

## Audit and Governance Committee

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**MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING HELD ON 25 JULY 2023 AT KENNET ROOM - COUNTY HALL, BYTHESEA ROAD, TROWBRIDGE, BA14 8JN.**

**Present:**

Cllr Iain Wallis (Chairman), Cllr Stuart Wheeler (Vice-Chairman), Cllr Chuck Berry, Cllr Gavin Grant, Cllr Howard Greenman, Cllr Pip Ridout, Cllr Martin Smith, Cllr Ross Henning (Substitute - Part II) and Cllr Pauline Church (Substitute - Part II)

**Also Present:**

Cllr Nick Botterill

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**26 Apologies and Membership Update**

The Chairman, Cllr Iain Wallis, noted that at Full Council on 16 May 2023, the annual appointment of committees took place. Cllr Mark Connolly, the former Chairman of the Audit and Governance Committee stood down from the committee and Cllr Wallis was appointed to the committee as the new Chairman.

The Chairman also highlighted that since publication of the agenda, at Full Council on 18 July, the committee membership was updated again. Cllr Edward Kirk was no longer on the committee and was replaced by Cllr Howard Greenman. The Chairman welcomed Cllr Greenman to the committee.

Apologies for absence had been received from:

- Cllr Adrian Foster, who was substituted by Cllr Ross Henning
- Cllr Mike Sankey, who was substituted by Cllr Pauline Church

**27 Minutes of the Previous Meeting**

The Part I (public) minutes of the last meeting held on 26 April 2023 were presented for consideration and it was,

**Resolved:**

**To approve and sign the Part I (public) minutes as a true and correct record.**

**28 Declarations of Interests**

There were no declarations of interest.

## 29 **Chairman's Announcements**

There were no formal announcements, however the Chairman reminded Members that following the meeting here would be a brief training session from SWAP on the 'AuditBoard' internal audit portal.

## 30 **Public Participation**

There were no public questions or statements received.

## 31 **Internal Audit Reports**

Sally White (SWAP) presented the Internal Audit update.

The SWAP representative highlighted some key points in the report. SWAP had offered a reasonable audit opinion on work to date. One limited assurance opinion had been issued regarding Section 106 (S106) Financial Controls. An agreed action plan was in place to improve internal control around this key area of income.

Regular review was being maintained on the three previously reported significant corporate risks, which were Pension Fund Key Controls, ICT Network Boundary Defences and the Pension Payroll Reconciliation Project.

There were still some gaps in internal audit coverage, but these had reduced and SWAP were working with senior managers to close the remaining gaps.

The new 'AuditBoard' portal where Members could check the internal audit rolling work plan was highlighted, and it was hoped that Members would visit this regularly to keep up to date with internal audit work.

SWAP were working with relevant directorates regarding overdue priority 1 and 2 actions, to confirm that actions were being properly implemented and they hoped to demonstrate an improvement in the figures. SWAP were continuing to roll out Cifas, which had been successful at other local authorities.

In response to questions on the S106 audit, it was stated that SWAP thought the £125,000 that was not raised sat within the £3.45 million for the 7 applications which SWAP looked at. The approximately two thirds of the £3.45 million that had been collected was thought to be by value, not volume. It was thought that the elements looked at were the Wiltshire Council elements and not the total which would include contributions due to parish councils. Further details could be given when the service came to Audit and Governance Committee, it was confirmed that they would attend the September meeting.

In relation to the level of samples taken, it was explained that they had intended to look at 14 S106 agreements, however there were issues with the first 7 which were looked at and therefore they stopped at that point. This was a standard internal audit approach as control weaknesses had been identified. The service would then check all agreements.

In response to further questions, it was clarified that strategic risks were identified by management, by the strategic risk process and register. Internal audit looked at risks from that and any highlighted by directors. Some Members felt that the delays to the audits and accounts should be included as a strategic risk. Some also felt that strategic risk should be looked at in terms of value, for example to look at adult social care as that was where a lot of the council's budget was spent.

