

South Somerset District Council

Draft Minutes of a meeting of the **Audit Committee** held in **the Main Committee Room, Brympton Way, Yeovil on Thursday 25 July 2019.**

(10.00 am - 11.35 am)

Present:

Members: Councillor Martin Carnell (Chairman)

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| Robin Bastable | Brian Hamilton |
| Mike Best | Paul Maxwell |
| Dave Bulmer | Robin Pailthorpe |
| Malcolm Cavill | |



Officers

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| Netta Meadows | Director (Strategy & Support Services) |
| Kelly Wheeler | Case Services Officer (Support Services) |
| Paul Fitzgerald | Section 151 Officer |
| Catherine Hood | Finance Specialist |

Also Present:

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|---------------|------------------------------------|
| Barrie Morris | Key Audit Partner, Grant Thornton |
| David Johnson | Engagement Manager, Grant Thornton |

12. Minutes (Agenda Item 1)

The minutes of the previous meeting, held on Thursday 27th June 2019, copies of which had been circulated, were agreed as a correct record and signed by the Chairman.

The Director - Strategy and Support Services advised that the previous minutes contained actions in relation to the use of the Skyguard system for members. As an update to this, she advised that the options were currently being considered. In response to a specific question raised at the previous meeting, she advised that the Skyguard system held data for 62 days. Once data had been held for 62 days, it would be deleted.

13. Apologies for absence (Agenda Item 2)

Apologies for absence were received from Councillor Mike Hewitson and Councillor Louise Clarke.

In the absence of Councillor Mike Hewitson, the Chairman nominated that Councillor Paul Maxwell join him as Vice Chairman for the duration of the meeting. It was agreed by members and it was resolved that Councillor Mike Hewitson would act as Vice-Chairman.

14. Declarations of Interest (Agenda Item 3)

There were no declarations of interest made by Members.

15. Public question time (Agenda Item 4)

A member of the public addressed the Committee. She expressed her thanks to the Lead Finance Specialist for spending time answering her questions in relation to the Statement of Accounts. She also suggested that the external auditor fees were low given the amount of work involved and suggested that the level of specialist input would increase in line with the Commercial Strategy.

She also added that the hearing loop in the meeting room was of poor quality.

16. Date of next meeting (Agenda Item 5)

Members noted that the next meeting of the Audit Committee was scheduled for 10am on Thursday 24th October in the Main Committee Room, Brympton Way, Yeovil.

17. 2018/19 Annual Governance Statement (Agenda Item 6)

The Section 151 Officer introduced the report. He explained to members that the Annual Governance Statement was an annual report which was required in line with financial regulations. He also advised that this report was presented alongside the annual statement of accounts which were a later item on the agenda.

The Section 151 Officer advised that he had considered best practice ways to present the information to ensure that the information was clear and accessible in terms of readability, whilst being concise with all issues and challenges detailed. He added that any feedback to the readability and presentation of the report would be welcome.

He explained to members that the report provided an overview of the systems and processes and how these were conducted. The arrangements for how clear and transparent decisions were made was summarised within the report, adding that these processes were assessed annually.

He explained to members that the effectiveness of the governance arrangements were assessed each year with the involvement of internal and external audit and the Audit Committee.

He pointed out the diagram on page 10, which summarised the Governance Assurance Framework. He also pointed out that areas of focus, where action or improvement was required, were noted in the conclusion of the report.

He clarified that the Senior Leadership Team had overseen the review of this statement and that it had been signed off by the Leader of the Council and the Chief Executive Officer.

In response to a question from a member in relation to the Transformation Programme, the Director – Strategy and Support Services, advised that a quarterly update had been

delivered to District Executive recently to update members on the progress of the programme. She also pointed out that Scrutiny Committee had considered this update report. Since the Transformation Update report had been published, she added that recruitment had begun to relieve capacity issues in some areas, following the approval for additional funds to support this. She also added that meetings with Civica were ongoing to try to resolve the technology issues.

During the discussion, some members commented that the report had been clear and easy to read.

The Section 151 Officer advised that the report had been published on the website that he had not received any feedback from the public, however advised that no formal testing had been carried out.

In response to a question from a member, the Section 151 Officer advised that regular reports ensure that members are informed about the progress of the Commercial Strategy. He added that the auditors had reviewed both the decision-making process and the governance arrangements for the strategy. The feedback from the auditors was positive and clarified that members receive 6-monthly update reports on the progress of the Commercial Strategy.

It was proposed and seconded that the 2018/19 Annual Governance Statement be approved.

On being put to the vote, this was carried unanimously.

RESOLVED: That members approved the 2018/19 Annual Governance Statement.

(voting: unanimous)

18. Audit Findings Report 2018/19 (Agenda Item 7)

Barrie Morris (Key Audit Partner, Grant Thornton) presented the report as detailed in the agenda. He highlighted key headlines which were detailed on page 22 of the agenda, advising that there was still some outstanding work to be completed on the Financial Statements, which related to debtors. He explained that once the signed Letter of Representation had been received, an unmodified audit opinion would be provided before the 31st July. The unqualified 'Value for Money' conclusion would also be issued before the end of July.

He reminded members that they worked to the concept of materiality rather than looking at all figures in the accounts. Materiality was set at 2% of gross expenditure. He confirmed that matters which were under £76,500 which were considered to be a trivial matter were not reported. The only exception to this was Senior Officers' remuneration, which was set to £20,000.

He referred to the significant risks detailed on page 24 of the agenda.

He explained that the fraudulent transaction risk could be rebutted as there was little incentive to manipulate this revenue and that a robust system was in place to ensure that this could not occur and therefore following assessments, there were no issues.

