GOVERNANCE & AUDIT COMMITTEE
30 JANUARY 2019
7.30 - 8.50 PM

Bracknell Forest Council

Present:
Bracknell Forest Borough Council:
Councillors Allen (Chairman), Thompson (Vice-Chairman), Ashman, Heydon and Worrall

Independent Member:
David St John Jones

Also Present:
Andrew Brittain, Associate Partner: Ernst & Young
Justine Thorpe, Manager: Ernst & Young
Sally Hendrick, Head of Audit and Risk Management, Bracknell Forest Council
Calvin Orr, Head of Finance and Business Services, Bracknell Forest Council

Apologies for absence were received from:
Councillors McLean and Mrs Temperton

24. Declarations of Interest

There were no declarations of interest.

25. Minutes of previous meeting

RESOLVED: that the minutes of the meeting of the Committee held on the 31 October 2018 be approved as a correct record, and signed by the Chairman.

26. Urgent Items of Business

There were no urgent items of business.

27. Treasury Management Report 2019/20 and the 2018/19 Mid-Year Review

Calvin Orr, Head of Finance and Business Services attended the Committee and presented the 2018/19 Mid-Year Review Report and the Treasury Management Report for 2019/20 and explained that:

- The report was brought annually to the Governance and Audit Committee (G&A) and filled 2 criteria.
    - The Mid-Year Review outlined the Treasury Management activities for the first 9 months of 2018/19 to Dec 2018.
    - It updated Members on the Council's investment position and provided commentary on the economic indicators. It outlined the current position, looked at the economic impact of the last couple of months and how the Council's decisions had been affected.

- The current economic conditions were difficult to predict with so much uncertainty as a result of BREXIT and wider changes in the wider economic world. This may result in central banks across the world taking no further action in terms of interest rates until this uncertainty subsided
- Total investments were at about £10million.
- Investment funds were triple A rated.
- Largely, the investments were one day maturity which meant the investment could be readily accessed.
- One fund was a 2 day maturity. This was a T+1 account which offered a higher rate of return. About £4-5million was in this account to provide a higher yield.

The current Council debt was outlined.

- It was pointed out that the Council used to be debt-free and managed a large investment portfolio, but was now borrowing to reflect the infrastructure investment in last 4 to 5 years.
- Short-term borrowing was maintained in the region of 3 to 6 months to meet the Council's immediate cash flow.
- Longer term capital investment was funded from PWLB loans that went out to 40 years at low rates.

The second element of the report was the Treasury Management Report for next year (2019/20) which outlined the Treasury Strategy, investment criteria and the Minimum Revenue Provision (MRP) policy.

- Very little had changed.
- The investment criteria had not changed in the last 4 to 5 years.
- The Council had only invested in money market funds, all of which were triple A rated.

The Minimum Revenue Provision policy was explained, in particular, the timings needed explanation.

- Normally the Treasury Management strategy would go to the Executive in December for review and endorsement to Council. This year, the Council's Treasury advisors had provided further advice regarding the MRP policy adopted by the Council.
- In relation to the Council's policy on commercial property investment, guidance last year from CIPFA asked to consider the risk with this investment policy and the Council decided to set aside 10% on the element of the risk on those commercial properties.
- It was considered however that it would be better to set it aside as Voluntary Revenue Provision (VRP) rather than MRP which could be brought back into the accounts if needed and provided the Council with flexibility.
- The change was being made before the Executive had seen it.
- The Committee was not seeing what the Executive saw in December 2018 and was being asked to endorse a strategy not yet seen by the Executive.

In response to questions from Members, Calvin Orr, Head of Finance and Business Services explained that:

- Risks associated with BREXIT had been considered within the document.
- A no deal BREXIT was considered a relatively small risk and interest rate projections had been based on that.
- BREXIT was in the risk register.
- Projections looked at 3 to 5 year interest rate moves.
- Projections were based on some form of BREXIT deal being agreed.

- The risk of a no deal BREXIT was assessed as quite low.
- If there was a no deal BREXIT, interest rates might go up and inflation might go up. Interest rates might also get cut.
- It was their assessment that there would be a BREXIT deal within 6-9 months.

It was **RESOLVED:**

2.1 That the Committee consider and review the Mid-Year Review Report.

2.2 That the Committee agree that the Mid-Year Review Report be circulated to all Members of the Council.

2.3 That the Committee review the Treasury Management Report for 2019/20 prior to its approval by Council and endorse the changes outlined in paragraph 5.15

28. **Grant Certification Report 2017/18**

The Council's External Auditor Ernst & Young attended the Committee and provided the Annual Report on Grant Claims and Returns for 2017/18.

