

AGENDA

Meeting: Audit and Governance Committee

Place: Kennet Room - County Hall, Bythesea Road, Trowbridge, BA14 8JN

Date: Wednesday 8 February 2023

Time: 10.30 am

Please direct any enquiries on this Agenda to Tara Hunt of Democratic Services, County Hall, Bythesea Road, Trowbridge, direct line 01225 718352 or email tara.hunt@wiltshire.gov.uk

Press enquiries to Communications on direct lines 01225 713114/713115.

This Agenda and all the documents referred to within it are available on the Council's website at www.wiltshire.gov.uk

Membership:

Cllr Mark Connolly (Chairman)

Cllr Stuart Wheeler (Vice-Chairman)

Cllr Chuck Berry

Cllr Adrian Foster

Cllr Gavin Grant

Cllr George Jeans

Cllr Edward Kirk

Cllr Antonio Piazza

Cllr Pip Ridout

Cllr Mike Sankey

Cllr Martin Smith

Patrick Jarvis

Non-voting membership

Patrick Jarvis (Independent co-opted member)

Cllr Nick Botterill (Cabinet Member with responsibility for finance)

Cllr Richard Clewer (Leader of the Council)

Substitutes:

Cllr Liz Alstrom

Cllr Ernie Clark

Cllr Matthew Dean

Cllr Nick Errington

Cllr Ross Henning

Cllr Jon Hubbard

Cllr Tom Rounds

Cllr Jo Trigg

Cllr Pauline Church

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Public Participation

Please see the agenda list on following pages for details of deadlines for submission of questions and statements for this meeting.

For extended details on meeting procedure, submission and scope of questions and other matters, please consult [Part 4 of the council's constitution](#).

The full constitution can be found at [this link](#).

For assistance on these and other matters please contact the officer named above for details

AGENDA

Part I

Items to be considered while the meeting is open to the public

1 **Apologies**

To receive any apologies or substitutions for the meeting.

2 **Minutes of the Previous Meeting** (*Pages 5 - 22*)

To confirm and sign the minutes of the meeting held on 23 November 2023.

3 **Declarations of Interests**

To receive any declarations of disclosable interests or dispensations granted by the Standards Committee.

4 **Chairman's Announcements**

To receive any announcements from the Chairman.

5 **Public Participation**

The Council welcomes contributions from members of the public.

Statements

If you would like to make a statement at this meeting on any item on this agenda, please register to do so at least 10 minutes prior to the meeting. Up to 3 speakers are permitted to speak for up to 3 minutes each on any agenda item. Please contact the officer named on the front of the agenda for any further clarification.

Questions

To receive any questions from members of the public or members of the Council received in accordance with the constitution.

Those wishing to ask questions are required to give notice of any such questions in writing to the officer named on the front of this agenda no later than 5pm on 1 February 2023 in order to be guaranteed of a written response. In order to receive a verbal response questions must be submitted no later than 5pm on 3 February 2023. Please contact the officer named on the front of this agenda for further advice. Questions may be asked without notice if the Chairman decides that the matter is urgent.

Details of any questions received will be circulated to Committee members prior to the meeting and made available at the meeting and on the Council's website.

6 **Independent co-opted member** (*Pages 23 - 28*)

To receive a report on the appointment of an independent co-opted member to the Committee.

7 **Internal Audit Reports** (*Pages 29 - 42*)

To receive an internal audit update report from SWAP.

8 **Wiltshire Pension Fund final report for 2020 audit** (*Pages 43 - 72*)

To receive the Wiltshire Pension Fund final report for the 2020 audit from Deloitte.

9 **Forward Work Programme** (*Pages 73 - 78*)

To note the Forward Work Programme

10 **Date of Next Meeting**

To note that the next regular meeting of the Committee will be held on 26 April 2023 at 10.30am.

11 **Urgent Items**

Any other items of business, which the Chairman agrees to consider as a matter of urgency.

Part II

Items during whose consideration it is recommended that the public should be excluded because of the likelihood that exempt information would be disclosed

None

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)

The Officer who has produced these minutes is Tara Hunt of Democratic Services, direct line 01225 718352, e-mail tara.hunt@wiltshire.gov.uk

Press enquiries to Communications, direct line (01225) 713114 or email communications@wiltshire.gov.uk

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 10

- ✓ 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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Wiltshire Council

Audit and Governance Committee

8 February 2023

Independent co-opted member on the Audit and Governance Committee

Executive Summary

This report provides an update for the Audit and Governance Committee on the progress of recruiting and appointing an independent co-opted member to the Committee.

Proposal(s)

To note that Patrick Jarvis has been appointed as an independent co-opted member on the Audit and Governance Committee.

Reason for Proposal(s)

The Committee had previously resolved to appoint an independent co-opted member, so that they can provide advice and bring valuable experience and knowledge to the Committee in discharging its function. This report updates on the process and on who has been appointed.

Perry Holmes

Director Legal and Governance and Monitoring Officer

Purpose of Report

1. To update the Audit and Governance Committee on the progress of recruiting and appointing an independent co-opted member to the Committee.

Relevance to the Council's Business Plan

2. The appointment of an independent co-opted member to the Committee will bring valuable experience and knowledge to the Committee, assisting them to discharge their function and give assurance to elected Members and the to the public as to the governance and sound financial management of the Council.

By having an even more effective Audit and Governance Committee we can help to ensure that we take an open and transparent approach to decision making and to ensure that decisions are evidence based, which meets the Resilient Society theme. It will also help to support the aim that we have An Efficient and Healthy Organisation.

Background

3. At it's meeting on [1 March 2022](#) the Audit and Governance Committee considered the issue of an independent co-opted member on the Committee. The previous background to this matter can be seen in the report considered at that meeting.
4. It should be noted that in response to the Redmond Review, the government launched a local audit framework technical consultation, and on 31 May 2022 the government published their [response to that consultation](#). This included that councils were required to have an audit committee with at least 1 independent member.
5. At the meeting on 1 March 2022 the Audit and Governance Committee resolved:
 - To approve the creation of an independent co-opted member role;
 - To approve the draft proposed role profile and delegate authority for the final wording to the Monitoring Officer;
 - To make recommendations to Full Council:
 - That appropriate changes to the constitution should be made so that an independent member could be appointed;
 - To delegate the appointment of any independent co-opted members to the Audit and Governance Committee and arrangements for the selection of such members to the Chairman of the Audit and Governance Committee in consultation with the Monitoring officer. Arrangements for selection would include a selection panel made up of 3 Members of the Committee and a lead officer.
 - That the remuneration of the independent co-opted member be looked at by Wiltshire Council's Independent Remuneration Panel.
6. At [Full Council on 17 May 2022](#), Council considered the matter and approved the changes to the constitution and to delegate the appointment as requested.
7. Following Full Council in May 2022 the position of independent member on the Audit and Governance Committee was advertised but no applications were received.

8. At [Full Council on 18 October 2022](#), Full Council considered the recommendation from the Independent Remuneration Panel and determined that the remuneration for the position be set at £2,000 per annum.
9. In September 2022, following minor amendments to the job advert and role description, the position was readvertised and 3 applications were received. These were shortlisted and 2 candidates were put forward to interview.
10. On 10 January 2022 the interviews were undertaken by a panel of three Members of the Committee (Councillor Mark Connolly – Chairman, Councillor Gavin Grant and Councillor Mike Sankey), they were supported by Lizzie Watkin, Assistant Director Finance and Deputy S151 Officer. The panel were unanimous in their opinion of which candidate should be appointed, due to their wealth of experience and knowledge regarding audit and governance. Following the panel, the Chairman, in consultation with the Monitoring Officer determined that the candidate chosen by the panel should be appointed to the role.
11. On 17 January 2022 the successful candidate accepted the role.

Main Considerations

12. An independent co-opted member will provide valuable advice to the Committee, enhancing the experience and knowledge of the Committee.
13. The recruitment of independent co-opted members was supported by the S151 officer and other lead Audit and Governance officers.
14. The addition of independent co-opted members is recommended by both CIPFA guidance and the Redmond Review and is being made a requirement for Audit Committees.

Overview and Scrutiny Engagement

15. There has been no overview and scrutiny engagement in this process.

Safeguarding Implications

16. There are no safeguarding issues arising from this report.

Public Health Implications

17. There are no public health implications arising from this report.

Procurement Implications

18. There are no procurement implications arising from this report.

Equalities Impact of the Proposal

19. There are no equalities impacts arising from this report.

Environmental and Climate Change Considerations

20. There are no environmental or climate change considerations arising from this report.

Workforce Implications

21. There are no workforce implications to this report. The independent co-opted member will be supported by existing workforce capacity.

Risks that may arise if the proposed decision and related work is not taken

22. There is no decision required to be made, as the decision had already been taken under the previously agreed delegation.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

23. There is no decision required to be made, as the decision had already been taken under the previously agreed delegation.

Financial Implications

24. The allowance of the independent co-opted member was considered by the Independent Remuneration Panel and approved by Full Council in October 2022.

Legal Implications

25. The legal implications detailed in the 1 March 2022 report were all considered.

26. The appointed independent co-opted member will not have voting rights. Therefore, their involvement on the Committee will be in a consultative manner, with their views being taken into account by voting members of the Committee.

27. The purpose of the Committee is to give assurance to elected members and to the public as to the governance and sound financial management of the Council. This will likely be strengthened by including members who are independent from the executive and scrutiny functions and who are suitably qualified with experience in the area of audit/governance to provide specialist knowledge and insight.

Options Considered

28. It is best practise for the Audit and Governance Committee to have an independent co-opted member and this will become a requirement.

Proposals

29. It is recommended that the Audit and Governance Committee note that Patrick Jarvis has been appointed as an independent co-opted member on the Audit and Governance Committee.

Perry Holmes

Director Legal and Governance and Monitoring Officer

Report Author: Tara Hunt, Senior Democratic Services Officer,
tara.hunt@wiltshire.gov.uk, 01225 718352

30 January 2023

Background Papers

- [Report and minutes of the 1 March 2022 Audit and Governance Committee \(minute item 12\)](#)
- [Government response to local audit framework: technical consultation](#)
- [Government response to the Redmond Review](#)
- [CIPFA position statement on Audit Committees](#)
- [Report and minutes of the 17 May 2022 Full Council meeting \(minute item 31\)](#)
- [Report and minutes of the 18 May 2022 Full Council meeting \(minute item 46\)](#)

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Wiltshire Council

Report of Internal Audit Activity

Progress Report 2022/23- January 2023

Executive Summary

As part of our update reports, we will provide an ongoing opinion to support our end of year annual opinion.

