AUDIT AND GOVERNANCE COMMITTEE

Thursday 16 November 2023

Present: Councillors Julian Tisi (Chair), Mark Wilson (Vice-Chair), Simon Bond, Suzanne Cross and Julian Sharpe

Also in attendance: Jonathan Gooding (Deloitte), Benjamin Sheriff (Deloitte) and Lisa Fryer (South West Audit Partnership)

Also in attendance virtually: David McConnell (Deloitte) and Satinder Jas (Deloitte)

Officers: Mark Beeley, Elizabeth Griffiths, Andrew Vallance, Steve Mappley, Kevin McDaniel, Raman Singla and Damien Pantling

Officers in attendance virtually: Martin Stevens

Apologies for Absence

There were no apologies for absence received.

Declarations of Interest

There were no declarations of interest received.

Minutes

Councillor Cross noted a small typo on the second page of the minutes, where Councillor Bond discussed Community Infrastructure Levy. It was stated that there was '£9 plus mentioned as developers contributions', this was agreed to be corrected to say '£9 million plus'.

AGREED UNANIMOUSLY: That the minutes of the meeting held on 20th July 2023 were approved as a true and accurate record.

Post Audit Statement of Accounts 2020/21

Andrew Vallance, Deputy Director of Finance, outlined the report with the Committee being asked to approve the audited statement of accounts for 2020/21. The accounts were originally published in June 2021 which was within the required timescales. However, delays in the 2019/20 audit which had been caused by objections meant that these accounts were not signed off until March 2023 and had a knock-on effect on the 2020/21 accounts. Some significant changes were made to the 2020/21 accounts. The account presentation had been amended since the draft accounts were published, as some discrepancies had been discovered. There had been significant changes to property valuations particularly the impact of indexation of valuation movements. A national issue was identified on valuing infrastructure assets, specifically roads, which caused delays. A couple of items still needed to be completed including a review of indexation arising from the audit and final internal reviews by the external auditors.

Raman Singla, Chief Accountant, felt that a lot of lessons had been learned from the 2020/21 audit and steps had been taken to improve the process for future years. One code would be used for one item in the accounts, checks made to ensure that transactions were reported and training had been provided for staff on the new reporting arrangements. It was hoped that improvements to the process would lead to a better set of accounts for 2021/22 and 2022/23.

Jonathan Gooding, Deloitte, took the Committee through the accounts in detail. The audit highlighted the areas of focus on audit risk areas, with the audit being substantially complete. A number of issues had been identified including the quality of original financial statements, availability of information and reviewing the 22 objections which had been received but were not accepted. Final procedures outstanding on the accounts were around finalising and quality reviews. In 2019/20, there had been three areas identified as weaknesses in relation to value for money. On financial planning, there had been significant improvements and a number of arrangements had been implemented, therefore this was not considered to be a significant risk in 2020/21. The other two areas related to preparation of the financial statements and governance arrangements. Financial reporting was still regarded as a weakness and a recommendation had been made by Deloitte. Some actions arising from governance arrangements from various reviews which had taken place had not been implemented by March 2021, although it was noted that progress had been made in subsequent years.

Jonathan Gooding continued that a number of material and immaterial adjustments had been identified, some of which remained unadjusted. A number of control weaknesses were also identified, with some being significant. On significant audit risks, the valuation of property assets was deemed significant as a small change in assumption could have a big impact on the value of the property on the balance. Tests had been carried out on the design and implementation of controls by property specialists, an overstatement of £7.2 million had been noted. Another significant audit risk was capital expenditure and was potentially an area of fraud risk. Some immaterial errors had been noted. Management override of controls had some control weaknesses.

