

AUDIT COMMITTEE

Minutes of a Meeting of the Audit Committee held in the Library Meeting Room, Taunton Library, on Thursday 19 September 2019 at 10.00 am

Present: Cllr C Paul (Chair), Cllr M Lewis (Vice-Chair), Cllr M Caswell, Cllr H Davies, Cllr B Filmer, Cllr L Leyshon, Cllr G Noel and Cllr M Rigby

Other Members present: Cllr M Chilcott, Cllr P Clayton and Cllr M Keating

Apologies for absence:

145 Declarations of Interest - Agenda Item 2

The Chair of the Committee noted that details of all Councillors interests in District, Town and Parish Councils will be displayed in the meeting room.

Councillor Leyshon declared a personal interest in respect of agenda item 5 as a member of the Local Government Pension Scheme.

Councillor Paul declared a personal interest as a member of Kingsbury Episcopi Parish Council.

146 Minutes from the previous meeting - Agenda Item 3

With the following change set out below the Committee agreed that the minutes of the last meeting were accurate, and the Chair signed them.

Page 3 bullet point 2 to read “and if the Council was not judged to be a ‘going concern’ those assets could be valued differently”.

147 Public Question Time - Agenda Item 4

The Chair noted that questions regarding agenda item 5, had been submitted by Mr Behan on behalf of UNITE Trade Union, these were noted in his absence and responses were provided by the Interim Director of Finance & Performance.

Question 1. It is stated in the “Qualified except for VFM conclusion” that:

“The Council set its original 2018/19 revenue budget in February 2018. Early in the financial year it became clear that this budget did not accurately reflect the Council’s spending commitments and the pressing need to deliver further savings. In order to address these issues, the Council took several actions, including:

- setting a new more realistic budget for children’s services
- identifying and delivering additional savings
- making greater use of capital receipts to fund service transformation.

The Council has increased its general fund and earmarked reserves from £23.7 million at 31 March 2018 to £44.2 million at 31 March 2019 (excluding school reserves). Despite this increase, these levels of reserves remain low in

comparison to similar councils and provide limited capacity to absorb unexpected future financial pressures.”

And:

“These matters are indicative of weaknesses in the Council’s arrangements for strategic financial planning. They are evidence of weaknesses in proper arrangements for sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.”

Are these “weaknesses in proper arrangements” being addressed in all services and not just Children’s Services (Risk Level Amber in the Children’s – MTFP (2019-22) Funding Assessment - Appendix A)?

In response to it was explained that the financial imperative work the council began in 2018/19 had made progress across all services: both addressing in year concerns raised and in developing a more robust approach in setting the budget for 2019/20. Those improvements would be continued in 2019/20 to ensure improved practises were fully embedded in the tighter financial control. The up-dated VFM tracker would also help ensure the on-going focus on continual improvement.

Question 2. Follow up of prior year VFM recommendations

In the partially addressed (Assessment - “P”) recommendation number 6 were “Issue and risk previously communicated” and the corresponding “Update on actions” it is stated:

“There has been more detail provided on the use of capital flexibilities in the in year financial monitoring reports supplemented with information on prior year projects in the 2018/19 revenue budget outturn report that included reference the business cases supporting them. However, there has yet to be consideration of outcomes against the planned projects that is a requirement of the guidelines.

- Given the significant increase in the actual application of capital flexibilities applied in 2018/19, totalling £8.6 million against the original budgeted use of just £2.6 million more information should be disclosed going forward.

Conclusion

- Again, as in 2017/18, the Council have complied with the spirit of the flexibilities. Disclosures on the nature of transformation has improved but there is still work to be undertaken to ensure full compliance.”

When is it anticipated the requirement (full compliance of the Central Government guidelines) for the use of capital flexibilities will be met?

In response it was noted that the Business cases for the use of capital receipts under flexibilities were completed in March 2019 and more will be developed for any future years use (if relevant) as part of the MTFP process (2020-23). Progress will be tracked through the up-dated VFM tracker and ultimately in the external auditors’ report in July 2020.