We will also provide details of any significant risks that we have identified in our work, along with the progress of mitigating previously identified significant risks.

The contacts at SWAP in connection with this report are:

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SWAP is an internal audit partnership covering 25 organisations. Dorset Council is a part-owner of SWAP, and we provide the internal audit service to the Council.



Audit Opinion, Significant Risks, and Audit Follow Up Work

Audit Opinion

This is our third update report for 2022/23 financial year. On the basis of the outcomes of recent reviews completed, we recognise that generally risks are well managed. We have identified some gaps, weaknesses and areas of non-compliance within our work however with implementation of the agreed audit actions, we are able to offer an ongoing **reasonable opinion**.

Since our last report in November, we have issued **two Limited** assurance opinions on the areas and activities we have been auditing. In Appendix A on page 6, we have provided the one-page audit report for the Limited assurance opinion work, to offer the committee further insight.

Significant Corporate Risk

The report in July reported three significant corporate risks. Two of these corporate risks were around Category Management and Procurement Exemptions. We will be undertaking follow up work before the end of the financial year to assess progress in the implementation of the agreed actions and will report on progress in due course. The third significant risk relates to the Pension Fund review. When we initially undertook the audit in January 2022, we provided a **No Assurance** opinion with nine actions due to be implemented by October 2022. A further full audit has been undertaken to assess the progress where a **Limited Assurance** opinion has been provided. Whilst there has been some improvements in control, this is not as extensive as it might be hoped. We are therefore unable to provide assurance that the risks of incorrect payments, efficiencies in the processes and oversight of the fund have been adequately mitigated as yet. We will of course undertake further follow up work which we will report to the Committee in due course.

Additionally, in our November update we reported on a further significant corporate risk around the Pension Payroll Reconciliation Project where SWAP identified a number of key issues around the delivery of this project. It is understood that this project is being outsourced and the contract for this work is being agreed currently. Once sufficient time has elapsed for the project to have moved forward under the outsourced contract, we will undertake follow up work.

Executive Summary

For further details see:
<https://www.swapaudit.co.uk/>

Since our November update we have identified a further significant corporate risk around ICT Network Boundary Defences. We have identified that only 22% of devices used across the Council are routinely receiving security patches and 67% of devices do not have the latest firmware or operating systems in place leaving these devices vulnerable to a potential cyber-attack. Our report has been positively received by management and a clear action plan has been agreed to mitigate the risks identified. We will be undertaking follow up work to provide the Committee with assurances that appropriate actions have been taken.

Internal Audit Plan Update

Our audit plan coverage assessment is designed to provide an indication of whether we have provided sufficient, independent assurance to monitor the organisation’s risk profile effectively.

For those areas where no audit coverage is planned, assurance should be sought from other sources to provide a holistic picture of assurance against key risks.

Please note that a new approach audit planning has been discussed and agreed with the Chair and Deputy Chief Financial Officer which will be rolled out from April 2023. Further details on this will be provided at the April Audit and Governance Committee. The revised approach aims to deliver an audit service that is able to flex, pivot and be responsive to the needs of the organisation, along with providing the Committee and Senior Council officers real-time information around the work of Internal Audit.



SWAP Internal Audit Plan Coverage

The table below, captures our audit coverage, mapped against the Authority’s strategic risks. Furthermore, we have then overlaid the audit assurance outcomes of those risk areas that we have reviewed. As you will see audit work across 2022/23 has only provided coverage across some areas of the Strategic Risks. We will be working with the Corporate Directors to ensure that we provide more comprehensive coverage of the Council’s key risks going forward. We do not provide an indication of where work is planned because work could be delayed, deferred or removed from the plan. This table is providing information on work completed or currently in progress.

| Strategic Risk | Coverage | Assurance assessment based on completed internal audit work |
|---|-------------|---|
| SR01 – Unable to Meet demands for Special Educational Needs or Disability | None | |
| SR02 – Lack of Capacity in the Social Care Market | Some | Non-Assurance audit work |
| SR03 – Uncontrolled Cost of Social Care (Predominantly Adults) | Some | Non-Assurance audit work |
| SR04 – Failure to Manage Housing Development | In progress | In Progress |
| SR05 – Cyber Resilience | Some | Reasonable |
| SR06 – Impact of Negative Media/Social Media Coverage on Council | None | |
| SR07 – Outbreak Management Control Plan | None | |
| SR08 – Failure in Safeguarding Children | None | |
| SR09 – Information Governance | None | |
| SR10 – Income Collection | None | |
| SR11 – Corporate Health, Safety and Wellbeing | Some | Non-Assurance audit work |
| SR12 – Hospital Discharges Resulting in Highly Restrictive Packages of Care | None | |
| SR13 – Budget Management | Some | Reasonable |
| SR14 – Not on Track for the Council to be Carbon Neutral by 2030 | None | |

| Coverage Key | |
|--------------|--------------------------------------|
| Good | Good audit coverage completed |
| Adequate | Adequate audit coverage completed |
| Some | Some aspects of audit coverage |
| In Progress | Some aspects of coverage in progress |
| None | No audit coverage to date |

| Assurance Key | |
|---------------|--|
| Substantial | Sound system of governance, risk management and controls exist |
| Reasonable | Generally sound system of governance, risk management and control in place |
| Limited | Significant gaps, weaknesses or non-compliance were identified |
| No Assurance | Fundamental gaps, weaknesses or non-compliance identified |

Internal Audit Plan Update

We review our performance to ensure that our work meets our clients' expectations and that we are delivering value to the organisation.

SWAP Performance Measures

| Performance Measure | Performance |
|--|---------------------------------------|
| <p>Overall Client Satisfaction <i>(Did our work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i></p> <p>Value to the Organisation <i>(Client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i></p> | <p>100%</p> <p>100%</p> |

Implementation of Audit Actions

We are currently reviewing our approach to action tracking whilst also embedding a new audit management system. We are taking this opportunity to review all outstanding actions to ensure that those carried over into our new system remain relevant. We can confirm that the situation has not changed substantially since the report we provided to the November audit Committee. Going forward we would like to report implementation of actions as a performance measure and we will provide more information on this when we report to the Committee in April 2023.

Page 33

Internal Audit Plan Update

Added Value

'Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.'



Added Value

Cifas

Whilst Wiltshire Council has been a member of Cifas for some time, only limited progress has been made in rolling out its use across the Council. SWAP is supporting a targeted roll out to ensure that the Council is gaining maximum benefit for the membership fee of £13,020 which SWAP is currently paying. It is hoped that we will be able to provide more information on this in our next update report.

Data Analysis

ICT Boundary defences DA showing:

- Numbers of out of support network devices;
- Analysis of how long devices have been out of support; and
- Analysis of devices without the latest firmware installed.

Newsletters and updates

SWAP regularly produces a newsletter and other relevant updates for partners such as fraud bulletins, which provide information on topical issues of interest.

The role of SWAP as the internal auditors for Wiltshire Council is to provide independent assurance that the Council’s risk management, governance and internal control processes are operating effectively. In order for senior management and members to be able to appreciate the implications of the assurance provided within an audit report, SWAP provide an assurance opinion. The four recently revised opinion ratings are defined as follows:

| Assurance Definitions | |
|-----------------------|--|
| No Assurance | Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited. |
| Limited | 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 |
| Reasonable | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited. |
| Substantial | A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. |

Page 35

In addition to the assurance definitions above we also provide an ‘assurance dial’ which indicates on a range of high medium or low where within the range of that assurance a particular audit assurance sits.



As can be seen in this example the assurance provided is low limited as the dial is sitting on the lower end of the limited scale. It could equally have been a medium limited assurance where the dial sits midway or high limited when it is sitting at the upper end close to the reasonable assurance.

Pension Key Controls – Final Report – January 2023



Audit Objective

To ensure key controls are operating effectively for the administration of the Pension Fund.

| Assurance Opinion | | Number of Actions | | Risks Reviewed | Assessment |
|-------------------|--|-------------------|-----------|---|------------|
| | 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. | Priority | Number | Failure to have effective administration of the scheme resulting in incorrect payments, inefficiencies in the process and inadequate oversight over the fund. | High |
| | | Priority 1 | 2 | | |
| | | Priority 2 | 9 | | |
| | | Priority 3 | 2 | | |
| | | Total | 13 | | |

Key Findings

| | |
|--|---|
| | Following our previous audit which identified a number of unresolved aggregations resulting in a significant backlog; the Fund outsourced 3500 cases to be resolved over the next 11 months. During this review a further 500 cases were found that had not been identified in the original data to be outsourced. |
| | The Fund has introduced a new workflow management system, this is only live in the Member Services Team and should be implemented, as a priority, in the Employer Services Team. Whilst the workflow has improved the management of the Member Services Team tasks, we noted that the process for managing over payments are has not been fully implemented. Our review also identified that amendments, aggregations, and Status 2 Members are not being managed efficiently. |
| | To enhance the Funds oversight over the work completed by both teams, in our previous report, management agreed actions to ensure that quality assurance was conducted over a sample of tasks on a regular basis. Whilst quality assurance has commenced in the Member Services Team, we identified weaknesses in the process being followed and noted that no quality assurance has been introduced in the Employer Services Team. |
| | A weekly KPI report is distributed to the management team to help processing delays. Whilst the report provides greater transparency, we identified several weaknesses where the KPIs should be improved. For example, the KPIs were not always accurate as the correct data was not captured for aggregations, transfers in and Status 2 Members. Additionally, the KPIs do not cover all tasks completed by the Fund, in particular the tasks completed by the Employer Services Team such as new joiners and amendment processing. |
| | To bring overall assurance over the operational risks posed by the Fund, the Fund has introduced a Risks and Controls Register. The Management Team meet on a monthly basis to discuss whether the controls across the Fund are operating effectively and in turn assess the risks faced. Whilst this is a great step forward, our review identified that the register is still in the early stages, and more work is required to ensure this operates effectively long term. |
| | Whilst key controls within the Fund still need strengthening, improvement has been made since our last No Assurance review in March 2022. For example, new joiner letters and activation keys are no longer delayed, SAP to Altair reconciliations are being carried out on a regular basis, the payment approval's structure now has clear segregation of duties, the frozen refunds process has improved, and Status 3 member data has been cleared from Altair and a data retention policy and process has been introduced. |

Audit Scope

An audit has been undertaken of the Pensions Key Controls. Our Audit included the following areas:

- A. Enrolments;
- B. Contributions;
- C. Lump sum payments;
- D. Transfers in;
- E. Amendments;
- F. Operational Management
- G. Monitoring;
- H. Pension Projects; and
- I. Pensions risk and controls management.

