

AUDIT COMMITTEE

Minutes of the remote meeting held on 29th July, 2020.

Present: Councillor G.D.D. Carroll (Chairman); Councillor L.O. Rowlands (Vice-Chairman); Councillors: Mrs. P. Drake, Dr. I.J. Johnson, K.F. McCaffer, Mrs. J.M. Norman and M.R. Wilson and Mr. P. Lewis (Lay Member).

Also present: Ms Rachel Freitag and Mr Steve Wyndham (Audit Wales).

753 ANNOUNCEMENT –

Prior to the commencement of the business of the Committee, the Chairman read the following statement:

“May I remind everyone present that the meeting will be recorded via the internet and a recording archived for future viewing.”

754 MINUTES –

RESOLVED – T H A T the minutes of the meeting held on 3rd February, 2020 be approved as a correct record.

755 DECLARATIONS OF INTEREST –

No declarations were received.

756 ANNUAL GOVERNANCE STATEMENT 2019/20 (MD) -

The Head of Finance presented the report, the purpose of which was to submit the Annual Governance Statement for review and to recommend its adoption by the Leader of the Council and the Managing Director.

The Council, as part of its arrangements for corporate governance, was required to undertake an annual review of internal control and governance and the resulting Annual Governance Statement (AGS) must be included within the Statement of Accounts.

The AGS therefore provided an assessment of the Council's corporate governance arrangements and an appraisal of the controls in place to manage the Council's key risks and identified where improvements needed to be made.

The AGS concluded that from the review, assessment and on-going monitoring work undertaken that reasonable assurance could be given that the governance

arrangements for the Vale of Glamorgan Council continued to be regarded as fit for purpose in accordance with the governance framework.

The Officer added that the AGS would be reviewed as part of the external audit on the Statement of Accounts and should reflect any governance issues right up to the date that the Auditor General for Wales signed off the Statement of Accounts for 2019/2020. Therefore, the impact of the COVID 19 pandemic had been considered and was included within the AGS.

The draft AGS for the 2019/20 financial year was attached at Appendix A to the report and explained how the Council had complied with the terms of the CIPFA/SOLACE Framework (2016) for the year ended 31st March 2020.

One of the main issues raised and highlighted over the last few years had been the ability of the Council to carry on meeting service objectives and delivering positive outcomes for its customers and clients whilst meeting the continuing challenges of year on year reductions in Council funding and the impact this had on the services delivered. The increased settlement for 2020/21 had enabled the Council to agree a budget that started to address some of the significant deficits services were reporting however the COVID19 pandemic would impact on the Council's financial position during 2020/21 and this would be monitored closely.

In addition, Mr Wyndham from Audit Wales stated that a wide-reaching consultation had taken place in order to produce the report content.

A Member then thanked all officers concerned for producing a thorough report during the pandemic and asked if the Committee would have sight of the draft AGS again before finalisation given the ever-changing financial situation as a result of the national pandemic. The Member also wished to reiterate a point made during previous committee meetings relating to Principle B – 'Ensuring openness and comprehensive stakeholder engagement' (Page 12 of Appendix A) and public understanding of Council finances and stated that interpretation of said finances varied depending on the audience. As a final point, the Member then referred to page 26 that stated that 68% of Corporate Complaints had been dealt with within corporate target deadlines and expressed his concern for the remaining 32% of complaints that had not been met within the target deadline.

In response, the Head of Finance advised that the AGS would be presented to the Committee again as part of the Council's Final Accounts and the relevant future report would highlight any changes made since the Committee's last consideration. With regards to promoting public understanding of the Council's finances, this was an ongoing objective for the Council and the content of Page 12 reported the outcome of the latest public consultation exercise undertaken. Officers would welcome any promotional/engagement ideas members may have. The Officer then confirmed that negotiations would take place with complainants to extend the timeline for addressing their complaint if appropriate and that a stand-alone report on complaints would be presented to the committee in the future.

For information, Mr Wyndham then added that the AGS is reviewed as part of the formal External Audit review of the Statement of Accounts.

