
AUDIT COMMITTEE SUMMARY OF OUTCOMES

31 January 2019

Declarations of Interest - Agenda item 2

Action

In respect of agenda item 11, Cllr Verdon declared a personal interest as she held a contract with Grant Thornton.

Minutes from the last meeting - Agenda item 3

Action

The Committee agreed that the minutes of the meeting, held on 22 November 2018 were accurate, and the Chair of the Committee signed them.

Public Question Time - Agenda item 4

Action

The Chair noted that a member of the public had registered to speak regarding agenda items 11 and 14 and she invited Mr Nigel Behan to speak.

He noted that in the Value for Money Arrangements it is stated: "In particular the greater focus on clear and timely budget monitoring, greater scrutiny and challenge and the rebasing of the children and families services budget to reflect more realistic cost pressure assumptions. We are also encouraged by the difficult decisions taken in September to make further savings. We note the continued improvement in projected 2018/19 revenue position to month 8, with the council now projecting a small underspend for the year." & "Despite this significant challenges remain. The improved in year position has been achieved, in part by non recurring savings, and the 2019/20 budget is estimated to require the delivery of £15m of further savings. Your level of reserves remain a concern and, although we recognise that the month 8 report states that they will be partially replenished in year, continued efforts are required to ensure that the council repositions itself on a sustainable financial footing."

a) When is it predicted that the level of reserves will be at a non-critical level (above the £15m threshold?) bearing in mind that the improved in year position was partly achieved by non recurring savings according to Grant Thornton?

b) Are other services (e.g. Adults) expecting or anticipating a significant rebasing (increase) of service budgets (as has happened in year to Children and Families in year) with realistic assumptions about "pressures"?

In response the Interim Director of Finance responded:

a) To some extent this depends on the actual outturn of the Council, bearing in mind that the figures are projected to the end of the year at the moment. However, if our current projections are realised then it is anticipated that the General Fund reserve will reach a level of £15m or more within 2019/20. Your question suggests that the Fund is at “critical” level at the moment and I have been at pains to avoid such labels. Given that the Council took action in September and have an appropriate contingency to manage pressures within year, then we have a mitigation for the less than optimal level of General Fund within 2018/19.

b) The pressures on all services have been evaluated as part of the preparation of the 2019/20 budget and the MTFP and it is considered that the budget being recommended to the Cabinet and to the Council takes account of those pressures. However, it is appreciated that in addressing these pressures it is then necessary to identify proposals for change to bridge the funding gap. Overall, via each Scrutiny Committee, directors and scrutiny members are being asked to give assurance that they have a sufficient budget for 2019/20.

Regarding agenda item 14 Mr Behan then highlighted that in Appendix B – Internal Audit Work p10 it was reported that the Discovery LD contract (Adults Operational LD – Discovery Contract Q4 Not started) will be audited and that the “Audit Type” is “Operational” and that there is an “Initial Meeting scheduled”. Will the scope include care provision to service users (and outcomes), consulting parents, carers, families and staff as well as use of agency staff, service continuity, financial matters and property, CQC reports and Risk of Care Provider Failure (it is noted that SWAP are scoping the Risk of Care Provider Failure as a separate workstream – p12 same report)?

In response the Assistant Director of the South West Audit Partnership (SWAP) replied that the initial meeting for the Discovery LD contract had now been held and Terms of Reference covering the scope of the work issued. A standard contract management audit would be performed to provide assurance that services were being delivered in accordance with the terms and conditions of the contract.

SWAP’s standard SCC contract management work programme would be used that will check for compliance with the Council’s corporate contract management framework. The audit would cover controls in relation to both operational and financial performance management and would include the areas listed where relevant.

Section 106 Review update - Agenda item 5

Action

The Committee considered this report that provided a further update on progress made to implement recommendations following a partial audit opinion in 2016. It was also noted that a follow up audit was due to commence to check on how the new processes and systems were operating and the results of which would be reported at a future meeting.

The report was introduced by the Director for Economic and Community Infrastructure and he provided a presentation during which noting that the findings of the original audit had been addressed through several different actions and these were outlined in Appendix A of the report. He also stated that a follow up audit had been requested to review whether the identified risks continued to be adequately addressed.

There was a brief discussion and it was noted that the old 'Atrium' system had been switched off and all existing and new agreements had been uploaded to the replacement 'Mastergov' system and this created email notifications to alert officers. The Director for Economic and Community Infrastructure Operations confirmed that the team remained adequately resourced to continue to address the issues highlighted in the auditor report. The new system was reviewed on a monthly basis to show actions were being tracked appropriately.

In response to a question about public accessibility to the system, it was noted that this would be given consideration. The 'linkage' and compatibility between the County and District Councils was obtained through the 106 agreements and it was noted the working relationships were now much improved. District Councils retained responsibility regarding Community Infrastructure Levy (CIL) funds.

