

AUDIT AND GOVERNANCE COMMITTEE

MONDAY, 17 MAY 2021

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

Also in attendance: Councillors David Hilton and Samantha Rayner

Officers: Mark Beeley, Emma Duncan, Catherine Hickman, Steve Mappley, Adele Taylor, Andrew Vallance and Jonathan Gooding (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 16th February 2021 were approved as an accurate record.

ANNUAL GOVERNANCE STATEMENT - PROGRESS REPORT

Emma Duncan, Deputy Director of Law and Strategy, explained that the Annual Governance Statement would be considered by the Audit and Governance Committee, with this report being a progress update on last year's statement. A number of actions had been identified and officers had been working to make changes to the governance of the council. One of these actions was the lack of clarity of roles and responsibilities for Members, with more training being offered and a new code of conduct recently being approved. Level of work pressure was another area and the council had taken steps to increase funding capacity in key areas and a new corporate plan was being developed. The Executive Director of Resources and the finance team had developed a budget which was balanced and progress had been made on financial control. There had been a significant amount of strategy development, with the new EQIA (Equalities Impact Assessment) being incorporated as part of the decision-making process. The recording of officer decisions had improved and there was wider engagement and transparency with the public as a result. A new transformation strategy was in the process of being adopted whilst there were developments in procurement, with officers being aware of the procurement framework.

It was important that the Corporate Leadership Team were given sufficient time to review and comment on reports. For values and behaviours, a new framework had been launched in 2020 based around the new values and staff from across RBWM had taken part in Crucial Conversations workshops, which raised awareness of the new values. IT infrastructure had been updated as part of the Modern Workplace Project, with all staff receiving a new laptop and being able to extensively work remotely. The VPN rollout was nearing completion which would further improve the infrastructure. Looking at the governance of the pension fund, a new pension fund manager had recently been recruited.

Considering the next steps, Emma Duncan said that statutory officer groups had been set up by the Chief Executive during 2020. Consideration was given to any governance issues and work would be done around the Centre for Public Scrutiny and risk and resilience. Self-

assessment and Member assessment would pick up further issues. There was still work to do but a significant amount of progress had been made.

Councillor L Jones asked for further information on issues around resources and capacity.

Emma Duncan said that there would be some issues which all led to good decisions across the organisation. It was the beginning of the process and it was important to get the decision right first-time round. Further resources may be required and the council needed to see where it could get best value for money.

Councillor Sharpe asked if the steps that the council were taking meant that it was currently in a good place.

Emma Duncan explained that she had only been at the council for a few months and therefore was able to have an outside view on what had been happening. She believed that there was a real desire to change and there was a realisation that officers wanted decisions to be made well. The Chief Executive and Executive Director of Resources had moved things along and they were keen to keep moving things forward too.

The Chairman asked if all local authorities had the same view on governance.

Emma Duncan said that it all relied on cultural change and there were some councils that did not try to change which led to ineffective governance. RBWM had recognised that there were improvements to be made and was implementing change across the organisation.

Councillor L Jones asked Emma Duncan if she could explain the reference in the report to a “new performance framework that will allow Members to track performance of benefit realisation”.

Emma Duncan explained that Members would submit the policy direction with outcomes that there was a desire to achieve. For example, an outcome could be to achieve a certain amount of affordable housing, and how that target would be delivered and by who. The framework would allow the trajectory to be shown, if the trajectory was not being met then there was an opportunity for this to be challenged.

Councillor Bond commented on the independent reviews that had already taken place and other reviews that would be started shortly, which had been mentioned in the action plan. Councillor Bond asked for clarification on what these reviews were.

Emma Duncan clarified that it was a piece of operational work that would involve things like internal audit reviews. It was important that there was assurance and that officers knew what was going on, so that governance framework changes could be implemented. The Executive Director of Resources clarified that this included the review of Property Company governance that was currently being undertaken.

RESOLVED UNANIMOUSLY: That the Audit and Governance Committee noted the actions already taken and those planned.