Question 3. Follow up of prior year VFM recommendations

In the partially addressed (Assessment - “P”) recommendation number 7 where “Issue and risk previously communicated” and the corresponding “Update on actions” it is stated:

“Negative Earmarked reserves – The Council has reduced the number and the value of its negative earmarked reserves from £19.7 million at 31 March 2018 to £10.2 million at 31 March 2019. Its large negative earmarked reserve is the Dedicated Schools Grant (DSG) with a cumulative deficit of £6.7 million which is shown under earmarked reserves. CIPFA and the Department for Education have issued a joint statement on DSG for 2018/19. The statement confirms that there is no statutory basis for having a negative earmarked DSG reserve. The Council recognises this is something that is ultimately a further pressure on its financial health should the proposed recovery plan (submitted to the Department for Education in accordance with guidelines on 28 June 2019) not deliver. The statement also confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e. it “neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position.” And in the Conclusion:

“The Council has made good progress in reducing the value of its negative earmarked reserves but the increasing deficit against the DSG reserve remains a concern and places further pressure on the already depleted financial position.”

If “there is no statutory basis for having a negative earmarked DSG reserve” was, given “the already depleted financial position”, the submitted recovery plan realistic?

In response it was stated that the Council had submitted its deficit recovery plan to the Department for Education (DfE) as required in June 2019. The Council is awaiting a response from the DfE. To safeguard local authorities the DfE issued a joint statement with CIPFA specifically on the deficit DSG reserves position and concluded that “they do not expect or require any DSG deficits to be funded from a local authority’s general resources”.

148 **External Audit report** - Agenda Item 5

The Committee considered the Annual Audit Letter and summary and findings, and these were presented by the Lead External Auditor Mr Barber. The Annual Audit Letter summarised the key findings arising from the work carried out at Somerset County Council and the Pension Fund for the year ended 31 March 2019.

The Letter provided a commentary on the results of work to the Council and external stakeholders, and highlighted issues to draw to the attention of the public. In preparing the Letter, the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting' had been followed. It was noted that the Council had adhered to the requirement to publish the letter by the end of August, and it contained no new information over and above the information provided at the July meeting.

It was noted that materiality had been determined for the audit of the Council's financial statements to be £14.3 million, which was 1.75% of the Council's gross revenue expenditure. Materiality was determined for the audit of the Pension Fund's financial statements to be £21.8 million, which was 1% of the total net assets. The Committee was reminded that an unqualified opinion had

been given on the Council's and Pension Fund's financial statements on 31 July 2019. The final Audit fees, which included additional audit fees, were reported at £111,209.

During the consideration of the report, issues/concerns were raised, questions asked/answered and further information was provided on:

- Opinion of the consistency statement for the pension fund audit had a November deadline, this would mark the end of the audit for 2018/19;
- Additional fees for separate work were noted and it was noted that as the fees have not been finalised, they were not included within the audit fees disclosure within the statement of accounts;
- It was noted that additional fees, arising for extra and/or unanticipated work, were a regular occurrence in other authorities;
- An additional report had been shared with the Council and this would be part of the Medium-Term Financial Plan for the next three years. A balanced position for month four was anticipated to be reported shortly;
- There was a brief discussion of the Council's reserve balance and this was reportedly at a similar level to those held at other Councils.

The Chair of the Committee congratulated the Finance and Audit teams for their hard work over the last year. The report was noted.

149 **Value For Money Tracker update** - Agenda Item 6

The Committee considered this report, that provided details of the additional assurance work completed by the External Auditors. It was stated that the report had concluded that both Children's and Adults Services, in partnership with the corporate finance team, had strong financial measures in place with robust mechanisms to manage and monitor spend, against the budget, and that the Council could deliver to the Medium-Term Financial Plan (MTFP).

It was noted that the budget was consistent with historical financial performance and reflective of the transformation activity over previous years and demonstrated the continued improved grasp of cost and demand. It was understood that there was greater risk against Children's Services, given the historical financial performance and reduction in spend required to deliver in line with the budget in 2019/20 and beyond. As a result of this risk, the budget against potential scenarios had been tested by the audit expert. It was reported that the corporate contingency would be sufficient to manage external placement overspends and a potential 3% increase in annual costs and there would be sufficient capacity within the budget to manage those risks and deliver to the MTFP.

The '2019/20 Revenue Budget Monitoring – Quarter 1 (month 3) Report' to Cabinet last August had indicated that the Council remained on budget with an overall projected balanced position for the Council with £6.1 million of the corporate contingency budget remaining unallocated. This provided further evidence of improvements in financial control across the Council. A summary of the findings in each area and suggested actions arising from this additional work was set out in Appendix A.

Attention turned to Appendix B that provided the current position against each recommendation. There was reassurance regarding the improvement in the total level of general fund and earmarked reserves since last year, and it was noted that this had only gone so far in restoring the balance sheet to a position that provided resilience into the medium term. The low level of combined general fund balances and earmarked reserves still provided limited capacity to absorb any unexpected future financial pressure and this remained an area of concern.

