

AUDIT COMMITTEE

Minutes of a Meeting of the Audit Committee held in the Library Meeting Room, Taunton Library, on Thursday 20 June 2019 at 10.00 am

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

Other Members present: Cllr M Chilcott.

Apologies for absence: Cllr M Caswell.

124 Declarations of Interest - Agenda Item 2

There were no declarations of interest.

The Chair of the Committee wished to place on record her thanks to Cllr Verdon for her support whilst she served as Vice Chair of the Committee.

The Chair then welcomed Cllr Lewis to the Committee and his position of Vice Chair and stated she was looking forward to working with him.

125 Minutes from the previous meeting - Agenda Item 3

The Committee agreed that the minutes of the last meeting were accurate and the Chair signed them.

126 Public Question Time - Agenda Item 4

The Chair of the Committee invited questions from Nigel Behan of the UNITE Trade Union, regarding agenda item 5 Partial Audits Update and he asked what was the approximate value of the proposed contract to provide the SLT Development Programme?

In response the Director of HR & Organisational Development stated that the SLT Development programme was still in a procurement phase, so he was unable to share any details about costs at this time.

Mr Behan of the UNITE Trade Union, then asked questions about agenda item 7, the Value for Money Tracker. He noted that it had been reported that the Discovery negative earmarked reserve (previously minus £4.9m) had been significantly reduced using Capital Receipt Flexibilities (CRF) as part of a Transformational project. Can clarity (and details of cash movements, expenditure etc.) be provided about this Transformation project in Discovery (e.g. Workforce restructuring, redundancy etc. etc.)?

In response the Interim Finance Director noted the Outturn report (considered by the Cabinet on 10 June) had included an up-date on movements in all earmarked reserves and had reported on how the LD reserve had been fully replenished in 2018/19.

Mr Behan's final question asked as it was anticipated that there would be fewer (CRF) Transformation projects, what other alternatives were being considered to replace these projects?

In response the Interim Finance Director noted that funding for all appropriate transformation projects would need to be determined as part of the on-going Budget setting and planning process for 2020-23. Where Capital Receipts were to be used, business cases would be developed in advance.

127 **Internal Partial Audits Update - Agenda Item 5**

The Chair of the Committee invited the Director of HR and OD to provide an update on the recommendations that came out of the South West Audit Partnership (SWAP) report into the Role of the Somerset Manager, which was issued last October.

He reported that there has been good progress made on the recommendations and the work had been identified as a key part of the Council's People Strategy and the Transforming the Council to Improve Lives programme. He had commissioned the Audit and although it had provided a 'Partial' audit opinion, it had identified several areas of good practice.

The report also identified one significant weakness, with a finding that significant numbers of managers had not completed important training that included: systems to identify and address non-completion of training were not effective; there was no corporate training policy (for managers); and mandatory training (for managers) was not clearly identified. It also suggested that a Management & Leadership Training Framework be implemented as this would help to address the weaknesses found.

Consideration of the report was aided with a PowerPoint presentation and in response to a question it was noted that the Learning Centre was now used to identify and report on mandatory training for managers. This included a recent programme on Financial Management Training, as well as courses such as Health & Safety and those reports were included as part of quarterly HR reporting to the Council's Senior Leadership Team.

There was a discussion of the report and it was thought that commissioning the audit had been a good use of the SWAP team. There was a question about resources and the Committee heard that the improvements were linked to the Council's transformation programme and had been adequately delivered through a couple of additional posts and coupled with technology this meant there were adequate resources to deliver required improvements.

On the topic of analysing the effectiveness of performance management and staff appraisals it was noted that there was now a about 90% completion rate for staff annual appraisals. The Director of HR and OD thought it important for all staff to be able to have regular 1-1 meetings with their line manager and this approach might suit more staff than an annual appraisal meeting.

It was noted that the good overall progress had been made with regards to making staff more aware of changes and opportunities to participate and last year the Leader of Council and Chief Executive had seen over 800 staff at

'roadshow' events. Members heard that the Council's Learning Centre held a variety of interesting and informative courses for staff and last year 17.5k modules had been completed.

There was a brief discussion about the SLT development programme and it was stated that the procurement process had resulted in 35 bids being shortlisted and it was envisaged after inviting a few to make presentations the contract would begin in September.

