

Audit and Governance Committee

MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING HELD ONLINE ON 18 NOVEMBER 2020.

Present:

Cllr Richard Britton (Chairman), Cllr Stewart Dobson (Vice-Chairman), Cllr Gavin Grant, Cllr Nick Holder, Cllr Edward Kirk, Cllr Pip Ridout, Cllr Ian Thorn, Cllr John Walsh and Cllr Stuart Wheeler

Also Present:

Cllr Pauline Church

48 **Apologies**

Apologies were received from:

- Cllr Mike Hewitt
- Terence Herbert, Chief Executive, Wiltshire Council

49 **Minutes of the Previous Meeting**

The minutes of the last meeting were presented for consideration. It was

Resolved

To approve the minutes of the meeting on 25 September 2020 as a true and correct record.

50 **Declarations of Interests**

The Chairman declared a non-pecuniary interest, stating that he was a Director at SWAP.

51 **Chairman's Announcements**

The Chairman noted that he was satisfied with change of name of the committee from the Audit Committee to the Audit and Governance Committee, which better reflected the role of the committee.

52 **Public Participation**

No public questions or statements were received.

53 **Report to those charged with Governance (ISA 260) 2018/2019**

The Chairman invited Ian Howse, Deloitte to present the report. Ian Howse referred Members to the report in the agenda pack and stated he was pleased that they were now in a position to finalise the 2018/19 Audit drawing particular attention to the limited qualification. The report took all outstanding issues detailed at the meeting on 24 July 2019 and provided an update on them. The status on the vast majority of items was complete. Receipt of the signed representation letter was outstanding along with a few finalisation procedures.

It was stated that some adjustments were made to the original draft version of the accounts which had been approved, these involved the PFI liability and the value of assets and accumulative appreciation of those. There remained some issues regarding the King George assets and whether these should be in the balance sheet, however this was not considered to be a material concern. Item 2 resulted in a modified audit opinion which was included in the appendix to the report.

Some recommendations had been made, one regarding the King George assets and another regarding a full review of the process for producing the Statement of Accounts; issues regarding resources in the team were highlighted. Mr Howse thanked the team for their patience, cooperation and hard work. Due to the additional work undertaken an additional fee was proposed.

In response to questions Ian Howse, Deloitte confirmed that near the top of page 3 of the report there was a typing error, it should read 2019 rather than 2029.

It was also confirmed that the additional fee proposed by Deloitte for the finalising of the 2018/19 accounts was still being discussed with management and was expected to be around £35,000. There was also expected to be additional work that would fall into the fee for 2020/21.

It was stated that regarding item 2 of the report, there had previously been an inadequacy of the audit trail which meant that accuracy of the figures could not be checked. However, this did not necessarily mean that they were incorrect.

It was explained that it was hoped that 2020/21 would be the last year where the limited qualification would still apply with some additional costs involved. It was expected that early in the new calendar year work would be undertaken with the Council to close the issues off. Suggestions had been made regarding technical capacity in the Council and there might be a cost to the Council to acquire this expertise.

The Chairman stated that there was a balance to be struck between the time and effort involved to resolve the identified problems in the 2018/19 accounts and the fact that the issues were not materially significant going forward. Andy Brown, Interim Corporate Director for Resources (Section 151 Officer) stated that he could cover the issues raised under the verbal update on 2019/20

accounts. Ian Howse confirmed that there was not an impact on value for money and that he agreed with the Chairman's views.

In response to a question regarding the Pension Fund Accounts and where responsibility lay for these, Ian Howse, Deloitte stated that the pension fund audit for 2018/19 had been completed and had the 2018/19 Statement of Accounts been completed at that time, then the pension fund accounts would have been signed off. Both could now be considered together. It was proposed that if the Statement of Accounts 2019/20 were not finished when the Pension Fund Accounts 2019/20 were complete, then they could be detached from one another and considered separately, although this was a complex process.

Officer Andy Brown clarified that the Audit and Governance Committee were charged with the governance of both sets of accounts (the Pension Fund and the Wiltshire Council accounts) and had responsibility to approve those. There was a possibility that Deloitte could give an opinion on the Pension Fund accounts before giving an opinion on the Wiltshire Council accounts.