SWAP highlighted that the training session on the 'AuditBoard' would help to show how the internal audit rolling plan was put together, for example by risk, the corporate plan and SWAP's top 10 risks and recommended areas of coverage. Members would be able to access this at any time.

Members queried the risk 'Lack of capacity in the social care market' as the opinion given was 'Non opinion audit'. SWAP explained that a lot of their work was assurance focused, but some work was advisory. The advisory work gave non opinion audits. However, those did feed into the annual opinion.

At the conclusion of the debate it was,

**Resolved:**

**To note the Internal Audit Activity progress report, July 2023.**

## 32 **Annual Governance Statement 2022/23**

David Bowater, Senior Corporate Support Manager, presented the draft Annual Governance Statement (AGS) 2022/23.

The officer explained that the draft AGS 2022/23 had been prepared in line with the Local Code of Corporate Governance and following advice from the Chartered Institute of Public Finance and Accountancy (CIPFA).

The government had recently released draft statutory guidance on the Best Value Duty for local authorities, which had been developed in response to interventions at other authorities. This set out what it saw as a well functioning council. One measure was an AGS, prepared in line with the CIPFA / SOLACE framework, so Wiltshire Council was already meeting that element of the guidance.

Senior officers met regularly to deliver meaningful review through the AGS and would also respond to the consultation on the Best Value Duty guidance.

Any improvement actions identified in last year's AGS which were still amber rated were rolled forward to this year's AGS, so that the Committee could monitor the actions. Comments from the Committee and from the external auditor would be reflected in the final draft of the AGS which would be brought back to the Committee for formal approval when the Statement of Accounts were considered.

Maria Doherty, Head of Democracy, Governance and Customer Services spoke to paragraph 13 of the report (page 28 of the agenda) and the yellow highlighted section in Principle G of the AGS (page 40 of the agenda). This section had been left incomplete as the letter from the Local Government and Social Care Ombudsman (LGSCO) had yet to be received at the time of agenda publication. A copy of the letter had now been received, which would be presented to the Standards Committee for consideration. A summary of the key findings was given. The percentage of complaints upheld (of those the Ombudsman chose to investigate) was 58%, with the average for a similar council at 72%. Compliance with Ombudsman recommendations was 100%, whereas in similar councils the average was 99%. With regard to satisfactory remedies provided prior to Ombudsman involvement, the figure was 6% as opposed to 13% in similar councils. This would be looked into further.

Perry Holmes, Director Legal and Governance and Monitoring Officer, spoke to paragraph 10 of the report (page 27 of the agenda) regarding the Monitoring Officer comments included within the AGS (page 39 and 40 of the AGS). As Monitoring Officer, he had a statutory duty to report any illegality by the council, he had chosen to report on this within the AGS.

The first comment was regarding the placement of two children in unregistered provision. Unregistered provision was when a child who was being provided with some form of 'care' was living somewhere that was not registered with Ofsted. There were very good reasons why those decisions were made by the Director of Children's services in her statutory role. In response to questions it was confirmed that the two children were still in the unregistered provision. There was a full audit trail of all decisions involved, strong controls in place to mitigate risks and the provider had now applied to Ofsted to become registered. Escalation protocols in relation to these decisions and across the council were explained.

The other Monitoring Officer comment within the AGS was in relation to the non-completion of accounts. The Council had a technical legal duty to make documents supporting their audited accounts available during the first 10 working days of June each year. The Council had been unable to do this due to the delays in signing off the accounts. However, the website had been updated to make the position clear to residents.

The Chairman, seconded by Cllr Chuck Berry, proposed that the Committee consider the draft AGS as at appendix 1 of the report.

During debate, Members welcomed the transparency in relation to the Monitoring Officer comments. Further questions were asked around governance and whether political group rules were subject to oversight. The Monitoring Officer explained that the rules for political groups were for politicians, so officers would not get involved. However, senior officers did liaise with senior members of the political groups and had open debate, so there were good relationships and influence.