A second member then echoed the thanks passed on to officers for compiling the AGS and congratulated officers on dealing with the large amount of corporate complaints received in a highly efficient manner and the approach in dealing with complaints informally in the first instance was welcomed. Picking up on the topic of public understanding, the Member then suggested that a preface be added to the AGS to help explain its purpose/context for the lay reader.

The Head of Finance thanked the member for his suggestion and agreed that a preface would be beneficial to add to the document for the next financial year to ensure that the document remained readable and accessible.

RESOLVED – T H A T the Annual Governance Statement for 2019/2020 be recommended for adoption by the Leader and Managing Director.

Reason for decision

To provide for a review of the governance framework and the system of internal control, which had been in place within the Council for the year ended 31st March 2020.

757 UNAUDITED STATEMENT OF ACCOUNTS 2019/20 (S151) -

The Head of Finance introduced the report, the purpose of which was to update Members in relation to the Statement of Accounts for the Vale of Glamorgan Council and the Shared Regulatory Service for 2019/20 and the Annual Return for the Vale, Valleys and Cardiff Regional Adoption Service. These were now complete and had been brought to the Committee for review following the commencement of the external audit.

Due to Covid 19, revised regulations required the preparation and certification of draft accounts by 31st August 2020 and publication of final audited accounts by 30th November 2020 for all local government bodies in Wales. The 2019/20 Statement of Accounts for the Council and the Shared Regulatory Service were certified on 30th June 2020 and the Annual Return for the Vale, Valleys and Cardiff Regional Adoption Service was certified on 15th June 2020.

The 2019/20 Vale of Glamorgan Statement of Accounts would be subject to external audit and the audited accounts would be presented to Audit Committee in September 2020 along with the external auditors ISA260 report prior to being submitted for approval by Council.

The Officer added that the Annual Governance Statement for the Vale of Glamorgan Council was not included in the version attached at Appendix A to the report as it was included under a separate item on the agenda however, the Annual Governance Statement for the Shared Regulatory Service was included in Appendix B to the report.

The Vale, Valleys and Cardiff Regional Adoption Service accounts were not subject to a full external audit by Audit Wales, but an Annual Return had been completed by Accountancy and Internal Audit as at 15th June 2020 and was attached at Appendix C to the report. Audit Wales would be providing a limited assurance audit for the service.

Before handing over to the Principal Accountant to finish the report presentation, the Head of Finance wished to place on record her sincere thanks to the whole Accountancy Team for closing the accounts under consideration during very challenging times.

The Principal Accountant then apprised the Committee of Key Figures and Main Statements within the unaudited statement of accounts for 2019/20 as follows:

The Expenditure and Funding Analysis statement reconciled the management accounts to the Comprehensive Income and Expenditure statement which included statutory accounting adjustments. The total at the bottom of the statement showed an increase on Housing Revenue Account (HRA) reserves of £5.28M and an increase in earmarked reserves of £2.669M and a reduction in the General Fund of £822K.

The Movement in Reserves Statement demonstrated an overall increase in Useable reserves of £5.9M in addition to the increase on HRA reserves of £5.28M and an increase in earmarked reserves of £2.669M and a reduction in the General Fund of £822K. Highlighted in the Expenditure and Funding Analysis there was an increase in Capital Receipts of £1.351M and some of these would be utilised as part of 21st Century Schools Band B programme. There was also a reduction in the Capital Grants Unapplied account due to capital grants utilised in the 2019/20 capital programme.

The Principal Accountant then moved on to the Comprehensive Income and Expenditure Statement which included the technical accounting adjustments associated with items such as Depreciation/Pensions/Impairments and Revaluations which accounts for some of the variation in year on Expenditure by service area. Key items to note in the statement were the significant increase in capital grants which could be attributed to schemes such as 21st Century Schools and additional WG General Capital Funding grant received in 2019/20. There was a significant remeasurement on the Pension liability which reflected the triennial revaluation which took place during 2019/20 as at 31st March 2019 and was reflected in the 2019/20 actuarial report.