Benjamin Sheriff, Deloitte, discussed some of the control weaknesses. The council's revenues and benefits system was different from the main finance system. The revenues and benefits system was unable to run retrospective reports on what the balance would be at a previous point in time. Council tax rates could be analysed but this was not possible for national non-domestic rates balances. On the pension fund audit, there was a pension liability of £333 million. There was an immaterial error in this area due to a difference of opinion between Deloitte and RBWM. The impact of the pandemic was considered on the valuation of assets and liabilities along with the Covid-19 grant programme and the administration of these grants. A disposal had occurred which had not been accounted for. Infrastructure assets was a sector wide issue in 2019/20 and there had been guidance issued on how to address this, an immaterial unadjusted misstatement was made. Money held on behalf of organisations like the Local Enterprise Partnership was different in 2021 compared to previous years but this had no net impact. Benjamin Sheriff highlighted the error schedule and the judgements applied around debt provisioning. Appeals provision amounts had been set after taking advice from a specialist firm but the out turn had been better than had been provided in the accounts. The net value was about £3.3 million.

David McConnell, Deloitte, gave the Committee some context to the pension fund audit and this was largely complete. A material adjustment had been made to the accounts of £48 million, this was regarding funds which were included at a stale price. The materiality of the pension fund was considered to be 1% of the net assets and for this year this was £24 million, all adjustments were reported above £1.2 million. Management override of controls had highlighted some control deficiencies around the preparation of financial statements. Longevity hedges were a significant risk where it was noted that the value had been updated by £2 million but there were not the control issues which had been flagged in previous years. Deloitte felt that there was no control in place to facilitate an update to any changes to figures as the accounting process continued. The draft accounts were presented at a stale price for a number of funds. Changes had been implemented since 2021, a control had been added in this area from 2022 onwards. On the draft accounts, an appropriate CIPFA checklist should be included and that the control process was understood and communicated to all those involved. It was noted by Deloitte that some journal entries were between the council's own accounts and the pension fund accounts although nothing was missing. It was best practise to separate the two entirely. On IAS19, there was an upload of information sent to the actuary to facilitate the IAS19 reports being given to the other participants of the pension fund but there was no appropriate review control in place to check the detail. Deloitte noted that this had been addressed and a control was now in place. There was an incident of a journal being posted where there had been a limit breach but evidence was shown that authority had been given in a different way. It was recommended that journals should only be posted within the limits of the officer's post. Bank and custodian mandates were out of date and this could be linked to changes in staff in the council and pension fund. The high number of observations made by Deloitte highlighted governance weaknesses, robust governance structures were recommended. There was only one uncorrected misstatement which was £5 million on the estimate of liability in the Goodwin case. There was a difference of opinion on this but it was reported to the Committee. David McConnell concluded by thanking Damien Pantling, Head of the Pension Fund, for his work and that it was pleasing to see the improvements that had been made.

Councillor Cross commented on the national non-domestic rates which she inferred to be business rates. She asked that as data had not been tracked did the council not know what the creditors and debtors were at this stage. Councillor Cross asked what the expected loss to the council was and whether any debt could be recovered.

Benjamin Sheriff explained that it was due to the system used by revenues and benefits. In March 2021, the two different systems would have been aligned and would show exactly how much was owed to the council and by who. After this date, the balances became different and no longer matched. The position in March 2021 was no longer accessible and Deloitte were therefore unable to test the validity at that point in time.

Elizabeth Griffiths, Executive Director of Resources, explained that the audit was about retrospectively proving a position. The extra detail on the balances had been requested by Deloitte to test but this could not be provided on the current system. This would be addressed for future audits.

Councillor Cross noted that the council had not uploaded the Annual Governance Statement to the website at the same time as the draft accounts. She asked how the public could be expected to scrutinise the accounts if the Annual Governance Statement had not been published.

Elizabeth Griffiths said that a lot of improvements had been made, the Annual Governance Statement had been produced but had not been published with the accounts.

Councillor Wilson drew attention to the audit fee issue, that Deloitte had requested £381,000 for completion of the audit and an additional £71,000 for the objections. Including the pension fund, this totalled around half a million. Councillor Wilson asked how this could be eliminated going forward.

