

Audit and Governance Committee

MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING HELD ON 23 NOVEMBER 2022 AT COUNCIL CHAMBER - COUNTY HALL, BYTHESEA ROAD, TROWBRIDGE, BA14 8JN.

Present:

Cllr Mark Connolly (Chairman), Cllr Stuart Wheeler (Vice-Chairman), Cllr Chuck Berry, Cllr Gavin Grant, Cllr George Jeans, Cllr Edward Kirk, Cllr Pip Ridout, Cllr Mike Sankey, Cllr Martin Smith and Cllr Ross Henning (Substitute - Part II)

Also Present:

Cllr Nick Botterill (Cabinet Member for Finance, Development Management and Strategic Planning – Non voting Member of the Committee)

53 **Apologies**

Apologies were received from:

- Cllr Antonio Piazza
- Cllr Adrian Foster, who was substituted by Cllr Ross Henning.

54 **Minutes of the Previous Meeting**

The minutes of the meeting held on 27 September 2022 were presented for consideration and it was,

Resolved:

To approve and sign the minutes as a correct record.

55 **Declarations of Interests**

There were no declarations of interest.

56 **Chairman's Announcements**

The Chairman made the following announcements:

- **Public Sector Audit Appointments (PSAA) Update**

Following on from the approval of the Committee to join the PSAA national contract for external audit services from the accounts for the financial year 2023/24 onward, the Chairman confirmed that the procurement process had been concluded and the PSAA had offered

contracts to six suppliers. Services from three existing PSAA suppliers had been retained, Grant Thornton, Mazars and Ernst & Young, and former supplier KPMG has also been successful in gaining a contract. Two new suppliers, Bishop Fleming and Azets Audit Services had also been awarded contracts. Our incumbent External Auditor, Deloitte were not part of this national contract arrangement and the Council would therefore have a change of auditor for the audit of the financial statements for 2023/24. The bid prices that were received in the procurement reflected a significant increase compared to the previous procurement in 2017. At this stage the advice from PSAA was to anticipate a major re-set of total fees for 2023/24 involving an increase of the order of 150% on the total fees for 2022/23. The actual total fees would depend on the amount of work required. The Council factored this increase into the working Medium Term Financial Strategy (MTFS) assumptions and the issue of the increased fees had been raised by the PSAA with Department for Levelling Up, Housing and Communities (DLUHC).

- **External Audit Update from Deloitte**

Ian Howse (Deloitte) explained that Deloitte did not go forward for the PSAA contract, as there were issues with the complexity of local authority accounts and the regulations they had to work within made it challenging.

Members asked officers to raise the issues regarding the regulation and standards required for local authority audits with government as many authorities were experiencing problems. Members also thanked Deloitte for their work.

Mr Howse also explained that the backlog in the accounts were a symptom of issues in the market and agreed that the system needed to change.

The 2019/20 accounts were ongoing, infrastructure assets were an issue for all accounts that were not yet signed off. Guidance was awaited but it was thought that infrastructure disclosures would need to be removed. In January 2023 the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance and statutory instruments should be available and that would support working towards closing the accounts. There were still issues to be resolved, as any changes made had a knock-on effect elsewhere.

The team had been working on the 2020/21 accounts. A lot of work had been undertaken around the fixed assets register. The 2021/22 accounts were also not complete, Deloitte would work with Wiltshire Council to develop a timeline of when these may be completed. Deloitte would issue a written report to Members detailing the above. At the end of the process a letter of representation would be issued. Deloitte would be asking the Committee to challenge officers on the work undertaken to

issue the representations and to ensure that everyone was comfortable that rigorous processes were in place.

Lizzie Watkin (Assistant Director Finance and Deputy S151) stated that there was a lot of work involved for Wiltshire Council including the issues created by historical errors. There was a CIPFA checklist regarding what should be considered, and the officer was requesting teams to provide evidence to ensure that all the work undertaken could be included in the letter of representation. There was a lot of learning to do and room for improvement. Resources were an issue. A very experienced agency staff member continues to support the team and other agency staff had also been recruited to help. Even though the technical errors with the 2019/20 accounts did not affect the funding available to the council to deliver services, there were financial consequences for the council in terms of staff and agency costs.

In response to a question from the Chairman on whether there was the capacity to complete 3 audits in 1 year the officer stated that there were significant problems with a lack of experienced financial staff. The Council was trying to increase capacity so that they could get the accounts signed off.