We would like to thank all staff involved for their assistance during the audit.

Network Boundary Defences – Final Report – January 2023



Audit Objective

To provide assurance that the network boundary defences deployed by the Council’s ICT function effectively safeguard the Council’s network against internal and external security threats.

| Assurance Opinion | Number of Actions |
|---|-------------------|
| <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 |
| | Number |
| | Priority 1 |
| | Priority 2 |
| | Priority 3 |
| Total | |

| Risks Reviewed | Assessment |
|--|------------|
| Failure to manage appropriate and robust boundary defences may result in exploitable security vulnerabilities that could increase the likelihood of cyber-attack and security incidents, causing operational disruption, loss of critical services and data. | High |

Key Findings

| | |
|--|--|
| | Analysis of the Network Device Inventory found that there are 143 out of 648 devices (22.07%) that are no longer receiving security patches from the supplier, currently active on the network. (Pg. 1 and 2 of Data Analysis Appendix) |
| | There are currently 432 of 648 devices (66.67%) that do not have the latest firmware/Operating System version. There are dependencies on upgrading some out of support devices before other devices can be updated. Firmware version on 2 main firewalls was raised as not up to date during last penetration test. (Pg. 3 of Data Analysis Appendix.) |
| | Weak hashing algorithm in use for authentication of some remote sites connections to the data centres, via Virtual Private Network (VPN) connection. This was also highlighted during the last penetration test. There are some dependencies on upgrades before the use of these can be discontinued. |
| | We were informed that the Information Asset Register is not up to date. There is work planned to update this during an incorporation of a Record of Processing Activity (RoPA.) |
| | Investigations of security alerts and events is not always recorded. Where investigations are recorded this is not centrally available to allow controls to be updated based on trends in these alerts. |
| | No firewall logs are currently fed into the Security Information and Event Management (SIEM) system. |

Audit Scope

The audit focused upon the assessment of those activities concerned with boundary defences and we:

- Performed a walkthrough with staff to determine the network’s design, document what boundary defences have been deployed and the technical validation applied to safeguard the network, including the collection and analysis of logs from network devices, and how action is taken to address.
- Undertook data analysis to confirm compliance with those policies and procedures that support boundary defences. Such data could involve configuration changes, issue logs, Hardware and Firmware support status etc. Given the sensitivity of the data concerned, we will agree our approach with you and possible alternatives such as scenario-based walkthroughs could also be considered.
- Identified what external assurance processes are also undertaken of the Councils boundary defences (including Pen tests) and evidence remedial actions that are taken by the Councils ICT to resolve a sample of the issues highlighted.

Page 37

| Audit Type | Audit Area | Status | Opinion | No of Actions | 1 = High | ↔ | 3 = Medium |
|------------------|---|--------|--------------------|---------------|----------|---|------------|
| | | | | | Action | | |
| | | | | | 1 | 2 | 3 |
| 2021-2022 | | | | | | | |
| Completed | | | | | | | |
| Assurance | Payroll Continuous Audit Q3-Q4 | Final | High Reasonable | 3 | - | - | 3 |
| Assurance | Housing Rents Continuous Audit Q3 - Q4 | Final | Medium Substantial | 1 | - | - | 1 |
| Assurance | Council Tax & Business Rates Continuous Audit Q3-Q4 | Final | Medium Substantial | 1 | - | - | 1 |
| Assurance | Main Accounting Continuous Audit Q3-Q4 | Final | Medium Reasonable | 1 | - | - | 1 |
| Advisory | Workforce Planning and Capacity & Mental Health and Wellbeing | Final | N/A | - | - | - | - |
| Advisory | Housing Private Finance Initiative Contracts | Final | N/A | - | - | - | - |
| Assurance | Waste Collection Service | Final | High Reasonable | 1 | - | - | 1 |
| Reporting | | | | | | | |
| Assurance | Adult Payment to Providers | Draft | | | | | |
| 2022-2023 | | | | | | | |
| Completed | | | | | | | |
| Assurance | Pension Payroll Reconciliation Project | Final | Medium Limited | 5 | 1 | 4 | - |
| Assurance | Accounts Payable Continuous Audit – Period 1 | Final | Medium Reasonable | 2 | - | 2 | - |
| Assurance | ICT Disaster Recovery | Final | Medium Reasonable | 6 | - | - | 3 |

| Audit Type | Audit Area | Status | Opinion | No of Actions | 1 = High | ↔ | 3 = Medium |
|---------------------|---|--------|-------------------|---------------|----------|---|------------|
| | | | | | Action | | |
| | | | | | 1 | 2 | 3 |
| Assurance | Accounts Receivable Continuous Audit – Period 1 | Final | Medium Reasonable | 4 | - | 1 | 3 |
| Assurance | St Mary’s C of E School | Final | High Reasonable | 5 | - | 1 | 4 |
| Assurance | Housing Benefit and Council Tax Support Continuous Audit Period 1 | Final | High Substantial | 0 | - | - | - |
| Assurance | ICT Network Boundary Defences | Final | Low Limited | 6 | 1 | 3 | 2 |
| Assurance | Pension Fund Key Controls | Final | Medium Limited | 13 | 2 | 9 | 2 |
| Assurance | Ludgershall Castle Primary School | Final | Low Substantial | 3 | - | - | 3 |
| Assurance | Harnham Infants School | Final | High Reasonable | 4 | - | 1 | 3 |
| Assurance | Treasury Management Continuous Audit Period 1 | Final | High Substantial | 0 | - | - | - |
| Grant Certification | Supporting Families May Claim | Final | N/A | - | - | - | - |
| Grant Certification | Supporting Families August Claim | Final | N/A | - | - | - | - |
| Grant Certification | Supporting Families December Claim | Final | N/A | - | - | - | - |
| Grant Certification | Growth Hub | Final | N/A | - | - | - | - |
| Grant Certification | Universal Drug Treatment | Final | N/A | - | - | - | - |
| Grant Certification | Contain Outbreak Management Fund | Final | N/A | - | - | - | - |
| Grant Certification | Superfast Broadband Annual Return | Final | N/A | - | - | - | - |

Page 39

| Audit Type | Audit Area | Status | Opinion | No of Actions | 1 = High | ↔ | 3 = Medium |
|---------------------|---|--------|---------|---------------|----------|---|------------|
| | | | | | Action | | |
| | | | | | 1 | 2 | 3 |
| Grant Certification | Public Health Grant | Final | N/A | - | - | - | - |
| Grant Certification | Local Authority Bus Services Operators Grant (BSOG) | Final | N/A | - | - | - | - |
| Grant Certification | Local Transport Capital Grant | Final | N/A | - | - | - | - |
| Grant Certification | Peer Networks Certification | Final | N/A | - | - | - | - |
| Follow Up | Baseline Assessment of Fraud Risk | Final | N/A | - | - | - | - |
| Follow Up | Brokerage – Adults | Final | N/A | - | - | - | - |
| Follow Up | Care Home Alliance | Final | N/A | - | - | - | - |
| Follow Up | Third Party Spend – Purchase to Pay | Final | N/A | - | - | - | - |
| Advisory | Housing Rents Data Analytics | Final | N/A | - | - | - | - |
| Advisory | Housing Rents Year End Balancing | Final | N/A | - | - | - | - |
| Advisory | Financial Controls – Feeder Systems | Final | N/A | - | - | - | - |
| Advisory | CASPAR Migration Investigation | Final | N/A | - | - | - | - |
| Advisory | School Cheque Fraud Advisory Work | Final | N/A | - | - | - | - |
| Reporting | | | | | | | |
| Follow Up | Category Management | Draft | | | | | |
| Follow up | Procurement Exemptions | Draft | | | | | |
| Assurance | Manor Fields Primary School | Draft | | | | | |

Page 40

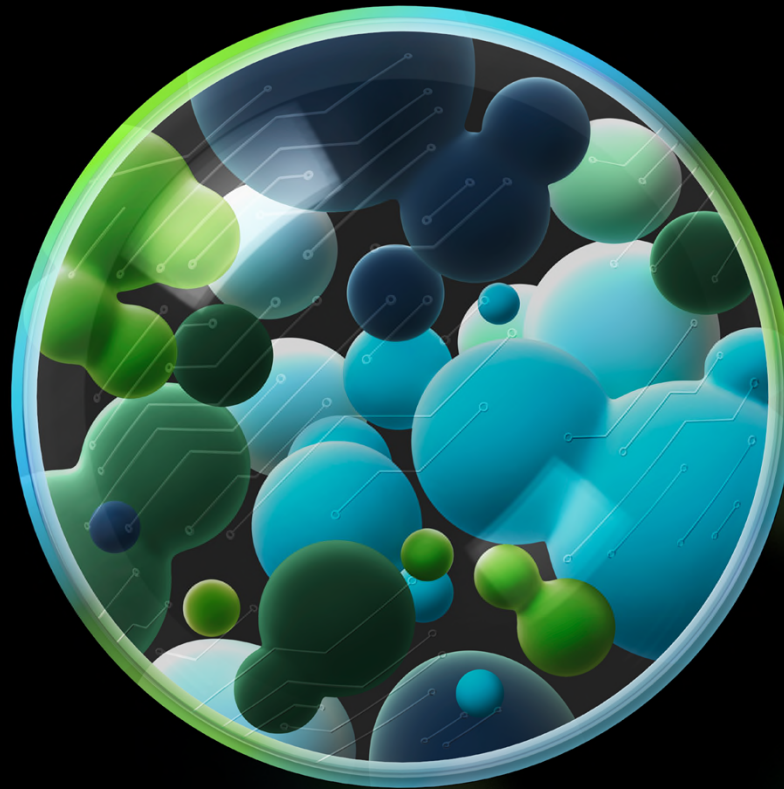
| Audit Type | Audit Area | Status | Opinion | No of Actions | 1 = High | ↔ | 3 = Medium |
|-----------------------|--|-----------|---------|---------------|----------|---|------------|
| | | | | | Action | | |
| | | | | | 1 | 2 | 3 |
| Assurance | Redland Primary School | Draft | | | | | |
| In Progress | | | | | | | |
| Assurance | Council Tax and Business Rates Continuous Audit Period 1 | Fieldwork | | | | | |
| Assurance | Interim Loans | Fieldwork | | | | | |
| Assurance | Section 106 Financial Controls | Fieldwork | | | | | |
| Assurance | Horningsham Primary School | Fieldwork | | | | | |
| Assurance | Main Accounting Continuous Audit Period 1 | Fieldwork | | | | | |
| Assurance | Cannon House Development Plan | Fieldwork | | | | | |
| Assurance | Payroll Continuous Audit Period 1 | Fieldwork | | | | | |
| Work Planned * | | | | | | | |
| Assurance | Better Care Fund | | | | | | |
| Assurance | Climate Change | | | | | | |
| Assurance | Housing Repairs | | | | | | |
| Assurance | Utility Contracts | | | | | | |
| Assurance | Risk Management | | | | | | |
| Assurance | Planning | | | | | | |

