

# Public Document Pack

(Audit Committee - 22 November 2018)

## AUDIT COMMITTEE

Minutes of a Meeting of the Audit Committee held in the Library Meeting Room, Taunton Library, on Thursday 22 November 2018 at 10.00 am

**Present:** Cllr C Aparicio Paul (Chair), Cllr G Verdon (Vice-Chair), Cllr S Coles, Cllr B Filmer, Cllr P Ham, Cllr L Leyshon, Cllr M Rigby, and Cllr J Lock.

**Other Members present:** Cllr T Munt and Cllr L Redman.

**Apologies for absence:** Cllr M Caswell.

### 82 **Declarations of Interest** - Agenda Item 2

In respect of agenda item 10 Cllr Verdon declared a personal interest as she held a contract with Grant Thornton.

### 83 **Minutes from the last meeting** - Agenda Item 3

The Committee agreed that the minutes of the meeting held on 20 September 2018 were accurate, and the Chair signed them.

### 84 **Public Question Time** - Agenda Item 4

The Chair noted that 2 members of the public had registered to speak, and some of their questions were relating to agenda item 12 and would be heard at that time.

The Chair invited a question about agenda item 6.

**Mr Nigel Behan** asked about the Partial Audit Update – Risk of Care Provider Failure and noted it was stated in the Executive Summary (of the SWAP Final Report) that:

“The Council uses a number of strategies to manage care provider failure risks. In order to understand the sustainability of the local care market, market analysis is completed by the Commissioning Team to assess the level of available provision in the county and identify any gaps. The state of the care market in neighbouring authorities is also assessed to identify how significant failures may impact on the Somerset care market. In recognition of the link between financial performance and quality of care and to identify any providers potentially at risk of failure, the Quality Assurance Team periodically complete a number of assessments of care providers. These are in the form of: • Six monthly Self-Assessment Forms (SAFs) completed by providers, focussing on quality standards, which are electronically assessed to provide a score; • Contract Reviews - The SAF score provides a RAG rating for each provider which, alongside other intelligence, such as CQC assessments and any safeguarding alerts received, informs their contract review period. As a minimum contract reviews will be conducted every 24 months; • Financial Assessments - Those providers deemed market risk should annually provide SCC with a copy of their accounts. These will be assessed by the Finance Team and risk scored. A medium or high risk would be referred to the Commercial and Procurement Team for further analysis.

Where failures do occur the Quality Assurance Team work closely with other partners such as the CQC and the Clinical Commissioning Group (CCG) to ensure that closures are managed, and that suitable alternative care is arranged for residents or service users with minimum distress. A Business Failure Policy has been developed which informs this process.”

i) Do similar or equivalent Six monthly Self-Assessment Forms, Contract Reviews and Financial Assessments apply for the outsourced Learning Disability Service(LDPS) known as the (Social Enterprise Vehicle) Discovery operated by Dimensions UK Ltd? If so please can you supply the latest assessment of “risk of failure”? ii) How do you avoid the possible perception that Self-Assessment Forms could be interpreted as the providers “marking their own homework”?

### **Response**

Discovery are not currently required to complete the SAF due to the reporting requirements set out in the Services Contract. There are a number of ways Discovery report and the Authority monitors the Financial Health of Discovery. These are briefly set out below:

1. Discovery are required to regularly monitor the financial health of their organisation in relation to a number of Financial Distress Thresholds. If Discovery fail to meet the Financial Distress Thresholds they must notify the Authority as soon as is practicable and within 10 Working Days. These are additionally reported in Discovery’s Quarterly Finance Report and discussed at the Quarterly Finance Meeting. The Financial Distress Thresholds and the last reported assessments are shown in the table below.

2. Discovery submit a Quarterly Finance Report including detailed financial information to the Authority. This is a commercially sensitive and confidential report. The Authority did not have any concerns regarding Discovery’s financial health following the last meeting.

3. In the event Discovery were to become insolvent the Authority has a Performance Bond with Dimensions (UK). In an insolvency situation Dimensions (UK) would assume the obligations and responsibilities of Discovery.

Although regulated care providers are required to complete self-assessment questionnaires to help the service monitor quality and determine risk, we ensure these are not relied on in isolation and are used rather to support the broader reviewing process. This information is triangulated by the contract officer alongside the provider’s latest CQC inspection report, as well as with service quality feedback information received from a variety of sources including feedback from relatives or independent organisations like Healthwatch, and with intelligence gathered from professional teams accessing provider services such as safeguarding staff, district nurses and the CCG’s Continuing health care teams.

