

**GOVERNANCE & AUDIT COMMITTEE**  
**24 JULY 2019**  
**7.30 AM - 9.05 PM**



**Present:**

Councillors Allen (Chairman), Gbadebo, Heydon, Leake, Mrs McKenzie-Boyle, Neil and Tullett  
David St John Jones, Independent Member

**Apologies for absence were received from:**

Councillors Wade and Mrs Hayes MBE

**11. Declarations of Interest**

There were no declarations of interest.

**12. Minutes of previous meeting**

**RESOLVED** that the minutes of the meeting of the committee held on 26 June 2019 be approved as a correct record and signed by the Chairman.

**13. Urgent Items of Business**

There were no urgent items of business.

**14. External Audit - Audit Results Report**

Andrew Brittain from Ernst & Young LLP, attended the Committee and presented the Report of the External Audit Results.

The Committee was advised that, based on a materiality measure of gross expenditure on provision of services, the overall materiality assessment remained unchanged at £5.6m with performance materiality, at 75% of overall materiality, remaining at £4.2m. The basis of the assessment remained consistent with prior years at 2% of gross expenditure on provision of services.

The audit of the Council's financial statements for the year ended 31 March 2019 had been substantially completed. The Committee was provided with the following updates on the matter which had been outstanding when the agenda had been published:

- **Pensions - procedures relating to the adjustment and disclosure of the McCloud judgment;** *Now complete*
- **Assurance letter from Berkshire Pension Scheme auditors;** *Deloitte were the overall auditor for the scheme and had communicated that they were unlikely to be able to provide their assurance letter by the publication deadline of 31 July 2019. Without this assurance, the external auditor would therefore not be in a position to issue an unqualified opinion on the Authority's financial statement*
- **Related parties: outstanding declaration of interest from 6 members;** *Only 1 declaration currently remained outstanding*
- **Some income and expenditure testing;** *Now complete*

- **Journals testing;** *Now complete*
- **Review of the final version of the financial statements;** *Will take place at point of signing*
- **Completion of subsequent events review;** *Will take place at point of signing*
- **Receipt of the signed management representation letter;** *Will take place at point of signing*
- **Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission;** *Will take place at point of signing*

There were three adjusted audit differences of:

- PPE value increase of £14.5m
- Pension liability increase of £4.4m to £539.3m
- Pension assets value decrease of £3.5m to £262m

There was one unadjusted judgemental audit difference of £1.1m which did not materially affect the accounts.

The Authority's arrangements to take informed decisions, deploy resources in a sustainable manner and work with partners and other third parties had been considered and the Audit Planning Report identified two significant risks:

- Delivery of a sustainable medium-term financial plan
- Commercialisation and the purchase of investment properties

Misstatements due to fraud or error were a significant risk area. However, following testing, no material weaknesses in controls or evidence of material management override were identified. Similarly, testing had revealed no material issues or unusual transactions to indicate any misreporting of the Authority's financial position through the inappropriate capitalisation of revenue expenditure.

With regard to the Pension Net Liability Valuation, the external auditors were satisfied that the Council had correctly reflected the IAS 19 entries provided by their actuaries in the financial statements and also satisfied that the actuaries were appropriately qualified. Taking into account the McCloud ruling, two adjustments had been made:

1. Pension liability: The Council's pension liability had increased by £4.4m to £539.3m.
2. Pension asset: This estimate decreased by £3.5m to £262m.

With regard to the valuation of property, including investment properties, the external auditor assessed the methodologies adopted by the valuers in undertaking their valuations in 2018/19 and of the key assumptions input into these valuations as reasonable. As part of the audit, the Council provided an analysis of the rolling programme of valuations and applied relevant indices, dependent on the last revaluation date for the asset class. This provided an indication as to whether the valuation of assets not revalued in year could be materially different to the value disclosed in the financial statements. The external auditor reviewed this analysis and challenged the Council on its appropriateness and concluded that changes needed to be made to ensure the relevant indices were applied based on the asset type and value. As a result of subsequent calculations there was a judgemental audit difference of £15.6m. The Council agreed to:

- Make an adjustment of £14.5m; and

- Report the unadjusted remaining difference of £1.1m in their management representation letter.

Members were directed to the fee analysis for the external auditor's work including a fee for non-audit work undertaken outside of the NAO Code requirements in relation to the housing subsidy grant claim. The Council had appointed Ernst & Young to act as reporting accountants in relation to the housing subsidy claim. The final fee would be dependent on the level of extended testing required for the 2018/19 claim.

Additional work had been undertaken in relation to the two Value for Money significant risks, which meant the external auditor was not yet in a position to quantify the final costs associated with this work but any variation to the fee would need to be agreed with officers and approved by PSAA.

In response to comments and questions from Members, a number of other points were made and noted.

Regulations required that the Council's financial statements were published no later than 31 July 2019. As the assurance letter from the Berkshire Pension Scheme auditors, Deloitte, was not expected to be received by the deadline, the published accounts would have to be marked as 'unaudited'. It was noted that for the previous year, the 2017/18 Berkshire Pension Scheme auditor's assurance letter had also been delayed due to a perceived discrepancy with the calculations, but when the assurance had come through there was no materiality. Deloitte was auditing the Berkshire Pension Scheme for the first time and it was believed they had questions on the valuation of certain assets and liabilities and they were also auditing overall on behalf of all the other pension auditors in Berkshire. Members were advised that the mix of the assets had not changed since last year. The Chairman was to establish who the Bracknell representative was for the Berkshire Pension Scheme.

