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(Audit Committee - 30 January 2020)

AUDIT COMMITTEE

Minutes of a Meeting of the Audit Committee held in the Taunton Library meeting room, on Thursday 30 January 2020 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 T Munt.

Other Members present: Cllr M Chilcott and Cllr F Nicholson.

Apologies for absence: Cllr M Rigby.

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

167 **Minutes from the previous meeting** - Agenda Item 3

There were no questions asked, statements made or petitions presented.

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

There were no questions asked, petitions presented, or statements made.

169 **Partial Audit update - Education of Children in Care** - Agenda Item 5

The Committee considered this report, introduced by the Virtual Head teacher for Children Looked After (CLA) and the Head of Service for CLA, 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 the report reflected the current situation and provided context around the progress being made on the 7 required outcomes identified by the auditors.

Members heard that the Virtual School was now known as the Virtual School and Learning Support Team, and comprised a team of advisory teachers and learning mentors, under the leadership of a Virtual School Head along with two full time equivalent Deputy Heads, one with a SEND focus and the other with a CLA focus.

It was reported that Inclusion Somerset now had permanent strategic managers for Statutory SEND, Access and Additional Learning Needs, SEND Advisory Services, and Virtual School and held regular meetings. In addition, the alignment of the Learning Support Team, IT for SEN and the Virtual School had further strengthened the links between services.

In response to a question it was noted that a secondment post had been established for a member of the Statutory SEND Team to sit within the Virtual School to facilitate and support understanding of the Education, Health Care Plan (EHCP) process for CLA. Also regular meetings between strategic and operational managers had helped to ensure that teams were all working towards the same objectives for those children accessing multiple services.

There was a brief discussion about the recommendation concerning Personal Education Plans (PEPs) and it was explained that since last September the PEP process and documentation had been completely revised and therefore a 'settling in' period was anticipated. However, there was now a clear escalation process that was now embedded and owned by the admin team of the Virtual School. That team oversaw the escalation of non-submitted PEPs including liaising with social workers, team managers, Head teachers, and Chairs of Governors. If a PEP had not been received in the final two weeks of a school term, each setting would be telephoned twice a week to follow up.

There was a question about the 'designated teacher' and it was noted that each school/setting would have a named designated teacher. It was noted that the joint funded post in the placement team would help ensure the voice of the child was reflected, particularly when moving between settings. It was explained in response to a question on funding and the transition of money with a child that PEP funded was termly and had not proved to be problematic. It was noted that detailed consideration was being given to making PEP's electronic and the merits of such a transition were provided and after an initial one-off cost the subsequent on costs would fall within virtual school budget.

It was noted that the audit had proved helpful to the service in aiding them to improve the service and highlight other issues. The Committee accepted the report.

170 **Partial Audit update - Supplier Resilience - Agenda Item 6**

The Committee considered this report that provided an update following a partial opinion audit of Supplier Resilience which had reviewed the processes in place to mitigate against supplier chain failure and to identify the high-risk contracts. The Head of Commercial and Procurement began by correcting a minor error in the report and she noted that 343 contracts were currently held by the Council.

It was noted that the Council provided a wide variety of services, many of which were delivered by contracted suppliers. There was a requirement to establish a supplier's ability to deliver not only at the initial stages, but throughout the life of the contract and the nature of this due diligence and level of investigation should match that of the contract.

Due diligence is the process of independently verifying a supplier's capability to deliver fully against their contract and ensuring that the risks associated with their failure are mitigated. High-risk, high-value, complex or unique procurement activities would require a comprehensive due diligence, while some basic checks may be enough for simple, routine procurement activities.

In response to the audit findings the Council had implemented a Contract Management Planner and Contract Management Toolkit, which both aim to make operational contract management standardised across the authority. The toolkit was a practical guide for contract managers, with template documents for key contractual activities and its standards drew on current best practice, with one of the key objectives being to improve supplier performance and maximise resources through proactive contract management. A key part of that

process included monitoring supplier resilience to help ensure the Council had supplier resilience during the lifetime of each contract.

