbert confirmed that the outcome of an unqualified audit was consistent with previous years.

Councillor Da Costa asked whether the overall valuation put into the council's accounts as a proportion of liabilities was appropriate? Mr Gilbert responded that the audit looked at pension liabilities that were the responsibility of the council. More time than would normally have been expected was taken to challenge some of the assumptions made by the actuary. The net impact was that the range was within what would be expected. The audit had regard to the risk management processes of the council and what was included in the risk register. KPMG was concerned with risks related to the audit opinion whereas the council may have other types of risk such as operational, legal and reputational, but these would not be considered by the audit. Local electors had the right to approach the auditor and submit an objection to a particular area; none were received this year. The council's risk register would be more detailed than the issues considered by the audit. Value for money calculations were more about the concept of significance. Some issues in the council's risk register would be too small or too detailed. The audit did not say the council was delivering value for money but that adequate arrangements were in place to deliver value for money.

Councillor Da Costa asked if the audit considered key decisions and whether risks were expressed adequately to Members when making decisions. Mr Gilbert responded that the audit did not seek to do so comprehensively but if it identified a theme or risk area detailed work would be undertaken. The key driver would be the decision making process. The work on Transformation made specific references to governance arrangements.

RESOLVED UNANIMOUSLY: That the report be noted.

<u>POST AUDIT STATEMENT OF ACCOUNTS 2016-17</u>

Members considered the Statement of Accounts 2016-17.

The Chief Accountant commented that, as identified by KPMG, a valuation had been added to the asset register but had been saved as draft. Consequently when a report from the asset register was run the valuation was not included. A process had now been put in place to identify any draft items before reports were run. He explained that the EFA helped people understand balances in the income and expenditure accounts that were real money as opposed to accounting entries. An example of an accounting entry would be the depreciation of non current assets.

In response to questions, it was confirmed that:

- The Dedicated Schools Grant was given to the local authority to fund all maintained schools (not Academies) and central services in the Managing Director's directorate, some of which would move to Achieving for Children. The amount of grant was reducing as more schools became Academies. The allocation of the grant was controlled by the Schools Forum. All Academies received funding directly form central government.
- The Adult Social Care precept was treated in the same way as other council tax related items and did not fund specific services. For the sake of clarity the Head of Finance had to sign a document to clarify how the precept was used. The Head of Finance commented that there would be an opportunity to make this clearer in the narrative to the statement of accounts. Councillor Saunders commented that an appendix to the next Financial Update to Cabinet would be of use. It was important that people see the incremental revenues that had arisen as a result of the Adult Social Care levy and other specific Adult Social Care grant income and compare that to the incremental expenditure which the council had committed to Adult Social Care over the next few years. In overall

terms this was expected to be in excess of £1m ahead of the incremental income to date.

- Capital expenditure at schools was not often used for maintenance, although it was in some other areas such as road repairs. Councillor E. Wilson suggested that this could be misleading to a reader of the accounts.

Councillor Smith welcomed the inclusion of 5-year trend information in relation to gross expenditure. He asked if this could be extended to other areas such as income. The Head of Finance agreed to look at this and suggested savings over a five year period would be an appropriate measure.

The Chief Accountant confirmed that unusable income was a depository for non-cash accounting adjustments.

It was explained that the reduction in bad debt provision of over £1m was an assessment of council tax at year end and a provision made for the likely proportion not collected. Either debt had gone down or was newer debt, therefore there was no need for such a high provision.

The Chairman requested that the accounts be amended as requested and circulated to all Panel Members.

RESOLVED UANNIMOUSLY: That Audit and Performance Review Panel notes the report and:

i) **Approves the audited accounts, a copy of which is signed by the chairman before 30th September 2017, subject to amendments requested during the Panel discussion.**

APPOINTMENT OF EXTERNAL AUDITORS FOR 2018/19 ACCOUNTS

The Panel considered progress on the procurement process. The council had opted into the PSAA process in 2016. The council had written to the PSAA to request KPMG stay as the council's auditor. Unfortunately KPMG had not been successful in their bid to the PSAA. The council had therefore been asked to consider Deloitte for the audit for 2018/19 onwards. If the council as unhappy it could put in a challenge.

It was noted that the audit cost would reduce by 18% compared to the 16/17 fee, s a result of the competitive procurement process. Councillor E. Wilson commented that form a resident's point of view the proposal was simply for another one of the 'Big Four' audit companies. If the council had made the decision themselves it would have gone with a firm of a similar size.

RESOLVED UNANIMOUSLY: That Audit and Performance Review Panel notes the report and:

i) **Delegates responsibility to the Deputy Director and Head of Finance to accept the proposal to appoint Deloitte LLP as the auditor of the royal borough of Windsor and Maidenhead.**

KEY RISK REPORT

The Panel considered whether there was adequate risk management in place for RBWM as part of its governance arrangements. The Insurance and Risk Manager explained that the aim of risk monitoring was to ensure better business decisions, taking risks into account. Taking uncertainty into account was not a natural thing to do therefore good risk-based decision making tools were needed.

