

## AUDIT AND GOVERNANCE COMMITTEE

TUESDAY, 16 FEBRUARY 2021

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

Also in attendance: Councillors David Hilton, John Bowden, Shamsul Shelim, Helen Price, Maureen Hunt, John Baldwin, David Cannon and Neil Knowles

Officers: Mark Beeley, Catherine Hickman, Adele Taylor, Andrew Vallance, Emma Duncan, Andy Carswell, Aron Kleiman (Deloitte), Jonathan Gooding (Deloitte) and David McConnell (Deloitte)

### 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 9<sup>th</sup> November 2020 were approved as an accurate record.**

Councillor L Jones asked if there was an update on some of the comments that had been raised at the last meeting, around benchmarking, the financial monitoring figure being checked and the level of debt from Berkshire County Council.

Adele Taylor, Director of Resources, said that benchmarks would be reviewed and updated next year. The financial monitoring figure would be updated on reports going forward and it was confirmed that the debt from Berkshire County Council was the full amount.

### ANNUAL STATEMENT OF ACCOUNTS

Andrew Vallance, Head of Finance, said that the draft accounts had been scrutinised by the Corporate Overview and Scrutiny Panel in July 2020. He apologised for the delay but there had been a number of objections to the accounts, the pandemic had caused some delays in the process and there had also been sickness amongst the auditors. There were some minor changes to the draft version that had been presented to Corporate Overview and Scrutiny. A paragraph had been added to the narrative report of the RBWM Property Company for materiality reasons. Two assets had been reclassified, from land and buildings to the surplus asset category because they were in the process of being sold and both assets had now been sold. Covid-19 grants had been moved to resources while some amendments had been made to officer remuneration figures as some of these figures were missing in the draft accounts.

On the pension accounts, there was an adjustment for the reduced value of net assets due to Covid and the timing of the valuation of assets of £31.5 million in the pension accounts, most of which has been charged to other bodies. The RBWM share of this was around £3 million.

Andrew Vallance was pleased to confirm that there were no unadjusted misstatements in the accounts.

Mr Andrew Hill had registered to speak at the meeting as a member of the public. He said that Deloitte had not received the accounting papers on critical estimates and judgements when required and the accounts until 27<sup>th</sup> January 2021, and therefore believed that it was premature to recommend that the accounts were delegated to be signed off by the Chairman of the Audit and Governance Committee once they were complete. Mr Hill noted that the auditors opinion was not published by 30<sup>th</sup> November 2020. There was £34 million worth of overstatements in the pension fund accounts. Mr Hill had asked Deloitte at the time if this was materially significant and if it should therefore be reported to the pension regulator. This year, there was £30 million worth of misstatements where old valuations had been used. This had resulted in over £100 million of misstatements over the past two years. Mr Hill asked Deloitte if they considered this misstatement to be materially significant and reportable to the pensions regulator. There was an overnight loan made from the pension fund to RBWM in June 2019 of around £1 million which officers said they approved but there was no formal evidence of this transaction being made. Mr Hill asked why this transaction was made and the reasons why it was approved by the pension fund.

Jonathan Gooding, Deloitte, said that the audit was still in progress but a lot of work had been done since the last meeting. The report set out the work that had been carried out in key areas and also identified significant audit risks. The impact that Covid-19 had on the audit was also considered and Deloitte had ensured that this was checked against the balances in the accounts and whether there was a heightened risk of error as a result. One area of risk identified was the override of management of controls which was a presumed risk for all audits undertaken for local authorities. Some control elements had been identified and recommendations made, along with a control recommendation for improvement around documentation. The reference from Mr Hill on receiving the statement of accounts recently was something that could be improved and the documentation around accounting estimates and judgements was a common recommendation that Deloitte made to all councils. Receiving the accounts recently was very common particularly when minor changes needed to be made and this then needed to be checked by Deloitte.

Another significant audit risk was around the capitalisation of expenditure. Again, this was common across all local authorities. Deloitte tested an example of expenditure to see its connection with documentation and evidence. The work had not identified any issues other than the control improvements which had already been identified in the report.

The next risk Jonathan Gooding discussed was around the property valuation. This work was largely completed some time ago but some additional procedures had been completed in response to one of the objections. No material issues had been identified in this area and some potential improvements had been identified for next year on property valuation. There was a material uncertainty over property valuation due to the impact of the pandemic but again this was something that Deloitte had seen across a number of local authorities.