Regarding the recommendation concerning business and disaster recovery it was noted that the Commercial & Procurement team and the Civil Contingencies Unit (CCU) had agreed a series of actions that would be completed to ensure: that there was a clear Business Continuity Policy for all suppliers; that the CCU support consideration and assessment of all supplier business continuity arrangements; and, appropriate Council staff were trained and supported in the business continuity aspects of contract management.

Members noted that the outcomes identified would now be re-visited as part of programmed work to produce a Contract Management Framework and review the existing Planner and Tiering Toolkit. Commercial and Procurement team and CCU had addressed the business continuity actions, and work was also taking place to ensure. The Contract Management Planner would be relaunched to highlight how often resilience checks should be undertaken, including checking of key suppliers financial standing, insurances and business continuity plans and review the facility for credit checks would continue.

There was a discussion of the report and the support and guidance currently provide to officers and it was noted that a programme to roll out contract management training to all managers was progressing well. It was explained that new advice being written would be very clear and specific, to ensure that post contract award meetings were taking place to address issues before they become a problem and this would assist in how the Council could best use the contract management training modules, recently published by the government. It was also acknowledged that there were various important elements to contract management, such as environmental and sustainability issues and social value aspects and not just financial, and these would become more important and would be reflected.

It was noted that there were 4 tiers of contract with tier 1 being the most critical, and the Council currently held 28 such contracts. In response to a question it was stated that should a contractor fail there was not a specific backup for each contract. However, each contract had clear requirements and if they were failing or not delivering the Council could enact clauses. Regular meetings and good contract management would ensure that any problems did not suddenly arise.

The Committee accepted the report.

171 **Treasury Management Strategy** - Agenda Item 7

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 £222m had yielded an annual income of £1.86, meaning an investment return of 1.11%.

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 Director of Finance was required to undertake 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.

There was a discussion of the report and it was explained that the Council would not borrow money for investment as this was prohibited under the prudential code, and that as borrowing was now cheaper this would help reduce the overall level of borrowing.

The Committee noted and accepted the report, that would be presented to the February meeting of Cabinet for approval.

172 **Capital Strategy 2020/21 to 2022/23 - Agenda Item 8**

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

It was explained that the Capital Strategy 2020/23 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 noted that the proposed non-treasury investments strategy had been endorsed at the meeting of Cabinet last December, and to secure financial gain the Council would explore other investment opportunities that may arise from time to time subject to appropriate due diligence and governance arrangements being 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.

Capital spend 133m through 57m borrowing, can hold off going to market to borrow, borrow 122m, capital receipts not used back in to rev budgets
Prudential indicators and for adoption at full council

The Committee accepted the report.

173 Minimum Revenue Provision - Agenda Item 9

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 2019/20 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 2019/20 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.

174 External Audit update report - Agenda Item 10

The Chair invited Mr Morris, the external auditors Engagement Lead to the Council, to introduce their report and he provided an overview of the report, noting Grant Thornton were in the second year of 5-year contract, and he 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 had continued to meet 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.

It was noted that the review into local government financial reporting and auditing, being led by Sir Tony Redmond, was expected to report in the Spring. The terms of reference focussed on identifying an 'expectation gap' between the purpose of external audit and what it currently delivered. There was a brief discussion about audit fees, and it was explained that the Council had

responded to the Public Sector Audit Appointments Limited (PSAA) request for views as part of its process of setting a scale of future fees.

On the topic of fees, it was noted that the Financial Reporting Council (FRC), as the UK's audit regulator had recently launched a consultation on a revised auditing standard for identifying and assessing risks of material misstatement, and it was likely that lowering the materiality level would necessitate an increased amount of testing and therefore increased fees.

There was a brief discussion about an FRC inspection of the external auditors and it was noted that this was not to be viewed as a negative. It was also noted that future audits would include an increased focus on the financial outlook of the Council and the auditors remained confident of delivering the completed by 31 July. There was a question that referred to the land valuation disputes that had arisen during the last audit and it was stated that the Council continued to work with the auditors and valuers.

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

175 **Value for Money Tracker update** - Agenda Item 11

The Committee considered this report, the second since the 'qualified, except for' opinion value for money (VFM) conclusion for the 2018/19 financial year had been presented last September. The external auditors remained clear that although the more positive opinion reflected the progress the Council had made that further improvements were required.