Elizabeth Griffiths agreed that it was a significant amount of money and that there had been a number of discussions with Deloitte. It was not a new issue as additional fees had been paid for the previous year's audit. A lack of financial information was a big reason but the team currently in place had improved this so that it would not be an issue in future years. There had been resourcing issues in both the council and Deloitte and audit delays had an impact on both teams.

Jonathan Gooding added that there were a number of reasons for the fee and the additional work that had been required by Deloitte. When an audit continued for a sustained period of time there could be inefficiencies. A third party body set the rate for audit hours and Deloitte awaited the result of their review.

Councillor Wilson said ideally the cost would be lowered as much as possible, he asked how far off the council was in ensuring a smooth process in future with minimal inefficiencies.

The Chair continued that the fee seemed to have come out of the blue and asked if going forward the council would be aware of the expectations on overrun audit fees in future.

Elizabeth Griffiths said that it was important to understand which costs would reoccur and the level of reporting now required by local authorities meant that there was a higher fee charged by external auditors. The finance team was under resourced which saved money in the short term but meant that long term fees were higher, there was a difficulty of recruiting financially skilled posts.

Jonathan Gooding said that the council would have a different auditor for the 2024 audit and a different audit fee would be set. The fees for the 2022 and the 2023 audits had not yet been finalised particularly with the delays to audits across the local government sector. Some of the costs could be reduced with investment and improvements in controls.

Councillor Cross asked if contracts that the council had entered into would be published in the accounts to improve transparency.

Elizabeth Griffiths confirmed that contracts were published on the website to show transparency. Commercially sensitive details would not be publicly available.

Councillor Wilson noted that it was a challenging year for the council but a lot of Covid grants had been received and it seemed the deficit had been saved as a result. It had been forecast in these accounts that the council would have financial challenges currently and this was without the extreme rise of inflation and interest rates. Councillor Wilson said that there were a number of references to significant control weaknesses and it was good to hear that things were improving.

The Chair commented that there were a number of control weaknesses which were ongoing, he asked if there were any overall comments on the progress being made to address these.

Elizabeth Griffiths said that there had been good progress made on the pension fund. The audit was backwards looking and issues were being addressed. Large scale change was taking place and it was expected that visibility, control and efficiency would be improved.

Andrew Vallance added that the 21/22 accounts would still have issues due to initially being prepared by the old team. For 22/23, the new team had prepared the full accounts so there would be a steady stream of improvement.

Councillor Bond asked if Deloitte knew whether objections had been received for the following two years of audits. He asked if a resident could speak at the Committee meeting to ask questions on the accounts rather than lodging a formal objection.

Jonathan Gooding said that the objection process was important, there was a difference between 19/20 and 20/21, in 19/20 six objections had been accepted for investigation but in 20/21 none of the objections were accepted. For 21/22, correspondence had been received in the appropriate timeframe and these would be reviewed. No correspondence had been received for 22/23. The public had a right to object to the accounts and could ask the external auditors questions through a separate process.

Mark Beeley, Principal Democratic Services Officer – Overview and Scrutiny, clarified that residents could register to speak on the accounts at a Committee meeting. However, it should be noted that residents were able to raise points and questions for the Committee to consider and not cross examine officers or the external auditors. Formal objections or questions on the accounts should be raised through the official process.

Councillor Sharpe asked what the cost to the council was of objections being investigated.

Jonathan Gooding said that the additional hours worked and the legal advice was included in the report, this was £71,000 for Deloitte.