At the conclusion of the item, Emma Duncan and Councillor Rayner left the meeting.

ISA260 UPDATE

Andrew Vallance, Head of Finance, informed the Committee that they had considered the draft ISA260 at the last meeting, with the final version being presented to the Committee now. It was anticipated that the accounts would receive an unqualified opinion and there were a number of actions ongoing as part of the CIPFA action plan, which was regularly considered by the Corporate Overview and Scrutiny Panel. The pension fund action plan had been presented to the Berkshire Pension Fund Committee.

Jonathan Gooding, Deloitte, said that there were two parts to the ISA260, the accounts of the council and the accounts for the pension fund. Deloitte were now in the last stages of the audit, with the representation letter to be completed and they were working through the remaining objections to the accounts. Once this was completed, the accounts would be in a position to be signed off. The report provided the Committee with an update on the matters that were still outstanding. Jonathan Gooding anticipated that an unqualified opinion would be issued on the accounts. The significant audit risk that had been identified was around the management override of controls and a material uncertainty had been identified in the property company's valuation.

On the pension fund, Jonathan Gooding explained that the pension fund accounts were largely complete and an unqualified opinion was also anticipated to be issued on the pension fund accounts. The significant risk that was focussed on was the management override of controls, with a number of control recommendations being issued as part of the report. Deloitte had investigated the overnight loan made by the pension fund and noted an absence of authority which was regarded as a governance weakness. This had been reported to the pension regulator by the local authority.

Andrew Hill had registered to speak on the item. Mr Hill said that at the last meeting of the Committee, in February 2021, he had asked directly about the £1.2 million overnight loan and asked whether it was a materially significant event. Mr Hill asked what had changed between the meeting in February, where a conclusive answer was not given and the meeting tonight, where poor governance around the administration of the loan had been identified. There was a duty on a wide range of people to make a report to the pension regulator and Mr Hill believed that this report could have been produced sooner. Mr Hill noted that in a previous report from Deloitte, they had discovered a £35 million problem with the pension assets and that conflicts of interest had not been reported at an Investment Management Group. Mr Hill asked at the time if these were materially significant events and asked if they would be looked at in more detail. Mr Hill believed that there should be complete transparency.

Adele Taylor, Executive Director of Resources, said that on the pension fund transaction, officers had confirmed at the last meeting that it was still being investigated with the conclusion of the investigation only being confirmed in the last couple of weeks. Adele Taylor explained that she had written to the pension regulator, the transaction was possible but there was no written evidence that the loan had been approved. There was evidence of an agreement but this was during a discussion at a meeting. The circumstances around the loan were a governance weakness which is why it had now been reported to the pension regulator. Adele Taylor confirmed that the transaction was not illegal but there was poor governance in how the transaction had been undertaken.

Jonathan Gooding said it was important to note not just the size of the item in question but the circumstances around it. Therefore, it was considered a significant matter. Regarding the audit adjustments, there were control weaknesses but again circumstances around them needed to be considered. Actions were being responded to.

Councillor Bond asked what would happen with the pension regulator and assumed that the transaction had been noted and that would then be concluded, unless something similar was to happen in future years. He asked for some further information on the loan.

Jonathan Gooding explained that the transaction would be unlawful in the private sector but the pension fund regulations were different. However, there was an expectation that approval would be gained from trustees before a transaction of this nature was made.

Councillor Sharpe asked which elements of the ISA260 did the Committee particularly need to be aware of or worried about.

Jonathan Gooding said the most important part was the control recommendations that had been made and the response to these recommendations from the local authority. He also drew attention to the points made in the value for money conclusion.

Councillor L Jones asked if the issue around planning finances was due to decisions and planning around the budget.

Jonathan Gooding explained that Deloitte were not purely focussed on the outcomes, they were also interested in the process and checking whether the appropriate and correct process had been followed when approving the budget. The qualification would go away in future years if improvements had been made following recommendations made by Deloitte.