Members voiced concerns that there was a level of anxiety regarding the distinct responsibilities of the Audit and Governance Committee, the Pension Fund Committee, their relationship to the responsibilities of the Auditors and whether adequate assurance was received from the Pension Fund Committee regarding Pension Fund accounts. It was felt that there was assurance for 2019/20 Pension Fund accounts. Members felt that the movement towards looking at the Pension Fund accounts and Wiltshire Council accounts as interrelated but distinct was helpful.

Following which it was;

Resolved

To note the ISA 260 2018/19 final report from Deloitte.

54 **Statement of Accounts 2018/2019**

The Chairman stated that draft versions of the Statement of Accounts 2018/19 had been seen by the committee but that there had been a few changes. The Chairman invited Lizzie Watkin, Head of Corporate Finance and Deputy s151 Officer, to present the report.

Lizzie Watkin stated that Annual Governance Statement (AGS) 2018/19 had been signed off last July. However, due to outstanding balances and difficulties with the technical accounts there was an addendum to the AGS. On page 42 of the agenda pack the addendum added wording in order to reflect the technical disclosures and qualifications which had been discussed in the previous item. As part of approving the 2018/19 accounts the AGS 2018/19 also had to be approved.

A Letter of Representation for the Statement of Accounts 2018/19 also had some adjustments. The adjusted items were of low material consideration but

were above triviality and as such the committee needed to be comfortable with the adjustments made.

In terms of amendments to the Statement of Accounts 2018/19, there were amendments regarding the outstanding issue relating to assets and accumulated appreciation. The valuation basis of PFI liabilities had been adjusted. Technical areas of the accounts such as the balance sheet, movement in reserves, income and expenditure statement, assets, PFI current and long-term liabilities had also been amended. These amendments had no effect on the usable reserves of the Council or on the Council Taxpayer or the money set aside to deliver services.

Final quality assurance checks were undertaken resulting in small amendments to the Statement of Accounts published with the agenda pack. These included a change in wording to the narrative report to set out the underlying principle of the outstanding issue. It was originally noted as an error however it had been pointed out that this wasn't an error, the issue was that the historic balances could not be substantiated to ensure that the auditors were happy with the balances. Note 13 had been amended to add a footnote to help explain the expenditure funding analysis and the additional analysis in note 13. A duplicated table in note 17 was deleted. Minor amendments to correct misspellings were undertaken. The letter of representation also had a slight amendment to the version published with the agenda pack, one of the unadjusted errors was stated as 1.468 million, this was in fact 1.447 million. That was not the value of the error, rather it was the extrapolation of the error to assess impact. The actual value of the error was £251,000.

Andy Brown, Interim Corporate Director for Resources, added that these accounts were long overdue in coming to the committee for final approval. Also, the position of the 'except for' qualification was not ideal, so there were learning points for Wiltshire Council and Deloitte.

Andy Brown also stated that as this item was the accounts for 2018/19 there was an item on the agenda for July 2019 that was related to assurance regarding the Pension Fund accounts and the minutes of the Pension Fund Committee were noted and taken as approved. This position was now being formalised for 2019/20.

The Chairman thanked the officers and noted that the accounts had already been considered in detail by the committee. Although the list of amendments detailed by officers sounded extensive, he felt that there was nothing material that the committee should be concerned about.

Ian Howse, Deloitte, sought to assure the committee that in regards to the Pension Fund Accounts they had been through a rigorous process and were not an issue in terms of Audit.

The Chairman had a question regarding the McCloud judgement as it had been raised as a red risk at the Pension Fund Committee. Lizzie Watkin clarified that this related to Appendix 1 of the letter of representation and was an actuarial

assessment of liabilities based on technical information. There was a judgement to make regarding the likelihood of the liability landing with the Council. It was not felt to be a material consideration.