In preparation for the contract visit, the contract officer will always undertake broader background enquiries, and when visiting the setting, they will spot-

check records held including care and support plans, monitoring records, environmental records and training matrices. Visits will also encompass discussions with residents, relatives and staff with time to look around the service independently.

The Quality Assurance Service uses local intelligence to determine the level of risk and to monitor the quality of the service being provided. The level of concerns and significance will determine whether the contract review process is halted and the provider is moved into the Quality Improvement Process (QIM). The QIM process enables a more in-depth overview of the provision, working in partnership with key colleagues from the CCG, CQC and Somerset Partnership, regular visits, meetings and further scrutiny of the service is undertaken. Once satisfied with the sustain improvement, the service will then revert back to the contract review process.

## 85 **Partial Audit update - Concessionary Fares - Agenda Item 5**

The Committee considered this report following an audit to assess the adequacy of the controls and procedures in place for the concessionary fare travel scheme operating in Somerset by the Council. This was an update report to the Committee as the original audit had resulted in partial assurance.

Members were reminded that the original audit had found that some key risks were not well managed, and systems required the introduction or improvement of internal controls to ensure desired objectives were met.

Attention turned to the report and the Lead Officer outlined the action and responses that had been put in place to address the partial audit recommendations.

Firstly, an overview was provided of concessionary fares and it was noted that 37 bus operators, including the Council, in Somerset provided services for 108,800 active bus pass users which totalled approximately 2.8 million passenger journeys resulting in a re-imburement budget of £4.6m.

An explanation was also provided of how the system should work and the process to be followed by the bus operators to make quarterly claims for reimbursement using ticket machine data. A question was asked about the variance (between the journeys being claimed for and actual number of journeys) and if there were any sanctions being imposed and the Lead Officer undertook to provide a written response.

It was noted that the English National Concessionary Travel Scheme (ENCTS) allowed the Bus Operators to submit claims and these were then checked against the Host Operator Processing System (HOPS) that would then verify the Operator claims. The introduction of the smart ticketing system, the tightening of procedures and systems and the appointment of a dedicated concessionary fares officer had resulted in significant improvements in control systems.

There was a question about the data/information available from e-ticketing on the number of journeys made by women and those over retirement age in Somerset and the Lead Officer undertook to provide a written response.

The Committee was reassured that the audit findings were being appropriately addressed and the report was accepted.

**86 Partial Audit update - Risk of Care Provider Failure - Agenda Item 6**

The Committee considered this report that provided an update on the progress made in response to the partial audit recommendations following an audit in to the risk of care provider failure published in March 2018.

It was explained that, the Council had a statutory duty to support the needs of vulnerable adults if a regulated provider becomes unable to provide a regulated activity for an individual due to a business failure and that this duty applied regardless of whether the individuals' care was funded by the Council or not.

Members noted a that an audit had been undertaken to assess the adequacy of the controls and procedures in place to mitigate the risk of care provider failure and the audit had produced a partial opinion as several areas required improvement, particularly in relation to the financial assessment of local providers.

There was a discussion of the report and Appendix A which provided details of the progress made against the partial audit recommendations and Members noted the majority of which had been progressed and completed. It was noted that 2 recommendations had yet to be progressed and the Committee sought and received reassurance that improvements in both areas was being progressed.

There was a brief general discussion about the provision of care providers in Somerset and the role both the Council and the Care Quality Commission (CQC) had to ensure that quality and safeguarding issues were always adequately maintained.

The Committee accepted the report.

**87 Partial Audit update - Children's Direct Payments - Agenda Item 7**

The Committee considered this report that provided an update on progress made since an audit of the controls and procedures in place for the administering of direct payments by the Children with Disabilities team (CwD) in the Council.

It was noted that the audit had provided a partial assurance and identified 3 key areas of service where changes were required to be able to provide full assurance. The report set out the service activity relating to the areas of concern and the Committee considered each of the 3 areas.

It was reported that assessments were now more timely and accurately identified children and their families' needs. Regarding Direct Payments it was explained that these were now consistently used for the purposes set out in legislation. In addition rigorous administrative and management oversight and review has ensured that needs could be met within the budget assigned for that purpose.

Members were reassured that the actions highlighted in the partial audit had been embedded into the ongoing functioning of the service, thus providing an improved service to families and better financial controls.

The report was accepted.

**88 Partial Audit update - Contract Management of Children's Independent Placements - Agenda Item 8**

The Committee considered this final report following an audit of Contract Management in respect of children's independent residential, fostering and education placements. It was noted the placements team, part of the wider Children's Commissioning team, was responsible for sourcing and negotiating the terms for individual placements based upon information provided by service areas.