Councillor Bond noted that there were six questions on page 28 of the report and asked if the Committee would have the opportunity to see the answers to those questions. He pointed out a small detail, that the pension fund advisory panel minutes had been mentioned but it met as part of the pension fund committee and therefore did not have its own separate minutes.

Jonathan Gooding said that the error on the pension fund committee minutes would be corrected. Deloitte had drafted their responses to the questions but they still needed to be reviewed. Jonathan Gooding said that he would expect them to be completed before the next Committee meeting at the end of July 2021.

Councillor L Jones suggested that it would have been useful to have a summary of the report for each section to help aid the Committees understanding.

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

- i) Noted the ISA260 for RBWM in Appendix 1.**
- ii) Noted the ISA260 for the Berkshire Pension Fund in Appendix 2.**
- iii) Noted and considered the draft action plan for RBWM in Appendix 3.**
- iv) Noted and considered the draft action plan for the Berkshire Pension Fund in Appendix 4.**

REDMOND REVIEW

Adele Taylor explained that the briefing on the Redmond Review would probably be the first of many as it was important to keep the Committee up to date. Tony Redmond had undertaken a review of external audit arrangements and his report with recommendations had been published in September 2020. External audits had been late across the country for numerous reasons but good audit was part of good governance. Adele Taylor had waited until now to bring the review to the Committee to see what the response was from the Ministry of Housing, Communities and Local Government (MHCLG). A summary of the recommendations was provided in the report and it was clear that there were weaknesses across the whole system. Without prompt action, there would be significant risk. MHCLG accepted most of the findings but currently there was uncertainty about what that would look like going forward for local authorities. There had been an extended deadline for all authorities to submit their accounts, with Adele Taylor confirming that RBWM was working towards meeting the earlier deadline wherever possible. The pension fund had an impact across Berkshire, with RBWM administering the fund on behalf of the other five Berkshire local authorities. MHCLG were not keen on having an overall body which would have oversight of external audit. There was no timeline for when any further updates on the review would be received by the Committee but Adele Taylor said that officers wanted to get the 2020/21 accounts signed off smoothly over the coming months.

Councillor Sharpe asked what outcomes MHCLG wanted from the review.

Adele Taylor said that audits were generally late which was not good for transparency. Simplification of audit statements was something that could be improved. It was hoped that

through better transparency it would encourage more people to take an interest in local authority accounting.

The Chairman asked if all local authorities were on the same financial year and therefore had to meet the same deadlines. She noted in the report that up to 40% of audits had failed to meet the required deadline.

Adele Taylor confirmed that all local authorities and the public sector, including Health, needed to abide by the same deadlines. Resources needed to be balanced across all areas, some authorities which covered a significant district would have limited resources as a result.

Councillor L Jones said that expectation and consistency were mentioned a lot and asked if the new framework would look to incorporate this.

Adele Taylor said that it was too early to say but she hoped it would. There was a balance between the resources of the auditors and those of the finance team. The finance team had seen a significant increase in workload and it was important to have a good relationship with the external auditors.

Councillor Bond said that simplification would allow more people to understand the accounts. He suggested that the accounts should be presented line by line. The amount of detail currently was extensive, local authority accounts were often longer in length than central government.

Adele Taylor said that simplification was something that had been discussed in the sector. The authority needed to provide compliant accounts but detail and explanations would be provided by the finance team where possible under the regulation framework.

Councillor Bhangra noted that MHCLG had accepted most of the findings in the report and asked which areas they had not agreed with.

Adele Taylor said the main thing was the overall governing body recommendation but MHCLG had committed to considering an alternative.

Councillor Hilton, Cabinet Member for Finance and Ascot, said that work had been done to make the accounts more accessible to the public. More narrative had been added which helped explain the figures and findings being presented.

Jonathan Gooding said that it would be beneficial for the accounts to be simplified, as long as they still complied with the accounting standards. Particularly in the legal aspects and the complexity of the accounts, narrative would prove to be useful. However, narrative reports could be lengthy and therefore balance was needed.

Adele Taylor informed Members that she would bring further updates to the Committee once they were available.