With regard to outstanding declarations of interest, Members were advised that the Finance department were charged with providing them. In previous years, verbal updates had been allowed but that was not the case anymore and the change in procedure could have caused the delay this year. It was clarified for Members that a declaration of interest identified a potential conflict of interest and then it was determined whether there were any related party transactions.

Councillor Leake was concerned that a conflict of interest existed with regard to Downshire Homes. Members were advised that Downshire Homes was a wholly owned subsidiary of the Council with Directors made up of Officers and Members and as such there was no conflict of interest. It was noted that the shares were owned by the Council and the Board of Directors voted the shares. It was this aspect Councillor Leake was not satisfied that no conflict of interest existed and it was agreed for the matter to be revisited outside of the meeting.

Various factors had led to the identification of the Value for Money risks which included changes in structure or the way things were done and/or when things were done differently, for example, the delivery of a sustainable medium-term financial plan was a general one across the board.

Consideration was being given to the process by which acquisitions were made and what arrangements were in place to avoid the inherent risks in investing in commercial properties. With regard to commercialisation and purchase of investment properties, it was noted that progress against the Investment Strategy was reported to senior management and the Executive Committee: Commercial Property.

Discussions between the Chief Property Officer, Director: Finance and Chief Executive were documented either via email or through verbal correspondence. This indicated an absence of formal reporting and transparency, which lacked best practice arrangements. The external auditor made the comment that formal reporting and transparency arrangements should be in place but did not necessarily recommend it as that would be for Members to decide.

The Committee discussed whether schools that were not run by the Council should be listed on the asset register. Members were advised that schools not deemed to be owned by the Council were not on the balance sheet.

The Committee was advised that the draft Audit Report was already on the Council's website but that a key point summary for the public would not be produced.

Andrew Brittain thanked Arthur Parker and his team for their help and cooperation in the production of the Audit Results Report.

## 15. **Financial Statements 2018/19**

The Chief Accountant presented a summary of the Financial Statements Report for 2018/19.

The Council had set a revenue budget for the 2018/19 financial year of £83.655m. The actual outturn for the General Fund was within budget with an under spend of £2.528m. As a result of the under spend the Council was able to return £0.013m to General Reserves rather than withdrawing the £2.515m included in the Budget.

The Committee noted that the most significant variances included:

- An over spend within the Adult Community Team on residential costs and community services (£0.374m) partly offset by underspends within the team relating to staff vacancies (-£0.184m).
- An over spend on directorate wide budgets within People due to delays in completing the Senior Leadership Restructure and additional transformation costs (£0.414m).
- Within Central, underspends on Concessionary Fares (-£0.288m) and audit fees (-£0.095m) and additional income (-£0.431m), in particular from CIL and streets works.
- A significant underspend on interest budgets (-£3.369m), due to the Council taking advantage of short-term interest rates, additional interest income and higher cash balances reducing the need to borrow.
- Higher than forecast capital receipts in 2016/17 and significant capital carry forwards into 2017/18 helped to create an underspend against the Minimum Revenue Provision (-£0.415m).
- A VAT refund relating to the overpayment of VAT on leisure income between 2010 and 2018 (-£2.299m).

The General Reserves balance at 31 March 2019 was £9.1m. Of this, £2.6m would be used to finance the 2019/20 budget, leaving £6.5m available (of which £4m was determined as the minimum prudent level).

The Comprehensive Income and Expenditure Statement showed a deficit on the Provision of Services of £39.4m but Members were advised this did not impact on reserves.

On Earmarked Reserves, the largest movement in the year related to the Future Funding Reserve (an £11.2m increase to £19.8m) which primarily related to gains from the Council being part of the Berkshire-wide Business Rates pilot.

The Council had had to fund part of the 2018/19 capital programme from internal and external borrowing and this represented 63% of the overall funding of the 2018/19 capital programme budget. Members were advised that whilst the Council held reserves, borrowing was based on a cash flow analysis and some of the borrowing was from cash balances which reduced the need for external borrowing.

However, having considered the report, the Committee was advised that there had been a delay in receipt of the assurance letter from the Berkshire Pension Scheme auditors, Deloitte. In the circumstances, the Committee:

**RESOLVED** that

- 1 The recommendation that the Committee authorise the Chairman of the meeting to sign and date the Statement of Accounts on behalf of the Committee be not agreed due to the delay of the production of the Assurance letter from the Berkshire Pension Scheme auditors, Deloitte.
- 2 The recommendation that the Committee authorise the Chairman of the meeting to sign and date the Letter of Representation set out in Annexe B be not agreed due to the delay of the production of the Assurance letter from the Berkshire Pension Scheme auditors, Deloitte, but he be authorised to sign it once the external auditors had received adequate assurance on the Berkshire Pension Fund accounts.

**CHAIRMAN**

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