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

i) **Delegated responsibility to the Executive Director of Resources to agree a final version of the Letter of Representation and sign it.**

ii) **Approved the audited Statement of Accounts and authorised the Chairman and the Executive Director of Resources to sign them.**

iii) **Approved the management responses to the matters raised in the External Auditors' report.**

Internal Audit Progress Report Q2 2023/24

Lisa Fryer, South West Audit Partnership (SWAP), outlined the progress report which covered the period up to November. The report gave the Committee an update on how internal audit were delivering on the agreed plan and any changes to the plan. SWAP had started work on over half of the plan while seven audits had now been finalised. There were two changes to the plan since the last Committee update, with the two audits deferred to next year's plan. Work had started on auditing the strategic risks and it was hoped that most would be covered. The internal audit plan for 24/25 would be set at the next Committee in February 2024 and it was expected that audits would be included which were based around strategic risks. Monitoring showed that on audits given limited assurance there had been some progress towards implementation of actions suggested. A number of follow ups were scheduled in Q4 of the internal audit plan.

The Committee had been given summaries of the limited assurance audits in the report. Lisa Fryer commented on the health and safety premises risks as a high corporate risk had been reported which was due to an absence of service level agreements where premises were shared. An action plan had been agreed to ensure that roles and responsibilities along with safety policies were produced, this would apply to all lease and partnership arrangements. A follow up piece of work had been undertaken on delegated decision making, good progress had been made in this area. All finalised audits were available via Microsoft Teams.

Councillor Wilson felt that the summary of the audits could contain some more detail.

Lisa Fryer said that the most significant findings were reported in the summary, to add in all of the findings would increase the length of reports considerably. The full report was available on Microsoft Teams.

Councillor Wilson highlighted the children's early intervention review and the finding that Achieving for Children did not hold the data necessary to monitor the effectiveness of the strategy.

Lisa Fryer said that as part of the audit a survey was undertaken with schools and the feedback had been positive. However, the objective of the audit was to see whether aims were being achieved and this could not be measured.

Kevin McDaniel, Executive Director of Adult Social Care and Health, said that the early intervention system could be measured on a case by case basis on the outcomes with the specific family, in an ‘outcome STAR model’. The question asked in the audit was around whether early intervention had stopped families needing care services later on and this was something which could not currently be measured.

The Chair asked about governance of property leases and whether that was an issue with the RBWM Property Company and the length of time making decisions.

Lisa Fryer said that the Property Company had put forward the audit, one of the concerns they had was around the delegation arrangements in place slowed things down and this was supported by evidence in the audit.

AGREED UNANIMOUSLY: That the Audit and Governance Committee noted the report.

Treasury Management Out turn 2022/23

Andrew Vallance said that the report included a review of the council’s borrowing strategy for 2022/23, a review of the financial investment portfolio and a review of the council’s compliance with treasury limits. Borrowing and investments were high and this was because the council had borrowed in advance to lock in lower interest rates. The result meant the current in-year overspend was not due to interest rates but this would impact next year’s budget. RBWM had complied in full with the CIPFA code of practice. The main purpose of investments was that they were secure, liquid and yield was the final element.

AGREED UNANIMOUSLY: That the Audit and Governance Committee noted the report and approved the Treasury Management Outturn 2022/23 report.

Treasury Management Mid Year report 2023/24

Andrew Vallance provided the Committee with an update on the treasury management mid year position. The council was within the limits of the CIPFA code of practice, while gross borrowing was lowering and a natural position was achieved. Net borrowing was going down and this was because of cash flow; a number of grants and council tax were received at the start of the financial year. The total borrowed at the start of the financial year was £232 million, it was expected that this would increase back up to around £200 million by the end of the financial year. Interest rates had been high but had now stabilised. The Committee would normally see a draft treasury management strategy but due to the council’s current financial position, a new treasury management strategy would be considered by Cabinet in February as part of the 2024/25 budget.

Councillor Sharpe said that the balance in the previous treasury management report was £163 million, but the current report stated £153 million so there seemed to be a drop of £10 million. He asked what the exception was on this by the end of the financial year.

Andrew Vallance responded by explaining that the drop was because of cash flow and capital expenditure. It was anticipated that borrowing would be around £200 million by the end of the financial year.

Elizabeth Griffiths added that there were large capital movements throughout the year and this was similar for most local councils. Borrowing was needed when cash flow levels dropped, capital expenditure was under review to identify areas where spending could be reduced.

