

AUDIT AND GOVERNANCE COMMITTEE

THURSDAY, 29 JULY 2021

PRESENT: Councillors Christine Bateson (Chairman), Lynne Jones (Vice-Chairman), Julian Sharpe, Gurpreet Bhangra and Simon Bond

Also in attendance: Councillor John Baldwin

Officers: Mark Beeley, Emma Duncan, Duncan Sharkey, Adele Taylor, Andrew Vallance and Karen Shepherd

APOLOGIES FOR ABSENCE

There were no apologies for absence received.

DECLARATIONS OF INTEREST

There were no declarations of interest received.

MINUTES

RESOLVED UNANIMOUSLY: That the minutes of the meeting held on 17th May 2021 were approved as an accurate record.

STATEMENT OF ACCOUNTS UPDATE 2019/20

Andrew Vallance, Head of Finance, explained that Deloitte had recently written to the objectors with their provisional views on the objections to the 2019/20 accounts. Objectors had been given three weeks to respond to Deloitte.

Andrew Hill, a member of the public, asked to clarify that in the agenda pack the 2019/20 report from the May meeting of the Audit and Governance Committee was referred to as the 'final' report. Andrew Hill asked if this should instead say the 'latest' report.

Jonathan Gooding, Deloitte, confirmed that this was correct and that there would be a further report in due course to summarise the objections that had been made.

Councillor Sharpe asked when the final report on the 2019/20 accounts would be available.

Jonathan Gooding explained that the only work left was on the objections. Objectors had been written to, setting out Deloitte's provisional view. They had three weeks to request documents and submit their comments. If there were no comments submitted, the accounts could be concluded very quickly after the three week deadline. The final report would not be available immediately after the deadline as the audit letter would still need to be reviewed.

The Chairman asked if the report would be ready for the September meeting of the Committee.

Jonathan Gooding said that it was possible but was unable to give any guarantees.

Councillor Baldwin asked if there was a legal obstruction to having members of the Committee who were meeting in person at the Town Hall also join by Zoom so that those on the call and watching on YouTube could hear and see clearly what was going on.

Emma Duncan, Monitoring Officer and Deputy Director of Law and Strategy, said that Democratic Services were looking at potential solutions to improve the accessibility and transparency of broadcasting council meetings.

STATEMENT OF ACCOUNTS UPDATE 2020/21

Jonathan Gooding said that the 2020/21 accounts were in the process of being completed. The audit plan was in the agenda pack for both the statement of accounts and the pension fund, which set out the scope and timing of the work. Three significant audit risks had been identified. One was around properties being valued incorrectly, another was around expenditure which had been capitalised when it should not have been, and the final risk was around management override of controls. For the pension fund, override management of controls had also been identified as a significant risk, as well as the longevity swap not being appropriately valued. For these audit risk areas, Deloitte planned to test the controls. There was a change with consideration to value for money, as the requirements were now broader. There would also be a change in reporting, with an annual audit report produced in addition to the ISA260. The deadline for this report would be three months after the opinion was issued on the statement of accounts.

Andrew Hill asked when and how the period of inspection on the accounts was publicised by RBWM. He said that of the three risks Jonathan Gooding had mentioned, he asked for clarification that the first two were specific to RBWM where as the third risk was a general risk amongst most local authorities. Andrew Hill also asked for clarification on if Deloitte meant the RBWM Property Company or property owned by the council when it was mentioned in the report. Andrew Hill asked if Deloitte had already identified capitalisation of expenditure as a risk in the 2020/21 audit.

Jonathan Gooding said that significant risks were not the only thing that the auditors looked at. There was a set of presumed risks which Deloitte had to presume for all audits it undertook, including the risk of management override of controls. Another risk was revenue recognition, but Deloitte was keeping this under review to see if there were any changes. This was a similar position to most other local authorities. The property valuation and expenditure was taken from Deloitte's understanding of the authority but they had not seen any evidence of fraud. Property valuations were a significant risk but this was very common. Deloitte was in the process of determining their judgement and valuation of property.

Andrew Vallance added that the accounts were summarised on the RBWM website.

Councillor L Jones commented on their being a requirement for councils to provide value for money. She asked what would be looked at as part of the audit to determine if the council was getting value for money.

Jonathan Gooding explained that previous audit guidance required a risk assessment to be performed. Certain documents needed to be reviewed to see if there were any significant risks identified in these areas. The arrangements in place were documented, which formed part of the risk assessment. The primary base of reporting on the accounts was the annual report, which would include more extensive detail and commentary.

Councillor L Jones asked if assumptions made last year would be used this year and how much did the auditors consider forward decision making.

Jonathan Gooding said that it was considered to an extent, areas that were focused on included financial sustainability, governance and information based on performance. Deloitte started the process by asking officers at the authority what their arrangements were and then sought evidence to support those arrangements.

Councillor Sharpe said that there had been some issues identified in the 2019/20 accounts and asked when issues would be identified for the 2020/21 accounts.