The Officer then drew Member's attention to the Balance Sheet and noted:

- An increase in PPE as set out in Note 15 due to additions and revaluations in year and a corresponding increase to the adjustments in the Capital Adjustment Account and Revaluation Reserve;
- An increase in short term investment balance at year end (including £11m of overnight investments are included in cash and cash equivalents). This was part due to an increase in Useable reserves but also Capital Grants received in advance (S106). A significant proportion of this sum had been earmarked

as part of Band B proposals. The amount held on overnight balance at year end was in part due to an accumulation of funding in preparation for making COVID-19 payments in early April; and

- Increase in Pension Liability and corresponding adjustment to Pension Reserve which reflects the triennial valuation carried out during 2019/20.

The Officer then advised of the Key Assumptions/Issues impacting the accounts as follows:

Covid 19 Pandemic – As a result of issues caused by the Covid-19 pandemic there was a delay in the signing of the accounts which was planned for 15th June 2020 but were signed on 30th June 2020 and a notice was published in accordance with WG regulations. This was primarily because some time that would usually be spent on closure of the accounts was lost at the end of March and in April due to a mixture of digital challenges/staff without access to the system/staff time spent on issues associated with the Councils response to the pandemic and ensuring the continuity of the service provided by the Accountancy team. There was also an increased complexity associated with the main valuations included in the accounts (property, investments/borrowings and investments) that needed to be considered.

Technical Accounting Changes- There were no major technical changes for 2019/20 accounts although a streamlining review was carried out and some minor notes were removed, some notes were incorporated into the main statements and the format of notes was reviewed.

Big Fresh Catering Company (BFCC) – The BFCC was established on 1st January 2020. The BFCC would prepare its first set of accounts for the year ended 31st March 2021 for the extended period, and the Council would need to assess dependent on its materiality threshold whether group accounts would be required. Briefly this would comprise another set of statements and notes that consolidated in the BFCC accounts and adjusts for any intra group transactions. In 2019/20 the value of the BFCC was not material and was therefore excluded from the Council's Statement of Accounts.

Property Plant and Equipment - Valuation of all Land and Building assets excluding Education and Social Services took place in year. There was some caveat around the valuations provided by the External Valuer due to the uncertainty in the housing market as a result of the pandemic.

As at the valuation date, the valuers considered that they could attach less weight to previous market evidence for comparison purposes to inform opinions of value. They had advised that the current response to Covid 19 meant that they were faced with an unprecedented set of circumstances on which to base a judgement and their valuations were therefore reported based on 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to their valuations than would normally be the case. Given the unknown future impact that Covid 19 might have on the real estate market, they recommend that the Council keep the valuation of its property portfolio under frequent review.

This was an issue that had an impact on the accounts of all Local Authorities across Wales, so Audit Wales were currently reviewing the various submissions by Valuers to arrive at a consistent interpretation and opinion in light of the valuations.

Pensions – The Pension liability reflected the triennial valuation of the Pension fund which was carried out during 2019/20 which assessed the Council's contribution rate, the coverage of investments and the assumptions such as mortality etc. The valuation observed that the outbreak of the novel coronavirus Covid-19 may impact adversely on the ability of the Fund to realise future investment returns and on the Fund employer's covenant.

The actuarial valuation acknowledged that the Fund's assets were likely to have fallen in value in March 2020 and a corresponding reduction in liability via a reduced discount rate was not known. However, the actuary in consultation with the Cardiff and Vale Pension Fund concluded that because of the long-term nature of the Fund and the level of prudence adopted, that certified the valuation based on market conditions at the valuation date, remained appropriate. The majority of negative market movement took place prior to 31st March 2020 and these movements were reflected in the actuarial report. The pandemic had also caused a reduction in corporate bond yields since the year-end, which would have led to an increase in the value of the defined benefit obligation (liabilities) on an accounting basis. The impact on the net pensions asset since the accounting date would depend on the Fund's asset performance.