The report was accepted.

Partial Audit Update - Strategic Asset Management - Agenda item 6

Action

The Committee considered this report, introduced by the Head of Corporate Property, that provided details of a follow up audit to review progress made on recommendations arising from a partial audit. It was noted that good progress had been made and attention was directed to Appendix 1 of the report that provided an overview of activity to address the 9 recommendations made in the partial audit.

Members heard that of the 9 recommendations, 4 had been completed by the time of the follow-up audit and a further 2 had been completed since then. It was explained, and the Committee understood why 1 recommendation was not now being implemented and two actions remained in progress and were near completion.

In response to a question it was confirmed that the Council held a comprehensive list of all its assets, which included their condition and location, and this was helpful in enabling the Council to focus resources on frontline services and delivering the County Plan.

There was a brief discussion about risk 3 particularly with the Council adopting the Corporate Landlord approach and it was explained that clearer controls and monitoring were now in place, including a checklist and guidance for officers. Future possible disposals were now shared regularly with the Council's Strategic Commissioning Group to ensure that all opportunities and service needs were understood, and all upcoming disposals were transparent.

The report was accepted.

Internal Audit Report - Healthy Organisation - Agenda item 7

Action

The Committee considered this report that explained that the Healthy Organisation review was a strategic governance review of the key corporate areas of the Council including finance, performance and governance. The report provided details of the progress made since the first undertaken in 2017/17.

Members discussed the report asking questions of the Assistant Director SWAP and it was noted that within the Financial Management assessment there are two "reds" regarding financial resilience and value for money, both of which have had significant focus in 2018/19 and would continue to do so in 2019/20.

The Committee noted its disappointment in the area of risk management, as this had moved from "green" to "amber". The view of the Risk Manager was sought and she acknowledged that this important area of activity was not yet embedded within the Council's day to day thinking. Improvements had been made in the last two or three months, but those coupled with what were described as areas of resistance, had not been enough to influence the review rating positively. It was noted that this work would continue with greater focus, in 2019/20.

It was reported that the Performance Team had already put in place the monitoring regime to track progress against the actions needed to address areas where improvements were required. In response to a question it was noted that the monitoring regime would be routinely scrutinised by the Governance Board and the Senior Leadership Team to ensure that progress was being made, which would help to ensure an improved assessment outcome next time.

The report was accepted.

Treasury Management Strategy - Agenda item 8

Action

The Committee considered this report about the Treasury Management Strategy (TMS) that provided details of the Council's treasury management activities to achieve its business and service objectives and maintain its

financial reputation. This concerned the management of the Council's cash flows, borrowing and treasury investments and associated risks.

It was reported that the Council currently held £324.55m of debt as part of its TMS for funding previous years' capital programmes. Of this, £159.05m was Public Works Loan Board (PWLB) debt, approximately £108m was Lender Option Borrower Option (LOBO) debt, and a further £57.5m of fixed rate bank loans. It was noted that at year end analysis showed the average rate paid on all debt to be 4.66%. Also, for the same period it was noted that investment balances which had averaged £218m had yielded an annual income of £2m, meaning an investment return of 0.95%.

There was a brief discussion and in response to a question about maximising investment yield it was explained that officers had to take account of expected and possible balances, the availability and accessibility of the various instruments to be used and their security, liquidity and yield characteristics in that specific order.

In response to a question it confirmed that the Council's 151 Officer undertook the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and prudential indicators. Responsibility for implementing the policy, using only the agreed investment instruments and credit criteria, was delegated to treasury management officers. The Committee sought and received assurance that this was continuously and rigorously monitored.

The report was accepted.

Capital Strategy - Agenda item 9

Action

The Committee considered this report that set out the Council's proposed Capital Strategy provided an overview of Capital Expenditure, Capital Financing and Treasury Management. It also contained details of a non-Treasury investment proposal, designed to produce a positive net revenue income stream for the Council.

It was explained that reporting the Capital Strategy was a new requirement for 2019/20. The Strategy offered a high-level overview of how capital expenditure, capital financing and treasury management activity would contribute to the provision of services, with an overview of how associated risk would be managed and the implications for future financial sustainability.

The report provided detail of proposed non-treasury investments, as Government financial support declined, the Council intended to explore investing in non-treasury investment options purely or mainly for financial gain. The Committee noted a sum of £100m had been earmarked in the Capital Programme and identified for this purpose pending the appropriate strategy and governance being put in place.

It was also stated that the report provided details on the treasury management prudential indicators in respect of external debt and the capital financing requirement in addition to the authorised limit and operational boundary for external debt. Also, the prudential indicators for the proportion of financing costs to net revenue and the investments for service purposes and for commercial activities were noted.