In response to further questions from Members the officer explained that the team had covered in detail the underlying records and was hopeful that there was nothing material left where there was not confidence, but it was possible that there could be. The significance and robustness of the work undertaken with Deloitte would put them in good stead going forwards. There would be added complexity to the process with a change of auditors and a change of the financial system in the same year. The team were working with SWAP to try to ensure that additional risk was mitigated and all appropriate checks were planned to be undertaken.

It was further explained that whilst the council could go forwards on the accounts with a qualification, that would be significant and would decrease confidence in the accounts, and the work would be required in future years anyway, so it was not an option being suggested. The standards that applied to local authorities were not really reflective of the role of the public sector. Assets had to be valued commercially which was not how it worked in the public sector. They would continue to lobby government for better regulations.

Mr Howse stated that many local authorities were in the same situation, with some not yet having signed off the 2018/19 accounts. They could have issued qualifications but there are statutory requirements that they have to meet. Government wanted to produce a whole set of accounts across the board, they wanted a standard framework so were using the International Financial Reporting Standards (IFRS) but that was quite different to how local authorities work.

In answer to further questions Lizzie Watkin stated that the new Enterprise Resource Planning (ERP) system was slightly delayed. The Council was working with the implementors (Mastek) to set out a program which was deliverable. It was likely that the system would be implemented mid-year. Although that could add to the complexity of the switch over the officer was comfortable as additional reconciliation and control steps were being planned.

In response to a question Mr Howse stated that Deloitte had a contract with the PSAA. They were committed to completing the accounts prior to the contract ending. However, there could be an agreement between the Council, PSAA and Deloitte to see if the new auditors wanted to take the accounts on.

Perry Holmes (Director Legal and Governance) answered a question regarding where these risks (new auditors, delay of the ERP and agency staff) were recorded. It was stated that a Q2 corporate risk and performance report would be coming to the next Cabinet meeting. The Executive office and finance were having discussions as to whether these issues would be raised from a service risk to a corporate risk.

- **Update regarding Independent Members on Audit and Governance**

In March 2022 the Committee voted to approve the creation of a role for independent co-opted members on the Audit and Governance Committee. Following this Full Council resolved in May 2022 to approve the required changes to the constitution and to delegate the appointment to the Committee. The role was advertised, but no applications were received. The Independent Remuneration Panel was convened to look at remuneration of the post, following which their recommendation of £2,000 per annum was approved by Full Council in October 2022. The role went out to advert again and applications were received. The interviews for the shortlisted candidates were scheduled to take place in January 2023, with appointment to the position for the successful candidate taking place at the meeting on 8 February 2023. The knowledge and expertise of the successful candidate should mean that they can provide valuable advice to the Committee in discharging its function.

57 **Public Participation**

No public questions or statements were received.

58 **Internal Audit updates**

At the Chairmans invitation, David Hill (SWAP) presented the Internal Audit (IA) reports.

Mr Hill highlighted page 12 of the agenda pack which gave an overview of the IA update. The overall opinion was reasonable. One significant risk was

identified, which had a limited assurance opinion, this was the Pension Payroll Reconciliation Project. A lot of issues had been identified and the opinion given would have been no assurance, however the service had already completed some of the actions, hence the limited assurance opinion. The Section 151 officer had been aware of issues and had requested SWAP to look at the project. Some outside resources were being deployed to help with the reconciliation.

Regarding the Outstanding Priority 1 and 2 actions, there were still quite a lot to be completed which was disappointing.

In response to questions Lizzie Watkin (Assistant Director Finance and deputy S151) explained that the Wiltshire Pension Fund Committee and Pensions Board would look at the Pension Payroll Reconciliation Project. Members could discuss with the Chairs of those committees to ensure that they got assurance. It was confirmed that ultimate responsibility lay with the Audit and Governance Committee.

The officer stated that officers may consider the need to create task groups that report back to the Audit and Governance Committee, similar to the process used by the Overview and Scrutiny Management Committee, so that everyone got the required feedback and assurance.

Ian Howse (Deloitte) stated that Deloitte audit the Pension Fund as well. There were not any material discrepancies, but the issues did need to be resolved.

The outstanding management actions were discussed. While the number had decreased which was positive, there were still many which had not been completed which was concerning. Discussions were underway with SWAP on how the actions could be monitored.

Lizzie Watkin explained that she was working closely with SWAP to review the actions and get the evidence to ensure they had been implemented. This was a very manual and time consuming task, so the process needed some work. Performance Outcome Boards should also look at the actions and mitigate the risks. They were working through the new system SWAP were implementing to see what it can do and how it could make things more effective for officers and the Committee.