The report was accepted, and the Chair requested that the Council's Corporate training policy be circulated. It was agreed to request an update report for the November meeting.

The Chair invited the Strategic Manager for Estates to introduce the report, on the recommendations made in the South West Audit Partnership (SWAP) report into Corporate Property's maintenance of the school estate with particular reference to Schools Annual Condition Surveys issued last May.

It was noted that the objective of the Audit had been to ensure that 'adequate arrangements were in place so that schools were safe and any closures due to structural and maintenance issues were minimised; and to ensure the risk of reputational damage to the Council was mitigated as far as possible. Controls within three areas of the Council had been reviewed: Corporate Property; Corporate Health and Safety; and Support Services for Education (SSE).

The Audit report noted that the annual condition survey was an important control in helping to ensure that school buildings were safe, with most surveys performed by SSE. Some weaknesses had been identified in the recording of those surveys, in some cases there had been no permanent record of the individual surveys being completed and they were unable to verify if they were being carried out on an annual basis.

Members heard that improvements had also been identified in the monitoring of the condition surveys undertaken by schools. A significant number of schools were found not to be making an annual return on health and safety items, despite the Corporate H&S team performing monitoring and follow up. In response to a question it was noted that good information was provided to schools by the Corporate H&S Unit and there had been a good take up of the Premises Manager training course.

There was a question about SSE and as it was a traded service Officers knew which schools were buying the service and those who were not and as over time SSE managed a wider portfolio it was able to gain more experience. Members sought reassurance regarding completion by schools of the annual statement and it was noted that processes were in place to ensure all schools reported an annual statement and each was well monitored.

It was noted that the recent changes regarding the designation of schools had created a variety of different school types, meaning less were now maintained by the Council. Recent work now ensured that the Council had a better understanding of the buildings it owned and the condition of those properties. The properties would have an annual inspection, and this helped to close the

gap of omissions and possible errors and ensure all responsibilities were being met.

The Committee accepted the report and welcomed the progress made and noted the determination to ensure improvements were maintained.

128 **External Audit Progress report** - Agenda Item 6

The Committee considered this report introduced by the External Auditors Engagement Lead which summarised the work of the External Auditors since the last report. An overview was provided of the Financial Statements Audit, the Value for Money work which included informed decision making, sustainable resource deployment and working with partners and other third parties.

Members noted the key finding of the interim work, and it was reported there had not been any findings of significance. In response to a question that External Auditor confirmed they had been able to access all the information required to enable them to complete their work towards this year's Annual report. This had been helped with regular meetings with officers to ensure the audit process was as smooth and effective as possible and he noted that progress on current audit work had been satisfactory and that value for money assessments were almost completed.

There was a brief discussion about the planned CIPFA financial resilience index which had been designed to provide reassurance or prompt challenge to Councils depending on their rating/score. CIPFA had invited all interested parties to respond to questions in the consultation by the 24 August so that it could gauge the sector's views and there had been much feedback and discussion. It was hoped that the final index would be able to provide a fair representation of each Council's overall progress and situation, and not be a blunt tool that produced figures/outcomes in isolation.

There was a brief discussion about the possible impacts of Brexit on the Council and the External Auditor confirmed although they had not completed any work specific to the Council they were mindful of the changes for all stakeholders and joint services, including the impact for EU nationals and settled status.

There was a question about the fee regarding the Audit of the Pension Fund's accounts and Members heard the External Auditors, were also the Auditors for the Brunel Partnership, in to which the Council's Pensions Fund was now being pooled. It was noted that the Auditors were considering how best to get assurance of the investments and understand the changed arrangements in respect of the Fund's custodian and to this effect the External Auditors had written to Brunel to seek assurance from them.

The Committee noted that the External Auditor confirmed they had been able to access all the information required to enable them to complete their work towards this year's Annual report. This had been helped with regular meetings with officers to ensure the audit process was as smooth and effective as possible. The Committee accepted the report.

129 Value For Money Tracker - Agenda Item 7

The Chair of the Committee invited the Interim Director of Finance to introduce 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.