The Chair said that around £100 million of borrowing was still needed and there was uncertainty about what the rate would be.

Elizabeth Griffiths said a lot of debt was short term borrowing and this had allowed the council to take advantage of the interest rates available. However, with a reliance on short term loans meant the council were open to shifts and uncertainty. It was forecast that there would be a big increase in borrowing costs and this would have an effect on the constrained budget.

The Chair asked for a timeline for the approval of the updated treasury management strategy.

Andrew Vallance said that the strategy would be considered with the budget and put forward at Full Council in February 2024. It formed a central part of the budget process.

Elizabeth Griffiths added that everything was interlinked and strategies were being developed to deal with the situation. It was hoped that the Committee would be able to review it.

Councillor Wilson considered the ten year project with the level of debt and borrowing. He asked for the process behind how this forecast had been produced.

Elizabeth Griffiths said that the liability benchmark was required and this was driven by estimates of working capital. There were some plans to bring in capital receipts but capital expenditure was difficult to predict.

AGREED UNANIMOUSLY: That the Audit and Governance Committee noted and approved the Treasury Management Mid-Year Review Report 2023/24.

Risk Management

Steve Mappley, Insurance and Risk Manager, highlighted the six monthly update risk management report. A new Quarterly Assurance Report had been introduced which contained greater detail on risk information and this gave a further opportunity for discussion at Cabinet. The report contained the key strategic risks to the council in summary and detailed formats. Three new risks had been added on elections, migration and the social care market.

Councillor Sharpe was concerned about risks around technology and infrastructure. Users in the organisation could be at risk of cybercrime, he asked if there was training in place to ensure that staff were aware of the risks.

Steve Mappley said that there was mandatory induction and refresher training undertaken by staff at the council.

Councillor Sharpe asked if this included Councillors too.

Mark Beeley said that Councillors had online training modules through the iHasco programme. One of these modules was based around cyber security awareness.

Councillor Wilson questioned whether the cost of living risk should be higher, as there was increased levels of debt, community tension and crime.

Kevin McDaniel said it was hard to judge, information was triangulated from different groups through the Community Safety Partnership and cost of living group. The data did not seem to suggest that there was an increase in crime. The council ran a Household Support Fund and those who needed it were encouraged to get in touch.

The Chair asked about the migration and movement of people in local hotels risk and the demand on support services.

Kevin McDaniel said that the Home Office had been working to reduce the backlog of cases, however a number of asylum seekers had been placed in hotels across the country with two of these hotels being located in the borough. Many applications were being changed to refugees and given notice to leave the hotels but this was now seven days instead of the original 28 days. This meant that there had been an increase in the number of refugees coming to the council for help with housing. There were a couple of hundred asylum seekers staying in the borough and this could grow, which was why it had been added to the risk register.

The Chair asked why there were no critical risks from children's services.

Steve Mappley said that children's services was often regarded as an operational risk rather than strategic.

Kevin McDaniel said that the council was currently in the inspection window for Ofsted and SEND services which could take attention away from the day to day work.

AGREED UNANIMOUSLY: That the Audit and Governance Committee noted the report.

Work Programme

The Chair asked when the 2021/22 accounts would be ready to be signed off by the Committee.

Jonathan Gooding said that there was a lot of uncertainty and he hoped to have a better idea of timescales in the next few weeks. He hoped that certain elements of the 2021/22 audit would be completed by March 2024.

Councillor Wilson asked if the Committee considered the budget.

Mark Beeley confirmed that the budget went through the scrutiny process and would be considered by the Corporate Overview and Scrutiny Panel.

Councillor Wilson asked for an update on the current status of the 2021/22 accounts.

Raman Singla said that the draft 2021/22 accounts had been submitted on time but there were a number of changes which needed to be made.

The meeting, which began at 7.00 pm, finished at 9.25 pm

Chair……………………………………

Date…………………………….........