Members queried how Wiltshire Council compared to other authorities in relation to the 2 issues commented on by the Monitoring Officer, and what sort of incidents other authorities reported on. It was explained that 2 children in unregistered provision was low, with some councils having 20 children in unregistered provision. In regard to the accounts, many authorities had outstanding accounts, some with accounts older than ours outstanding. The Monitoring Officer explained that other authorities sometimes reported on investments in commercial properties or other investments which had not gone to plan. Reference was made to Stone Circle (Wiltshire Council's commercial housing development company) and the Monitoring Officer confirmed that the governance around that was good. This was also reported on annually to the Committee.

Members highlighted that they felt the tone in the draft AGS regarding the accounts was somewhat different to those included in the next agenda item.

The process regarding the AGS was clarified. At this stage the document stood on its own, however, final sign off and approval of the AGS would occur when the Statement of Accounts came to the committee. Any comments from the auditors and committee could be reflected in the final version, and the committee would be able to assess it at that point.

The significant corporate risks identified by SWAP and reported on to the Committee and within the AGS were queried as to whether there was any illegality. It was confirmed that there had not been and that you could not include all details on every risk within the AGS. The Committee had oversight of those risks due to SWAP's regular reporting and the updates received from service areas.

Questions were asked surrounding the governance of lower tiers of local government (city, town and parish councils). It was confirmed that these were their own entities and were responsible for their own governance and compliance. Those entities were also audited by external auditors. It was,

**Resolved:**

**To consider the Draft Annual Governance Statement 2022/23 at appendix 1 to the report.**

33 **Accounts and Audit Update**

Lizzie Watkin, Director of Finance and Deputy Section 151 Officer, presented the Accounts and Audit update.

The officer highlighted the brief covering report, which explained the reasons for the agenda item. Alongside the covering report there was an update report from the external auditors, and the management response to the issues raised in the report. The Committee had previously had sight of both the external auditors report and the management response, but in order to ensure full transparency they would be discussed at the meeting.

It was stated that the Committee had received many reports and progress updates on the status of the 2019/20 accounts. Everyone involved was disappointed in the progress made.

On 1 March 2022, a report was brought to the Committee requesting delegation be given to the Section 151 Officer in conjunction with the Chairman of the Audit and Governance Committee to approve the final Statement of Accounts 2019/20 and the Letter of Representation for those accounts, following completion of the audit. At that time, it had been thought that there may be a few minor changes, however since then significant further work had been undertaken. Whilst all material issues had been addressed, there were significant technical accounting aspects, many of which went back to 2015/16 which had required unpicking. Many of the errors and misstatements identified related to asset and lease accounting, these did not affect cash flow, reserves, usable funds or the provision of services to the public. Wiltshire Council had set a balanced budget for the next three years and the latest Outturn report detailed a significant increase in the delivery of savings.

Wiltshire Council were not alone, nationally there was significant stress within the sector in fulfilling auditing requirements, with many audit opinions outstanding across councils.

The delays to the completion of audits and accounts did however have a cost to the taxpayer, as there was a significant amount of extra work for the Council, which had to be resourced and the costs for the external auditors would also increase.

Details were given regarding a statement from Lee Rowley MP and the Department for Levelling Up, Housing and Communities [plans](#) to 'reset' the audit system to clear the backlog of outstanding audits and prevent a recurrence. The officer would provide a briefing note to the Committee which would summarise the aspects involved.

In terms of whether the situation was a strategic risk, as mentioned by Members earlier in the meeting, it was explained that usually companies had a set of accounts which people read and lenders looked at to see if they could borrow. However, as a local authority, the council tended to borrow from government backed schemes so that did not really apply. All borrowing was controlled by the Treasury Management Strategy, which was sound. As highlighted in the Annual Governance Statement (AGS) the Council were not complying with the timelines for publication of the accounts, however, details regarding the delays were publicly available.

The officer pondered the question of how to bring the outstanding accounts to a close. It may be that there would be changes to the work to be done and the opinions that were given. Consideration would also need to be given to how to draw things to a conclusion with a value for money approach.