Since the March 2019 meeting, progress continues to be made in a number of areas as set out in the tracker. Members are asked to note in particular:

- i) Robust control of the 2018/19 in-year budget resulted in a significant financial turnaround being reported to the Cabinet on 10 June 2019 in the revenue Budget Outturn report. The same rigorous process is being continued in budget monitoring of 2019/20 budgets;
- ii) Although the most recent MTFP (2019-22) was only recently approved by Council (February 2019), planning for the next MTFP (2020-23) has begun to ensure the Council is proactive in setting future years budgets;
- iii) The External Auditor will issue an up-dated Value For Money assessment by the end of July 2019 alongside the audit of the Councils Statement of Accounts. Once received, officers planned to produce an appropriately updated tracker to ensure relevant actions were taken, with a level of detail to be determined.

The Chair noted that the Committee was pleased to see the continued improving progress and Members confirmed they wish to receive an update report at each meeting.

130 Debt Management Report - Agenda Item 8

The Chair invited the Strategic Manager – Chief Accountant to introduce this report that provided progress on the recovery of outstanding debts (monies owed to the Council) and the current performance.

It was noted that services' total outstanding debt reported on the Accounts Receivable system stood at £16.577m as at 30 April 2019. This compared with a figure of £11.355m at the same point last year, and represented a sizeable increase from £12.883m, which was the 31 December 2018 figure in the last report to the Committee. The percentage of debts over 90 days at 30 April 2019 was 13.87%, which represents an increase on 30 April 2018 which stood at 9.11%, and 12.00%, at 31 December 2018.

Members heard that SWAP had finalised its 2018/2019 Accounts Receivable audit in March 2019 and had again offered only Partial Assurance which had been disappointing given that the Income Code of Practice has been in force for over a year, and that Accounts Receivable staff have provided significant training to Debt Chasers, often tailored to specific services' needs.

Despite this, the auditor does not consider any of the recommendations made to be highest priority. The main concern raised is that services and their Debt Chasers are still failing to deliver the actions required under the Income Code of Practice in a prompt and on-going manner. (The Accounts Receivable staff have previously focussed their training and guidance efforts to services that have been non-complaint).

There was a brief discussion and it was noted collection rates and amounts owed did fluctuate, and each report represented a snap shot in time and it was more appropriate to focus on trends and trajectory and this indicated that processes and performance was now more consistent. There was a question about if there was an alert system and it was explained there were several indicators that could assist Officers and there were a range of indicators that had helped to improve collections.

The report was accepted and it was noted that Officers were mindful of pursuing debts in an appropriate way and they would not seek to recover those debts not recoverable.

131 Draft Annual Audit Committee Report for Council - Agenda Item 9

The Chair invited the Interim Finance Director to introduce the report, which was to come before the July County Council meeting, noting that the Committee had met 6 times during the year.

The report gave general information about the committee and its governance role, with details about the work programme and training. It was noted that the Committee's report to Council would in future be submitted to the July Council meeting each year rather than the May meeting.

The report was accepted.

132 Annual Governance Statement - Agenda Item 10

The Committee considered this report and the attached draft Annual Governance Statement (AGS) for the County Council. It was explained that the Council was required to carry out, at least annually, a review of effectiveness of its governance framework. This review of internal controls provided additional assurance that the Statement of Accounts gave a true and fair view of the Council's financial position at the reporting date and its financial performance during the year.

The Committee considered the report and it was explained by the Council's Monitoring Officer that the process carried out had been in line with guidance published in 2016 by CIPFA / SOLACE in the new "Delivering Good Governance in Local Government". This updated framework would now apply to all Annual Governance Statements prepared for the financial year 2018/19 onwards. It was therefore a highly prescriptive process and for example as part of the Healthy organisation report compliance had to be demonstrated against 91 separate behaviours.

The Committee discussed the report and there was a brief discussion about the Council's MTFP process and the work undertaken to improve financial resilience and the value for money. It was noted best practice suggests that the Annual Governance Statement should reflect the unique features and challenges of the County Council, and that it should also anticipate known and potential governance challenges ahead.

It was reported that this year's Statement had again deliberately included Somerset examples of both good governance measures that have been implemented locally, and the significant challenges ahead. It also highlighted some of the areas, which if not controlled adequately, could present additional corporate risks in 2019/20.

Members noted that there were 3 reviews that would feed into the forward-looking actions for 2019/20 and there were listed as follows:

- the follow up Corporate Peer Review feedback (review undertaken in April 2019 and formal feedback report pending);
- the findings from the Centre for Public Scrutiny (CfPS) review (undertaken in April 2019 and formal feedback reports to Scrutiny Committees in early Autumn 2019), and;
- the external auditors VFM Assessment (which will form part of the Councils Statement of Accounts audit to conclude by 31 July 2019).