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

2020/21 INTERNAL AUDIT ANNUAL REPORT

Catherine Hickman, Lead Specialist Audit and Investigation, said that it had been an unprecedented year particularly with the impact of the pandemic on planned internal audit and investigation work and working practises. The original internal audit and investigation plan had been approved in February 2020 but it was agreed by the Committee in September 2020 that the plan would be revised so that the team could respond to new risks and challenges affecting the Council. Audit work had been enhanced in some areas and there had been a need to remain flexible to respond to changing circumstances. The report summarised the

work that had been undertaken and gave the Chief Audit Executive's annual audit opinion, whilst also taking into account other assurance mechanisms, where appropriate. Based on the work undertaken during the year, an overall audit opinion was given of Substantially Complete and Generally Effective but with some improvements required.

Councillor Sharpe asked if the workings of the council were positive or if there were any concerns.

Catherine Hickman said that the key issues that had been discovered by the internal audit team were summarised in the body of the report. These issues had been designated a category 3 opinion.

Councillor L Jones said that it was a very dense report and asked if there was a particular section the Committee should be drawn to specifically.

Catherine Hickman said that she would look to further signpost summaries in the report going forwards to help the Committee's understanding and highlight the key areas of concern.

Councillor L Jones asked if the internal audit team had seen improvements around cash flow process.

Catherine Hickman explained that there had been assurances from officers involved that they had undertaken significant work to get on top of issues identified as a result of internal audit work and these improvements would be independently confirmed as part of the internal audit follow up work to be undertaken during 2021/22.

Councillor L Jones suggested that she would like to make a recommendation that this was checked by internal audit as part of the plan for next year. Catherine Hickman said that follow up work would be programmed around any key issues. Adele Taylor said it was an area the finance team wanted to improve but it had been a challenging year for predicting the council's cash flow, especially given the notification of new grants and new responsibilities due to the pandemic.

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

- i) The SAIS activity for the financial year end 31 March 2021.**
- ii) Progress in achieving the 2020/21 Internal Audit and Investigation Plan.**

RISK MANAGEMENT REPORT

Steve Mappley, Insurance and Risk Manager, explained that the risk management report was set out in two parts; the approach to risk management that the council used and what risk looked like in practice. There were key strategic and key operational risks, with the report being shorter than it used to be as a long risk report was not good governance. Each key risk was summarised in the report.

Councillor Bond asked if skill shortages were including on the register as an operational risk.

Steve Mappley explained that skill shortages had been on the risk register in the past but it was captured in HR terms. There did not seem to be a place that skill shortages would fit on the register unless it was service specific, but even then it was unlikely to carry the damage implications that the other key risks did.

Councillor L Jones asked how officers assessed whether a risk was 'fairly likely' and the implications that it could have.

Steve Mappley said that there were two metrics, likelihood and impact, and work was done to understand how these metrics were reached for each key risk. This could involve using data over a number of years or it could be a prediction.

Adele Taylor said it was important to note the impact the pandemic has had on the economic landscape. While some risks were still unlikely to happen, the pandemic may have changed the likelihood for some key risks. Risks involving capital and capital receipts were usually always going to be high risk.

Steve Mappley said that the metrics set out in the report were very easy to follow and understand.

Councillor L Jones said that it was good to have an easy to understand system when it came to risk but it would be useful for the Committee to have a deeper understanding of some of the key risks.

Councillor Sharpe raised the issue of data protection, particularly as local authorities could be a target.

Adele Taylor said that the IT team kept all infrastructure up to date, it was important to manage, monitor and learn when it came to IT risks. There had been significant investment in the Modern Workplace Project but there were always improvements to be made.

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

WORK PROGRAMME

Adele Taylor said that an updated work programme would be circulated to the Committee after the meeting as officers now had a clearer indication of when the next set of accounts would be considered.

ACTION - Mark Beeley, Democratic Services Officer, to circulate the updated work programme to the Committee after the meeting.

The meeting, which began at 7.00 pm, finished at 8.50 pm

CHAIRMAN.....

DATE.....