Page 41

| Audit Type | Audit Area | Status | Opinion | No of Actions | 1 = High | ↔ | 3 = Medium |
|-------------|--|--------|---------|---------------|----------|---|------------|
| | | | | | Action | | |
| | | | | | 1 | 2 | 3 |
| Assurance | Adult Transformation (CQC) | | | | | | |
| Assurance | Evolve Programme Support (Incl. Data Migration and Reconciliation) | | | | | | |
| Assurance | Procurement | | | | | | |
| Assurance | ICT identity Management in the eCloud | | | | | | |
| Assurance | Longleaze Primary School | | | | | | |
| Assurance | St Osmund's Catholic Primary School | | | | | | |
| Grant Claim | Supporting Families – March 2023 Claim | | | | | | |
| Follow up | Pension Payroll Reconciliation Project | | | | | | |

Page 42

***Please note as indicated earlier in this report that a new approach audit planning has been discussed and agreed with the Chair and Head of Corporate Finance (Deputy Section 151) will be rolled out from April 2023. Further details on this will be provided at the April Audit and Governance Committee. The revised approach aims to deliver an audit service that is able to flex, pivot and be responsive to the needs of the organisation, along with providing the Committee and Senior Council officers real-time information around the work of Internal Audit.**



Wiltshire Pension Fund

Final report to the Audit Committee for the 2020 audit

25 January 2023



Final report

A tailored, insightful and efficient audit delivered
by a team of pension audit specialists

Page 44

Executive summary

The key messages in this report (1/2)

Ian Howse
Lead audit partner



Audit quality is our number one priority.

We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A **robust** challenge of the key judgements taken in the preparation of the financial statements.
- A strong **understanding** of your internal control environment.
- A **well planned** and delivered audit that raises findings early with those charged with governance.

We have pleasure in presenting our Final Report to the Audit Committee for the 2020 audit of Wiltshire Pension Fund (the 'Scheme'). We would like to draw your attention to the key messages of this paper:

Status of the audit

The fieldwork for the Wiltshire Pension Fund audit for the year ended 31 March 2020 was completed in October 2020. However, due to significant delays on the Wiltshire Council audit, the Fund accounts have not been signed to date.

During this time, several post balance sheet events, such as Covid, Brexit, the Russia/ Ukraine issue, the 2020 GMP High court ruling and the gilt crisis have occurred. During the 2021 audit of the Fund, the management has also confirmed that the pensions for the Fund are underpaid due to a difference between SAP and Altair. We are assessing the impact of these events on the financial statements as part of our audit procedures.

The audit is progressing towards completion, to be signed alongside the Wiltshire Council 2020 financial statements. The following procedures have still to be completed and our final opinion is subject to the below:

- Review of the support for pensions underpaid due to the differences in SAP and Altair and receipt of any underlying information as a result of this review;
- Completion of our internal quality review procedures;
- Receipt of the signed representation letter from the Audit Committee; and
- Receipt of the management's assessment of the post balance sheet events and the completion of our post year-end events review.

Subject to the satisfactory receipt and the completion of the items above we expect to issue an unmodified audit opinion on the financial statements.

Significant audit risks

Our audit has been carried out in line with the risk assessment set out in our planning paper, dated 5th February 2020. Our significant audit risk is:

- Management override of controls;

Although not assessed as significant risks, we have assessed the following to be areas of audit focus:

- Completeness and accuracy of the asset transfer to Brunel Pension Partnership Limited;
- Valuation of alternative investments;
- Completeness of investments and investment disclosures;
- Accuracy of benefits paid (lump sums and transfers out); and
- Accuracy of benefits paid (pensions)

We have also added the following audit focus area to those highlighted in our planning report dated 5th February 2020:

- Completeness and accuracy of membership data

We have commented on why the completeness and accuracy of membership data has been increased to an audit focus area on slide 12.

Audit Quality

We are committed to keeping the Audit Committee updated on pension industry topical events and have included in our planning report developments in respect of the updated prosecution policy published by TPR, notifiable events regime, TCFD and the single code of practice that should be considered by those charged with governance.

Our audit approach is tailored to providing the Audit Committee with an audit which is designed to provide assurance and insight over the Fund control environment.

We have utilised specialists through our audit to support the robustness of our work in areas such as IT. We have listed the observations in Appendices 1 and 2 on pages 25 to 28.

Independence

We confirm we are independent of the Fund and that our objectivity has not been compromised for the year ended 31 March 2020.

Executive summary

The key messages in this report (2/2)

Going concern

We are required to directly opine on the going concern of the Fund in our audit opinion on the financial statements. As part of this process, details of the work we have performed around going concern are detailed below:

- Reviewed the Audit Committee's assessment of going concern, taking into consideration the financial position and its arrangement with the employers and the funding level;

Page 46
Obtained the latest publicly available information regarding the financial position of the administering authority (Wiltshire Council) to support the Audit Committee's assessment of going concern;

Analysed the latest funding strategy statement of the Fund;

- Reviewed management's assessment of the timeliness of receipt of employer contributions received after 31 March 2020 to 31 March 2022; and
- Reviewed minutes of the Audit Committee and Committee meetings which took place between 2020 and 2022.

We agree with the Audit Committee that the Wiltshire Pension Fund remains a going concern.

Non-compliance with laws and regulations, including fraud

In our Audit Report in the financial statements we are now required to directly report on the extent to which the audit was considered capable of detecting irregularities, including fraud and other matters of non-compliance with laws and regulations. To enable us to do this our procedures have involved:

- Reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- Performing analytical procedures to identify unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Enquiring of the Audit Committee concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations;
- Reading minutes of Audit Committee and subcommittee meetings and reviewing correspondence with the Pensions Regulator; and
- Performing specific procedures to respond to the risk of management override of controls – see page 8 for further details on this.

We have not identified any issues of non-compliance with laws and regulations, including fraud, from our audit testing performed to date, barring the delay in Fund accounts.

GMP Equalisation

On 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. Subsequently, on 20 November 2020, the High Court ruled that pension schemes will need to revisit individual transfer payments made since 17 May 1990 to check if any additional value is due as a result of GMP equalisation.

No GMP equalisation estimate has been made for the Fund for the year ended 31 March 2020 as the GMP information on the Fund was in analysis stage, therefore, no amount has been recognised within the financial statements.

The McCloud Case

On 21 December 2018, the Court of Appeal held that transitional protections that protected older judges and firefighters from the public sector pension scheme changes in 2015 were unlawfully discriminatory. This case is known as the 'McCloud case'. On 26 March 2020, a ministerial statement confirmed that detailed proposals for removing the discrimination would be published in 2020 and be subject to public consultation. The impact for the McCloud case as at 31 March 2020 has been calculated at £1.9m.

As the amount is not material, no amount has been recognised within the financial statements. Given that this has not yet been recognised within the financial statements as a provision, and the Audit Committee is not expecting to make adjustments in the 2020 accounts, we have included this in the letter of representations as an uncorrected misstatement as the amount is more than our clearly trivial thresholds of £0.805m. Please also refer page 25 of this report.

Materiality

Our Approach to Materiality

BASIS OF OUR MATERIALITY BENCHMARK

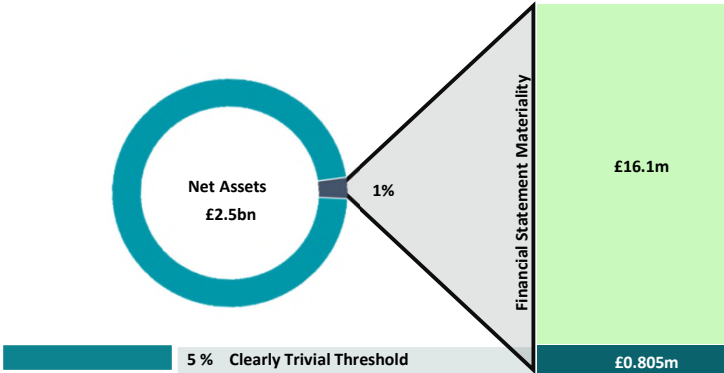
- We set materiality for our opinion on the individual financial statement as £16.1m (PY:£23m), based on professional judgement, the requirement of auditing standards, the net assets of the Fund.
- We used 1% of Fund net assets as the benchmark for determining our materiality levels (£25m). However, we then capped the materiality at £16.1m in order to be consistent with the materiality on Wiltshire Council for the year ended 31 March 2020.

REPORTING TO THOSE CHARGED WITH GOVERNANCE

- Our reporting threshold of £0.805m (PY: £1.2m) is set at 5% of our materiality level above. As per our planning report (page 7) the council materiality was capped at £16.1m and hence the Fund materiality is also capped at the same amount.
- There have been three uncorrected misstatements and two corrected misstatements above our clearly trivial threshold. There have also been five corrected disclosure deficiencies noted during the audit, all of which have been outlined in Appendix 1.









































MATERIALITY CALCULATION

Although materiality is the judgement of the audit partner, the Audit Committee must be satisfied the level of materiality chosen is appropriate for the scope of the audit.



Risk Dashboard








Significant risks and audit focus areas

| Risk Identified | Material Balance | Management Judgement | Proposed Approach | Fraud Risk | Further Details |
|---|---|---|---|---|-----------------|
|  Significant risk Management override of controls |  |  |  |  | Page 8 |
|  Audit focus area Valuation of Alternative investments |  |  |  |  | Page 10 |
|  Audit focus area Accuracy of benefits paid (lump sums and transfers out) |  |  |  |  | Page 11 |
|  Audit focus area Accuracy of pensions paid |  |  |  |  | Page 12 |
|  Audit focus area Completeness and accuracy of membership data |  |  |  |  | Page 12 |
|  Audit focus area Completeness of investments |  |  |  |  | Page 13 |
|  Audit focus area Completeness and accuracy of the asset transfer to Brunel Pension Partnership Limited |  |  |  |  | Page 13 |
|  Audit focus area Completeness of investment disclosures |  |  |  |  | Page 14 |

Significant Risk: risks which require a tailored, elevated audit response in terms of the nature, timing and extent of audit testing. The determination of significant risks are based on professional judgment and the results of the risk assessment procedures we have performed.