Justine Thorpe, Manager: Ernst & Young advised Members that:

- There was only one claim to audit. This was the Housing Benefit Subsidy for 2017/2018.
- The claim was for £29million.
- There was a qualification with the claim but it had not been amended.
- Some overpayments had been found.
- Assessments of Housing Benefit were complex, and errors were not unusual.
- The Department for Work and Pensions (DWP) wanted errors recording to the penny and then extrapolated across the population.
- There had been an overpayment of benefits of £254.48.
- Extrapolated over the population this amounted to an overpayment of £6396. It is unlikely the DWP will want to claim this back.
- Errors were down to small human errors inputting data.

The Chairman gave congratulation to Stuart McKellar, Director: Finance and his team.

RESOLVED: that the External Auditor's Annual Report on Grant Claims and Returns for 2017/18 presented by the Council's External Auditor be noted.

29. **External Audit Planning Report 2018/19**

The Council's External Auditor Ernst & Young attended the Committee and presented the Audit Plan for the 2018/19 financial year.

Andrew Brittain, Associate Partner: Ernst & Young highlighted the main audit risks and areas of focus of the Audit Plan 2018/19 for Members and explained:

- The Audit Plan was for the year ended 2018/19.
- Given the significant level of capital expenditure over the last few years the Auditors would be reviewing that the Council has applied capitalisation correctly.
- On the third risk, the Pension Liability net liability evaluation, the 2017/18 audit had had some discussions about pension value assets. This was caused by the way the assets and liabilities were valued as they were done at year end. The initial valuations were given by actuaries, but it wasn't until the year end

when those asset values could be assessed as appropriate, but at that point they had moved.

- The pensions fund was valued at about £250 billion.
- In relation to the overall balance sheet, the impact of BREXIT on the macro environment and the impact on the valuation of the pensions scheme was a substantial risk to the balance sheet.
- The value of land and buildings was an inherent risk as per previous years. The balance was judgemental and was estimated by including a number of elements where small changes in assumptions could drive a change in the balance in regard to the macro environment.
- The Non Domestic Rates (NDR) Appeals Provision could only be accurate right at complete year end. There were changes in the new ratings listing in 2018.
- PFI Estimates. This related to the joint PFI across Reading and Bracknell and Wokingham. The assumptions underpinning the PFI would be reviewed. Small changes could drive significant changes in the accounts.
- Two new accounting standards had come into force in 2018 that were outside of the Council's control. These were IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts). Both were likely to have an impact but the impact was as yet unknown.
- IFRS 19 (Leases) which was due to apply from April 2019 had now been pushed back to April 2020.

In response to Member questions, Andrew Brittain, Associate Partner: Ernst & Young explained:

- The key to the colours used in the report were:
  - Yellow. There had been no change to the risk.
  - Orange. The risk had been seen before but had changed.
  - Red. Indicated a new risk.
- Ernst & Young were not the auditors of the pension scheme, that was audited by KPMG. In terms of the value of the assets assessed by the actuary, last year the Bracknell share of the pension had moved by £200,000 out of a very big number. The economic environment was no more stable this year and things remained uncertain.
- NDRP business rates had been considered.
- There was a requirement to disclose the impact of any upcoming standards which was why IFRS 16, which would have applied in April 2019 (had it not been deferred) had been mentioned. The difference it would have made had been accounted for.
- Materiality had been set at £5.5million for 18/19 which represented 2% of the prior year's gross expenditure on provision of services. This number would be updated when 2019 was complete.
- Performance materiality had been set at £4.1million and was set at 75% of planning materiality.
- Uncorrected misstatements that exceeded £278K would be brought to the attention of the G&A Committee. Anything lower than that figure would be considered trivial.

Justine Thorpe, Manager: Ernst & Young highlighted the key factors associated with and purpose of the Value for Money conclusion to Members.

- The Council were borrowing more, and had less reserves.
- There was a comprehensive medium term plan in place.
- The value for money conclusion looked at fees, resources and expenditure to make sure it all stacked up and to identify the correct funding gap.

- The purchase of investment properties by the Council generated more income to compensate for reduced Government funding. The Value for Money assessment looked at the arrangements for this and made sure there had been proper due diligence.