Jonathan Gooding said that recommendations had been identified and made to the local authority last year. The objections made to the accounts would need to be completed before the audit could be finished. The 2020/21 audit was happening at the same time, with completion possible in a minimum of five weeks.

Councillor Bond asked about property valuations and said that it had been mentioned that there was the potential temptation to capitalise revenue. He said that if the value of the property was different this would change the assets on the balance sheet but not the liquid assets. He mentioned the actuarial evaluation in the pension fund.

Jonathan Gooding said that the revenue expenditure could be capitalised, there was no incentive to capitalise the property valuation. There was an actuarial evaluation in the pension fund liability. Jonathan Gooding said he would check this and correct it if required.

Councillor Baldwin asked for clarification on whether the wording “bribery basis of reporting” was used by Jonathan Gooding.

Jonathan Gooding confirmed that Councillor Baldwin had misheard, he had said the “primary basis of reporting”.

TREASURY MANAGEMENT OUTTURN REPORT

Andrew Vallance introduced the report. He explained that there had been slightly less borrowing across the year due to cash balances which was the result of Covid-19 funding from central government. This has been distributed to businesses as business rate grants which had helped to improve cash flow. 70% of borrowing remained short as short money was extremely cheap at the moment. The council was constantly reviewing its borrowing portfolio and at some point officers would look to borrow for 5-10 years at slightly higher rates in order to lock in low rates. Therefore, if it was beneficial the council would move some of its short term borrowing to medium term borrowing. In terms of investment, rates had been low at near 0% which meant that investment income had been low. Andrew Vallance reported that there had been one breach of the counterparty limit for eight days, with £8 million invested in a money market fund where the counterparty limit was actually £5 million. However, money market funds were low risk investments.

Andrew Hill had noted that in the mandatory consultation box at the end of the report, 10 out of the 12 officers listed had not been sent the report. He asked what the point of the consultation was if officers did not review the report.

Andrew Vallance explained that it depended on each report which specific officers the report was sent to for consideration. The consultation box was under review and would be updated for all reports in due course.

Andrew Hill asked about the counterparty limit breach and whether the additional £4 million which had been invested had come from a reserve.

Andrew Vallance said that the money should have been invested somewhere else, either in a different money market fund or another bank account.

Andrew Hill said that in the report it was mentioned that RBWM held a £100 million sum that was a pure investment. He asked what the investment risk was attached to this amount, was it a low risk asset performing the yield or a poor performing high risk asset. If so, was RBWM going to consider disposing the assets as suggested by CIPFA.

Andrew Vallance confirmed it was not an investment in any particular asset, it was just the cash flow consequence of normal business. RBWM did not borrow to invest in terms of yield purposes and it did things in accordance with CIPFA guidance.

Councillor Bond asked about Arlingclose and that a duration of 35 days had been mentioned. He asked if that meant that money could only be locked up in these institutions for 35 days.

Andrew Vallance said that this was an error in the report and should actually say 365 days.

On the counterparty limit being reached, Councillor L Jones asked if Andrew Vallance could confirm whether procedures or the process had been changed as a result, to ensure that it did not happen again.

Andrew Vallance explained that the incident had occurred due to a spreadsheet error, appropriate training had been provided to the officers involved.

Councillor L Jones said that a number of years ago, Members were told that RBWM would be debt free by 2025. She therefore asked why there was £5 to £10 million worth of debt.

Andrew Vallance said that he was not sure how anyone could guarantee that the authority could be debt free, RBWM currently had long term debt.

RESOLVED UNANIMOUSLY: That the Audit and Governance Committee noted and approved the annual Treasury Outturn Report 2020/21.

ANNUAL GOVERNANCE STATEMENT 2020/21

Emma Duncan, Monitoring Officer and Deputy Director of Law & Strategy, explained that governance was a joint enterprise with all officers to ensure that good standards were upheld. The officer governance group met regularly and consisted of statutory officers, the head of paid service, the chief executive, the section 151 officer, the monitoring officer, the head of finance, the head of law and the head of governance. The group considered governance issues and how to improve the council's governance framework. The Annual Governance Statement (AGS) for 2020/21 had been delivered with regard to the CIPFA 'delivering good governance' framework. The Centre for Public Scrutiny risk and resilience framework had also provided useful insight when producing the AGS.

The AGS set out how the local authority would look to do things, with values and behaviour being a key focus. The council wanted to build on this and the statement had been a significant piece of work. New procedures had been put in place so that Democratic Services were able to record delegated decisions made by officers. The statutory officers consultation section on reports would be reviewed as part of the process.

A significant piece of work this year had been the development of the corporate plan. This would ensure that decisions were taken that were in line with the council's aims and objectives. Members would be able to see more of this during the rest of year and track delivery. Capacity to consult with communities had been improved so that they formed a part of the decision-making process. Virtual meetings had allowed more people to engage and participate in council meetings, while statutory rights like freedom of information had been maintained effectively.

Overview and scrutiny had been identified as an area for governance improvement, to ensure that the scrutiny function was able to add value to the council. This would involve a cultural shift with both officers and Members to ensure that scrutiny was effective. Looking at the action plan in the AGS, work had been themed around the key areas. The action plan would be kept under review by the Audit and Governance Committee.