Audit Focus Areas: risks which require additional audit consideration beyond that of normal risks, but where the potential for material misstatement or the likelihood is lower than that of a significant risk.

*As per discussions with the Audit Committee, we have not utilised our actuarial specialists to revalue a sample of transfer values paid out during the year as no issues have been noted in previous periods in respect of transfer values. Therefore, this is considered to be a normal risk and therefore has not been referred to further in our report. With the exception of the specialist recalculation, our procedures in respect of this balance have remained unchanged.

| | | | | | | |
|--|---------------------------|---|--|---|-------------------------|-----|
|  | Significant Risk |  | Low levels of management judgment/complexity |  | Design Implementation | and |
|  | Other area of audit focus |  | Medium levels of management judgement/complexity |  | Operating Effectiveness | |
| | |  | High degree of management judgement/complexity | | | |



Significant risk

Significant risk

Management override of controls



Risk identified

In accordance with ISA 240 (UK) management override is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.



Response of those charged with governance

The Audit Committee does not have access to the Fund accounting system and does not process any journals in respect of the Fund.

- The financial reporting process in place has an adequate level of segregation of duties.



Conclusion

We have identified a control deficiency over the segregation of duties in place which has been highlighted in Appendix 2.

We have not identified any incentives for the accounting staff to misstate the Fund accounts and our review of journal entries revealed no instances of management override of controls.



Deloitte response and challenge

In order to address the significant risk our audit procedures consisted of the following:

- made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- performed a walkthrough of the financial reporting process within the Wiltshire finance team to identify the controls over journal entries including adjustments posted in the preparation of the financial statements;
- tested the design and implementation of controls around the journals process ensuring that there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year;
- Tested the design and implementation of controls around the investment and disinvestment of cash during the year;
- Utilised Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted across the Fund. This uses intelligent algorithms that identify higher risk and unusual items which we then investigated; and
- Reviewed the accounting estimates for bias, such as year-end creditors, debtor postings, the valuation of unlisted investments, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management.



Audit focus areas

Valuation of alternative investments



Risk identified

The Fund has a diverse portfolio of investments, containing some assets regarded as alternative investments. These alternative investments, include property, infrastructure and emerging market debt and equity funds.

State Street do not independently value these investments and therefore the valuation of these investments is supplied directly by the fund managers and is subject to an element of judgement on behalf of the fund managers due to the unobservable inputs used in their valuation calculations. Due to the specialist nature of these investment types, the valuation is more judgmental which increases possibility of material misstatement.



Deloitte response and challenge

We performed the following procedures to address this area of audit focus:

- reviewed the design and implementation of controls over the reporting and monitoring of investments by the finance team;
- tested the design and implementation of the controls around the valuation of alternative investments for a sample of alternative investment fund administrators;
- vouched all alternative investment valuations to independently received statements; and
- For a sample of alternative investments, we have;
 - inspected the latest audited financial statements and confirmed that the audit opinion was unqualified; and
 - compared the reported valuation to that included in the latest audited accounts for the fund in question. Where the audited accounts were not coterminous with the Fund's year end we have rolled forward the audited valuation adjusting for purchases, sales, distributions, capital calls and market value changes by reference to an independently sourced external benchmark. Recalculated values have then been compared to the recorded value and any difference assessed against a statistical threshold.
 - Proposed appropriate stale price adjustments to the financial statements for alternative investments.



Conclusion

We identified stale pricing adjustments of £11.779m in the year on the valuation of pooled investment vehicles when comparing the custodian statement and the directly obtained confirmations from investment managers. Management adjusted for this stale pricing at year end. A breakdown of the pooled investment vehicles impacted by the stale pricing is provided in Appendix 1.

We also identified an adjustment due to FX rate differences between Baillie Gifford (investment manager) and State Street. Management has used the State Street valuation to create the accounts and have not adjusted for these FX rate differences. The differences occurred in the value of investment purchases, sales and change in market value due to different HKD, EUR and USD rates being used by the custodian and investment manager. The total adjustment proposed is £3.381m. A breakdown of this adjustment has been provided in Appendix 1.

We recommend that the management recognizes the difference between the investment manager and custodian and adjusts for this in the financial statements.

Audit focus areas

Accuracy of benefits paid (lump sums and transfers out)



Risk identified

The risk principally relates to the inaccurate application of the LGPS regulations and rules to the calculation of retirement benefits and transfers out paid during the Fund year. The administration team use Altair to calculate retirement benefits and the payment of benefits is dependent on systems-based processing together with an internal control framework in place

Incorrect benefits calculations and/or making payments to the wrong members, or people who are not eligible for benefits, can lead to misstatement of the financial statements, financial loss, pensioners being wrongly paid, reputational damage and breaches of the Pensions Acts.



Deloitte response and challenge

We performed the following procedures to address this area of audit focus:

- tested the design and implementation of key controls operating within the Altair infrastructure around the accuracy of lump sum retirements and changes to Altair in respect of actuarial factors and reviewed the process that Fund management have put in place to ensure benefits and transfers out are paid in accordance with the LGPS Regulations & Rules;
- agreed a sample of benefits paid to the calculations and payment including both lump sum and transfers;
- agreed a sample of benefits paid through to a signed option form to ensure that it was in line with members wishes;
- reviewed the member file for a sample of benefits paid to ensure adequate sign off of all internal processes; and
- for a sample of transfers out, confirmed that the receiving Scheme is an HMRC registered Scheme.



Conclusion

We have not identified any errors to report to the Committee as a result of our audit testing.

We identified a control finding in relation to the accuracy of transfers out paid which has been highlighted in Appendix 2. As noted for member ID 1437159E, the payment authorised by the member of the pension's team was outside the employee's authorisation limits.

We have responded to this control finding by assessing the risk of accuracy of lump sums and transfers out as an audit focus area in the following year. We have also tested additional samples as part of our substantive testing as a result of this finding in the current year.

Audit focus areas

Accuracy of pensions paid



FOCUS AREA



Risk identified

The risk principally relates to the accuracy of a material amount of pensions paid by the Fund during the year.



Deloitte response and challenge

We performed the following procedures to address this area of audit focus:

- reviewed the design and implementation of key controls over the calculation of pensions paid;
- for the sample of months selected, agreed the amount as per pension payroll report back to the pension paid from the Fund bank account;
- for a sample of lump sum benefits paid, agreed that these are added to the pension payroll timely and accurately; and
- performed an analytical review on pensions paid by the Fund in the year to assess the reasonableness of the balance.



Conclusion

During our audit of the 2021 Fund financial statements, we were made aware of an error noted between SAP and Altair which resulted in a provision for underpaid pensions of £8.2m recognised in the 2021 financial statements. No provision has been recognised in this respect in the 2020 accounts, however, we have estimated the impact of this provision for 2020, which has been included in Appendix 1. We are currently working on auditing this estimate.

We identified a number of control findings in relation to the accuracy of pensions paid which have been highlighted in Appendix 2.

Page 54

Completeness and accuracy of membership data

The accuracy of pensions paid was increased to an audit focus area in the year due to a finding in the 2021 audit of the Wiltshire Pension Fund, around the reconciliation of pensioners between the Fund's payroll ledger and Altair (the Fund's membership database). This also resulted in a provision for underpayment of pensions in the 2021 Fund accounts.



FOCUS AREA



Risk identified

The risk principally relates to the accuracy and completeness of member data due to ineffective reconciliation of new pensioners and new dependents between Altair and SAP.



Deloitte response and challenge

We performed the following procedures to address this area of audit focus:

- for the sample of members selected, agreed the members as per membership reconciliation provided via Altair, to the schedule of lump sums and transfers out paid;
- performed a completeness check on the membership reconciliation by reconciling the active members and pensioners to the respective contributions and pensioner payroll reports.



Conclusion

We identified small differences of less than 1% of member population in the reconciliation between active members and contribution payroll report as at 31 March 2020 and pensioners as per Altair and the pensioner payroll report from SAP as at 31 March 2020.

We recommend that the management reconcile the membership differences between SAP and Altair.

Audit focus areas

Completeness of investments



Risk identified

Due to the nature of the investment holdings, there are a significant amount of transactions during the period and therefore there is a risk that these are not accurately or completely recorded.



Deloitte response and challenge

We performed the following procedures to address this area of audit focus:

- tested the design and implementation of controls around the processing, recording and reconciliation of investment transactions at Statestreet; and
- audited the cash and market value reconciliations performed by Statestreet.



Conclusion

We identified an adjustment in the sales within the Other PIVs balance. Management have adjusted for these in the financial statements and this is included within the corrected adjustments in Appendix 1.



Risk identified

Due to the Government announcement that Local Government Pension Schemes must pool their assets together in order to reduce the cost of investing to the public purse, the Fund has agreed to become part of the Brunel Partnership pool. During the year the Fund transferred two tranches of assets to the Brunel Partnership pension fund.

The transfer of these assets is an area of focus given the need to determine the completeness and accuracy of the transfer of these assets.



Deloitte response and challenge

We performed the following procedures to address this area of audit focus:

- reviewed the investment transition for investments into the Brunel pool and traced through all cash movements ensuring that the value of sales equalled the value of purchases on the day of the transfer; and
- confirmed the completeness and accuracy of the values of the assets transferred by comparing the closing balances of the assets as per the client management breakdown and the LGIM transition report to the balances held at Brunel Partnership.



Conclusion

No issues have been noted in respect of any procedures performed.

Completeness of investment disclosures



Risk identified

The Fund holds a diversified portfolio of investment assets. As this is the largest balance in the financial statements, includes various different investment types, and the impact of Covid-19 on the market value, disclosure requirements and gating of investments, the investment disclosures could be prone to error. Therefore, accuracy of investment disclosures is an audit focus area for the current year audit.



Deloitte response and challenge

We performed the following procedures to address this area of audit focus:

- reviewed and assessed the appropriateness of the classification of investment assets and liabilities within the investment disclosures;
- independently confirming if the funds are gated or have material uncertainty associated with them at year end. If so, ensuring that the fair value hierarchy disclosure reflects the same.