The Chairman proposed a motion, detailed on page 25 of the agenda pack to approve the Statement of Accounts 2018/19. This was seconded by Cllr Stewart Dobson and it was;

Resolved

- a) **To approve the addendum to the Annual Governance Statement for 2018/19.**
- b) **To approve the Letter of Representation for the Statement of Accounts 2018/19.**
- c) **To approve the final audited Statement of Accounts 2018/19, accepting the auditors 'except for' qualification limited to the historic balances on the Revaluation Reserve and historic balances on the Accumulated Depreciation within the Capital Adjustment Account.**

55 **Update on Statement of Accounts 2019/2020**

The Chairman invited Andy Brown, Interim Corporate Director for Resources (S.151 Officer) to give a verbal update on the 2019/20 Statement of Accounts.

The officer stated that the focus has been on approving the 2018/19 accounts. It was stated at the September meeting of the committee that they would look to approve both sets of accounts (2018/19 and 2019/20) at this meeting. The 2018/19 accounts had just been approved. However, unfortunately the 2019/20 accounts had not been brought to the committee. This was largely due to capacity and resources within the accounting team. There was currently no Chief Accountant in role. Interviews had been undertaken and an offer made and accepted. The Council was looking to bolster technical capability and resources in order to improve the situation. This would result in costs to the Council but was necessary to address issues identified.

The 2019/20 accounts would be brought to the committee at the meeting on 10 February 2021. It was unlikely that the issues identified within the 2018/19 accounts would all be resolved and therefore would likely be present in the 2019/20 accounts. These would be resolved in the 2020/21 accounts. The consolidation of Stone Circle into the Councils accounts added a further layer of complexity and therefore increased technical capability and expertise was crucial.

The Chairman thanked the officer. In response to questions it was stated that not having a permanent Financial Director or s151 officer probably had not helped the situation. However, it was felt that the lack of technical resources

and capacity within the accounting team were more of an issue and there was a focus going forward to resolve the matter.

Ian Howse, Deloitte sought to reassure the committee that a lot of work on the 2019/20 accounts had already been undertaken. Lizzie Watkin stated that that she was meeting with the Audit Manager in the near future to develop a plan and there was no risk that the 2019/20 accounts would not be ready for approval at the February committee meeting.

The Chairman stated that in regard to the Stone Circle company it was not clear to what extent the Audit and Governance Committee should be seeking assurance on the governance of Stone Circle and that this required some consideration.

56 **Annual Governance Statement 2019/2020**

The Chairman invited Ian Gibbons, Director of Legal and Governance to present the item. The revised Annual Governance Statement (AGS) 2019/20 was being brought before the committee as revisions had been made due to recommendations made by the committee in July 2020 and the position on the technical disclosure query was also updated.

It was stated that final approval of the AGS 2019/20 would be undertaken at the February meeting of the Audit and Governance Committee alongside the 2019/20 Statement of Accounts. Progress against improvement actions identified in the AGS would also be reported at the February meeting.

In response to a question on the JSNA (mentioned on page 156) it was clarified that the JSNA was continually updated and published on a chapter by chapter basis with input from the Health and Wellbeing Boards. The process would however need refreshing after the COVID-19 pandemic.

In response to a question regarding actioning improvement objectives, it was stated that it was intended to bring a quarterly update and review against an action log. It was clarified that the improvement actions were not formally agreed by Cabinet, as responsibility for the AGS lay with the Audit and Governance Committee. However, they were developed in liaison with the Corporate Leadership Team and Cabinet. The improvement actions were not necessarily significant governance issues, but rather were important to improve the Council's corporate governance. A governance and democracy group was to be set up to help feed in to this. The Audit and Governance Committee could also help shape improvement actions.

In response to further queries the officer stated that as the AGS lay within the remit of the Audit and Governance Committee, part of their role was to constructively challenge via the quarterly action logs and reports and give suggestions on the improvement actions to provide a final position in the AGS, which was for the Audit and Governance Committee to approve. A Member of the Committee stated a timetable may be useful to understand where they were in the process at any given time. The Chairman stated that he would discuss

this with officers and it may be able to be reflected in the Audit and Governance Forward Work Plan.

The Chairman moved a proposal that the Annual Governance Statement for 2019/20 be agreed, this was seconded by Cllr Stewart Dobson. It was,

Resolved

To agree the Annual Governance Statement 2019/20.