The pension fund liability was complete and no materially significant issues had been identified. As part of the audit, Deloitte had to undertake a full risk assessment to ensure that all arrangements provided by the authority were secure. Most of these risks would be common knowledge to officers and also the Committee.

Deloitte had received 22 potential objections to the accounts and these were currently being worked through. Answering some of Mr Hills questions, Jonathan Gooding said that there was £74 million worth of misstatements last year and an error of £31.5 million this year which was material to the accounts and had been adjusted. Consideration needed to be given to the valuations and with the added impact of Covid extra consideration needed to be given as there was significant movement. However, from the factors that Deloitte had considered in its work, it did not see them as something that needed to be reported to the pensions regulator.

David McConnell, Deloitte, set out the pension fund audit to the Committee. He explained that Covid-19 had an impact on the audit and the areas affected were explained in the report. The first significant area of risk in the pension fund was the management override of controls. This was an audit risk that needed to be considered by Deloitte under the audit standards and a number of journals had been tested.

The next risk to consider was around the longevity hedge, which was an instrument used to protect the fund against the risk of residents living longer than expected. The balance was revised by around £2 million while a control risk was also identified, which was similar to one raised in 2019.

For control weaknesses, there was a weakness identified around the key assumptions of the longevity swap. The assumptions were in line with the liability evaluation this year but there was no formal evidence of that control operating. The convertible bond was not in scope for the audit this year but there was rationale for the rate to remain fixed from last year's accounts. On Deloitte's recommendation the paper was prepared by the investment manager and it was advised that controls were in place to ensure that valuations were appropriately challenged.

David McConnell discussed the audited accounts for the private equity funds being difficult to obtain this year. This was something that the investment manager was struggling to receive from the investment managers that sat below them. Deloitte had noted that there may be an absence of control around the fund management. Conversations had taken place and there was now improved control of elements of the valuation of the pension fund.

Deloitte had noted that there was no formal review of the accounts before they came to audit and that the checklist had been completed. When testing journals, Deloitte found that there was no evidence for the months which had been requested. It had been recommended that control was implemented and these journals be reviewed.

Within the member data system of the pension fund, Deloitte discovered that super users could edit their own member records. There was no formal control in place to check this editing and it was noted that some users had edited their records. Deloitte believed that these edits had been taken in normal operations but they recommended that the system was updated and that any edits should be checked and authorised by a senior manager.

David McConnell moved on to the issue of the overnight loan which had been made by the pension fund to RBWM. There was no evidence presented to Deloitte during the audit that there had been business rationale for the loan to be made or that fund managers had authorised the loan being made in advance of the transaction taking place. It was recommended that business rationale was documented for transactions which were outside the normal course of business and that authorisation was granted in advance of the payment being made. Some of the costs taken by RBWM on behalf of the pension fund were not formally documented and Deloitte had recommended that any transactions were formally documented in future.

Councillor L Jones noted that this was the audit for the financial year 2019/20. There had been a lot of change in the finance team at RBWM since then and she asked how certain the new team were that areas of risk had been looked at and resolved. Councillor L Jones asked if there were any further areas of work that needed to be done.

Adele Taylor, Director of Resources, said that there had been a number of new personnel at the council over the past year. Certain areas had been picked up in the report by Deloitte and would be looked at. Issues around the system were hard to fix so a proxy was in place to ensure that changes could be made to the process. There had been an improvement in the pension fund and there was now an action plan on the governance arrangements of the fund.

Councillor L Jones asked if the recommendations which had been put before the Committee could be explained. Adele Taylor said that she would pick this up at the end of the item when the Committee would vote on the recommendation.

Councillor Bond said that there had been a number of surprises in the pension fund that he had not been expecting, for example the overnight loan from the pension fund to RBWM. He appreciated that there was still work to be done and asked if the Committee would get to see the final report once it was completed. Councillor Bond suggested that the Berkshire Pension Fund Committee should meet to discuss the accounts on the pension fund side. Regarding the longevity fund, there was talk of 'challenging the assumptions'. Councillor Bond asked if this seemed reasonable to RBWM officers.

Adele Taylor said that the pension fund accounts responsibilities sat with the Audit and Governance Committee but it would be a good idea to share the accounts with the Berkshire Pension Fund Committee at an appropriate time. The overnight loan of £1.2 million which had been made was before Adele Taylor had joined the council so she was unable to comment whilst this was still being considered.

Jonathan Gooding said that different local authorities had different approaches but it would be good practise for the pension committee to see the report.