Conclusion

We identified a number of investment disclosure deficiencies included within the corrected and uncorrected adjustments in Appendix 1 on page 26.



Purpose of our report

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations.
- Our internal control observations.
- Other insights we have identified from our audit.

Use of this report

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Audit Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

Our topical matters provide the Audit Committee with some insight in to relevant topical events in the pensions industry.

We will update you if there are any significant changes to the audit plan.

Deloitte LLP
Cardiff | 25 January 2023

01

02

03

04



Topical Matters

Key audit matters

Page 59

Topical matters

New, consolidated and simplified enforcement policy and updated prosecution policy published by TPR



KEY DETAILS

On 4 May 2022, The Pensions Regulator (TPR) published for consultation its new, consolidated and simpler draft enforcement policy and an updated prosecution policy to help stakeholders understand the regulator's approach.

The enforcement policy simplifies and consolidates previous policies for public sector and occupational pension schemes or all types i.e. defined benefit, hybrid and defined contribution pension schemes. Both policies have been updated to include the new powers granted to the regulator in the Pensions Scheme Act 2021 and to reflect knowledge and experience gained by TPR using the existing enforcement powers. The principal aim is for TPR to be clearer about all its enforcement powers through more streamlined policy documents.

The new powers aim to strengthen the TPR's regulatory framework, allowing it to gather evidence more efficiently and respond to events or conduct that could affect schemes. The Pensions Scheme Act 2021 also introduced several sanctions and deterrents against conduct that could put members' pensions at risk or impede the regulator's investigations. **Deloitte have previously provided a topical update slide on the Pensions Scheme Act 2021 and this can be provided again on request.**

Speaking about the policy updates David Fairs, TPR's Executive Director of Regulatory Policy, said: "We want to be clear with the pensions industry about our approach to enforcement and prosecution. With our new powers to help us ensure savers' money is secure, we felt it was timely to review our existing policies and consolidate them where possible, so they are easier to navigate. These two policies explain what targets or those affected by enforcement action should expect from TPR, from the point of our opening an investigation through to the conclusion of any enforcement action. We've simplified, consolidated and clarified the way in which our regulated community accesses important information about enforcement."

Enforcement policies for automatic enrolment, master trust authorisation and upcoming CDC schemes are not included in new draft enforcement and prosecution policies discussed above.

Deloitte view: The above consultation closed on **24 June 2022**. The Audit Committee should familiarise itself with the draft policy documents and the powers available to the TPR around enforcement and prosecution and consider responding to the consultation should they consider this appropriate to do so.

Article source: TPR website

Topical matters

Upcoming changes to the Notifiable Events regime



KEY DETAILS

Audit Committees and sponsoring employers of DB schemes are required to notify TPR of certain events relating to the scheme and/or the employer (known as “notifiable events”)

The Act sets the scene for the introduction of new Notifiable Events, and TPR has consulted on draft regulations which are expected to make certain corporate activities notifiable events. The new requirements to notify TPR will be triggered following a “decision in principle”:

- by a controlling company to relinquish control of a sponsoring employer, or if there is an offer to acquire control of the employer where there has been no decision in principle to relinquish control;
- by the employer to sell a material proportion of its business (25% or more of annual revenue) or a material proportion of its assets (25% or more of the gross value of its assets); or
- by the employer or its subsidiaries to grant or extend security over assets in priority to the scheme. Generally, this would mean a fixed or floating charge at a level of 25% or more of either the employer’s consolidated revenue or its gross assets.

The obligation to notify extends to a “material change” in respect of any of the new events or their expected effects. The Government also intends to introduce a requirement for an “accompanying statement” to be provided to TPR (copied to Audit Committees) in relation to these events (and also the relinquishing of control by a controlling company) which includes a description of any adverse effects on the eligible scheme, any mitigating steps being taken, and any communications with the Audit Committees of the scheme.

Anticipated impact

- Decisions to sell a business or assets, or to grant or extend security over assets may need to be notified - these were not caught by the previous notifiable events regime.
- Likely to broaden the need for employers to disclose details of planned corporate activities to Audit Committees.
- Compliance will be crucial as penalties for breach will be much higher than currently i.e. up to £1 million rather than £5,000 for individuals and £50,000 in other cases.

Deloitte view: The Audit Committee should consider the upcoming changes to the notifiable events routine and ensure that appropriate channels of communication are in place with the sponsoring and participating employers to ensure you are kept up to date with any events that would be considered a notifiable event.

Topical matters

TCFD update, illustrative example made available by TPR



KEY DETAILS

The TPR has published on 23 February 2022 an illustrative example aimed at helping Audit Committees and advisers work through the comprehensive new duties on climate-related governance and reporting. The example seeks to address specific requests for more information and examples received by TPR from the pensions industry during its eight-week consultation. It is intended to help develop an understanding of how Audit Committees and advisers might approach implementing the requirements of the new regulations at a practical level. The example provides information relevant to Audit Committees and advisers of any scheme seeking to comply with the new regulations. From October 2022, more schemes with relevant assets over £1bn are set to come into the scope of these rules, so Audit Committees and advisers need to ensure they are familiar with the relevant guidance in this area and the illustrative example may be helpful.

Page 62



TCFD REPORTING

Many pension schemes with assets >£5bn and from October 2022 those schemes with assets >£1bn will be required to publish their annual TCFD statement. The requirement is to make this available on a publicly available website. The ICAEW Pension Sub-Committee, at which Deloitte are represented, recently raised the issue with the Financial Reporting Council as to whether the TCFD statement falls within the definition of 'Other Information' under International Standard on Auditing (ISA) 720.

Provided the Annual Report sign posts to where the TCFD statement has been published and that this 'does not form part of the Annual Report and Accounts' then this will not be treated as 'Other Information' under IAS 720. Practically, this means that the insertion of a link to the TCFD statement in the Annual Report does not mean that the TCFD statement should be treated as Other information and the statement is therefore outside of the scope of our audit. The Audit Committee may still wish for the TCFD statement to be reviewed/benchmarked by Deloitte for helpful best practice guidance but this would be outside of the agreed audit fee.



Audit Committee investment responses to Russia/Ukraine

The global response to Russia's invasion of Ukraine continues to escalate with ever increasing sanctions being imposed on Russia and people connected to the Russian State. Many Trustee directors will be considering the immediate impact of the invasion, their exposure and how they should respond now and in the future as sanctions continue to be imposed.

From our experience of dealing with clients thus far, most UK pension schemes have extremely low exposure to investments in Russia. However, we know that some Trustees along with their investment advisors, are reviewing their investment policies and mandates to limit or exclude investment managers investing in certain Russian entities or bonds all together. Immediate actions that Trustees may consider taking are the following:

- Check managers and custodians have policies in place to comply sanctions as they continue to evolve;
- Liaise with investment managers and advisers to quantify direct and indirect exposure (through pooled investment vehicles) to Russian investments;
- If the scheme has direct exposure, consider the options available, for example divestment; and
- Consider the need for disclosure in the Annual Report about the actions the Trustees have been taking and any proposed future steps that will be taken pro-actively.

Topical matters

Single code of practice (1/2)

The Pensions Regulator’s Single Code of Practice (the “Code”) is expected to come into effect this summer. At a total of 149 pages, the Code consolidates and updates 10 of the 15 existing separate TPR Codes of Practice. The “Code” is detailed and requires Trustees to review the effective governance system of their scheme. There is not a firm publication date for the new Code, however it is likely to become effective around Summer 2022. It also requires that Trustees carry out an Own Risk Assessment in respect of their scheme by Summer 2023.

OWN RISK ASSESSMENT

The Code sets out the new requirement to produce an Own Risk Assessment (“ORA”), which requires Trustees to assess the effectiveness and risks of the scheme’s system of governance. There is no requirement to publish the ORA or send it to TPR, but TPR expects schemes to record their ORA. It is expected that the first time Trustees prepare an ORA, it “may be a significant piece of work” and you should therefore ensure that enough time and resources is available to complete the ORA. Schemes will have 12 months from the date that the Code comes into force to document their first assessment.

It is expected that many schemes will already have broadly comparable review processes to the ORA in place already, while others will have to expand their processes considerably. The best run schemes will therefore have less work to do, however the ORA will not be a tick-box exercise and is intended as a tool to focus governing bodies on their policies, processes and procedures in a way they may not have done before.

Note that the new requirement for an ORA is not expected to apply to schemes with fewer than 100 members.

Below we have shown some of the requirements of TPR’s Single Code of Practice. Some requirements in the existing Codes of Practice have been carried over into the Single Code.

Governing body

- Requirements relating to trustee selection, in particular the selection of MNTs, and establishing a written remuneration policy.
- Requirements for what must be included in meeting minutes, and an expectation that for most schemes trustees there will be a need to meet at least quarterly.
- Trustees must meet various Trustee Knowledge and Understanding requirements, including building and maintaining knowledge as it relates to pensions legislation and scheme-specific information. Trustees are to maintain a list of items all trustees should be familiar with.
- All schemes should have an effective system of governance (ESOG), including identifying and assessing risks, internal controls and consideration of conflicts of interest.

Funding and investment

- The Code requirements cover investment governance, decision making, investment monitoring and stewardship (including considerations regarding ESG and climate change).
- Requirements include trustees having a good working knowledge of investment matters for the scheme, understanding their investment powers and duties, appointing a suitably qualified adviser, and preparation of the statement of investment principles and an annual implementation report.
- Trustees should document objectives, roles, responsibilities and reporting relationships; have written policies covering the use of advisers; and document any changes to investments and investment strategy.

Administration

- Trustees should maintain sufficient knowledge of administration, receive appropriate reports from administrators, and ensure administrators have a business continuity plan that is reviewed at least annually.
- The Code sets out requirements around member transfers, re-emphasises the industry-wide guidance in relation to scams, and includes specific requirements for DB to DC transfers (valued at £30k or more where members must receive appropriate independent advice).
- The Code requires that schemes carefully manage data, incorporating suitable record-keeping, data-monitoring and establishing policies around cyber controls. It specifically requires Trustees to “have knowledge and understanding of cyber risk”.
- Trustees are to maintain a record of contributions expected and received, and must put in place processes to facilitate the monitoring of contributions.

Topical matters

Single code of practice (2/2)



COMMUNICATIONS AND DISCLOSURE

- The Code sets out general principles for member communications, including ensuring all communications for members are accurate, clear, concise, relevant and in plain English.
- The Code also includes requirements for specific communications, e.g. summary funding statements and benefit statements.
- Trustees must put in place formal procedures and processes to investigate and decide upon pension scheme disputes quickly and effectively.