The second significant finding identified was the Management override of controls. He explained that a robust controlling environment had been created and that procedures had been carried out to check compliance. He advised that there were no issues.

He explained that valuation of property, plant and equipment had been identified as a significant finding. He explained that the correct recording of these assets within the accounts required additional work to ensure that the valuations were appropriate, however explained that there were no issues.

He pointed out that a significant amount of estimations were represented in the valuation of pension fund net liability, however no issues were identified.

He advised that since the report had been published, the 'Provisions for NNDR Appeals' had now been completed satisfactorily. He summarised the significant findings – key judgements and estimates, which were detailed on pages 26-28 of the agenda.

He explained that the SSDC Opium Power venture had been discussed with management and was now able to confirm that the disclosures within the statements of accounts were appropriate.

He referred to the McCloud judgement which related to pensions. He advised that he considered that there was no risk of material error to the pension fund.

He confirmed that he was confident that the going concern assumption was appropriate for the authority's financial statements and that SSDC were in a robust position.

He had no further issues to bring to the attention of the Committee.

In response to a member's question, the S151 Officer advised that a group of trustees oversaw the pension fund and that they had a duty to protect and manage this fund. He added that this was managed by Somerset County Council. He suggested that this was being well-managed and was subject to valuations and estimates. He had not been made aware of any specific communications to suggest that there were concerns. He added that plans to reduce the deficit in the pension fund was in place and that this would be reviewed every three years. He assured members that the fund was separate to SCC funds and that these funds could not be drawn to support other financial issues.

In response to a question, the Section 151 Officer advised that the increase in investment properties included properties which were already owned, rather than just additional purchases from the last year. He added that the properties for valued annually and that new assets were purchased to provide a revenue and were not purchased to sell in the near future. He added that the market had tightened slightly and that the value of land and properties fluctuate, however these investment properties would be held long term. He also confirmed that the total purchase cost included fees such as agent fees and solicitor fees.

In response to another question, the Section 151 Officer advised that Opium Power Limited was a separate entity from SSDC and that both SSDC and Opium Power Limited hold 50% shares in the battery plant. He explained that funds had been lent to Opium Power Limited and that SSDC would receive full repayment before any profits would be distributed. He also pointed out that interest would be payable on the loan to Opium Power Limited and was therefore a positive investment.

David Johnson (Engagement Manager, Grant Thornton) summarised the Value for Money element of the report. He referred to the key findings on page 35 and 36 and highlighted the overall conclusion on page 36. He explained that these findings had been reported District Executive reports and following discussions, it had been concluded that appropriate processes were in place to achieve value for money.

He also drew members attention to the action plan detailed on page 38 and the responses which had been provided.

He referred to the recommendation detailed on page 39 and explained that only two assets had been re-evaluated and were not classified incorrectly. He also summarised the audit adjustments summarised on pages 40-41.

The Key Audit Partner, Grant Thornton, summarised the audit fees and explained that these were reviewed annually.

In response to a question from a member, the Director – Strategy and Support Services, explained that ways to communicate details around investment properties and updates to the Commercial Strategy could be communicated to members was being considered. She suggested that the members portal could be an option to support this. She also explained that the role of the Scrutiny Committee enabled any decisions to be reviewed.

Some members agreed that it would be useful to receive news updates to the Commercial Strategy through the members portal.

In response to a question from a member of the Scrutiny Committee member, the Director – Strategy and Support, advised that the governance around the Commercial Strategy and investments had been agreed by Full Council in July 2017 and assured her regarding the role of the Audit Committee and Scrutiny Committee and how they were different functions. She added that she would advise against a joint meeting looking at Commercial issues between Audit and Scrutiny as both committees have very different roles.

RESOLVED: That the Audit Committee noted:

- the matters identified in the Audit Findings Report 2018/19 and the draft audit findings as outlined in section 2 of two of the report.
- the opinion of the financial arrangements for securing economy, efficiency and effectiveness in the authorities use of resources, as stated in appendix E.
- the Chair of Audit Committee would write to the Chair of Scrutiny to explore ways of working on commercial issues.

19. Statement of Accounts 2018/19 (Agenda Item 8)

The Specialist (Finance) introduced the report that presented the 2018/19 Statement of Accounts to Audit Committee for approval.

She explained to members that the Statement of Accounts had been prepared following International Financial Reporting Standards and in compliance with the Local Authority

Code of Practice. She added that this statement had been completed before the deadline.

She explained to members that an accounting adjustment had been made to the total income and expenditure detailed on page 85, however this had been explained in note 7 on page 92.

One member commented that it might have been useful having the balance sheet at the beginning of the report, rather than the end.

In response to this, the Section 151 Officer advised that best practice recommended the order which had been followed, however agreed that it was not an easy document to read. He added that CIPFA were considering ways to make the document easier for the public to read.

Members commented that the recent Statement of Accounts training which had been provided had been useful.

The Section 151 Officer offered his thanks to the Finance Team, to the wider Council and to the auditors. He explained that the quality of the accounts was good and was pleased to have received a positive unqualified opinion.

It was proposed and seconded the Statement of Accounts 2018/19 should be approved as detailed in the agenda report.

A vote was taken to note the external auditor's unqualified opinion, approved the 2018/19 Statement of Accounts and to authorise the Section 151 Officer to sign the Letter of Representation. This was carried unanimously.

RESOLVED: That the Audit Committee:

- Noted the external auditor's unqualified opinion on the financial statements.
- Approved the 2018/19 Statement of Accounts.
- Authorised the Section 151 Officer to sign the letter of representation.

(voting: unanimous)

20. Audit Committee Forward Plan (Agenda Item 9)

Members noted the Audit Committee Forward Plan.

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Chairman