The report was accepted.

Minimum Revenue Provision (MRP) - Agenda item 10

Action

The Committee considered this report that set out details of how the Council planned to finance capital expenditure by debt and how it would repay that debt in later years. It was noted that the amount charged to the revenue budget for the repayment of debt was known as Minimum Revenue Provision (MRP).

Attached to the report was the Minimum Revenue Provision Statement 2018/19 and the impact this would have on the revenue budget. It was reported that the MRP statement had been considered by Grant Thornton and they had not challenged the proposed policy. Members did in addition note that it remained subject to full audit review during the 2018/19 statement of accounts inspection.

There was a brief discussion of the MRP and how it could be best reasonably calculated and it was noted that the Council had aligned the time period of the MRP to one that was commensurate with the period over which capital expenditure provided benefits.

The report was accepted.

External Audit Plan - Agenda item 11

Action

The Committee considered an audit progress report and sector update from the Council's external auditors Grant Thornton introduced by the Engagement Lead. Members were reminded that the Council's financial statements had received an unqualified opinion and the value for money conclusion had received an adverse opinion.

It was reported that the external auditors had begun planning processes for the 2018/19 financial year audit. Detailed work and audit visits would begin later this year and, in the meantime, on-going discussions with officers would help to inform the risk assessment in respect of the 2018/19 financial statements and value for money audits.

The Committee was provided with an overview of the various component parts that comprised the report, noting the Audit Plans for the Pension Fund and Council and the materiality figure associated with each. The report also noted that the external auditors were meeting monthly with the

Interim Director of Finance and other officers to assess how the Council continued to respond to the VFM conclusions and addressing its budgetary challenges.

There was a brief discussion and the External Auditors explained why the proposed Audit fees would be lower for next year and this seemed in large part due to the Council participating in a national procurement exercise which had resulted in a 23% reduction in the fees for Somerset. There was a question regarding 3 circles that were used to demonstrate the audit approach described as being a mixture of 'methodology, learning and technology' and it was confirmed that the circles in the diagram should overlap.

The external auditors report was accepted.

Value For Money tracker - Agenda item 12

Action

The Committee considered this report that provided details of the value for money tracker, first considered by the Committee at its meeting last September, following recommendations from the Council's External Auditors on how to improve both budget monitoring and setting.

It was reported that following the 7 recommendations made by the External Auditor written responses from the Council had been provided regarding each, and several commitments had been made to improve the processes. Those responses had subsequently been loaded in JCAD, the Council's recognised tracking and reporting mechanism for risk management, so that a format like the regular risk management reports was used.

Members heard that progress continued to be made in a number of areas and there was a brief discussion of the detail as set out in the tracker and Members noted in particular:

- That a more robust control of the 2018/2019 in-year budget had resulted in the previously projected overspend being reduced and moved into a projected underspend. More detailed and transparent budget monitoring would now be provided, and the frequency of reporting, particularly to Scrutiny, had been increased. This meant that additional detail would be provided for the Quarter 3 budget monitoring report;
- All budget areas had been reviewed to ensure that the 2019/2020 budgets could be approved in the knowledge that unavoidable pressures were being funded, and that previously undeliverable MTFP savings had been identified and reversed. It had been decided to change from the broad cross-cutting thematic savings approach to improve ownership of proposals. The MTFP reporting would therefore now also include more information on expenditure to be met from Capital Receipt Flexibilities. A report for each Scrutiny Committee would be provided to further aid understanding and challenge of the

2019/20 budget proposals;

- The rollout of budget management training to relevant officers had continued. 72% of the targeted group of budget holders had now attended the training course and 91% of those had rated the course as good or very good. Plans were now being put in place that would enable Council staff to run the course in future, completing training for remaining budget holders in the process.

There was a brief discussion about Risk GTVFM004 and the update status that showed this as being 10% complete and the Interim Head of Finance noted that figure was a result of an input error. The report was accepted.

Risk Management - Agenda item 13

Action

The Committee considered this report, introduced by the Council's Risk Manager, that provided details of the latest position of each of the 11 identified strategic risks to the Council achieving its objectives.

There was a discussion of the report, particularly Appendix A the Strategic Risk Report, with the Risk Manager explaining the information in the register including the rating of the risks and the actions being taken to mitigate each. It was noted that ORG0043 'maintain a sustainable budget' remained the most critical risk to the Council.

Members heard there would be at some point during the next quarter a review of the Council's strategic risks undertaken by the Council's Senior Leadership Team. It was noted that further work was being completed ahead of 1 April 2019 to ensure that any new strategic risks were identified and developed. Attention was directed to Appendix B which outlined the current strategic risks mapped to the Business Plan.