Councillor Baldwin noted that Mr Hill had asked a question about the overnight loan between the council and the pension fund and asked if anyone could directly answer his question, why the transaction took place and whether officers were involved.

Adele Taylor said that it was something that was still being reviewed as part of the audit and any recommendations or concerns would be part of the final report.

Councillor Price said that she was quite shocked at some of the things that had been revealed by the auditors. She questioned if there was enough attention being given to the pension fund over other areas like revenue and capital funds. Councillor Price believed that flaws kept happening year after year and asked how far did it have to go before it was reported to the pension regulator and also whether CIPFA were aware when they produced their report. Councillor Price was worried about the implications that this could have for RBWM.

Adele Taylor said that there were two separate sets of accounts – RBWM and the pension fund. The pandemic had wiped a significant amount off the valuation of the pension fund but work was being done to mitigate this in future. Ian Coleman had been brought in as expertise to make the relevant changes on the pension fund that had been identified as part of the governance review.

The Chairman asked if it was difficult to deal with the other Berkshire local authorities that were part of the pension fund.

Adele Taylor said that the Berkshire Pension Fund Committee was made up of exclusively RBWM members, while the advisory board had members from the other local authorities. There were implications across Berkshire which is why all authorities were represented but the decision making on the fund had to remain with RBWM as the accountable body.

Replying to Councillor Price's points, Jonathan Gooding said that the responsibility to take things to the pension regulator lay with all those involved with the accounts, not just Deloitte. Material errors could be picked up but it depended on whether they were materially significant to the accounts. Controls needed to be put in place to assess valuation and avoid errors in future.

Councillor L Jones commented on the value for money opinion from the auditors and what actions needed to be taken as a Committee to ensure that this did not happen again.

Adele Taylor said that the value for money judgement described what the issues were. The auditors had not yet formed their opinion but they would use things like the CIPFA review on governance and accompanying action plan which showed the improvements that the council would be making.

Jonathan Gooding said that it was common for qualifications of this nature to last for a year.

Councillor Hilton, Lead Member for Finance and Ascot, said that the overnight loan of £1.2 million had happened in June 2019 which was around 4-8 weeks before he started the Lead Member role and therefore knew nothing about it. He believed that a lot had changed since then, in July 2019 CIPFA were called in and this started the ball rolling. Budget monitoring reports were now transparent, open and showed the direction of travel for RBWM. The CIPFA action plan would be followed and also things that had come out of the audit would be done too. Originally, no one in the council was able to monitor the pension fund effectively but now Ian Coleman had been brought in and his expertise had been added to the team. Councillor Hilton believed that RBWM was now getting to where it needed to be.

Councillor Price asked if there was sufficient resources available to officers to stay on top of everything that had come out of the audit. She also raised concerns about RBWM looking after the pension fund on behalf of Berkshire and if this was taking time and resource away from the RBWM accounts.

Adele Taylor said that she felt that there was the right level of resource available. Ian Coleman had been brought in so that the council had the skills and expertise in this area. There was the ability to gain extra resources if they were needed.

The Committee concluded the discussion on the item. Adele Taylor clarified that the recommendation being put forward was for the Audit and Governance Committee, rather than the Corporate Overview and Scrutiny Panel as originally stated in the report. The ISA260 report was to note rather than approve, due to it being the external auditors opinion. Adele Taylor advised Members that they would get sight of the final ISA260 once it was completed before the Chairman was delegated authority to sign off the accounts on behalf of the Committee.

Jonathan Gooding anticipated that the ISA260 would be completed in approximately three to four weeks. He suggested that the accounts could be delegated to the Chairman for approval provided there were no material changes.

A named vote was taken.

<b>Recommendation listed in the report (Motion)</b>	
Councillor Christine Bateson	For
Councillor Lynne Jones	For
Councillor Simon Bond	For
Councillor Julian Sharpe	For
Councillor Gurpreet Bhangra	For
<b>Carried</b>	

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

- i) Approved the delegation for the signing of the Statement of Accounts to the Chairman once the audit was fully completed, provided that there were no material changes to the accounts.**
- ii) Noted the latest ISA260 for RBWM.**
- iii) Noted the latest ISA260 for the Berkshire Pension Fund.**

## EXTERNAL AUDIT ISA260

This item was considered as part of the Annual Statement of Accounts.