It was noted that to recognise the importance of those actions the updated VFM tracker provided details of new recommendations and previous ones where relevant, including updates on progress of the last few weeks. The up-dated tracker demonstrated the numerous areas of improvement made in the Council's budget setting process for 2020-23 which had included reports to the Scrutiny Committees and Cabinet before the Budget setting meeting of the Council next month.

Members also noted and welcomed the continuous improvement to the quality of financial reporting, which included from the month 7 budget monitoring report the addition of tables to reconcile the narrative explanations of variances against the overall service variances. This improved approach, to help explain to members of the public all the main variations, would continue in future reports.

Attention turned to Appendix A of the report and the VFM tracker and there was a discussion of progress completion rate percentage. Members heard that it related to action required and as it was not a mandatory field for completion it was often missed. The Interim Director of Finance noted that for each risk the percentage field had been reviewed, but this could not be made a mandatory field though officers would be encouraged, when updating the VFM tracker, to ensure progress was accurately recorded and therefore able to be better demonstrated and more easily measured.

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.

176 **Risk Management updates** - Agenda Item 12

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 Month 8 revenue report, presented to Cabinet last week, had confirmed that £6.2m of the corporate contingency remained unallocated. If those funds remained unallocated at the end of the year the funds would help further enhance the Council's financial resilience.

There was a question about the risk rating of ORG0043 and it was noted that the uncertainty of service demands and the absence of a Comprehensive Spending Review (CSR) beyond 2020/21 and a proposed review of Local Government Funding from 2021/22, meant the current risk score should remain 'very high'. The process of evaluating each risk would be considered again in the Section 25 report (on the robustness of reserve and balances), to be considered at the Council's budget setting meeting in February 2020.

It was noted that all services were reviewing their service plans for 2020/21 alongside updating budgets as part of the new rigorous budget planning process and this would include reviewing associated risks with Directorate and service risk registers being updated. The Council's Senior Leadership Team would then subsequently review the overall organisation strategic risk register and an update would be provided at a future meeting.

Attention turned to Appendix A of the report, the Strategic Risk report that provided an update on each of the Council's 11 identified current strategic risks and the actions being taken to mitigate against them. Members also noted Appendix B of the report which contained the updated Management of Risk Pathway documents, that had been agreed by the Cabinet last December.

It was noted that as the budget planning process comes to an end all strategic managers across the Council had been preparing their service plans for 2020/21 and would be reviewing their risk registers in the coming weeks to reflect any changes. The Interim Director of Finance noted that the risk training sessions provided by the Strategic Risk Manager had been well attended and well received, including by the Cabinet.

There was a brief discussion about the risk management system JCAD, and it was noted that it was cloud based and externally hosted with good support and had never been offline. Capacity in risk management had been bolstered

through the arrival of an apprentice who had quickly mastered the JCAD system.

The Committee accepted the report.

177 Internal Audit update - Agenda Item 13

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 2019/20 Audit Plan. It was noted that no significant corporate risk had been identified and there had been 2 partial opinion reports 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. It was noted that some follow-up work had been delayed, to allow further time to embed recommendations, but this work had been scheduled for completion in quarter 4. It was noted there had been some removal of audits from the plan and 2 replacement audits had been agreed for quarter 4.

Members heard from the Assistant Director of SWAP that most audits were on course, the exception continued to be in respect of the IT plan, and this was due to the Council's loss of resource. In response to a question it was noted that alternative options continued to be explored, including more training but assurance was provided that all follow ups in respect of IT plan would be delivered.

It was noted that 4 audits had been completed and there was a brief discussion and overview provided of the 2 partial opinion audits, and they were in respect of 'Mental Health Financial Decision Making' and '2019/20 Cash Handling' and it was agreed that both would be asked to provide an update at a future meeting.

Members heard that following the last meeting it had been agreed that SWAP had now rearranged the SEN Data management audit and that the days allocated for the Organisational redesign audit would now be used in an advisory capacity.

It was noted that overall SWAP performance was good and that the next Audit Plan was currently being prepared in conjunction with the Council's senior leadership team and various service areas. In response to a question it was stated that SWAP continued to grow and now had 38 partners covering the Southwest of England and beyond, including different Police constabularies.

