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(Audit Committee - 21 November 2019)

AUDIT COMMITTEE

Minutes of a Meeting of the Audit Committee held in the Library Meeting Room, Taunton Library, on Thursday 21 November 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

155 **Declarations of Interest** - Agenda Item 2

156 **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.

157 **Public Question Time** - Agenda Item 4

The Chair advised the Committee that 3 questions had been received from Mr Nigel Behan in relation to agenda item 10, the questions had been circulated before the meeting and published. The questions were taken as read and the Interim Director of Finance was invited to respond to each question.

Question 1 - Should this set of criteria “on the adequacy of systems in place” be expanded to include Auditing of Social and Environmental commitments (financial costs and savings etc as well) that a Local Authority has determined?

The Interim Director of Finance replied that any interested parties were entitled to submit a response to the Call for Evidence and Sir Tony Redmond had made it clear that all responses received will be valued. The Council welcomed the drive for continual improvement in transparency in financial reporting for all Local Authorities so long as this was done in a way that was comparable across authorities enabling consistency of audit opinion.

Question 2 - Should there a more robust Public Interest test than the Freedom of Information Act (FOIA/EIR) examples?

The Interim Director of Finance replied that Public Interest Reports were provided by external auditors and not the Council. The powers within the Freedom of Information Act are broad and the Council aimed to make its reporting robust and transparent such that a Public Interest Report would not be required.

Question 3 - Do you think that the Audit Function should cover the competence of outsourced contracts beyond the basic KPI remits etc and be able to make recommendations if contractors do not meet the requirements set (including financial contract “variations”)?

The Interim Director of Finance replied that all contracts were awarded following due process and then monitored throughout the contract. Any significant variations would be reported as part of financial performance reporting such as budget monitoring. The Council continually improved its financial reporting transparency, and had made significant improvements in the last 18 months as part of the Financial Imperative improvements. It was noted that the Council would comment on our improvement journey and how it had enabled better transparency of reporting in its response.

158 External Audit Progress Report and Sector Update - Agenda Item 5

The Chair invited the external auditors to introduce their report and welcomed Mr Morris as he would be the new Engagement Lead to the Council. Mr Morris and Mr Barber, provided an overview of the report, noting Grant Thornton were in the second year of 5-year contract, and reminded the Committee that the Council's financial statements had received an unqualified opinion and the value for money conclusion had received an except for opinion.

The report also noted that the external auditors were meeting regularly with the Interim Director of Finance and other officers to assess how the Council was addressing its budgetary challenges and the value for money (VFM) conclusions. The good progress made on previous recommendations was noted, including that the base budget for each service area was realistic and achievable and that savings plans though stretched were fully costed and deliverable.

Members heard that in response to a question that asked if the Auditors were confident about available resources to undertake the work required it was noted that planning and risk assessments undertaken would help determine if any additional capacity was required. Based on the audit plan it was stated the auditors were confident to deliver the work set out and maintain continuity and they provided reassurance that it would be a priority to ensure the audit findings report and VFM conclusion were delivered by 31 July next year.

Regarding the additional VFM work undertaken regarding Adults and Children's Services base budgets it was confirmed that this work was specific to the Council, but Somerset was not alone in that aspect to ascertain robustness. It was noted that there was a pending 5 yearly review of the VFM criteria/code and it was anticipated that work on financial resilience and budget setting might form a greater part of the auditor's role in future.

On the issue of additional work and the associated/increased fees, Members heard that additional work was only suggested when necessary and after agreement and the motivation for auditors was not to make super profits. It was also noted that around 10 years ago the audit fee was much higher, and the work required to complete it was less onerous. However changes to financial legislation meant audits had greatly increased in complexity and the Public Sector Audit Appointments Limited (PSAA) were writing to Council's to gather views before setting a scale of future fees.

There was a brief discussion about the potential of delivering social value through commercial activity and it was noted that this followed a report from the

Local Government Association (LGA) titled 'Profit with a purpose'. It was noted that the auditors were highlighting this area and it was stated that officers did look at all relevant information. On the question of the cost of audits and if this might be an indicator of the Council's financial health it was noted that audit work was retrospective, and it could be that additional work and investigation were required due to unforeseen complexity.

The Chair thanked Mr Barber for his work over the last few years, on account of it being the last meeting he would attend in his capacity as the engagement lead to the Council, noting his clear and concise explanations of often complex issues.