REPORTING TO TPR

- The Code (together with further guidance from TPR) sets out requirements around information to be registered with TPR and scheme returns.
- The Code also details the requirements around reporting breaches of the law and whistleblowing.

Page 64

Deloitte view: The new single code of practice at 149 pages is a vast document and introduces a raft of new and existing requirements of Trustees. Scheme Trustees should consider reviewing the consultation document, interim consultation responses and the full draft to ensure they are fully up to speed with the requirements. One of the key requirements of the Code will be for the Trustees to demonstrate they have and operate an effective system of governance. A key part of this hinges on internal controls and risk management. Deloitte have provided a further topical update slide on the risk management cycle that Trustees may find useful in applying to their specific scheme environment.



Topical matters

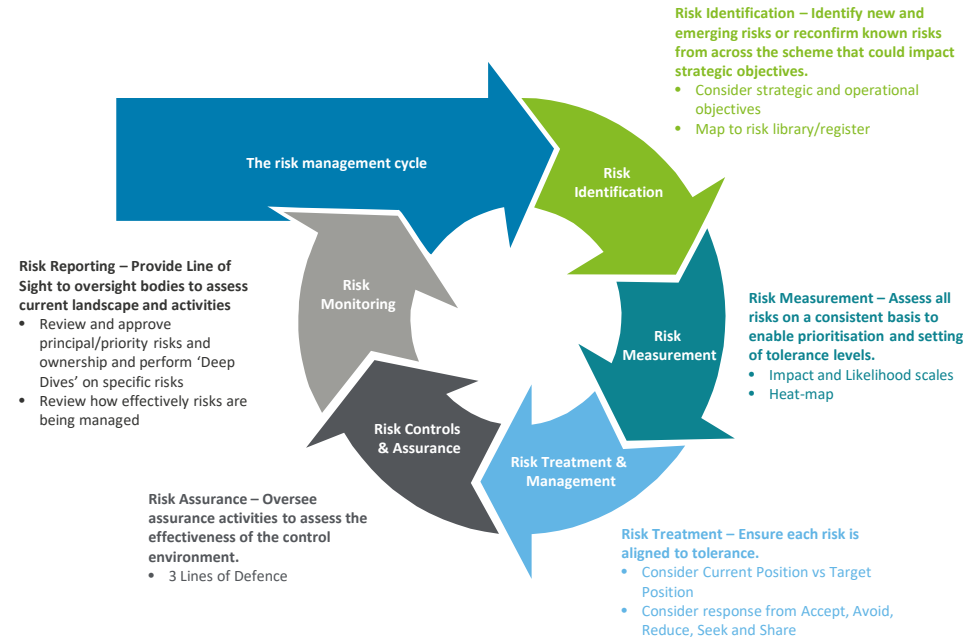
Single code of practice and risk management

The governance regulations have introduced a new requirement for most occupational schemes to have and operate an effective system of governance. Perhaps the single most important aspect of establishing effective systems of governance is the fact that they hinge on internal controls and risk management. The Trustees should monitor the scheme's risk management and internal control and, at least annually, carry out a review of their effectiveness. The monitoring and review should cover all material controls, including financial, operational and compliance controls and could have a rotational assurance plan involving second and third lines of defence.

Some questions that the Trustees should be asking themselves in response to this include:

- Do you have a clear overview of the various elements that make up your system of internal control?
- Have you defined your material controls within your risk register and details of when they were last tested?
- How are authority, responsibility and accountability for risk management and internal control defined, co-ordinated and documented?
- What are the channels of communication that enable individuals, including third parties, to report concerns, suspected breaches of laws or regulations, other improprieties or challenging perspectives?
- How does the board satisfy itself that the information it receives is timely, of good quality, reflects numerous information sources and is fit for purpose?
- How effectively does the Trustee capture new and emerging risks and opportunities?

The key for Trustees to be able to respond to the questions above and the requirement to operate an effective system of governance is to have an effective system of risk management in place. One way the Trustee may wish to do this is through the risk management cycle detailed below. This model can be applied to new and emerging risks but equally aspects of the model can be applied to existing risks and controls.



Deloitte view: Trustees are required to operate an effective system of governance and ensure appropriate controls are in place across the scheme. In establishing this there should be appropriate oversight, systems, processes and reporting in place. A robust control environment is a pre-requisite for an effective audit, as audit standards require us to test key and relevant controls.

01

02

03

04



Appendices

Key audit matters

Appendix 1: Audit Adjustments

Corrected and uncorrected account balance and disclosure misstatements

| Detail | Debit/ (credit) Fund Account £m | Debit/ (credit) Net Asset Statement £m |
|---|------------------------------------|---|
| Uncorrected misstatements identified | | |
| FX Rate differences on transaction during the period | | |
| Marketable security investments | £3.38 | |
| Change in Market Value | | (£3.38) |
| Provision for McCloud case | | |
| Operating expenses | £1.90 | |
| Payables | | (£1.90) |
| Provision for benefits underpaid* | | |
| Benefit payments | £5.8 | |
| Payables | | (£5.8) |
| Corrected misstatement identified | | |
| Stale pricing of pooled investment vehicles due to Covid 19 pandemic | | |
| Marketable security investments | (£11.78) | |
| Change in Market Value | | £11.78 |
| Understatement of Sales within Other PIVs balance | | |
| Marketable security investments | (£0.29) | |
| Change in Market value | | £0.29 |

* We have estimated the amount of benefits underpaid by rolling back the latest estimate provided by the management to 2020. We are in the process of auditing the inputs into this estimate and assessing the completeness and accuracy of this estimate.



Appendix 1: Audit Adjustments

Corrected and uncorrected account balance and disclosure misstatements (Continued)

| Detail | Debit/ (credit) Fund Account £m | Debit/ (credit) Net Asset Statement £m |
|--------|------------------------------------|---|
|--------|------------------------------------|---|

Corrected disclosure misstatement identified

All of the disclosure misstatements below have been corrected in the attest version of the Fund financial statements:

1. CIPFA, PFA 8 a) requires the analysis of pooled investment vehicles (analysed between unit trusts, unithold insurance policies and other managed funds, showing separately, those funds invested in property) which was not disclosed within the investment disclosures in the draft financial statements.
2. CIPFA guidance PFA 23 3h) requires a description of the sensitivity of the fair value measurement to changes in unobservable inputs in the financial statements, and this was not disclosed within the investment disclosures in the draft financial statements.
3. There is a disclosure requirement under CIPFA guidance in the financial statements around how the fund manages and mitigates the interest rate risk which some of the Funds' investments are susceptible to. This disclosure was not included in the financial statements.
4. The composition of the investment assets held at year end did not fall within the acceptable ranges on a number of different asset classes specified within the interim position detailed in the investment strategy statement. Therefore, at year end, the Fund was in non compliance with the investment strategy statement.
5. Reclassification of funds from level 2 to 3:
Due to the impact of Covid 19, post 31 March 2020, some funds were gated and had material uncertainty clauses surrounding these funds. These were the UBS GBL Asset Management Triton Property Unit Trust, the CBRE Global Investment Partners Global Alpha Fund CT3, the Standard Life Long Lease Fund and the CBRE Global Investors Mutual Fund. The Fund financial statements initially included these within level 2 in the Fair Value Hierarchy disclosure. Based on our audit testing, these funds were moved from level 2 to level 3.



Appendix 2: Internal control recommendations

During the course of our audit, we identified the following control observations.

| Title | Description | Recommendation |
|---|---|--|
| 1 Lack of controls over preparation of investment disclosures | <p>During the audit, we noted a number of instances where the disclosures were not in accordance with the CIPFA checklist or errors were noted in the investment disclosures as part of the audit.</p> <p>Recommendations have been made in the management letter around the following disclosures:</p> <ul style="list-style-type: none"> - Analysis of pooled investment vehicles - Sensitivity of fair value measurement to changes in unobservable inputs - Analysis of interest rate risk disclosures - Compliance with Statement of investment principles - Reclassification of investments in FVH hierarchy disclosures <p>Errors noted within investments relate to a difference in FX rate between Baillie Gifford and Statestreet, resulting in an uncorrected misstatement.</p> | <p>We recommend that the management perform a detailed review of all investment disclosures with Statestreet before the audit commences, to ensure that there is a clear audit trail supporting all the investment disclosures made in the accounts and that this fully reconciles to the draft accounts.</p> <p>We also recommend that the management assess the impact of the difference in FX rates used by the custodian and investment managers as part of their review of the financial statement.</p> |
| 2 Lack of benefit controls | <p>The member reconciliation performed between SAP and Altair has identified a number of differences between members and benefits paid to members. This has resulted in a provision to be included in the 2021 accounts and an assessment of the impact of the provision in the 2020 accounts of the Fund.</p> | <p>We recommend that the management review the impact of the benefit provision model on the 2020 and subsequent financial statements.</p> |
| 3 No authorisation of transfer value payment | <p>We have tested the controls around the transfer out process. For the member ID 1437159E, the payment was authorised by Jennie Green who is allowed to authorise payments of up to £100k. However, this transfer value was above this threshold (£131,999.79) and was therefore outside her authorisation limits.</p> | <p>We recommend that management implement a formal control to ensure that authorisation limits are adhered to in respect of payments made outside the Fund.</p> |
| 4 No evidence of review of financial statements | <p>During the review of controls around the preparation and review of the financial statements, we were informed that the accounts are reviewed by Jennifer Devine and the Board members, however there is a lack of physical evidence of the review, with queries and resolutions typically being made verbally. This lack of control means that there is no sufficient challenge of the account balances and the financial statements as a whole.</p> | <p>We recommend that management implement a formal control to ensure that reviews performed are appropriately documented to respond to the risk of management override of controls.</p> |
| 5 Improvement of membership controls | <p>We have noted that the controls in the following areas need to be improved:</p> <ul style="list-style-type: none"> - Reconciliation of new pensioners and new dependants between the Altair Pension system and SAP Pensions Payroll on a monthly basis. - Reconciliation of Altair and SAP Payroll, to provide further assurance that payments made to pensioners reconcile between the two systems; - Review and authorisation process for calculations of benefit: We noted that the pensions team at Wiltshire did not evidence the review of preparation and review of benefits calculation. | <p>We recommend that management implement formal controls over the benefit payments and membership reconciliation process.</p> |
| 6 User access review (IT) | <p>User access review is carried out on an ad-hoc basis, whenever there is a new joiner or a leaver. This is not performed frequently and consistently to ensure that existing users have the appropriate access based on their job roles and responsibility.</p> | <p>We recommend that management carry out user access reviews frequently and on a consistent basis.</p> |

