

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the virtual meeting held on 15 November, 2021 (adjourned from 20 October, 2021)

- PRESENT:** Councillor Peter Rogers (Chair)
Mr Dilwyn Evans (Lay Member) (Vice-Chair)
- Councillors Jeff Evans, John Griffith, Richard Griffiths, Dylan Rees, Margaret M. Roberts.
- IN ATTENDANCE:** Chief Executive
Director of Function (Resources) and Section 151 Officer
Accountancy Services Manager (BHO)
Finance Manager (CK)
Committee Officer (ATH)
- APOLOGIES:** Councillors Gwilym O. Jones, Alun Roberts, Head of Profession (HR) and Transformation, Programme, Business Planning and Performance Manager (GM)
- ALSO PRESENT:** Councillor Robin Williams (Portfolio Member for Finance), Mr Derwyn Owen, (Engagement Director – Audit Wales), Yvonne Thomas (Financial Audit Manager – Audit Wales), Head of Democratic Services (JHJ), Scrutiny Manager (AGD)
-

1. DECLARATION OF INTEREST

No declaration of interest was received.

2. STATEMENT OF THE ACCOUNTS 2020/21 AND ISA 260 REPORT

- The report of the Director of Function (Resources)/Section 151 Officer incorporating the Final Statement of the Accounts for 2020/21 following audit was presented for the Committee's consideration.

The Director of Function (Resources)/Section 151 Officer in reporting that the statutory deadline for the completion of the audited accounts for the 2020/21 financial year was again extended to 30 November, 2021 to accommodate the working conditions in relation to the Coronavirus pandemic, took the opportunity to thank all those who had been involved in the accounts preparation and audit processes including the Council's Finance and Accountancy services' staff and also Audit Wales officers who were auditing the Statement of Accounts for the first time this year. The Director of Function (Resources)/Section 151 Officer said that changes will be made to some processes and working papers to reflect the standards required by Audit Wales which are different to the requirements of the Council's previous auditors. All issues that have arisen throughout the audit were dealt with promptly and in a satisfactory manner.

The Section 151 Officer referred to the amendments to the accounts since the draft version was presented to this Committee in June, 2021 as set out in section 3 of the report and expanded upon in External Audit's report on the Financial Statements below. The changes are mostly technical in nature and although they have resulted in

adjustments to the income and expenditure account and balance sheet none have impacted on the Council Fund nor the Housing Revenue Account Balances. Where relevant, the notes to the accounts have been revised to reflect the amendments made within the body of the accounts and at the same time endeavours have been made to improve the quality of the notes and to delete those notes the auditors deem do not add value to the accounts. It is gratifying to be able to report in conclusion that the auditors' report confirms that the accounts have been properly prepared in accordance with legislative requirements and accounting standards and that they give a true and fair view of the Council's financial position as at 31 March, 2021.

- The report of the Head of Profession (HR) and Transformation incorporating the Annual Governance Statement for 2020/21 was presented for the Committee's consideration and endorsement. The Annual Governance Statement (the draft version of which was presented to the Committee for comment in June, 2021) seeks to provide assurance that the Council had in place appropriate arrangements for managing its business during the year and it will form part of the definitive 2020/21 Statement of the Accounts.
- The report of External Audit on the audit of the Financial Statements for 2020/21 (ISA 260 report) was presented for the Committee's consideration.

Mr Derwyn Owen, Audit Wales Engagement Director reported on the main findings from the audit of the Council's accounts for the 2020/21 financial year as follows –

- That auditors can never provide complete assurance that accounts are correctly stated and work instead to a level of materiality. This level of materiality is set to try identify and correct misstatements that might otherwise cause a user of the accounts into being misled. For the 2020/21 audit the level of materiality was set at £2.663m. A lower materiality level was set for related party disclosures (£10,000) and Senior Officer Remuneration (£1,000).
- The Covid-19 pandemic has had, and continues to have a significant impact on all aspects of society. It is therefore testament to the commitment of the Council's accounts team that the accounts have been prepared in the face of the challenges posed by the pandemic. However, the pandemic has affected the audit and the main impacts are summarised in Exhibit 1 of the report and relate to the timetable, certification of the accounts which will again be done electronically this year, and conducting the audit approach and obtaining audit evidence which were achieved by adopting remote ways of working. Lessons learned for the audit process from the pandemic will continue to be reviewed including whether there are innovative practices that might be adopted in future to enhance that process.
- That it is the Auditor General's intention to issue an unqualified audit opinion on this year's accounts once the Council has provided a Letter of Representation based on that set out in Appendix 1 to the report. An unqualified opinion means there are no material concerns about any aspects of the accounts.
- The proposed audit report is set out in Appendix 2 to the report and confirms the independent auditor's view that the financial statements give a fair view of the financial position of the Council as at 31 March, 2021 and that they have been properly prepared in accordance with legislative requirements and international accounting standards.
- There are no misstatements identified in the accounts which remain uncorrected.
- There were initially misstatements in the accounts that have now been corrected by management. These are set out with explanations in Appendix 3 to the report.
- That in the course of the audit, the auditors consider a number of matters relating to the accounts and report on any significant issues arising thereon; there were two matters arising in these areas this year with regard to the following –