The Committee accepted the report and the Chair noted the reassurance provided by the auditors that the scheduled work would be delivered.

159 **Value For Money Tracker update report - Agenda Item 6**

The Committee considered this report, the first since the value for money (VFM) conclusion for the 2018/19 financial year had been presented at the last meeting. It was noted that the updated tracker provided details of new recommendations and previous ones where relevant, including updates on progress of the last few weeks.

The VFM conclusion had reflected the positive response made by the Council to the previous recommendations but the except for rating also recognised that "there is still much to do within the Council to return it to a fully sustainable financial position" and it would be "critical that continued effort is directed to ensuring the positive trajectory over the last 12 months continues".

The overall position had improved, although the except for conclusion demonstrated that the level of improvement needed continued and sustained focus during 2019/20 to continue and embed current progress. There was a brief discussion about the budget setting process for 2020-23 and it was noted this had included a more rigorous approach involving scenario planning with review and challenge sessions of all assumptions including pressures, service demands, savings and funding.

Attention turned to Appendix A of the report and the VFM tracker and it was stated that several areas were showing an in-progress completion rate of 10 percent. Members heard that it related to action required and as it was not a mandatory field for completion it was often missed. The Chair suggested that the percentage field be made mandatory for those updating the VFM tracker, so that progress could be better demonstrated and more easily measured.

It was noted that the in-depth reports produced to assist the VFM conclusion on demand led services funding, specifically Children's and Adult services had been presented to both Children's and Adults Scrutiny meetings in October and November (respectively) alongside the VFM tracker. Continuous improvement was being made for financial reporting and the increased frequency of reporting would continue through Cabinet, Policy and Place Scrutiny and Children's Scrutiny meetings and this would help to make financial reporting more accessible.

The Committee accepted the report and the Chair welcomed that an update report was brought to each meeting with identified actions. The Chair noted that continued progress would be required to ensure the improvements seen over the past year were maintained and financial resilience continued to improve throughout 2019/20 and future years.

160 Internal Audit progress report - Agenda Item 7

The Committee considered this report from the South West Audit Partnership (SWAP) that provided details on the progress of the 2019/2020 Annual Audit Plan. It was reported that good progress could be demonstrated with most of the quarter 1 and 2 audits that were now at the reporting stage and most quarter 3 audits were now also in progress. Overall this meant that good progress continued to be made and the auditors were on track to deliver the internal audit plan.

There was a brief discussion about the BDUK Grant Certification work, and it was noted that once funding had been secured there was a requirement for an external check. A satisfactory check would result in a certificate being issued, this verified that the money had been spent in line with the agreed parameters.

There was a brief discussion of progress on IT audits, as it had been reported at the previous meeting that the loss of SWAP's resource for the IT audit plan had slowed delivery of IT audits. The engagement of specialist IT auditors on a consultancy basis was currently being investigated to cover the shortfall this year. A plan to upskill a number of SWAP staff to deliver IT audits as a longer-term solution was being progressed.

It was noted that there had been a partial opinion audit regarding supplier resilience, as there was not an effective and co-ordinated approach to supplier resilience. There was a brief discussion and Members heard that overall the Council did operate adequate contract monitoring, to follow on from due diligence before the contract was awarded. It was noted that the audit had highlighted that some contract managers were unaware of the requirement to monitor the financial standing of their suppliers as this did not always take place. It was suggested and agreed that an update report be provided at the next meeting.

Members heard that a future plan planned audit regarding organisational redesign had been requested by the Council's leadership team and was due to commence in the second half of the year. It was explained overall that co-operation with the auditors and engagement from officers was good and being audited was not seen as a bad thing. The audit programme and timetable were flexible and pre-planning with officers helped with scheduling.

It was noted that one audit had been removed from the plan "due to lack of client response" and Members expressed concern that this could be used as a way of avoiding being audited. The Committee expressed concern that this important piece of work had not progressed seemingly due to a lack of engagement from officers. The Committee suggested that the Chair contact the

Director of Children's Services for reassurance that this important data was being adequately managed.

The report was accepted. It was suggested and agreed to request that at each future meeting a verbal update be provided on any deferred and late audits.

161 Partial Audits and Risk Management update report - Agenda Item 8

The Committee considered this report, introduced by the Interim Director of Finance, that provided an update on the latest information regarding the actions taken to mitigate the Council's identified strategic risks. It was noted that strategic risk management was the process of identifying, quantifying, and mitigating any risk that affected or was inherent to the Council's business strategy, strategic objectives, and strategy execution.