Ian Howse, Deloitte, was in agreement with the officer in terms of there being a national issue. He had attended the meeting with Lee Rowley MP and agreed that there seemed to be little value in signing off accounts that were now two or three years old. There needed to be a solution to focus on more current accounts that were of interest to the reader. There was broad agreement on what had led to this point, however there was a gap between what they as the external auditors were looking for and to what the Council was used to providing, alongside questions as to what the Councils systems were capable of producing.

Local authority accounts were looked at using International Financial Reporting Standards (IFRS), which did not really align with how local authorities worked as they were not profit making organisations. Mr Howse felt that the current Enterprise Resource System (ERP) called SAP, was not fit for purpose.

Mr Howse also stated that the team at Wiltshire Council now contained experienced financial staff who were trying to put right many years of errors which was very difficult. Deloitte had undertaken sample testing, which contained many errors and when they tried to correct these, more errors became apparent. They were concerned that things might get missed. This was why Deloitte would like the Letter of Representation. At the present time, they would find it difficult to give an opinion under the IFRS, so this may result in a disclaimer opinion. This would mean that they could not give an opinion on the accounts. Mr Howse hoped that the accounts could be concluded prior to any government changes to the system, which could take a long time. There would be issues if they also had to disclaim on the 2020/21 and 2021/22 accounts. However, those were old sets of accounts. Deloitte also wanted to conclude matters with the least cost to the taxpayer and in a timely manner.

The Chairman, seconded by Cllr Pip Ridout proposed that the Audit and Governance Committee noted the update on the Accounts and Audit position for the outstanding accounts. The Committee then debated the matter.

Many Members stated their disappointment at the situation. Members queried identifying assets and registering them on the asset register, and what value there was in regurgitating information that was many years old. They also queried the replacement of the ERP system and whether the Committee could get an update on that.

Mr Howse explained that regarding the assets the values had been reconciled, however there was a very complex set of rules regarding how you account for changes in value. Those entries and how you moved them through the reserves was where the complexity and errors were occurring. You needed historical records of what had happened. In terms of recording value for the assets, it was the cost to replace them which was recorded, not the actual value of the asset. So, there was a lot of work to determine this for assets which would likely never be sold.

The officer explained that this area of work was heavily regulated, and the issues went back many years. It was the historical cumulative balances that

caused the issues. It was stated that it would be lovely to start with a clean sheet, however they were not allowed to do that, which forced them into a complex space. Regulations changed over time, so you then may not have enough details regarding historical matters. They were trying to find a reasonable approach which gave true and fair accounts.

The officer stated that the ERP was critical to support the financial control environment. SWAP was involved in reviewing the programme management to replace the ERP (Evolve) to ensure that it was rigorous, and a scrutiny task group was also looking at the matter. Members could attend the scrutiny task group if interested. The Chairman also highlighted that the task group was reporting to the Overview and Management Scrutiny Committee the next day, so Members could attend that meeting if they wished.

The officer explained that it was very difficult reporting from the asset management system which they had been using. There was a new system, the CIPFA asset management system, so all in year accounting was correct. The team had been upskilled, with advice and support from agency staff. The new ERP was also much more rigorous. Once the 2019/20 accounts were signed off, they would be in a much stronger position.

Members stated that they had a sense of *déjà vu*, with issues with the accounts rumbling on for many years and serious issues which needed to be addressed. They felt that there must be a way in which a line could be drawn under the situation so that the Council could proceed, so long as processes had been improved and we were not continuing to make the same mistakes. Some felt that we were going round and round the houses, with no light at the end of the tunnel, other than using a large amount of taxpayers money to recruit a large team to bring things to a close. Members felt that a way to resolve the situation must be found. Members also highlighted that the situation within the finance team had not been good, and it was not until Lizzie Watkin and Andy Brown, Corporate Director Resources, Deputy Chief Executive and Section 151 Officer, had been recruited that the situation started to stabilise. Great strides and improvements had been made under their watch.