57 **Pension Assurance on Pension Fund Accounts 2019/2020**

The Chairman invited Lizzie Watkin, Head of Corporate Finance to update the committee.

The officer confirmed that the Pension Fund Statement of Accounts 2019/20 had been considered by the Pension Fund Committee who had recommended approval of the Pension Fund Accounts and a Letter of Representation for the Pension Fund Statement of Accounts 2019/20 also needed approval. There were no unadjusted misstatements listed in the Letter of Representation.

Ian Howse, Deloitte, stated that it was slightly unusual that the value of the investment assets had not fallen more as a result of COVID-19, in comparison to other pension funds. However, this may be due to the lack of exposure to the equity market.

The Chairman stated that there was also one fund that had performed exceptionally well and felt that we were yet to see the full effect of the pandemic.

The Chairman proposed a motion to approve the Pension Fund Statement of Accounts 2019/20 and the Letter of Representation, which was seconded by Cllr Stewart Dobson. It was

Resolved

To approve:

- a) The final audited Pension Fund Statement of Accounts 2019/20.**
- b) The Letter of Representation for the Pension Fund Statement of Accounts 2019/20.**

58 **Grant Certification Report**

The Chairman invited Lizzie Watkin, Head of Corporate Finance to give a verbal update on the Teachers Pay/Pensions Grant Certification Report from KPMG.

The officer stated that although the work had been completed by KPMG the final report was not able to come to the committee due to timings. Legally the date of completion was the end of November and that deadline would be met. The work was scheduled by KPMG in late October and that work would give assurance to the Secretary of State in terms of values passed to the teachers pension fund. There was nothing of any significance raised in the reports. The final position, including the audit certification and the report from KPMG would be available to the committee in February.

The Chairman adjourned the meeting at 11.30am for a 10 minute break.

Cllr Ian Thorn left the meeting at 11.30am.

59 **Quarter 2 Internal Audit Report 2020/2021**

The meeting reconvened at 11.40am.

The Chairman invited David Hill, SWAP to present the Q2 Internal Audit Report.

Mr Hill highlighted page 216 of the agenda and that there were no significant risks to report from the Q2 period. Attention was also drawn to the change in Audit assurance options and definitions, as recommended by CIPFA, which were being adopted by SWAP. Performance figures were acceptable, it was stated that the plan may need to be flexible in order to react to events as a result of COVID-19.

Outstanding recommendations were detailed on page 219 of the agenda. It was noted that there was a typing error in the report. The total outstanding recommendations should read 78 and greater than 120 days should read 68. A lot of work was being undertaken to chase outstanding recommendations. Charlotte Wilson, SWAP was now attending quarterly meetings with CLT to discuss outstanding recommendations.

Outstanding recommendations in relation to schools numbered 178 in September but was now 52. Non school recommendations would hopefully be cleared or superseded. Appendix B of the report on page 223 was highlighted. Follow up work had been completed and services had worked hard to implement all recommendations. Appendix C (page 227) gave detailed updates and recommendations.

In response to questions it was clarified that appendix C was based on the originally agreed target date for recommendations. The Chairman stated he was concerned by the number of recommendations where the target date had been revised, sometimes to over a year later. Mr Hill explained that the table at appendix C was by Audit. It was stated that the new dashboard and technology which would be discussed later in the meeting would make this clearer to understand. The management updates, which were new in the report, would also help to explain reasons for the revised deadlines.

Andy Brown, Interim Corporate Director for Resources, explained that management had to be realistic in regards to what could be achieved, however it was important that SWAP had a view in terms of the internal audit plan. A flow needed to be developed and focus given to outstanding recommendations as part of performance management. Internal Audit was a tool which could be used to help achieve this. The Extended Leadership Team (ELT) would be meeting to discuss outstanding recommendations in order to try to move things forward. It was stated that many of the high priority recommendations had been addressed, however there were a sizeable number of actions that needed to be discussed honestly with management as to whether these would continue or not.

The Chairman was encouraged by this. Some Members felt that continually revising dates back did not reflect well on the Audit and Governance Committee so they were pleased that an honest discussion was to be had as to whether low priority recommendations could be actioned or not. It was stated that it would be useful to the committee to have a summary of recommendations that were to be removed and the reasoning behind this, so that they did not just disappear.