The Officer added that it was too early to say what impact the higher rates of mortality would have on the funding position of the Fund. ONS data was showing that the cumulative deaths in 2020 to date were well outside the range of the outcomes seen in recent years. The impact on longevity for the Fund's members would additionally be affected by the indirect impact of Covid-19, including the health of the surviving population, and the economic, social and political consequences of tackling Covid-19. In both above cases, the impact on longevity could be positive or negative.

Transfers In and Out - As part of work carried out as part of the interim audit it was agreed that the Pension fund associated with the Foundation school that had previously been excluded from the accounts should be included. The adjustment to transfer these costs in was shown in the Transfers in/out line at the bottom of the Comprehensive Income and Expenditure on page 17 of the accounts. Included on this line was also the transfer out associated with the Pension Liability of staff in the Big Fresh Catering Company from its date of establishment 1st January 2020.

The McCloud Judgement - In the 2018/19 accounts there was an emerging issue associated with the McCloud judgement and the situation in respect of this case had continued to develop during 2019/20. The actuarial report assumes the following in respect of the Council's pension liability:

The McCloud/Sargent judgements relate to court cases in respect of Firefighters and Judges pension schemes, which found that transitional arrangements that applied to members within 10 years of pension age amounted to illegal age discrimination. The Government had been denied leave to appeal against these judgements. The

2018/19 pension liability was amended to reflect an estimated liability associated with the McCloud judgement. The liability calculated for 2019/20 incorporated McCloud and assumed any underpin (additional protection to ensure the pension recipient gets at least equal to that which they would have received under the previous scheme) associated with the remedy would apply from April 2012. The underpin was assumed to apply upon withdrawal and to apply to spouse's pensions. Legislation required periodic valuations to ensure the cost of the LGPS remains affordable and sustainable however no allowance had been made for the cost of improving members benefits as a result until such time as the cost management processes had recommenced.

Guaranteed Minimum Pension and Indexation - The accounts also reflected an allowance for Guaranteed Minimum Pension and Indexation for any members who were State Pension age on or after 6 April 2016.

The Chairman then thanked the Officers for their comprehensive presentation and invited Mr Wyndham to address the Committee whom advised that despite the very challenging times, the audit being conducted by Audit Wales was still progressing and the response/support received from the Council's Accountancy Staff had been excellent.

Mr Wyndham then addressed the matter of valuation uncertainty on material assets for the Council in light of the national pandemic and noted that it would be necessary for Audit Wales to accurately consider the impact fully and reflect this in the Council's Annual Audit Report. Therefore, a paragraph may be added to the report to alert the reader to valuation uncertainty in the Council's accounts however, this would not be unique to the Vale of Glamorgan Council and would in fact be standard practice across all public bodies.

A Member then noted that the content of the report accurately reflected the previous financial year which was largely unaffected by Covid-19 and acknowledged that, going forward, it would not be possible for the Council to confirm with any certainty the financial climate however, it would be possible to refer to the 2019/20 accounts as the last 'normal' year as a comparison for future financial planning. The Member then drew Officer's attention to note 10 of the unaudited statement of accounts and requested further clarification for the £14m listed under movements of unusable reserves after a seemingly £20m increase with £14m substituted leaving a total of £6. As a secondary point, the Member also enquired after the projected 21st Century Schools Programme Band B spending in light of the figures within the statement being different to those presented to the Committee in February 2020 and the setting of the Council Tax Rate having taken place since.

With regards to the Member's first query, the Principal Accountant advised that the figures set out under note 10 of the statement were accounting adjustments and confirmed that there had not been a movement of £20m into unusable funds. In fact, the movement was equal and opposite and the Council's cash reserves remained the Council's only useable reserves. The Officer then advised that she did not have the projected Band B figures with her at the time of the meeting but would share the figures with Committee Members after the meeting which would include relevant Section 106 contributions.