- Streamlining the accounts – the Council’s 2020/21 Statement of Accounts is detailed and includes several disclosures that are below materiality and potentially do not require specific disclosure or contain excessive details. Authorities that have already taken steps to streamline have found that clearer and shorter accounts can be prepared to a high quality with less resource and reduce not just the time and effort taken to produce the end of year statement but also the time and effort taken to complete the external audit process. To enable this, some review of year end processes may be needed. Discussions held with officers have been positive with an indication that they recognise the importance of producing a more focused set of accounts in future years. Audit Wales will work closely with the Council to support the finance team in making the necessary changes ahead of the production of the 2021/22 accounts.
- Quality of draft accounts and working papers – whilst it is acknowledged that the preparation of the 2020/21 accounts was adversely impacted by the absence of a key finance officer, the Council should take steps to further strengthen processes for the review of all working papers at pre-audit stage. This will improve the quality and consistency of information submitted and reduce the number of queries and the time take to conclude the audit. Finance staff should be credited for their willingness to establish a positive working relationship with Audit Wales staff and to improve processes, quality of the accounts and underlying records. Audit Wales will work with the Council over the coming months to build on this.
- That the recommendations made as set out in paragraphs 28 to 30 of the report reflect the findings above with regard to improving qualitative aspects of the accounts in relation to streamlining the accounts and strengthening the quality review process. Audit Wales intends to hold a post project learning exercise with key staff to further improve the accounts production and process in future years.

The Director of Function (Resources) and Section 151 Officer confirmed that the Finance Service and the Council accept the independent auditor’s recommendations and will work with Audit Wales to implement those recommendations with the aim of improving the accounts production process for next year. Meeting the earlier closedown timetable is challenging and puts pressure on the Finance Service’s staff to complete the process sooner with the potential for issues/queries to then emerge during the audit process, and whilst the reasoning for the earlier closedown is understood in order to ensure that less emphasis is placed on looking back and more on looking forward, achieving the dates is a challenge and makes the process more susceptible to error.

The Committee considered the information presented and made points as follows –

- As regards the changes to the accounts since the draft version was presented to Committee, it was noted that many of the previous year’s figures contained in the table columns (i.e. the 2019/20 financial) year have been changed and in several instances the last digit has changed by 1; it was queried whether this is as a result of a rule change or rounding up and/or down exercise given that the materiality level is much higher and whether changes to the previous year’s audited accounts have any implications for the 2020/21 accounts.

The Financial Audit Manager for Audit Wales clarified that some of the figures in the 2020/21 draft accounts did not tally with the published figures for the previous year’s accounts leading to some changes being made during the audit. The Accountancy Services Manager in confirming this to be the case explained that the transfer of data between spreadsheets showed the figures to be incomplete and/or not matching and corrections were made to bring the figures into line with the final published accounts for 2019/20.

- With reference to related parties it was noted that payments made by the Council to the Betsi Cadwaladr University Health Board (BCUHB – a related party through common control by central government) for 2020/21 amounted to £1.189m and that £0.458m was owing at year end whilst receipts taken in by the Council from BCUHB came to £6.132m with £1.354m due from the related party at year end. The Committee wanted to know whether there were any issues in securing monies owed by BCUHB and the time taken for payment to be made.

The Director of Function (Resources)/Section 151 Officer advised that the accounts reflect the position at a specific point in time as at 31 March, 2021 and that this may have changed subsequently. Whilst there have been issues in the past around BCUHB's contribution to certain care costs which have applied to all the region's councils, agreement has since been reached with regard to what is payable in many such cases and much of the historic debt has been cleared. The Council has also improved and strengthened its own processes to ensure that agreements entered into with BCUHB for the provision of services are supported by documentary evidence. The Section 151 Officer confirmed that engagement and discourse with BCUHB on such matters have greatly improved with the Health Board asking for regular updates on the monies owing position, and that he was not aware of any issues having arisen in the past year with regard to settling the Health Board's bills.