There was a brief discussion of the report and Members thought the AGD was a very thorough and accessible document. It was noted the before publication of the final accounts for 2018/19, the Committee would have a final opportunity (at the July meeting) to review and confirm any final changes.

The Committee approved the draft Annual Governance Statement prior to it being signed by the Leader of the Council and the Chief Executive, and members noted the Statement would form part of the 2018/19 Statement of Accounts.

133 **Partial Audits and ORG0043 Risk Update** - Agenda Item 11

The Chair invited the Interim Director of Finance and the Corporate Risk Manager, Insurance Service, Finance to introduce this report 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 regarding ORG0043 'maintain a sustainable budget' both the description and mitigation had been updated but it remained the most critical risk to the Council.

Members heard that the Council's Senior Leadership Team continued the work to over view and review the Council's strategic risks including identifying, quantifying, and mitigating any risk that affected or was inherent in the Council's business strategy, strategic objectives, and strategy execution.

Attention was directed to Appendix B which detailed the Internal Audits partial recommendations report and highlighted the progress of individual partial audits through to completion. Members noted there were several partial audits that had remained open after several years and after a discussion it was agreed the Interim Director would invite the relevant managers to attend future Committee meetings to provide assurance that progress was being made.

The report was accepted, and it was noted that good progress was being maintained.

134 Internal Audit Annual Opinion - Agenda Item 12

The Committee considered and discussed this report that contained information about the internal auditors' opinion on the adequacy and effectiveness of the Council's internal control framework.

It was noted that despite a limited number of control issues previously reported to the Committee, SWAP had given an opinion of 'medium assurance'. This is the same conclusion in 2015/16 and the opinion had been incorporated in to the Annual Governance Statement.

Members noted that there were a higher number proportion of Partial assurance audits and it was explained that this was a result of the Council asking the Auditors to specifically target their work in areas that managers and/or auditors consider to be high risk, and where they have asked for help. It was accepted that on that basis is work in such areas would result in more partial audit findings and it would therefore not be a sensible use of SWAP time to audit areas where strong assurance had been reported.

In response to a question it was stated that there would be a continuation of the practice of the former Audit Committee in the last quadrennium of scheduling all Partial assurance audits to report back to the Committee at a future public meeting, and for the relevant manager/s to attend and report on the progress against the agreed Action Plan from those audits. Only one third of audits had a partial opinion. 18 follow up audits, 11 risk has reduced to a satisfactory level and come off the risk management system (JCAD).

There was a brief discussion of the report and Appendix 2 which detailed the progress of delivery of the work plan for 2018/19 with answers being provided for specific questions on various services areas and it was noted that some recommended actions that appeared to be outstanding for some time were due to programmed improvements and therefore did not mean that the required remedial work had not been addressed.

Members accepted the report and the Internal Audit Annual report and its conclusions.

135 Internal Audit Progress Report - Agenda Item 13

The Committee considered this report that was introduced by the Assistant Director of SWAP who provided a very thorough of the work completed since the last meeting by the Internal Auditors in delivering the 2018/9 Audit Plan.

The summary of the audits finalised in the period were noted and a partial opinion had been awarded to 3. A brief overview was provided about each audit and it was agreed that a progress report about each of these partial opinions would be brought to a future meeting.

It was noted that delivery of the plan had progressed well in the last quarter and the backlog of audits had been addressed and all the timetabled work had been completed. It was noted that the 2019/20 plan was on track and Officers were confident it would remain on track.

There was a question about the audit on the Discovery contract management and it was noted that preparatory work had been undertaken and a meeting with the service arranged for September.

The Committee accepted the report.

136 **Committee Future Workplan** - Agenda Item 14

The Committee noted the report that listed future agenda items and reports for the next 2 meetings (25 July 2019 and 19 September 2019) of 2019. There were 7 and 5 reports respectively, scheduled for those meetings.

The Chief Accountant reminded Members there would be a training session on the Statement of for Members of the Committee, after the meeting.

The workplan was accepted.

137 **Any other urgent items of business** - Agenda Item 15

The Chair, after ascertaining there were no other items of business, thanked all those present for attending and closed the meeting at 12:36.

(The meeting ended at 12.36 pm)

CHAIRMAN