In respect of ORG0043 it was noted that the Quarter 2 revenue report confirmed that £6.1m of the corporate contingency remained unallocated half-way through the year. If remaining unallocated at the end of the year, those funds would help build the Council's financial resilience further. Also, where services were reporting adverse variations, the mitigating management actions in place were included in the budget monitoring report.

Attention turned to appendix B of the report, that included details of the partial opinion audit recommendations report. It was noted that the report highlighted the progress of individual partial audits through to completion and that performance was currently in line with last year and overall considered to be satisfactory.

It was noted during the reporting period there had been a single audit that had a partial opinion regarding Supplier Resilience. The audit had found that the current arrangements were not effective in ensuring that the risk of supplier failure was being adequately controlled. It was also noted that there was not a consistent and co-ordinated approach to supplier resilience. The Committee agreed to request that an update report be provided at the next meeting.

The report was accepted.

162 Partial Audit Update - Children in Care - Agenda Item 9

The Committee agreed to defer this report in the absence of the Lead Officer for consideration at a future meeting.

163 Redmond Review - Call for views - Agenda Item 10

The Committee considered this report that provided details of the on-going 'Calls for Views' review led by the former President of the Chartered Institute of Public Finance Sir Tony Redmond, that was looking at the effectiveness of local authority financial reporting and the audit regime. It was noted that the review was considering how Councils publish their annual accounts and if there was sufficient transparency within the financial reporting system to allow it to be held to account. The deadline for submissions had been extended, given the

unexpected General Election, to 20 December 2019 and it was anticipated the final from Sir Redmond would be published in 2020.

It was reported that the review of financial reporting and external audit followed the full implementation of the Local Audit and Accountability Act of 2014 which set out the responsibilities for local authority audits and how they should be conducted. Following the abolition of the Audit Commission and its being replaced by localised inspection regimes to provide a refocused local accountability on improved transparency the government was reviewing the effectiveness of the new arrangements.

Members heard that Local authorities across England were responsible for 22% of total UK public sector expenditure and it was thought important that readers of those accounts were able to effectively scrutinise the stewardship of public funds and that annual accounts and financial reporting systems were transparency and could be held to account.

Attention turned to the 'Call for Views' review document, attached to the report as an appendix, and it was explained that it contained 43 questions. Officers were formulating a response from the Council to provide views, information and evidence with a focus on how the accounts could provide greater assurance to locally elected members along with local taxpayers and service users. It will also include how the accounts and audit process might be developed to better meet users' needs and serve the interest of other stakeholders and the wider public alongside other financial and non financial reporting requirements.

The response would recognise the increasing complexity of local government financial reporting requirements and the increasing pressure within the audit process. It was noted that Officers held regular meetings with the external auditors, including planning and checking progress against plans and this included topics within the scope of the review.

There was a discussion about the review and the Interim Finance Director noted that it had come against background of the Financial Reporting Council's expectations having recently changed. This had meant there was with an increased focus on improved financial reporting from organisations; an expectation for auditors to demonstrate increased scepticism and challenge; and an expectation for auditors to undertake additional and more robust testing. The changed expectations had also happened alongside the reduction of audit fees, and shorter statutory deadlines for the completion of the annual audit (moving from Sept to July each year).

It was noted that collectively those various changes had created much additional pressure and were no longer considered sustainable. Members were reassured that Officers continued to seek improvements and work closely with external auditors on all aspects of the review throughout 2019/20 and into future years.

It was also noted that consideration had been given previously to the Committee having an independent member, having noted that the external auditors had commented this was something other Councils had progressed.

The Chair undertook to write to the Monitoring Officer to ask if this could be considered, at the Committee's request, by the Constitution and Standards.

The Chair informed the meeting that this would be the last meeting attended by the Strategic Manager, Chief Accountant and on behalf of the Committee she thanked her for her support and wished her well for her new role at Wiltshire Council.

164 **Committee Future Workplan** - Agenda Item 11

The Committee noted the report that listed future agenda items and reports for the next meeting on 30 January 2020 and future meeting dates in 2020, 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 the report in to 'Supplier Resilience' be considered as a future partial audit update report.

165 **Any other urgent items of business** - Agenda Item 12

The Chair thanked all those present for attending, and after ascertaining there were no other items of business, closed the meeting at 11.43am.

(The meeting ended at 11.43 am)

CHAIRMAN

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