It was explained that Independent residential and fostering placements were funded from the Council's revenue budget, whereas SEND placements were largely funded by Dedicated Schools Grant (DSG) and spend on independent placements continued to be significant and remained a budget pressure for the Council. Therefore, it was imperative that a robust system of contract management was in place to ensure value for money was achieved and opportunities to reduce spend were exploited.

The objective of the audit had been to confirm that those contracted services were delivered in accordance with the terms and conditions of the contract and desired outcomes achieved. It was stated that the Auditors had reported a partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks were not well managed, and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

Attention turned to the report and it was noted that of the seven significant findings five related to contract arrangements, and particularly a lack of clarity in who held responsibility for ensuring contracted outcomes were delivered, and an absence of process for an annual review of contracts. It was noted that in response lead officers had set out a range of responses to the identified risks and in answering questions explained how improvement had been achieved and progressed.

There was a brief discussion about changes to the funding for Children's Services from the next financial year onwards. The report was accepted.

**89 Internal Audit update - Agenda Item 9**

The Committee considered this report, introduced by the Internal Auditors, that provided a thorough overview and general update of the progress made against the 2018/19 Audit Plan.

It was noted that for a variety of reasons there continued to be some slippage in delivering the Audit Plan heading in to quarter 4 as a number of Audits had been deferred. In response to a question it was explained that remedial measures had been taken following requested actions from the Senior Leadership Team and extra days and/or staff could be added if required.

Attention was drawn to the overview of the Audit work being undertaken, included as Appendix B of the report, which included details of the Audits completed since the last report that had received Partial findings. There was a question about the progress regarding the partial Audit of Section 106 agreements and the Strategic Manager – Financial Governance advised that an update report would be prepared for the January 2019 meeting.

There was a question about the Council's proposed future borrowings and it was noted that this would be included within the overall MTFP review that was continuing to assess the Council's overall financial position. There was a brief discussion about training and the Chair noted that all Members were encouraged to undertake training/attend conferences in order to further develop their skills.

The Committee accepted this report.

## 90 **Emerging Audit Issues for the Audit Committee - Agenda Item 10**

The Committee considered this report that provided a collection of emerging audit topics for Members to consider. The Strategic Manager explained to the Committee that the Chartered Institute of Public Finance and Accountancy (CIPFA) had considered both the role of the Audit Committees and Heads of Internal Audit across local government.

In Somerset, whilst the South West Audit Partnership (SWAP's) work was governed by Public Sector Internal Audit Standards (PSIAS), CIPFA had developed further guidance about Audit Committees in particular. The CIPFA position statement on Audit Committees was attached to the report as Appendix A and this set out the key principles that CIPFA recommends for Audit Committees operating in local government.

In response to a question it was noted that CIPFA was supportive of audit committees and recognised the value they can add to good governance and strong public financial management. It was noted that generally, Somerset's Audit Committee's remit aligned very well with the CIPFA position statement and this included the 'core functions' as listed in section 4 of the statement.

The report asked the Committee to take a view on the CIPFA recommendation for all Audit Committees to have an independent member, even though this was not a statutory requirement. There was a brief discussion and the view of the external auditor was sought and he noted in his experience about half of

the local authorities he had worked with had an independent member on the Audit Committee.

Members agreed to support the proposal for the Audit Committee to have an independent member and asked Officers to progress this suggestion and the Committee accepted this report.

91 **Corporate Risk ORG 0043 - Agenda Item 11**

The Committee considered this report introduced by the Risk Manager, that provided details of the latest position of each of the identified strategic risks to the Council achieving its objectives.

There was a discussion of the report, particularly Appendix 1, the Strategic Risk Report which listed 12 risks and the actions being taken to mitigate each. It was reported that ORG0043 'maintain a sustainable budget' remained the most critical risk to the Council.

It was noted there was a focus to better understand the drivers of overspend across the Council's Services as it was reported that successful control of those budgets would underpin an overall balanced budget and the Director of Finance explained measures being taken to achieve that aim.

Members attention was also drawn to a heatmap which showed the latest distribution of the 12 identified risks and any changes since the last update report were indicated with a directional arrow.

The Committee welcomed the report and the determination of Officers to ensure that focus was retained to ensure risks were robustly managed and monitored and so ensure the Council objectives were achieved.

The report was accepted.

92 **Value For Money tracker - Agenda Item 12**

The Chair of the Committee invited 2 members of the public who had registered to speak on this item to address the Committee.