Officer Andy Brown also felt that there may be a recommendation that the committee wished to make in terms of focusing on the outstanding actions.

David Hill, SWAP stated that recommendations made by SWAP should not be minor recommendations, but should help to improve the control environments, mitigate risk and allow services to function, so there may be training for some of the SWAP team required as well. It was agreed that a degree of pragmatism may be required.

Officer Andy Brown suggested the following wording for a recommendation:

'That management undertake a review of the outstanding management actions with a further update report on any proposed changes to come back to the next Audit & Governance Committee meeting'.

After discussion by the committee on the wording of a recommendation to management in terms of outstanding actions it was;

Resolved

- **To note the Q2 Internal Audit Report.**
- **To delegate to the Chairman, working with SWAP and the section 151 officer, to draft a recommendation to management to review outstanding internal audit recommendations and report back on these to the Audit and Governance Committee, with the draft recommendation to be circulated to committee members for approval.**

After circulating to members for approval the recommendation to management that was adopted was:

Recommendation:

In view of the lengthy, and growing, list of unimplemented SWAP internal audit recommendations the Audit and Governance Committee recommends that management should reconsider those recommendations as follows:

- 1. Has the passage of time since the recommendation was first made changed the priority of that recommendation (up or down)?**
- 2. Is the outstanding recommendation still valid or relevant in view of the organisational, systems and procedural changes which may have happened since it was first made?**
- 3. Taking a realistic and pragmatic view, how likely is it that long-outstanding recommendations will ever be implemented?**

The results of such reconsideration should be agreed with SWAP.

A report should then come to the Audit and Governance Committee showing:

- Any agreed changes to the priority given to any recommendation.**
- Those outstanding recommendations which are to be abandoned and the reasons: no longer relevant, overtaken by organisational changes, and a 'let's be honest' recognition of the likelihood of the lower priority recommendations ever being implemented.**
- A renewed commitment to implement those recommendations which remain on the list thereafter.**

60 Quarter 4 Internal Audit Planning 2020/2021

The Chairman invited David Hill, SWAP to present the item on Q4 Internal Audit Planning 2020/21.

Mr Hill stated that the risk assessment (on page 256 of the agenda) had been reviewed, however it may be subject to change in response to the pandemic.

The Chairman had previously aired concerns regarding risk management during extended periods of home working. The Chair wondered if this was something that SWAP could look at.

Mr Hill stated that there was a review of cyber security planned for Q4 so they may be able to look at these concerns as part of that review. The Chairman wondered if there were new operational risks created by home working and was not sure to the extent that these were captured by the corporate risk registers. Mr Hill stated he would discuss this with Andy Brown. Toby Eliot, Corporate Support Manager stated that there was a process by which risks related to the

pandemic were captured and these would in the future feed into the corporate risk register. No impact on the Internal Audit Plan was seen. It was;

Resolved

To note the Q4 Internal Audit Planning Report.

61 **SWAP - New Ways of Working Update**

The Chairman invited David Hill, SWAP to give an update on the practical impact on the New Ways of Working. Key points of the presentation focused on:

- There were three strands to the work they were undertaking, SWAP wanted to be more **agile** in their approach, to be **data** driven and there would be a change to **reporting** as well.
- In terms of what would come to the Audit and Governance Committee, the new dashboard when implemented would mean that rather than static reports SWAP could drill down into the data should the committee wish. The Dashboard could be amended to reflect questions the committee asked.
- This approach was consistent with the “continuous improvement” ambition by allowing data to be examined which made audit more valuable.
- Recommendations were being moved away from, towards a ‘management has agreed’ approach which was more agile.
- Corporate risks could be matched to work done and actions, providing assurance.
- It was hoped that the Dashboards would be ready from the next quarter.

The Chairman stated that the committee needed to have a mechanism whereby they were assured that Internal Audit resources were focused in the right areas, to be able to monitor progress of Internal Audit projects and to be able to see extent to which Internal Audit was improving the way the organisation operated.