An improved 'except for' VFM conclusion for 2018/19 was issued concluding that the Council had the arrangements in place to ensure VFM in the use of its resources with the exception of its arrangements for ensuring sustainable resource deployment. Members noted that the 'except for' rating recognised that there was still much to do within the Council to return it to a fully sustainable financial position and it remained important that continued effort was directed to ensuring the positive trajectory over the last 12 months continued.

It was noted that Appendix C provided the proposed update to the auditors report that once signed would need to be added to the published financial statements. This updated opinion referenced the basis for the 'qualified except for' VFM conclusion as: The Council set its original 2018/19 revenue budget in February 2018. Early in the financial year it had become clear that budget did not accurately reflect the Council's spending commitments and there had been a pressing need to deliver further savings. In order to address those issues, the Council had taken several actions, including:

- setting a new more realistic budget for children's services
- identifying and delivering additional savings
- making greater use of capital receipts to fund service transformation.

The Council increased its general fund and earmarked reserves from £23.7 million at 31 March 2018 to £44.2 million at 31 March 2019 (excluding school reserves). Despite the increase, these levels of reserves remained low in comparison to similar councils and provided limited capacity to absorb unexpected future financial pressures.

It was reported that having considered all the evidence from the initial VFM conclusion work which had been supplemented by the additional assurance set out in detail within report, there was satisfaction that sufficient progress had been made since the Adverse VFM conclusion in 2017/18 to conclude that the financial challenges facing the Council were no longer pervasive to the whole Council.

The VFM conclusion covered the whole of 2018/19 and it was noted that at the start of the 2018/19 year it was the poor budget setting process that resulted in the need for reactive emergency measures to identify and deliver further savings to balance the budget. It was recognised the Council still needed to demonstrate it could set a realistic and achievable budget that it could deliver to. The Council were commended for the response to the Adverse conclusion last year and it was noted that 4 of the 7 recommendations made last year had been completed, with work continuing to fully address the remaining 3. In

response to a question it was confirmed that all Directors had contributed to developing the tracker.

The Committee accepted the 2017/18 tracker (including supporting tracker) and were content that any outstanding actions had been transferred to the new tracker. It was noted that the report which provided details of the auditors' additional work would be presented to each Scrutiny Committee in Autumn 2019.

150 Internal Audit update report - Agenda Item 7

The Committee considered this report by the Southwest Audit Partnership (SWAP) the Council's internal auditors. Internal Audit provided an independent and objective opinion on the Authority's control environment by evaluating its effectiveness.

There was a brief discussion regarding Appendix B of the report which provided an update on details of the individual audits. It was noted that in respect of last year's plan, that all planned audits had been delivered with one exception relating to some grant work that was being finalised.

Regarding the 2019/20 audit plan it was stated that a reasonable start had been made to this year's audit plan and most of the quarter 1 and 2 reviews scheduled were in now progress. A table in the report highlighted the percentage of audits at report stage as being ahead of the SWAP average, but slightly behind the average percentage of audits in progress. It was noted that the auditors were confident to deliver at least 90% of plan by year end.

There was a brief discussion of the report and it was noted that due to staff changes the upskilling of existing staff in SWAP had been undertaken to ensure staff could gain qualifications in internal audit. It was also noted that the audit findings regarding Risk Management and required improvements, had borne out what the Risk Manager had previously reported to the Committee. Identified improvements, as suggested by the Risk Manager, would ensure risk management was properly embedded and effective ownership of risk was in place across the Council.

The Chair noted that the first progress report of the year showed that a reasonable start to the 2019/20 internal audit had been made and the Committee accepted the report.

151 Partial Audits and Risk Management updates - Agenda Item 8

The Interim Finance Director introduced this report, noting the management of risk had a direct link to the Council's Business Plan, the Medium-Term Financial Plan, and formed an integral part of the Annual Governance Statement (AGS) and was a major component of the External Auditor's Value for Money Audit.

Attention turned to Appendix A which provided an update of the risk report for the Councils strategic risks with a commentary that included more information

on ORG0043 - Maintaining a balanced budget, and the new strategic risk ORG0052 - Significant disruption to services post 31 October regarding the UK's withdrawal from the European Union (known as Brexit).