**Mr David Orr**, a Somerset resident, noted that the Value For Money report stated: "Reporting of financial performance to members should be transparent and understandable". I was looking for a simple Dashboard paper to give me these urgent answers:

Q1. Has the Councils financial position for 2018/19 improved or worsened since the September crisis budget? I cannot say.

**Response**

I would like to point Mr Orr towards the Month 6 Revenue Budget monitoring report that clearly sets out the answer to this question. That report was considered by the Cabinet on Monday 19 November and is available on our website. It shows that the position for 2018/19 has improved significantly. It is correct that reports such as that are considered by the Cabinet and by Scrutiny

Committees, while the Audit Committee ensures that there are processes for such monitoring to be undertaken.

Q2. Has the Council's shortfall for 2019/20 got worse, improved or stayed the same? I cannot say. The picture is even more confusing when considered against the 30% plus increase to the Children's Services base budget reported today.

**Response**

The position remains as per the report to the Cabinet in October 2018. A further report on how the pressures for 2019/20 may be met will be presented to the Cabinet in December 2018, with the detail coming forward in January and February 2019.

Q3. What level are the Council's reserves now? Are they at a healthy level or not? I do not know.

**Response**

Paragraph 1.3 of the report to the Cabinet on 19 November refers to this and confirms that the situation is a previously reported (General Fund at £7.8m), but that there will be a more detailed update at Q3.

Q4. Are underlying demographic and other service access pressures in social care manageable or not for 2018/19 and 2019/20? I do not know.

**Response**

Again, this information is set out in other reports; the monitoring report to the Cabinet of 19 November and the MTFP report to the Cabinet in October. Both note that the social care pressures continue and that the Council is having to address these by identifying proposals for change in other areas of the Council's services.

Q5. What is the External Auditor's view of the Value for Money progress to date (at the 2018/19 budget half year)? No paper or written opinion by him is published. Will a verbal assurance and opinion be given by the External Auditor?

**Response**

It is unlikely that the External Auditor will give a view at this stage, other than the comments that he has made in his report on today's agenda. There he notes that progress is being made against the recommendations given in July 2018.

The two Value for Money risk reports are incomplete without scores, mitigations, completion of actions etc.

There is an awful lot of incomplete work of a fundamental nature which I find worrying so far into this financial year.

Of particular concern, is the large amount of remedial budget management training being provided by the LGA to SCC managers with spending responsibilities?

When staff are promoted to managerial positions there should be a training programme that covers these new duties including budget management. There used to be. Is there still?

I believe that these disparate papers before you today show that a simple Dashboard summary report is required to highlight the state of this Council's



finances and reserves and progress towards balancing budgets in 2018/19 and 2019/20.

### **Response**

Officers and members are committed to ensuring that we follow up audit actions diligently. That is why we use JCAD to track the actions required under the VFM audit. JCAD is a risk management system with pre-defined reporting templates that are aimed at the full requirements of recording a risk. There is a big advantage in having all our risks and our audit recommendations in one system so that managers and action owners have one system to deal with. Furthermore, the system is reliable in providing prompts and is good in terms of its reporting capabilities. In short, it performs as we need it to perform with the report before the Committee showing good progress in delivering against the recommendations made by our Auditors in July.

**Mr Nigel Behan**, a Somerset resident, noted that in risk reference GTVFM005 it was stated: "Review and improve further our Budget Monitoring reports, making them more transparent and understandable and include greater analysis of areas such as use of reserves or grants and application and achievement of transformational projects through the use of capital flexibilities." In the corresponding comments it is noted: "There have been improvements to the clarity of the budget monitoring reports since month 4, but there are further improvements that can be made....." where the Progress is 60% complete.  
a) When will details of the proposed further improvements be made available?

### **Response**

It is not proposed to produce a report outlining the future improvements, but rather to listen to comments about the report as it is considered, review identified good practice and hence improve the report incrementally. The month 6 report before the Cabinet on 19 November indicated that there will be more detail on reserves and on capital receipts flexibility in the next quarterly report. In addition, thought is being given as to how a better understanding of spending trends compared between years can be conveyed. The emphasis will be to make the report as comprehensive and as transparent as possible to underpin good quality decision making.

In Risk Reference GTVFM0007 it is stated: "External Audit – VFM: The S151 Officer in his/her annual reporting under Section 25 of the LG Act 2003 on the adequacy of reserves should clearly articulate their view on the adequacy of both general fund and other reserves (including earmarked reserves) along with any proposed actions to strengthen these going forward. As part of this process, consideration should be given, to the appropriateness of holding negative earmarked reserves." And the 2019/20 MTFP gap of £19m between anticipated spend and the level of budget provision was revealed in October. In the comments section: "Additional money has been granted to local government by the Government in the Autumn Statement; the precise impact of that is awaited at the time of this update."

b) Will the additional money, in effect, help contribute to general and earmarked reserves, the general fund and negative earmarked reserves and in what proportion(s)?