In response to questions from Members it was clarified that:

- The External Auditors were aware that Bracknell Forest Council had completed their commercial property buying strategy and were purchasing no more commercial properties.
- The value for money conclusion was not a cash decision. It was an assessment of the process by which the activity/asset was delivered. If a council had built a new town centre, the value for money conclusion was not about whether the new town centre was good or not, but rather were the decisions to get there appropriately made. Were informed decisions taken, were resources deployed in a sustainable manner and how did the Council work with partners and third parties? It was about how decisions were reached, not about whether those decisions were right or not. It was about the process. What advice was received, what expertise was required, did that expertise need to be acquired, were there appropriate consultations, was there undue financial risk, was there transparency to the Members.
- A number of councils had bought local shopping centres because of their social value. The value for money conclusion was not judging if an investment had been good or bad, it looked at how the investment risk was assessed and how it was managed. The value of assets rise and fall, the value for money conclusion looked at whether this was taken into account at the time the decision was made.
- This was the first year the commercialisation and the purchase of investment properties under the Council's commercial property investment strategy (CPIS) had been picked up.
- Where the public's perceptions of an issue were raised, that must be looked at by auditors.
- Ernst & Young are independent auditors

- This was the first year of the new contract which Bracknell Forest had opted into with Public Sector Audit Appointments Ltd (PSAA). PSAA set the fees which had been reduced. The planned fee for 2018/19 was set at £80,639.
- Previously the fees covered the Code of Audit Practice work and the Housing Benefit work. The new fees only covered Code of Audit Practice work.
- The quote for Housing Benefit work was provided to Members as an exempt appendix for consideration under the agenda item External Auditor Appointment.
- The final fee for 2017/18 had been £124,826
- The Planned fee for 2018/19 was looking like £99,410.
- The fee reduction was approximately £25,000.
- The Planned fee for 2018/19 might go up if something unexpected occurred.
- The fee reduction had not curtailed the amount of audit Bracknell Forest required.
- PSAA had reduced the fee based on their assessment on combined tendering contract renegotiations.

The Chairman gave thanks to Andrew Brittain, Associate Partner: Ernst & Young and Justine Thorpe, Manager: Ernst & Young for attending the Committee and providing the External Audit Planning Report 2018/19.

RESOLVED: that the Audit Plan for the 2018/19 financial year from the Council's External Auditor be noted.

30. **Internal Audit Interim Report**

Sally Hendrick, Head of Audit and Risk Management attended the Committee and provided the internal audit activity report that summarises the internal audit activity during the period April to December 2018.

Sally Hendrick, Head of Audit and Risk Management advised the Committee that:

- This was the latest interim report, that last report was provided to the Committee in October 2018 and covered the period April to September 2018.
- This report covered the period April to December 2018.
- Section 3.2 set out the summary of the outcome of all of the audits to date.
- There was a high number of limited assurance reports compared to last year. There were a number of further audit reports currently received in for client side for review with limited assurance
- There were a number of repeated limited assurance reports that needed flagging at this time where issues had not been addressed.
- Appendix B showed the follow up position on previous limited assurance areas where major issues had been identified.
- Section 3.4 identified the major control issues that had a limited assurance opinion.
- Detail on limited assurances already reported in the October 2018 report had not been repeated.

In response to questions from Members, Sally Hendrick, Head of Audit and Risk Management advised the Committee that:

- There were a number of 'repeat offenders' with limited assurances. This was possibly down to a number of new officers and their level of understanding of opinion levels not being as great as it might be. There were a variety of different influencing factors. Further action needed to be taken to make sure limited assurance reports were reviewed closely at DMT level to make sure that agreed actions were implemented and actually done. This would reduce the level of repeated limited assurance reports.
- Within the follow up of areas previously audited with major control issues, there were 8 cases that had been revisited and re-audited. In 7 cases priority 1 recommendations were raised again.
- Some areas had not yet been revisited for a follow up audit but were due to be.
- If, during the follow up audit, areas received a limited assurance again, they would be revisited for a third time to address the situation.
- Home to School Transport was one of the areas that had been re-audited and recommendations were raised and reported to the Committee in October 2018. It was asserted that the issues on DBS checks were to a large extent because DBS checks were not controlled by the transport team, the team were working on taking mitigating actions and required assistance from other council areas, to address the issues they faced.
- Pressures in ICT with staff working on transformation projects and staff turnover may have contributed to issues on the cyber security audit not being addressed.
- ICT had asset management issues going back to 2015 and had issues with controls over IT equipment and stock. These were revisited this year (2018) and the audit showed similar issues that weren't expected.