In response to a question regarding the impact of negative media/social media coverage on Council, where there had been no IA coverage, Perry Holmes (Director, Legal and Governance) stated that there would be gaps occasionally due to resourcing, but there was a capable communications team who managed this.

Councillor Mark Connolly proposed a motion which was seconded by Councillor Chuck Berry and it was,

Resolved:

- **To note the November 2022 Internal Audit Update Paper and Summary of Outstanding Priority Actions.**
- **To note the 2022/23 Q3 Internal Audit Plan.**
- **To approve the 2022/23 Q4 Internal Audit Plan.**

Mr Hill then gave a presentation on IA which is appended to these minutes. Some of the main points covered included that the size of reports had always been an issue, which was why the 1 page report which summarised the situation was introduced.

Internal Audit would change a lot in the future, with a lot of the work being undertaken by Artificial Intelligence (AI).

Mr Hill then demonstrated a new IA dynamic Dashboard which had been developed. This would enable SWAP to report live at committees and would be available in the next quarter. It would really help Members to drill down into the detail. Members were pleased and looked forward to its roll out.

In response to a question as to whether the new ERP software would have a live Dashboard on the budget, officers explained that the Financial Planning Task Group and Overview and Scrutiny Committee reported to Cabinet to give assurance regarding the budget. The Audit and Governance Committee was not responsible for budget monitoring, but rather governance, compliance, financial risk (via audits) and best practise. At this first stage of the ERP project there would not be a budget monitoring Dashboard for councillors.

In response to a further question Mr Hill stated that regarding risk registers, SWAP had a list of top 10 risks, and looked at risk registers to see if these were included. They could also compare between councils, although risks could be quite different between councils. Members felt it would be useful to learn from other rural unitary authorities. Officers stated that this was something that was regularly discussed with SWAP.

The Chairman thanked Mr Hill for the presentation.

59 **Anti-Fraud risk update**

Lizzie Watkin (Assistant Director Finance and Deputy S151) presented a report on anti-fraud activity. The officer stated that this was the first update of its kind that the Committee had received in a very long time. It supported progress and gave updates in base risk exposure to fraud. It also covered aspects of the Anti-Fraud, Bribery and Corruption policy approved by the Committee in April 2022.

Base line risk assessments were part of governance arrangements and were about assessing that we had policies, a framework and best practise in place. The assessments were made against best practise as detailed in section 7 of the report. SWAP undertook the baseline assessments and Appendix B (page 75) set out red and amber risks, recommendations made, actions, lead officer and the implantation date for each one. This was a key part of mitigation against fraud and ensured good governance and financial control.

The Chairman as lead Member for anti-fraud, requested that the Committee receive updates on this at least annually.

In response to questions, the officer explained that there was no regulatory requirement to do this. It was about best practise and protecting the public purse, the policy was the backbone. The Council had signed up to CIFAS, the UK's fraud prevention community. Teams with a higher risk of exposure to fraud had also had a session with CIFAS. In regard to Covid-19 business grants, they were awarded according to government criteria. Some post payment and pre-payment fraud checks were undertaken. Deloitte confirmed that they would be looking at business grants as part of the 2020/21 audit.

In response to a question regarding risk 2a (page 75) and whether there was awareness, the officer stated that service managers were notified after the policy was approved. The officer was sharing the 3 policies with the Corporate Leadership Team (CLT) along with bullet points so that they could actively cascade to teams. There would also be targeted training with officers. There was awareness but it needed to be increased. Members requested that the outcome of the review of the corporate risk register was shared with them when ready.

In regard to risk 6a (page 78), which Members queried, the officer confirmed that there would be other councils who had mechanisms. The issue was the policy landscape. All investigations went through the SWAP anti-fraud team, but there may be other types of investigation that should be included. As more data was captured it was hoped that the gap could be closed.

There was a discussion regarding academies, which covered who was responsible for them; land owned by the local authority which was now on long lease to academies; risk to the council as landlord; what happened if the schools got into financial trouble; fraud effecting schools; what happened when schools covert to academies and their governance arrangements.

It was explained that there are various types of schools, Community Schools and Voluntary Controlled Schools were maintained schools, or local authority schools. Schools which were not local authority run were Academies, Voluntary Aided Schools and Foundation Schools.