Previously Members had received lengthy documents. Following feedback this had been reduced to a heat map attached as an appendix. Members noted that the register was materially the same as the 2016/17. One risk relating to financing was highlighted to Members.

The register was expected to be completely refreshed in the next few months in conjunction with the Senior Leadership Team. The previous approach was to have key operational risks, key strategic risks, and all others. One rating for likelihood and one for impact was not necessarily helpful as it just concentrated on those two dimensions. In the last five years all decision making reports had included a section on risk management including mitigations.

The Chairman asked how the council ensured risks were identified. The Insurance and Risk Manager explained that the content of the risk register was extracted from discussions at CMT and DMT level. As the council had transformed, the statutory responsibilities had remained. The risk register needed to be refreshed because of the change in service model delivery. Officers were responsible for articulating risks, which were then collated in the overall register.

Councillor E. Wilson raised three areas of concern in relation to Key Strategic risks:

- CMT0039 – was this the responsibility of the council? If so, what was the council going to do about it?
- HPLAND0013 - Was the risk correctly articulated in relation to regeneration?
- HOF0006 - Should income volatility be included as well as expenditure volatility?

Councillor Saunders commented that he appreciated the concern of Cllr E. Wilson about the amount of influence the council could have, particularly in relation to CMT0039, but he felt the council had an appropriate role in terms of preventing an occurrence or responding to one. If the Managing Director was asked to name the strategic risks, although the terminology may differ, he suspected the three identified by Cllr E. Wilson would be on the list.

Councillor E. Wilson referred to outsourcing of services and the Borough Local Plan as key risks. The Insurance and Risk Manager commented that the Borough Local Plan was included as an operational risk; the document before Members was a summary. Councillor Saunders commented that it would be hard to identify another strategic risk beyond the seven already on the list. He suggested that operational risks such as delivery of the Borough Local Plan and the effective delivery of services with external partners, could be submitted to relevant Overview and Scrutiny Panels on a 6 month basis. The relevant officers and Lead Members could therefore attend to answer questions. It was the role of the Audit and Performance Review Panel to scrutinise the process.

Councillor Da Costa welcomed the split between strategic and operational risks, by directorate, for each Overview and Scrutiny Panel. He questioned what could impair the quality of decision making as referred to in paragraph 11.3 of the report. The Insurance and Risk Manager commented that it was important not to underestimate risks in terms of likelihood or proximity. Councillor Saunders highlighted the importance of assessing a risk in the uncontrolled scenario and then residual risk once mitigation was in place.

It was confirmed that the Head of Finance decided whether a risk was reported in the full budget. Councillor E. Wilson commented that he was not aware of any reference to crime and disorder near the Windsor barracks in the budget. Councillor Saunders responded that the allocation of resources would be focussed on usable or liquid reserves to respond to any situation in the expectation that there would be no external help. If an incident did occur outside the barracks, he would expect national government would provide resources.

Councillor E. Wilson commented that there were a number of financial risks related to the Borough Local Plan including judicial reviews, developer actions and the national government stepping in. Residents would not see this in the budget. He suggested the risks discussed should be rethought. In relation to the Borough Local Plan he felt it was not completion that was the risk but the timing of expenditure and receipts. The wording of the volatility risk should be 'financial' rather than specifying expenditure. He felt that the risk related to crime and disorder should be an operational rather than a strategic risk. He suggested the relevant risks should be brought to Overview and Scrutiny Panels and linked to the budget. Councillor Saunders stated that he would raise the issue with Cabinet colleagues and lead officers. He would reflect on what had been discussed at the meeting to see if the linkage and logic could be made clearer and accountability be improved.

Councillor Da Costa asked for the implications of options of key decisions to also be addressed. The Insurance and Risk Manager commented that previously he would look at all reports in terms of identifying risks, but following training, report authors were now responsible for this element, using the risk register and tools. Councillor Da Costa offered to discuss specific suggestions for improvement with the Insurance and Risk Manager.

Councillor E. Wilson requested that for the next Panel meeting, the strategic risks be re-worked and an appendix to the budget be added.

RESOLVED UNANIMOUSLY: That the Audit and Performance Review Panel requests:

- **i) The Lead Member for Finance in conjunction with the Head of Finance and Insurance and Risk Manager, and in consultation with relevant Lead Members, to review and update the risk register to reflect the issues discussed at the Panel meeting and provide more comprehensive linkage and transparency, particularly to the annual budget commentary.**
- **ii) The Lead Member for Finance to bring to the attention of Lead Members and lead officers at a future Cabinet Briefing the opportunity for Overview and Scrutiny Panels to be presented, at an appropriate cycle, information in relation to key operational risks in each of their**

respective areas as identified by Lead Members, lead officers and Overview and Scrutiny Members.

In relation to the earlier discussion about the Pension Fund statement of accounts, Councillor Saunders commented that if discussions needed to go beyond the council's role as the administrator of the fund and make judgements, this should be addressed elsewhere. The Head of Finance agreed to look into the issue of an appropriate forum for such discussions.

The meeting, which began at 7.00 pm, finished at 8.52 pm

CHAIRMAN……………………………….

DATE……………………………..........