Andrew Hill thanked Emma Duncan for her comprehensive explanation of the AGS. He felt that the council had been listening to residents more, particularly with the library consultation. On overview and scrutiny, Andrew Hill asked how it would be decided which decisions came to Full Council and which were considered by Cabinet. Andrew Hill believed that decisions that

went to Cabinet did not seem to go through the scrutiny process and therefore arrived at Cabinet with little or no input from other Members. He also asked if there would be greater transparency on the public contracts that the council entered into, particularly with the RBWM Property Company.

Emma Duncan explained that executive functions came under Cabinet. Scrutiny had a number of roles but should not look to scrutinise everything. There was the call in system but policy development was an important function which was not used effectively. Scrutiny was given the opportunity to make recommendations to Cabinet and help shape decisions. This way scrutiny could add value and come up with solutions, this would allow Members to make a difference to their communities.

Councillor Sharpe commented that RBWM was on a journey and asked how far along that journey RBWM currently was, on a scale of 1 to 10.

Emma Duncan said that she had joined RBWM in February 2021 and in the time she had been at the council she had seen progress. There was a desire to do the right thing but governance was never perfect and there was still things left to do. Considering Councillor Sharpe's query of a rating, Emma Duncan said that the authority was over the worst of the issues and was now looking at how to build for the future.

Considering Andrew Hills point on transparency, Emma Duncan explained that there would always be some information that the council would not be able to share. However, RBWM was more open than a lot of authorities.

Councillor L Jones asked how capacity was affected by financial constraints. She asked if Members would get the opportunity to comment on performance monitors before they were put into the performance framework. Councillor L Jones welcomed that scrutiny was going to be reviewed.

Emma Duncan said that it was important to develop capacity in the right places. It was important to deliver things like training where it was required, particularly for Members. The review of the performance management framework could take place as a 'scrutiny in a day' session. The new corporate plan was evidence based and the same applied to the performance indicators. It was important that Members listened to what officers had set for performance indicators and did not reject them for no reason. There would be opportunities for Members to provide input and test performance indicators.

The Chairman asked what the council was doing for those on apprenticeships.

Emma Duncan said that the corporate plan consultation was being sent out next week and officers wanted to hear from the public on the areas that they would like to see in the corporate plan. The consultation would be done through a new platform called Engagement HQ.

Councillor Bond commented on the officer teams that were part of the governance framework and suggested that they overlapped, along with the Leaders Board. He asked how this linked with the political side of the council. Councillor Bond said that the AGS was very comprehensive on the risks the council faced and specifically on each type of risk.

Emma Duncan explained that the council used a committee structure, which meant that there was Full Council, Cabinet and then other committees, all of which had their own functions and powers. Officers made decisions which were made through the officer meetings. Leaders Board was an informal Cabinet meeting where Cabinet Members could discuss reports and address any issues. Members were the decision makers, any big decisions above a certain threshold that were made by officers had to be published as an Officer Decision Notice. Smaller decisions were made under delegated authority and did not have to be publicly reported. Officers made sure that Members had the tools to make decisions. Regarding

procurement, the action plan suggested that the procurement process would be looked at. The point of tender was usually confidential information but other information around the process could be disclosed.

Councillor Baldwin said that he had raised the issue of the RBWM Property Company with Cabinet and he had suggested that the two opposition leaders were kept involved with the creation of the report but this was rejected.

Emma Duncan said the action plan was developed through the scrutiny committees. It was good practise to develop reports through the scrutiny system and promoted good governance. The formal committee structure allowed for transparency, accountability and allowed the discussion and decision to be minuted and recorded.

Councillor L Jones said that she would like to place on record her concern about the financial constraints when looking at capacity within the organisation and whether there was enough finance to ensure that objectives were met.

RESOLVED UNANIMOUSLY: That the Audit and Governance Committee noted the report and:

- i) Considered the draft 2020/21 AGS, identified any specific matters which should be brought to the attention of Council or Cabinet.**
- ii) Recommended the 2020/21 AGS to the Leader of the Council and Chief Executive for signature and publication with the Council's Statement of Accounts.**
- iii) Requested that update reports be provided to the Committee summarising progress on the AGS Action Plan.**

WORK PROGRAMME

Andrew Vallance said it was hoped that the Committee would be able to consider the final 2019/20 accounts and a significant update on the 2020/21 accounts at the September meeting.

Councillor Sharpe suggested that it would be useful for the Committee to consider business controls within the council, this could be added for the February 2022 meeting.

Adele Taylor, Executive Director of Resources, explained that the item suggested by Councillor Sharpe was covered by the update reports from internal audit. The next update from the internal audit team was planned to be in October 2021. If there were any specific areas of business control the Committee wanted to look at, this could be added to the work programme.

The Chairman asked if this could be brought forward to the September meeting.

Adele Taylor said that this could be discussed with the internal audit team.

The meeting, which began at 7.00 pm, finished at 8.35 pm

CHAIRMAN.....

DATE.....