The officer stated that the external auditors and officers had been having similar conversations regarding how we could bring these accounts to a close and ensure that the next ones were sound. It was stressed that we should have a set of 2019/20 accounts which were free from material errors, there was a judgement to be made in terms of materiality. The external auditors had to give an opinion. The 2019/20 accounts would be almost impossible for lay people to understand as they were so complex. The external auditors may need to issue a disclaimer opinion. That could mean that we needed to have opening balances audited as well as closing balances, which would be difficult practically.

Cllr Nick Botterill, Cabinet Member with responsibility for Finance, stated that he appreciated full accuracy and having accurate accounts, however this situation had to get to a stage where they could move on.



Members queried the Letter of Representation and if that could help resolve issues. The officer stated that a lot of work had been done towards that, but the external auditors were unsure if we could meet an assurance position to give the representations. Management however, felt that we were close to a point where we could give assurance. They had to be pragmatic to get all the outstanding accounts to a position where they could move forwards. The external auditors would change in the next round (2023/24), so the situation had to be resolved by then. It was explained that due to all the issues and extra work undertaken since the Committee had given delegation regarding signing off the 2019/20 accounts, that the delegation would not be used, and the Statement of Accounts 2019/20 would come back to the Committee.

Members highlighted the robustly challenging statements in Deloitte's report, and questioned what Deloitte's position was now. Mr Howse stated that he had been slightly surprised that Council would proceed to the Letter of Representation so they would need to consider that. If it was a robust and evidenced piece of work than they may not have to issue a disclaimer. That may create more work for everyone. However, the accounts would be qualified regardless due to the previous (2018/19) accounts qualification. Regarding last year's Letter of Representation, Deloitte felt that more work could have been done to determine what leases existed. This made them slightly sceptical. Although not a legal expert, Mr Howse did not think there were any legal consequences for those that signed the Letter of Representation.

Members sought details on the impact of a disclaimer opinion, be it reputational, financial or other consequences.

Mr Howse explained that disclaimer opinions were rare. He highlighted another local authority which may get one, and that this had generated a lot of publicity. It would be reputationally damaging to the Council. However, there was no real penalty or financial consequences. In terms of officer and auditor time, if they could not give an opinion on the accounts, then how could you give assurance on the opening balances of the next set of accounts. So, there was usually about a three year impact of a disclaimer opinion.

The officer stated that these were aspects which needed to be considered. In terms of treasury work, they would need to disclose the opinion and it could have an adverse impact. However, the 2018/19 accounts had been qualified and that had not had any adverse impact, so it was not expected that there would be an adverse knock-on effect.

Members questioned what the next step was and when the Committee would know the decisions made.

Mr Howse highlighted that the backstop position was 31 December 2023 for the 2019/20 accounts. If they and the Council could not agree by that date, that would be the end point where intervention was made and they were told what to do. He hoped that would not happen. This may not be resolved by the September meeting of the Committee, but it was hoped it would be for the one

after that. There may still be more work to do, even if a disclaimer opinion was issued.

The officer stated that the complexity was one of the drivers of the crisis. Officers hoped that the regulations would change. Otherwise, even when the backlog was cleared, they may end up in the same position again. The whole regulatory framework needed changing.

Members further debated the matter, points raised included whether the audit system had been properly maintained; whether there were enough people working on it; whether things had to be correct to the penny; where the line was to resolve the situation; general agreement that a line had to be drawn somewhere; the ongoing impact; and from some, a sense of horror at the situation.

Addressing these points, the officer stated that in terms of the adequacy of Council resources, the erosion of technical resource had been an issue which had now been addressed. External resources had also been brought in, dedicated resources assigned, and training been provided. This included career graded posts so that we could grow our own experts. It was quite a journey, and the Council were now starting to see significant progress and were developing the right culture.

The officer explained that in terms of materiality, there was about £18 - 19 million pounds on a billion-pound balance sheet, that is what made a difference in terms of decision making. Cash had to be correct to the penny. The right time needed to be spent on the right things. Materially the accounts were sound. The Council had to make value for money based decisions. Asset accounting did not really make any difference, as no business decisions were made on the value of assets in the statement of accounts.