A second Member then reiterated the Chairman's thanks to Officers for successfully producing the detailed accounts and raised the following points for improvement with regards to the Statement of Account Document:

- Under the 'Narrative Report' title, Introduction section (Page 1), it was beneficial to refer to the Annual Governance Statement and to refer to the Council's internal and external Audit processes;
- Under the 'Summary of Financial Performance – Revenue' heading, it was beneficial to consider an alternative term for 'lead times,' as used on Page 2, as well as changing the use of employee 'expenses' as this implied employee spending which was not the context; and
- The Housing Stock figures table on page 92 of the document be checked for accuracy as the table contradicted the narrative with regards to the number of new build properties identified.

In conclusion the Member was pleased to note the fact that the Council was in a good financial position.

In response, the Principal Accountant thanked the Member for his points and confirmed that an update on the Housing Stock figures would be provided to Committee Members following the meeting as well as all suggested changes being considered for the final version of the document.

The Lay Member of the Committee then took the opportunity to echo the Member's note on the position of the Council's finances and how, in his longstanding experience, the Council had done an excellent job in improving its financial situation before asking Officers if there were any already identified concerns going forward in light of the national pandemic.

In response, the Head of Finance advised that the financial impact of Covid-19 was being monitored very closely and the production of Quarter 1 reports had already begun which would set out Welsh Government Contributions to the Council and attempt to estimate the expenditure for the rest of the financial year which was always a very difficult task to undertake.

A Member then stated that the Council should not be taking additional money off the general public via increased council tax rates to enhance the Council's reserves as some members of the public were in a far worse situation financially than the Council.

The Chairman then asked the Audit Wales Representative whether there were any unique points to raise for the Vale of Glamorgan Council regarding Pension Liabilities, to which, Mr Wyndham advised that there was nothing further he needed to communicate at the time of the meeting that had not already been presented by the Principal Accountant.

Still on the topic of Pensions, the Lay Member stated that it was his understanding that the Council could see an increase in Pension Reserves due to the higher than average mortality rate as a result of Covid-19. In response, the Principal Accountant reiterated that Officers would continue to liaise with partners in order to update

Committee Members however, the impact on Pension Reserves was still unknown and this would be closely monitored over the course of the financial year.

The Principal Accountant then advised that with regard to the Shared Regulatory Services (SRS) Account there was a £46k deficit due to an overspend against Cardiff Council relating to Licensing and following the 2018/19 SRS Audit the Committee agreed to amend the format of the audit to align with the SRS monitoring and therefore the figures included within the statement now aligned to specific services. The Principal Accountant advised that the Shared Regulatory Services (SRS) Accounts would also be affected by the issues associated with Pensions accounting identified for the main Vale of Glamorgan Accounts.

In conclusion, the Operational Manager for Accountancy highlighted that the Social Services Adoption Accounts were a lot smaller and therefore only needed the completion of an annual return and not a full set of accounts. Internal Audit had confirmed in the return that they were satisfied that adequate controls were in place. Both income and expenditure had gone up from the previous year due to Welsh Government providing an additional grant for Adoption Services and this had been split between the Vale of Glamorgan, Cardiff, Merthyr and RCT Authorities. Most of the expenditure relating to the grant related to Staffing costs and life journey work following an adoption and it was expected that the level of funding would be continued for 2020/21.

RESOLVED

- (1) T H A T comments of the Committee regarding the unaudited Vale of Glamorgan Council Statement of Accounts for 2019/20 be referred to the Head of Finance as Section 151 Officer for subsequent discussion with the Council's external auditors, Audit Wales.
- (2) T H A T comments of the Committee regarding the unaudited Joint Committee Shared Regulatory Services Statement of Accounts for 2019/20 and the Shared Regulatory Services Annual Governance Statement be referred to the Head of Finance as Treasurer of the Joint Committee for subsequent discussion with the external auditors, Audit Wales.
- (3) T H A T comments of the Committee regarding the Annual Return for the Vale, Valleys and Cardiff Regional Adoption Service 2019/20 be referred to the Head of Finance as Treasurer of the Joint Committee for subsequent discussion with the external auditors, Audit Wales.