In response to questions it was stated that in terms of the Councils budget next year there had been no detailed conversations with SWAP regarding next year’s activity. The Council did have conversations with SWAP regarding resources and being agile. There was added value to the SWAP arrangement.

David Hill felt that the New Ways of Working was the right thing to do for all their partners.

The Chairman thanked Mr Hill for his updates.

62 **Risk Management during COVID-19**

The Chairman invited Toby Eliot, Corporate Support Manager to give a verbal update on Risk Management during COVID-19.

The officer explained that day to day management of risk was overtaken by the need to respond to the pandemic. Senior Managers and Heads of Service were responsible for identifying risk and their attention was taken up responding to COVID-19. Risks could still be recorded and reviewed but officers were not chased regarding risks. The current risk process was mothballed due to the pandemic. However, new activities and risks were identified as part of the response to the pandemic. Having responded to the Novichok incidents a couple of years earlier Wiltshire Council knew what was required. The existing risk process was adapted and each response cell was able to record risks on a single register. Risks which could have an organisation wide effect were discussed with CLT weekly. At the end of the response phase nearly 200 risks had been identified and 25 risks were being reviewed by CLT weekly.

As the organisation moved from response to recovery a different approach was required and partner risks could be recorded as well. Risks were split into four themes and each theme had a separate risk register. Risks were identified as events that may get in the way of the stated recovery aims. These risks could be escalated to the overall risk register depending on their score.

Risks from the initial response were not lost, they could either be closed or moved to the relevant risk register at a service level. Internal risks were also recorded and all risks were monitored in service risk registers.

The Council had recently gone back into a response phase and there were 9 new internal cells managing risks, with a single summary register reviewed by CLT on a weekly basis. The risks were not the same as before but reflected the current situation.

The corporate risk management process would be resumed soon. It would take a minimum of a month to review, backdate and collate the information required. It was expected that a number of the risks defined during the response and recovery would become service risks and then move onto the strategic register. The impact of the last nine months would be reflected in financial risks and staffing risks. Some risks may need to be redefined and others closed and replaced.

The aim was to pull together risk management with a Q3 strategic risk register reported to the February 2021 Cabinet, however this would be dependent on the pandemic.

Regarding Council staff working from home, the impact on risk process was very low. The availability of senior staff time had impacted the ability to run the usual risk process however this had not been detrimental to risk management, as other processes were implemented.

Remote working had presented some risk, there had been concerns regarding bandwidth for example, however changes to the IT infrastructure had mitigated this. Data security, cyber security and staff health and wellbeing had increased risk scores, although they were well controlled. There were also opportunities in

the new ways of working. The organisational recovery programme would be managing these risks going forward.

In response to comments from the committee the officer stated that there was a performance and risk management policy and a set of guidance regarding the process. It was confirmed that these would be sent to Members following the meeting and they could be reviewed at the next meeting.

In response to a question regarding risks associated with elected Members during COVID-19, it was confirmed by the officer that this had been considered and elected Members engagement and their ability to engage was a part of the process. Regarding decision making, which had been identified as a major risk, the right people had been involved in mitigating that risk.

The Chairman hoped that later iterations of the AGS would reflect risk management and governance changes as a result of COVID-19.

The Chairman stated that it had been hoped to restart the service area risk presentations, which had been halted due to COVID-19, however it was felt best to hold these in abeyance at the current time.

The Chairman thanked Mr Eliot for his update.

63 **Governance Action Log Update**

The Chairman stated that the draft AGS 2019/20 had already been considered earlier in the meeting and an update on progress against the improvement actions would be provided in February. Therefore, this item was not considered necessary at that time.

64 **Forward Work Programme**

The current Forward Work Plan, (at page 259 of the agenda) was considered and it was;

Resolved

To note the Forward Work Plan.

65 **Date of Next Meeting**

The Chairman stated that the next meeting of the Audit and Governance Committee would take place on 10 February 2021 and thanked all for attending.

66 **Urgent Items**

There were no urgent items.

(Duration of meeting: 10.00 am - 1.00 pm)

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

Press enquiries to Communications, direct line (01225) 713114/713115