Appendix 2: Internal control recommendations (Continued)


During the course of our audit, we identified the following control observations.

| Title | Description | Recommendation |
|---|---|---|
| 7 No IT disaster recovery and business continuity test has been carried out | <p>There are currently no formal restoration test procedures in place at Wiltshire Council and no disaster recovery test has been performed during the audit period.</p> <p>Business Continuity plans have never been tested at Wiltshire Council however there are plans to carry out a test in the next financial year.</p> | We recommend that management implement a formal disaster recovery plan and carry out regular business continuity tests. |
| 8 Altair Leavers Process and User Access Review (IT) | Through enquiry with Mark Anderson (System Data Quality Manager), it was noted that the leavers' process on the Altair platform is not formally documented. No notifications are received from HR and access is removed based on the Systems Team's knowledge of the current employees at Wiltshire Pension Fund. Furthermore, there is no formal user access review process in place. User access reviews are only performed whenever there is a new joiner or leaver. Management does not review the level of access of each user on a regular basis. | We recommend that the a formal user access review is implemented to take place on a regular basis. |
| Third Party Monitoring (IT) | <p>Changes are developed and deployed by the third party - Aquila Heywood. There are no formal controls in place at Wiltshire to ensure that the developers and implementers of changes are segregated. This increases the risk that inappropriate changes are deployed into the production environment.</p> <p>Furthermore, there are no third party monitoring controls in place to ensure that the SQL database that the authentication measures are put in place appropriately and restricted to the relevant personnel. This increases the risk that passwords are guessed over time and users gain unauthorised access to the database.</p> | We recommend that management introduce formal controls to ensure segregation of developers and implementers and ensure that authentication rights on SQL are restricted only to the relevant personnel. |
| 10 Privilege Access (IT) | Four business users, Mark Briggs, Betty Chiripanhura, Jennie Green and Samantha Wooster, should not be granted the privilege access of user access management. As per enquiry with Mark Anderson (System Data Quality Manager), it was understood that the access and seniority level was necessary for the users to carry out their job function and responsibility. | We recommend that management capture cases where privileged user access has been granted to certain employees and to ensure that this is withdrawn when not required. |

Page 70

Appendix 3: Independence and fees

A Fair and Transparent Fee

 As part of our obligations under International Standards on Auditing (UK) and the Companies Act, we are required to report to you on the matters listed below:

Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Scheme.

Fees

Our audit fee for the year ended 31 March 2020 was £18,500 (2019: £18,500).

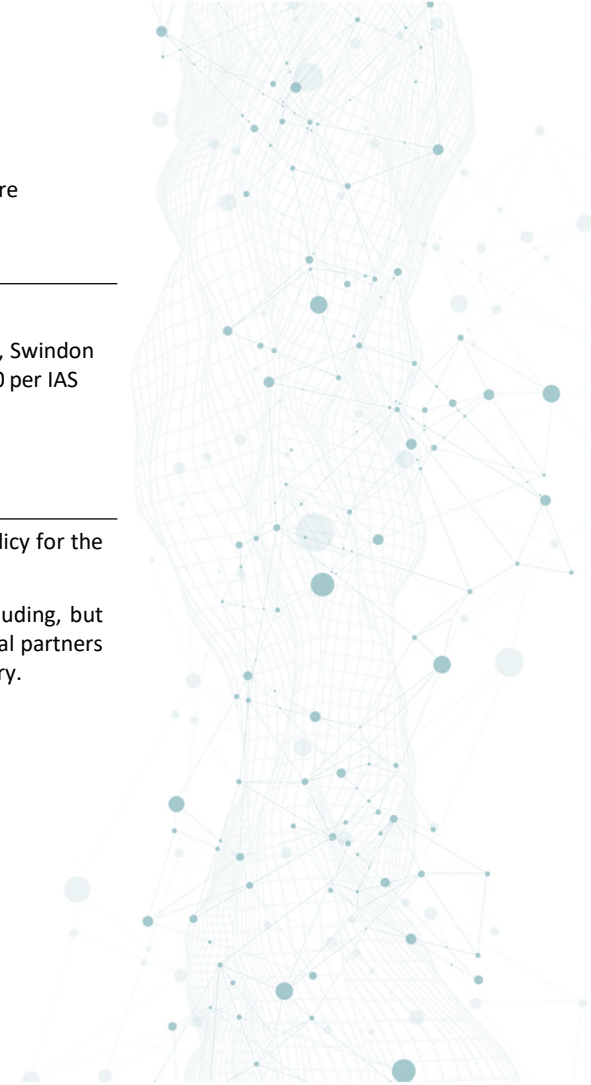
Our audit fee for issuing IAS 19 letters for the four councils (Wiltshire Police and Crime Commissioner, Swindon Borough Council, Wiltshire County Council and Dorset and Wiltshire Fire Authority) is £10,000 (£2,500 per IAS 19 letter). We will be charging this invoice separately.

The above fees exclude VAT and out of pocket expenses.

Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Scheme's policy for the supply of non-audit services or any apparent breach of that policy.

We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.





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Audit and Governance Committee
Proposed Forward Work Plan 2023

Please note that the FWP is a dynamic document, updated on a regular basis as required

| Meeting Date | Item | Responsible Officer | Draft Report Deadline | Publication Deadline |
|--|--|--|-----------------------|----------------------|
| Wed 26 April 2023 10.30am | 2019/20 Statement of Accounts update | Lizzie Watkin | 12 April 2023 | 18 April 2023 |
| | External Audit Plan | Deloitte | | |
| | Internal Audit Reports <ul style="list-style-type: none"> • IA updates inc. outstanding management actions • Q2 plan 2023/24 | SWAP | | |
| | Governance update on AGS 2021/22 actions | Perry Holmes/Maria Doherty/David Bowater | | |
| | Corporate risk update | Martin Nicholls | | |
| | Accounting Policies 2022/23 | Lizzie Watkin / Sally Self | | |
| | ICT Limited assurance report - tbc | Mark Tucker / Andy Brown | | |

Audit and Governance Committee
Proposed Forward Work Plan 2023

Please note that the FWP is a dynamic document, updated on a regular basis as required

| Meeting Date | Item | Responsible Officer | Draft Report Deadline | Publication Deadline |
|--|--|--|------------------------------|-----------------------------|
| Tue 25 July 2023 2.30pm | Statement of Accounts 2020/21 - TBC To approve the SoA 2020/2021 including: Report to those Charged with Governance (ISA 260) To include assurance from the Pension Committee, 2 Letters of representation, AGS, statements | Lizzie Watkin/ Andy Brown/ Deloitte | 11 July 2023 | 17 July 2023 |
| | Internal Audit Reports <ul style="list-style-type: none"> • IA updates inc. outstanding management actions • Q3 plan 2023/24 | SWAP | | |
| | AGS 2022/23 | Perry Holmes/Maria Doherty/David Bowater | | |

Page 74

Audit and Governance Committee
Proposed Forward Work Plan 2023

Please note that the FWP is a dynamic document, updated on a regular basis as required

| Meeting Date | Item | Responsible Officer | Draft Report Deadline | Publication Deadline |
|---|--|-------------------------------------|------------------------------|-----------------------------|
| Tue 19 September 2023 2.30pm | Statement of Accounts 2021/2022 - TBC To approve the SoA 2021/2022 including: Report to those Charged with Governance (ISA 260) To include assurance from the Pension Committee, 2 Letters of representation, AGS, statements | Lizzie Watkin/ Andy Brown/ Deloitte | 5 Sep 2023 | 11 Sep 2023 |
| | Internal Audit Reports <ul style="list-style-type: none"> • IA updates inc. outstanding management actions • Q4 plan 2023/24? | SWAP | | |
| | Stone Circle annual governance update | Perry Holmes / Amy Williams | | |
| | Whistle blowing activity update | Perry Holmes / Maria Doherty | | |

Audit and Governance Committee
Proposed Forward Work Plan 2023

Please note that the FWP is a dynamic document, updated on a regular basis as required

| Meeting Date | Item | Responsible Officer | Draft Report Deadline | Publication Deadline |
|---|--|----------------------------|------------------------------|-----------------------------|
| Wed 22 November 2023 10.30am | Internal Audit Reports <ul style="list-style-type: none"> • IA updates inc. outstanding management actions • Q1 plan 2024/25 | SWAP | 8 Nov 2023 | 14 Nov 2023 |
| | Anti-fraud risk update | Lizzie Watkin | | |
| | Corporate risk update | Martin Nicholls | | |

Audit and Governance Committee
Proposed Forward Work Plan 2023

Please note that the FWP is a dynamic document, updated on a regular basis as required

| Meeting Date | Item | Responsible Officer | Draft Report Deadline | Publication Deadline |
|--------------------------------------|---|--|------------------------------|-----------------------------|
| Wed 7 Feb 2024 2.30pm | Statement of Accounts 2022/23 TBC To approve the SoA 2022/23 including: Report to those Charged with Governance (ISA 260) To include assurance from the Pension Committee, 2 Letters of representation, AGS, statements | Lizzie Watkin/ Andy Brown/ Deloitte | 24 Jan 2024 | 30 Jan 2024 |
| | Internal Audit Reports <ul style="list-style-type: none"> • IA updates inc. outstanding management actions • Q2 plan 2024/25 | SWAP | | |
| | Governance update on AGS 2022/23 actions – TBC | Perry Holmes/Maria Doherty/David Bowater | | |

Audit and Governance Committee
Proposed Forward Work Plan 2023

Please note that the FWP is a dynamic document, updated on a regular basis as required

| Meeting Date | Item | Responsible Officer | Draft Report Deadline | Publication Deadline |
|---|--|--|-----------------------|----------------------|
| Late April 2024 Date TBC | Internal Audit Reports <ul style="list-style-type: none"> • IA updates • Q3 plan 2024/25 | SWAP | TBC | TBC |
| | External Audit Plans | Grant Thornton | | |
| | Accounting Policies 2023/24 | Lizzie Watkin / Sally Self | | |
| | Policy updates: <ul style="list-style-type: none"> • Anti-Fraud Corruption and Bribery • Anti-Tax Evasion • Whistleblowing • Anti-Money Laundering | Lizzie Watkin / Perry Holmes / Maria Doherty | | |