Members noted a heatmap which showed the latest distribution of the 11 identified risks and any changes since the last update report were indicated with a directional arrow. There was a brief discussion of the SWAP Partial Audit Tracker Report, attached as Appendix C to the report and set out in a similar way to the risk register. This provided details of all internal audit reports with a level 1 or 2 recommendation being tracked using JCAD and a number of follow-up audits were in progress.

The Committee welcomed the report and the determination of Officers, who were effectively marshalled by the Risk Manager, to ensure that focus was retained to ensure risks were robustly managed and monitored and so ensure the Council objectives were achieved.

In response to a question the Risk Manager noted that the overall concept of and adherence to appropriate risk management, though much improved, was not fully embedded across the Council. This led on to a brief discussion about the resilience of risk management within the Council and the Committee agreed to recommend that the Cabinet consider ensuring greater resilience of the risk management function of the Council.

The report was accepted.

Internal Audit Update - Agenda item 14

Action

The Committee considered this report, introduced by the Assistant Director of the South West Audit Partnership (SWAP), that provided a thorough overview and general update of the progress made against the 2018/19 Audit Plan. It was noted that no significant corporate risk had been identified and no partial opinion reports had been finalised in the quarter.

It was noted that the report provided details on the progress of the plan and this was broadly in line with that of the SWAP average. This had been achieved despite some delays experienced in the scheduling of work, with some requests to defer some audits to later in the year or the next year.

Members heard that following a slow start due to audit delays and deferrals, catch-up had been possible over the last few months and reasonable progress was being made in relation to plan delivery. In response to a question it was stated that there remained much audit work to deliver but Members received assurance from the Assistant Director of SWAP that they were now on track to do so.

There was a brief discussion about training and the Chair noted that all Members were encouraged to undertake training and/or having briefings from Officers to further develop their skills. The Committee accepted the report.

Debtor Management - Agenda item 15

Action

The Committee considered this report that provided information on the latest debt position and performance to help maintain effective financial control.

Members attention turned to the report that provided details on the recovery of outstanding debts and it was reported that as at 31 December the total net outstanding on the accounts receivable system stood at £12.833m, this compared to £10.444m at the same time last year.

The report also provided information about the type of debt and debtors by category, including payment days, and the Members were reassured by the reported actions being undertaken to ensure prompt collection. Members were pleased to note that the percentage of debts over 90 days as at 31 December 2018 stood at 12.00%, which represented a significant improvement on the previous December when the figure stood at 43.51% and this was a testament to the efforts of the former Chief Internal Auditor.

In response to a question it was confirmed that the total amount of debt outstanding had risen steadily over 2018/2019 however it was stated that raising more debt was not a concern as it appeared that debts were now

being collected more efficiently.

There was a brief discussion and questions asked and answers provided in respect of raising invoices and paying VAT and it was explained that both were done promptly at the appropriate time. The Committee accepted the report.

Anti-Fraud and Corruption Report - Agenda item 16

Action

The Committee considered and discussed this report that provided information following the annual review of all the measures being undertaken across the Council aimed at prevention, detection and reporting of fraud and corruption.

Members noted that anti-fraud and corruption work formed an important part of the Council's corporate governance and internal control framework. Working with colleagues from the South West Audit Partnership (SWAP) Officers had made a comparison of the Council's systems and processes against typical fraud target areas and when reviewed against national trends and guidance.

It was noted that the report contained the conclusion of the review and this judged that the Council had a sound framework in place, although more could be done to continue raise awareness. There had been a small number of fraud allegations, some leading to more formal investigations from SWAP, and it was suggested that such incidents should be considered when the Committee set the Internal Audit Plan for 2019/2020.

The report also provided, at Appendix 2, details of the fraud and corruption allegations that had been investigated during 2018 and the case notes provided a non-specific overview of those cases.

In summary the Committee noted that the review had provided assurance, that the Anti-Fraud and Corruption Policy, Anti-Bribery Policy and Anti-Money Laundering Policy, were deemed to be fit for purpose. Members thanked officers for their work, in particular the former Chief Internal Auditor, and noted their continued support for a zero tolerance policy with regard to fraud.

The report was accepted.

Committee Future Workplan - Agenda item 17

Action

The Committee noted the report that listed future agenda items and reports for the next 2 meetings (28 March and 20 June) of 2019. There were 7 and 8 reports respectively, scheduled for those meetings.

There was a brief discussion about the number of reports on the agenda for this meeting (13) which had increased from the work plan agreed at the last meeting (7). The Chair noted that consideration would be given to the

number of reports on future agenda and the frequency of Committee meetings.

The work plan was accepted.

Any other urgent items of business - Agenda item 18

Action

The Chair, after ascertaining there were no other items of business, thanked all those present for attending and closed the meeting at 13:26.