It was suggested and agreed to invite the new Chief Executive of SWAP to a future meeting, to discuss his plans. The Committee accepted the report and the Chair noted the measures being taken to resolve SWAP's IT audit issues.

178 Debtor Management - Agenda Item 14

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 2019 the total net outstanding on the accounts receivable system stood at £9.730m, this compared to £12.832m 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 2019 stood at 12.89%, which represented an improvement from July 2019 when the figure stood at 19.02%.

In response to a question it was confirmed that the total amount of debt outstanding, after initially rising had steadily fallen over the last few months of the 2019/20 financial year which indicated that debts were now being collected more efficiently. It was noted that legal debt recovery officers, working alongside the accounts recoverable team, continued to help support areas across all aspects of debt management with more consistent, pro-active intervention on a quarterly basis for areas of non-compliance.

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. In response to a question it was noted that the number of large (over £10,000) and older debts had remained low in recent months, and stood at 31, having previously reached a total of 94.

It was also reported that debts outstanding from other local authorities and utilities had been reduced and this was welcomed. Members heard that the debt team had moved last year and were now located in the same location and had benefitted from better service engagement and training was mandatory for all debt chasers.

The Chair thanked the officers on behalf of the Committee, noting that invoices were raised for sums in excess of £120m annually. The Committee accepted the report.

179 **Anti-Fraud and Corruption** - Agenda Item 15

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 2020/2021.

Attention turned to Appendix A, the Anti-Fraud and Corruption Policy and Appendix B the Anti-Bribery and Anti-Money Laundering Policy. The report also provided, at Appendix C, details of 4 cases (all closed) that had been investigated during 2019 and the case notes provided a non-specific overview of each case.

In summary the Committee noted that the review had provided assurance, and Members re-confirmed that the Anti-Fraud and Corruption Policy, Anti-Bribery Policy and Anti-Money Laundering Policy, were fit for purpose.

There was a brief discussion that included:

- The Council's work on liaising with District Council regarding Council Tax fraud and considering this issue after a proposal from Powys Council and discussion with the internal auditors;
- The Council's Whistleblowing policy and Members heard from the Monitoring Officer who noted the policy was displayed on the website, and that the Constitution and Standards Committee had reviewed the policy and looked at similar policies in other areas and the Staff survey last Autumn had gauged staff awareness of the whistleblowing policy and a review report would be presented to the Constitution and Standards May meeting;
- The Council endeavoured to respond effectively and promptly to reported Fraud, making an assessment if further checking/details were required and consideration by the relevant lead officer and it was stated that such matters were taken seriously.

Members thanked officers for their work and noted their continued support for adhering to and enforcing a zero-tolerance policy regarding fraud. The Committee agreed the Anti-Fraud and Corruption policy and the Anti-Bribery and Anti-Money Laundering policies.

180 **Committee Future Workplan** - Agenda Item 16

The Chair noted that she had discussed with lead officers, the frequency and number of meetings and how best to manage and schedule an appropriate amount of agenda items for consideration at each meeting. It was noted that the currently scheduled meetings, between now and the end of the quadrennium, would remain in place.

There was a brief discussion about the frequency of some reports, and it was agreed that the Strategic Risk Management update and the Debtor Management update would now be reported quarterly. The Value for Money Tracker would still be considered at each meeting, and an update report following each partial opinion audit would also be reported at an appropriate meeting.

The Committee noted the report that listed future agenda items, including and reports for the next meeting on 26 March 2020 and future meeting dates in 2020, and the report was accepted.

181 **Any other urgent items of business** - Agenda Item 17

The Chair noted that this would be the last meeting attended by Mrs Collins, the Interim Director of Finance. The Chair reflected the Committee's thanks to the Interim Director for her support and work in assisting and contributing to the Council's journey in improving its financial position and wished Mrs Collins well for the future and this was greeted with a round of applause.

The Chair noted that Mr Vaughan would become the Council's new Section 151 Officer and Director of Finance, and he would attend future meetings of the Committee.

The Chair, after ascertaining there were no other items of business, thanked all those present for attending and closed the meeting at 12.33pm.

(The meeting ended at 12.33 pm)

CHAIRMAN

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