It was further explained that that each auditor always had a slightly different approach. It was hoped that all outstanding accounts, including the 2022/23 accounts could be completed with Deloitte and passed to the new auditor.

Members made further comments in defence of both our staff and the external auditors. They felt that the problem was being caused by central government in terms of the regulations. The level of detail required may be necessary for a private company but was inappropriate for a local authority. We knew how much money we had, we knew what our assets were, we were clear on our money balances and day to day accounts and therefore were financially sound as a council.

The officer responded that we were very different to the private sector as the Council were not about making a profit. We required resilience and the financial stability to deliver services to residents. Proportionate financial reporting was required. However, we did have to take responsibility for what had happened and had to correct errors.

Mr Howse stated that the IFRS was made for international private companies. Along with those regulations were hundreds of pages of CIPFA codes which were also very complicated. Trying to apply systems not designed for local government to local government accounts was very difficult. This situation had been brewing for a long time but had now come to a head.

Members discussed the situation further and also highlighted the section within the Deloitte report called looking ahead to the 2021/22 and 2022/23 audits, which contained a serious of statements and Members suggested a working group of the Committee could be created to look at those.

In response to the comments, the officer explained that they did not feel it was appropriate for internal audit to review the accounts or Statement of Accounts. The internal finance team now in place was adequate to address what needed to be undertaken now. There was support from Cabinet and they were overspending in this area to address the deficiency and weaknesses. Hopefully in a couple of years the agency resource would no longer be required. Those working on the technical accounting aspects would go on annual training. It was explained that there was a plan based upon the issues raised in Deloitte's report and the majority of actions had already been undertaken. Officers were happy to report on the action plan to the Committee at regular intervals.

Members questioned Deloitte as to whether there was a disconnect with Wiltshire Council and if they were re-writing the report now, its contents would be different. In response Mr Howse stated that Deloitte recognised that additional resources had been put in place. Their concern was that the team may be able to deal with business as usual but they were unsure if they had the capacity to complete the extra work required to get the accounts completed quickly, which would also require Deloitte to deploy additional resources. They would be concerned if we tried to complete 3 sets of accounts in one year. However, that was his opinion and officers had a different professional view.

The officer stated that there was a slight disagreement in terms of resources. The Council may need extra capacity at peak times. However, they did not want to see significant change, as this could lead to a lack of control and give more room for errors.

Members asked the Chairman if he felt a task group was required, to which he responded that at the moment he felt that regular reports on this matter should be added to the Forward Work Plan for the Committee, so that they could seek assurance.

At the conclusion of the debate, various Members suggested amendments to the motion proposed, all of which were accepted as friendly amendments by the proposer and seconder. It was,

**Resolved:**

- **To note the update on the Accounts and Audit position for the outstanding accounts.**

- To note the concerns expressed by the External Auditors in their submission and the detailed written and verbal response given by officers.
- To request that regular updates were given to the Committee on the progress being made to alleviate the concerns and to draw to a conclusion all the outstanding accounts.

34 **Forward Work Programme**

The Forward Work Plan for the Committee was presented for consideration, and it was,

**Resolved:**

**To note the FWP and to add to the plan regular updates for the Committee on Accounts and Audit progress.**

35 **Date of Next Meeting**

It was announced that the next regular meeting of the Committee would be held on 19 September 2023 at 2.30pm.

36 **Urgent Items**

There were no urgent items.

37 **Exclusion of the Press and Public**

The Committee considered whether or not to hold the next item in closed session and it was,

**Resolved:**

**To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in agenda item number 13 because it was likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraph 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighed the public interest in disclosing the information to the public.**

38 **Minutes of the Previous Meeting**

The Part II (private) minutes of the meeting held on 26 April 2023 were presented for consideration and it was,

**Resolved:**

**To approve and sign the Part II (private) minutes as a true and correct record.**

(Duration of meeting: 2.30 - 5.00 pm)

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

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

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