Academies governed themselves, they were run by a board of trustees or governors. Often academies grouped together and were run by Multi-Academy Trusts (MATs). They were separate from the local authority and were regulated and audited. There were still links to the Council but responsibility for finance, fraud risk, decisions and governance sat with the board of the academy.

The Schools Forum, which was a public meeting was highlighted as a meeting members may wish to attend to gain a better understanding of how things worked.

It was also suggested that Members may wish to have a training session or update covering this topic, including the risk environment in schools.

At the conclusion of the debate, it was,

Resolved:

- **That the Audit and Governance Committee note the update on anti-fraud risk.**
- **That the Committee would like annual updates on anti-fraud risk.**

60 **Forward Work Programme**

The FWP was considered, it was noted that the SoA 2020/21 was unlikely to be ready for the February meeting. It was,

Resolved:

To note the FWP.

61 **Urgent Items**

There were no urgent items.

62 **Date of Next Meeting**

The next regular meeting of the Audit and Governance Committee would be held on 8 February 2023.

The Chairman thanked everyone for attending and closed the meeting.

(Duration of meeting: 10.00 - 11.50 am)

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SWAP Internal Audit Services – Organisational Context



Approximately 70 in the SWAP team (2 lead data analysts)



Providing audit services to 40+ public-sector organisations



Size advantages, along with data analytics shared learning opportunities...



But, challenges with multiple clients, multiple data sources, system access, data maturity of our clients...



The Agenda

- ◆ Internal audit, past, present and future.
- ◆ CIPFA Untapped Potential report.
- ◆ The concerns of the Audit Committee.



Linked In Post

- ✓ The **assessment of risk** and the assurance there of became central to what is a well organised organisation
- ✓ The fixed or semi-fixed **Audit Plan is dead**. Long reign the live Risk Assurance Map.
- ✓ The best audit and risk professional is someone that **can communicate well. Every other skill is secondary.**
- ✓ We mastered Data Analytics (did we), to the level that the profession needed it and that was **not the level that the marketeers told us it was going to be.**
- ✓ We will be (are aware) embarrassed that we produced reports hundreds of pages long and see it as archaic as we now see the black and white tv.
- ✓ The 10 day road trip that only ever benefited your **frequent flyer point balance is over.**



The next 5 years

Page 12

- ✓ The risk assurance of 2040 will be exclusively AI based.

Virtual reality made real: how internal auditors will rapidly adopt innovative technology, bringing to life key risk messages and engage the organisation, leading to better decisions - BDO

Internal Audit: CIPFA Untapped Potential?

Indicators of Effectiveness in the Report:

- *Timely and meaningful assurance, communicated in a way that is understood by stakeholders.*
- *Internal audit plans clearly aligned to the topics that are most important for the success of the organisation.*
- *Good engagement with senior management and the audit committee, while maintaining independence and objectivity.*
- *The ability to challenge constructively and to help management find solutions.*

Internal Audit – present and future

◆ Present

- ✓ One page reporting – communicating results faster, removing bottle necks
- ✓ Agile – more collaborative working
- ✓ Data Analytics – wider assurance

Future

- ✓ Dashboard Reporting
- ✓ Advanced Data Analytics with machine learning
- ✓ AI


Internal Audit, must do more with the same or even less!!!!

One-Page Audit Report






Example Audit – Final Report – November 2020



Audit Objective [Audit Objective]

Assurance Opinion	Number of Actions	
	Priority	Number
 <p>Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.</p>	Priority 1	2
	Priority 2	1
	Priority 3	1
	Total	4

Risks Reviewed	Assessment
1. Risk 1	High
2. Risk 2 (if applicable)	Medium
3. Risk 3 (if applicable)	Medium
4. Risk 4 (if applicable)	Low

Key Findings	
	Key Finding 1 - Red used for significant findings
	Key Finding 2 (if applicable) - Red used for significant findings
	Key Finding 3 (if applicable) - Amber used for important findings
	Key Finding 4 (if applicable) – Blue used for findings that require attention
	Key Finding 5 (if applicable) - Green used for well-controlled areas, or areas of best-practice

Audit Scope

High-level summary of areas covered (and whether management have requested audit/ specified concerns)

Any scope exclusions and/ or areas where information not provided/ management not responded

Review period/ dates of information/ data reviewed (if applicable)

Added Value



The Audit Committee

- ◆ Concerns about the progress of agreed management actions
 - ◇ Implemented
 - ◇ Delayed
 - ◇ No updates
- ◆ How dashboards can help.



Dashboards - AuditBoard

- ◆ Work in Progress but we now need your involvement.

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