### 2021/22 INTERNAL AUDIT STRATEGY AND 2021/22 AUDIT AND INVESTIGATION PROGRAMME OF WORK (QUARTER 1)

Catherine Hickman, Lead Specialist for Audit and Investigation, explained that the 2020/21 financial year had been a period of uncertainty where councils had needed to respond to the Covid-19 pandemic and their changing risk profiles. There had been a significant impact on the way officers work with home working and more reliance placed on information technology, as well as there being changes to systems and processes in response to these changes. In addition, there had been the extent to which the internal audit team had been able to deliver planned activities due to the availability of auditees as they had responded to effects of pandemic within their services.

As such, a degree of flexibility had needed to be built into the current year's audit and investigation plan. In previous years, an annual plan would be prepared in February for the forthcoming financial year which would have been brought to the Committee for consideration. After discussions with the Director of Resources and Head of Finance, it was agreed that a one-year plan was not practical due to the ongoing uncertainty of the pandemic. Instead for 2021/22, the audit and investigation plan would be prepared on a quarterly basis so that the team could be flexible, forward thinking and responsive to future uncertainties and events.

The 2021/22 internal audit strategy sets out the role, scope and responsibilities of internal audit, the audit planning process, resourcing and reporting, as well as internal audit's requirements to comply with its service and professional standards, the 'Public Sector Internal Audit Standards'. The main change to the strategy from last year was the reference to the change from an annual to quarterly planning and reporting process. Going forward, the Committee would be informed of audits undertaken in the previous quarter, along with work priorities for the audit team for the following quarter.

The second part of the report was the 2021/22 quarter one work programme. A similar process had been used to prepare the work programme as in previous years in terms of aligning audit activity with the Council's Strategic/Operational Risks and Annual Governance Statement; knowledge of impact of pandemic on organisation; systems/processes affected by Covid-19; and external guidance. The subject areas set out in Appendix A(l) had also been agreed on consultation with the Director of Resources and the Head of Finance.

The audit on waste management had been suggested by the Communities Overview and Scrutiny Panel as it was a key strategic risk to the council. A piece of work had been requested by council management on direct payments to see if further work was needed and to seek assurance on system controls.

Mr Hill had registered to speak on the item as a member of the public. He said that in the paper it was stated that internal audit opinion must conclude that the organisations framework of governance was acceptable. Mr Hill asked if the internal audit team felt that they had enough resources to pick up some of the things that the external auditors had picked up. For example, Deloitte had picked up that the estimates and judgements paper was not submitted, Mr Hill asked if this would be something that the internal audit team would look at and investigate. In the report there was reference to the phrase 'minimum effort necessary', Mr Hill asked if cuts in the budget on internal audit meant that they could not deliver more than the minimum. Mr Hill asked if the internal audit team would be looking at auditor judgements as part of their audits, as this was something that featured in the CIPFA review. Mr Hill asked if the team reviewed the capital commitment disclosures as part of their work.

Catherine Hickman said that internal audit normally tried to avoid duplication of work with the external auditors and so was usually focussed on the controls within systems. It was explained that areas such as the capital commitment disclosures would be picked up by the external auditors.

Adele Taylor said that internal audit and external audit had different roles and responsibilities. Internal audit was used so that the council could consider whether it had the control framework in place and looked at not just the financial risk but also the strategic risk to the council. The external audit team were testing and challenging the statement of accounts and the processes in place. In terms of resource, it was up to the RBWM officers to determine if the right level of resource was in place. Adele Taylor felt confident that the resources were in place and that RBWM had the correct number of days required. It was important to make sure that resource was focussed in the right areas, especially where potential risks had been identified.

Councillor Price explained that she was on the Communities Overview and Scrutiny Panel where they had requested that there was an audit on Serco. However, she had noted that the company were now moving to fortnightly collections and asked if it was appropriate to have the internal audit when there would be a lot of upheaval again, like there was in the autumn when the Panel had originally requested the audit review.

Adele Taylor explained that due to other work last year there was no opportunity to free resources for internal audit to investigate. If the Audit and Governance Committee felt that it was no longer appropriate, they could remove it from the internal audit work programme and replace it with another audit area.

Councillor Bond thanked Catherine Hickman for answering a number of his questions in advance of the meeting and for providing comprehensive responses. He asked if the pension fund administration was usually included in the internal audit plan.

Catherine Hickman confirmed that internal audit did review the pension fund each year.

Councillor Sharpe asked if the service had improved or was improving and if RBWM was getting good quality from the service.