- Accounting system blips had contributed to the ongoing risk associated with Council wide officer expenses. Finance had been working with the supplier to identify the causes of the problems such as where in the audit trail the workflow 'disappeared'. A systems upgrade was ongoing. It was hoped the supplier could identify the reasons for the issues and address the weaknesses. The finance team had tried to replicate the errors but this had proven difficult.
- The system had been tested in order to try to replicate the error but, because the system needed an upgrade, the supplier was not prepared to support it.
- The system was updated with new releases every 18 months or so and it was costly to continue to upgrade with each new release in terms of finances, testing and training. The supplier (Unit4) would support one or two versions for a couple of years, but once the release was out of the maintenance period, support was a paid for cost and the Council did not have the expertise to be able to support the product internally.

The Committee discussed the merits of the Governance and Audit Committee requiring areas with ongoing and repeated failures in major control issues to advise the Committee and explain the reasons why there had been no improvement by providing a report to be submitted to the Governance and Audit Committee meeting.

Members of the Committee expressed their disappointment in the number of re-audits that have continued to not address the initial problems identified.

Justine Thorpe, Manager: Ernst & Young noted the weakening in audit control and supported the idea of more accountability at CMT level to make the internal audit more effective.

Sally Hendrick, Head of Audit and Risk Management further highlighted for the Committee that:

- Data matching had been undertaken to identify mis-claiming of Council Tax Single Person Discount. 111 cases of mis-claiming had been indentified, increasing collectible income by £44,000. Another 270 cases were being investigated. This was a good outcome for this exercise.
- Counter fraud training had taken place for the Senior Management team in the People Directorate and further training was to be provided for teams in areas of higher fraud risk.

RESOLVED: that

1. The report that summarises the internal audit activity during the period April to December 2018 be noted.

2. On this occasion and in future, those areas that have failed a repeated audit, produce a report for the Governance and Audit Committee and attend if requested.

31. **Strategic Risk Register**

Sally Hendrick, Head of Audit and Risk Management attended the Committee and presented the Strategic Risk Register.

The Committee considered the updated Strategic Risk Register and provided feedback on the completeness of risks and appropriateness of risk scores including the score for risk appetite in the Register.

Sally Hendrick, Head of Audit and Risk Management advised the Committee that:

- The Strategic Risk Register was reviewed on a quarterly basis, by the Corporate Management Team (CMT) every 6months and by Governance and Audit Committee every 6 months.
- The key proposed changes agreed at the Strategic Risk Management Group (SRMG) and the Corporate Management team (CMT) were to:
    - Decrease the financial risk.
    - Reduce the transformation risk.
    - Reduce the staffing risk.
    - Include an overarching Brexit risk to replace the global economy risk.
    - Reduce the demand for services risk
- There was an additional further risk of note following a report to CMT. This was the potential relocation of Vodaphone which would impact on business rates in 2020. This would be brought back into the Risk Register on Thursday 7 February 2019.

Following questions and comments from Members, Calvin Orr, Head of Finance and Business Services advised that:

- There were 2 risks associated with the Vodaphone relocation of its data centre from Bracknell to Newbury.
    - The reform of business rates in 2020/21 where it was believed they would move to central list.
    - The combination with the rest of the business rates in 2021.
- The Council had only become aware in the last few weeks that Vodaphone was moving its main data hub in Waterside Park to Newbury. At the moment they were constituted as being based in Bracknell and, if they moved before 2021 this would result in loss of income. The move was unlikely to be done quickly but there was a risk to the business rates reform if they moved back on central rates.
- It was unlikely business rates would be reformed in 2019/20 as the Valuation Office were unlikely to do it quickly.
- The Vodaphone business rates income was a large source of income for the Borough.
- The public announcement of the move was this week but it was unknown how advanced the move was.

The Chairman commented that it was good to see that there had been quite a few reductions in strategic risks and the picture looked slightly less bleak.

The Chairman thanked Sally Hendrick, Head of Audit and Risk Management for attending the Committee and providing the Strategic Risk Register.

32. **External Auditor Appointment**

The Committee were notified of the appointment of the Council's External Auditor Ernst & Young to undertake the required audit of the Housing Benefit Grant Claim for 2018/19.

NOTED: The Governance and Audit Committee noted that Ernst & Young LLP had been appointed to undertake the required audit of the Housing Benefit Grant Claim for 2018/19.

CHAIRMAN