- With reference to the changes from the draft version to the figures in the table under Note 14 (Taxation and Non Specific Grant Income). Whilst it was noted that the change in the non-domestic rates distribution (NDR) figure was £2.14m further clarity was sought with regard to changes to other figures in the table making a net change of £68k from the draft accounts

The Director of Function (Resources) and Section 151 Officer clarified that the main change had been the division between the Non Domestic Rates (NDR) distribution and the Revenue Support Grant (RSG) consequent on the recalculation which Welsh Government had to make to reflect the decrease in the NDR funds which Welsh Government receives and the increased contribution which it then had to make to the Revenue Support Grant. There may have been other smaller changes identified by the audit impacting on the Council Tax income and/or Capital Grant figures in the table at Note 14. The Finance Service Manager clarified that the £68k net change figure can be attributed to the treatment of a Welsh Government grant relating to NDR.

Mr Derwyn Owen Wales Audit advised that all the main changes between the draft unaudited accounts and the final audited accounts are set out in Appendix 3 of the independent auditors' ISA 260 report where it is also acknowledged that a number of other less significant amendments (below the level of materiality) and disclosure updates have been made as a result of the auditors' work.

- Given the intention to simplify the accounts reference was made to the tables under Note 28 (Cash Flow from Operating Activities) and Note 29 (Cash Flow from Investing Activities). It was noted that the Table at Note 28 although it refers to cash flow from operating activities also incorporates an adjustment for cash flow from investing activities which is then reversed out in the table in Note 29 which it was felt adds confusion rather than clarity to the accounts.

The Director of Function (Resources) and Section 151 Officer in acknowledging the point made advised that the cash flow statement at Note 28 is set out according to a

historic format and is an example of the kind of areas that will be looked at in the drive to simplify and clarify the accounts.

- It was noted that in the table for Revenue Grants received in advance at page 63 of the accounts the reference to North East Wales Ambition Board needs to be amended to read North Wales Economic Ambition Board.
- In light of the change of external auditor and the change of approach/views in terms of the accounts preparation process it was suggested that it might be beneficial for the Committee to meet with Audit Wales separately to gain more insight into the idea of streamlining the accounts and to better understand what has changed as regards practice and expectations from the Council's previous auditors.

Mr Derwyn Owen advised that Audit Wales would be happy to meet with Members of that is what they wish. The streamlining concept comes from CIPFA which has recognised that local authority accounts have become lengthy and complicated and is encouraging councils across both England and Wales to review the quantity of notes included in the accounts and to consider whether they add value. What is included in the accounts is a local decision, and Wales Audit is happy to engage in that conversation with the Council over the coming months after which it may be appropriate to meet with the Committee to ensure that Members are satisfied with the elements of the accounts if any, that are being proposed for removal from next year's Statement. As regards the change of auditors, the audit has been conducted on the same basis as in previous years which is in accordance with international auditing standards as is required.

The Director of Function (Resources) and Section 15 Officer that the Council is happy to look at ways of reducing the volume of the accounts and to make them more accessible to the reader as they have become increasingly cumbersome and complex in recent years making them difficult for the public to understand which undermines their value and purpose. However, streamlining applies not only to the contents of the accounts but also to the internal processes by which the accounts are produced and information obtained, thereby making the subsequent audit process easier as well.

It was further suggested that in light of the changes in the composition of Governance and Audit committees in Wales coming into effect in April next year as a result of new legislation, a meeting between Members of the Committee and Audit Wales should be postponed until after the May, 2022 local government elections when Audit Wales might then be asked to hold a virtual training seminar on a regional basis to accommodate the needs of new committee members.

It was resolved –

- **To recommend acceptance of the Final Statement of the Accounts for 2020/21 to the Full Council.**
- **To endorse the Annual Governance Statement for 2020/21 and to refer the Statement to the Full Council for approval and to the Leader of the Council and the Chief Executive for their signatures.**
- **To note External Audit's Report on the Financial Statements for 2020/21.**

NO ADDITIONAL ACTION WAS PROPOSED

**Councillor Peter Rogers
Chair**

DRAFT