Reasons for decisions

- (1) To allow for the initial review of the unaudited Vale of Glamorgan Council Statement of Accounts by those charged with governance.
- (2) To allow the initial review of the unaudited Shared Regulatory Services Statement of Accounts and Annual Governance Statement by those charged with governance.

(3) To allow for the initial review of the unaudited Valleys, Vale and Cardiff Regional Adoption Service Annual Return by those charged with governance.

758 ANNUAL INTERNAL AUDIT REPORT 2019/20 (HRIAS)

The Head of the Regional Audit Service took Members through the key points as set out within the report attached at Appendix A and began by thanking the Internal Audit Team for their continued support.

The report provided the Head of Internal Audit's Annual Opinion on the Council's control environment in relation to governance, risk management and internal control. It also informed the Audit Committee of the work and performance of Internal Audit for the Financial Year 2019-20. This information was provided in order to comply with the Public Sector Internal Audit Standards.

From the work undertaken during the financial year 2019/20 and considering other sources of assurance, the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control for 2019-20 was reasonable assurance.

The Officer added that COVID19 had had little impact on the plan to date as most of the fieldwork had been completed prior to lockdown.

The 2019-20 Internal Audit Plan was submitted to the Audit Committee for consideration and approval on the 30th April 2019 and the Plan outlined the assignments to be carried out and their respective priorities. As this was the first year of the newly created Regional Service, 2019-20 was highlighted as a transitional year where flexibility would be required to deal with the demands of setting up a new service. For the Vale of Glamorgan, a total of 62 reviews were completed with an audit opinion and a total of 26 medium and high recommendations made. A detailed breakdown was included at Annex 1 of Appendix A.

A Member then referred to Annex 1 (Pages 17 – 19) of the Annual Internal Audit Report 2019/20 and asked for further clarification on the difference between a high and medium recommendation. As a supplementary point, the Member also noted in the same annex that two Vale of Glamorgan Schools had limited opinions and asked about the frequency and level of training offered in order to reduce the number of recommendations raised going forward.

In response, the Audit Client Manager advised that limited reports would be generated following any high-level recommendations made and would therefore be monitored closely. With regards to training offered within schools, school staff liaise regularly with audit staff in order to gain support and School Clerks were encouraged to contact the council's internal audit team when required. The Head of the Regional Audit Service then added that there were specific criteria used to distinguish between the levels of recommendation and any significant recommendations would be automatically followed up.

In response, the Member stated that the ideal ethos would be to reduce the number of limited reports and subsequent recommendations put upon staff and questioned if the Council could make training mandatory in light of limited reports. To which, the Audit Client Manager advised that training would be raised as a formal recommendation if deemed necessary.

Staying on the topic of schools, a second member questioned whether there was a systematic issue given that a handful of schools were identified as having issues each year. As a separate point, the same member noted that Homelessness had been pushed to 20/21 however, it was imperative that the Council acknowledged the importance of the national issue. Finally, the member referred to a comment raised in the Appendices in that officers had chosen not to progress with a report on Safeguarding.

In response to the member's first point, the Head of the Regional Audit Service advised that the highlighted pattern was common across other local authorities whereby some schools were identified each year and therefore, this was not a unique situation to the Vale of Glamorgan. It was recognised that, as a regional audit service, it would be beneficial to have a generic approach to auditing schools and self-evaluation however, this was not straightforward due to each region operating its processes differently. With regards to Homelessness, funds were found to provide emergency support in response to the national pandemic however, it was not yet known how and to what level the support would continue going forward. The Officer then confirmed that Officers had chosen not to progress with a report on Safeguarding as reliance was placed on the work undertaken by the Wales Audit Office review on safeguarding.

In conclusion, the Lay Member of the Committee thanked the Officer for improving the format of the report.

RESOLVED – T H A T the Annual Internal Audit Report for the Financial Year 2019-20 including the Head of Internal Audit's Annual Opinion on the Council's control environment in relation to governance, risk management and internal control be noted.

Reason for decision

To keep Audit Committee informed and to note the Head of Internal Audit's Annual Opinion on the overall control environment at the Council.