### **Response**

To date the Council has only received details of the capital grant for potholes and road repairs; it is intended that all of this will be utilised in 2019/20 so in that case none will go to reserve. If it cannot be spent in-year, and we have permission to do so, then a carry forward would be facilitated by an earmarked reserve.

In regard of the Social Care grant, the Council does not know the rules for its use. Bearing in mind that a lot of the pressure on the 2019/20 budget is caused by rebasing the Children's Services budget, then it is likely that some or all of the new grant (depending on the rules) will be used to support that increase and hence reduce the challenge of finding other savings.

c) Has there been any further progress in assessing the External Auditors comment about considering "the appropriateness of holding negative earmarked reserves". Can you share the latest view(s) on this matter?

### **Response**

The review of reserves is ongoing, and opportunities will be taken to address inappropriate negative reserves provided that in doing so there is not further pressure on the revenue budget and hence on services.

The External Auditor also noted that he felt it would be inappropriate for him to comment and offer an opinion on the Council's overall financial position as not all the required information was available to enable a whole year assessment.

The Committee's attention then turned to the report and the various responses had been entered on to the Council's risk management system (JCAD), which would be the necessary tracking and reporting mechanism, and this format was familiar to Members from the regular Risk Management reports.

It was noted that since the report to the September meeting, progress had been made in a number of areas:

- i) The budget monitoring reports continued to be developed regarding transparency. The month 6 report recently completed for Cabinet showed where budgets had been rebased to align more closely with need and the significant progress in reducing the in-year overspend;
- ii) The rollout of budget management training to relevant officers was well advanced, fourteen courses would be completed by the end of November and feedback from the courses had been positive;
- iii) The tracker had also been updated to reflect the Leader's recent round of meetings with local MPs. Members and officers continued to press government for a fairer funding agreement for Somerset as an upper tier rural authority.

There was a brief discussion about the update which included an overview of the possible progression and possible benefits to Somerset of business rate grants.

The report was accepted.

## **93 External Audit update report - Agenda Item 13**

The Committee considered an audit progress report and sector update from external auditors Grant Thornton. The Committee was reminded that the

Council's financial statements had received an unqualified opinion and the value for money conclusion had received an adverse opinion.

The report also contained an update on the Pension Fund annual report consistency statement as a non-material error had been highlighted. It was noted that planning had begun for the 2019/20 financial year audit and the detailed work and visits would start next year.

The report also noted that the external auditors were meeting monthly with the Director of Finance and other officers to assess how the Council was responding to the VFM conclusions and addressing its budgetary challenges.

It was noted that several previous recommendations had focused on realistic and achievable base budget for each service area and the external auditors would also want to see that savings plans were also fully costed and stretched but deliverable.

The external auditors report was accepted.

**94 Future arrangements for the Chief Internal auditor role - Agenda Item 14**

The Committee considered this report about the function of the role of the Chief Internal Auditor (CIA) as the current post holder would be leaving. The Director of Finance praised the current CIA for his considerable contribution and the Chair and other members of the Committee echoed those sentiments.

It was reported that every local authority has a designated CIA with a direct reporting line to the Director of Finance (S151 Officer) and with routine access to the Chief Executive, leading Members and the Audit Committee. It was noted that an Assistant Director of the South West Audit Partnership (SWAP) would take over the CIA role.

Members noted that the Director of Finance (S151 Officer) would be the designated reporting line for the CIA and would carry out the client liaison role. The Director of Finance and CIA would work together to ensure that the Committee continued to be supported in the same way.

The report was accepted and the Committee agreed that the proposed arrangement would ensure the Council would have access to appropriate audit advice through a suitably independent person.

**95 Future workplan and Update - Agenda Item 15**

The Committee noted the report that listed future agenda items and reports for the first 2 meetings (31 January and 28 March) of 2019. There were 7 reports scheduled for each meeting.

It was further agreed that an update report on the Annual Audit Findings report tracker would continue to be presented at each meeting.

Members also noted during a brief discussion that there were 3 Fraud investigations on-going. The work plan was accepted.

96 **Any other urgent items of business - Agenda Item 16**

The Chair, after ascertaining there were no other items of business, thanked all those present for attending and closed the meeting at 13:31.

**(The meeting ended at 1.31 pm)**

**CHAIRMAN**