Catherine Hickman said that a self-assessment was carried out by the team each year against the Public Sector Internal Audit Standards to ensure compliance. It was explained that CIPFA had also undertaken an independent external assessment on the work of internal audit in 2017 against the standards. Every five years, an external independent review of the internal audit service against the professional standards was undertaken, as required by the standards.

Councillor Sharpe asked if the self-assessment was an ongoing exercise or if it was something carried out every 12 months at the end of the year.

Catherine Hickman explained that the self-assessment was an ongoing exercise and that a paragraph on the outcome of the self-assessment and any actions required to ensure full compliance would be included in the internal audit annual report. This was due to be considered by the Committee in May 2021.

A named vote was taken on the recommendation listed in the report.

<b>Recommendation listed in the report (Motion)</b>	
Councillor Christine Bateson	For
Councillor Lynne Jones	For
Councillor Simon Bond	For
Councillor Julian Sharpe	For
Councillor Gurpreet Bhangra	For
<b>Carried</b>	

**RESOLVED UNANIMOUSLY: That the Audit and Governance Committee noted the contents of the report and:**

- i) **Approved the 2021/22 Internal Audit Strategy and Draft Internal Audit and Investigation (Quarter 1) Work Programme (1 April 2021 to 30 June 2021).**

### FRAUD POLICIES REFRESH

Catherine Hickman explained that the council already had a number of anti-fraud and corruption policies in place but it was good corporate governance for these to be refreshed on a regular basis to ensure that they were current and incorporated the latest legislation. In addition, it was a key responsibility of the Committee to oversee the council's anti-fraud and anti-corruption arrangements. There were a total of six policies and the changes that had been proposed were mostly administrative in nature. The Committee was being asked to note and approve the changes, while it was also important for councillors and officers to be aware of the policies that were in place. Training would also take place to raise awareness with officers and Members, including briefings in the 'Borough Bulletin' and in Member updates. Catherine Hickman clarified for the Committee that in the whistleblowing policy, there was a charity mentioned called 'Public Concern at Work'. This was an organisation that employees could go to if they felt they had exhausted all avenues to raise their concerns within the council. The organisation had recently changed its name to 'Prevent' and this had been amended in the policy. Once the policies had been approved, they would be published on the RBWM website.

The Chairman asked how often the policies were refreshed.

Catherine Hickman said that they were originally reviewed annually, but it had previously been decided to refresh them only when significant changes needed to be made.

Mr Hill had registered to speak on the item. He had noted that the contact details in the whistleblowing policy were not correct on the previous policy for the external auditors and the impact that this could have had on the CIPFA report. Mr Hill thanked officers for ensuring that the policies were carefully reviewed going forward.

Adele Taylor made a reassurance that once the error had been noticed it was changed on the council's internal systems. There was communication between Deloitte and KMPG, the previous auditors, to make sure that any queries were dealt with.

Councillor Sharpe said that these policies were very important and that it was good to see that they had been refreshed. He asked how staff were informed of these policies along with available training which could help them.

Catherine Hickman said that awareness was essential and once the policies had been approved, they would be published on the internal staff intranet. Catherine Hickman said that she would discuss how best to deliver the training with the Director of Resources and the Head of Finance.

Adele Taylor said that these policies were something that she took very seriously, particularly in areas where there was a higher risk of fraud.

A named vote was taken on the recommendation listed in the report.

<b>Recommendation listed in the report (Motion)</b>	
Councillor Christine Bateson	For
Councillor Lynne Jones	For
Councillor Simon Bond	For
Councillor Julian Sharpe	For
Councillor Gurpreet Bhangra	For
<b>Carried</b>	

**RESOLVED UNANIMOUSLY:** That the Audit and Governance Committee noted the contents of the report and:

- i) **Agreed the proposed amendments to the Anti-Fraud and Anti-Corruption Policy, Anti Money Laundering Policy, Prosecutions and Sanctions Policy, Anti Bribery Policy, the Acquisition of Communications Data and Use of Covert Surveillance and Covert Human Intelligence Sources Policy and the Whistleblowing (Raising Concerns at Work) Policy.**

WORK PROGRAMME

Adele Taylor confirmed that all of the items listed for the next meeting in May 2021 were correct, the internal audit annual report in the suggestion box was a duplication and would be removed. The audit letter from the external auditors would also come to the next meeting and would be added to the Work Programme.

The meeting, which began at 6.20 pm, finished at 8.20 pm

CHAIRMAN.....

DATE.....