It was noted that the Council had changed its approach to Brexit planning to reflect instructions from the Secretary of State and a small team of officers had been established to oversee this work. This included ensuring that in identified risk areas information was shared and reported and assurance was sought from services about their preparedness, including liaising with key external partners and stakeholders and regional and District Council colleagues. Based on known information available about 'Brexit' EU funding would cease, and if this was not replaced by Government funding, might pose a risk to some economic and social programmes of the Council and its partners. Interest rate and exchange rates changes might also impact on the affordability of the Council's capital programme and changes concerning the movement of people could lead to skills gaps in the Council, partner organisations and local businesses.

It was reported that Current priorities included preparing a shared Brexit risk assessment with the District Councils; organising a Somerset workshop for partners to consider health impacts and mitigations workshop; and developing a communications and engagement strategy. The current assessment of the risks from a 'No Deal' Brexit as identified in the spring were set out and categories included: Workforce; Supply Chain/Contractor; Legal and Regulatory; Finance; and Other/Service Specific. Concerns were expressed over the perceived reduction of risk regarding Brexit and further evidence was requested to provide assurance regarding mitigations work. It was also noted that briefings for all Members would be arranged and the current assessment was that the Senior Leadership Team were updated regularly to ensure work was on track.

Attention turned to the Partial Audit recommendations report, attached as Appendix B to the report, which highlighted the progress of individual partial audits through to completion. There were several partial audits that remained open after several years and Members were invited to suggest updates on audits for a future meeting to provide assurance that progress is being made that would enable the audit to be finalised.

There was a brief discussion concerning RG0043 'maintaining a balanced budget for 2019/20 and ensuring a sustainable MTFP budget' and it was noted that all the existing mitigating actions were now complete, with the development of a more robust MTFP 2019-21. This strategic risk had been updated to reflect the improved and changed risk position and monthly reports would continue throughout 2019/20 to ensure timely monitoring and reporting of any variances.

It was noted that each Strategic Risk was owned by a relevant SLT Director, who remained responsible for the reviewing their risks, in many cases in conjunction with the Risk Manager, and assuring themselves that the actions for mitigation were appropriate and delivering the expected outcome. It was suggested that partial audits to be considered at future meetings would be discussed during agenda item 10.

Regarding ORG0043, the Interim Finance Director reported that the £6.1m corporate contingency remained unallocated and services with forecast overspends, continued to develop and track management action to reduce those overspends. In addition, 98% of savings required in 2019/20 were reported as being on-track or delivered, however it was felt prudent that the 'current risk score' remained at the level of "very high".

Members sought and received assurance that the management actions, those work tasks required to mitigate each risk to an acceptable level, and compliance with the review process, continued to be adequate and in accordance with the Council's current risk management policy. The Committee accepted the report.

152 Debtor Management update report - Agenda Item 9

The Chair invited the Interim Finance Director to introduce this report that provided information on the recovery of outstanding debts (monies owed to the Council) and the current performance at the end of July 2019. It was reported that as at 31 July 2019 Services' total outstanding debt stood at £8.230m and this compared favourably with a figure of £14.175m, from 31 May 2019.

Members heard that the percentage of debts over 90 days at 31 July 2019 was 19.02%, which represented a decrease from 30 June which stood at 19.46%. Overall it was noted that the debt figures for 2019/2020 demonstrated that the amount of debt outstanding had reduced since the last report and had continued to reduce, and this included the number of large, older debts that remained relatively low. It was noted improvement had been aided by the reduction of debt outstanding from individuals in both number and value.

There was a brief discussion of the report and it was noted that although there were better processes in place with the NHS, those debts remained the biggest portion in terms of cost. Officers involved with debt recovery were doing the best to manage the outstanding debts and securing payment in an effective and efficient way.

The Chair reflected that it was pleasing to see that the total outstanding debt figures had reduced over the previous period (from £14m to just over £8m) and Officers were commended for their work to continue to reduce debt figures. The Committee noted the report.

153 Committee Future Workplan - Agenda Item 10

The Committee noted the report that listed future agenda items and reports for the next meeting on 21 November 2019, and the report was accepted.

It was suggested that further to the discussion during consideration of agenda item 8 'Partial Audits and Risk Management update' that SWAP 0026 – Education of Children looked after in care, be considered as a future partial audit update report.

154 Any other urgent items of business - Agenda Item 11

After ascertaining there were no other items of business, the Chair thanked all those present for attending and closed the meeting at 11.19am.

(The meeting ended at 11:19)

Chair of the Audit Committee