

AUDIT COMMITTEE

Minutes of a Meeting of the Audit Committee held in the Virtual Meeting, on Thursday 24 September 2020 at 10.00 am

Present: Cllr M Lewis (Chair), Cllr M Caswell (Vice-Chair), Cllr B Filmer, Cllr L Leyshon, Cllr G Noel, Cllr M Rigby and Cllr P Ham

Other Members present: Cllrs M Chilcott, T Munt, C Paul

Apologies for absence:

194 **Apologies for absence** - Agenda Item 1

No apologies were received.

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

There were no new declarations.

196 **Minutes from the meeting held on 18 June 2020** - Agenda Item 3

The Audit Committee agreed that the minutes of the meeting held on 18th June 2020 were accurate, and the Chair signed them.

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

No questions or statements were received by the PQT deadline of 5pm on Friday 18 September.

198 **Approval of the Statement of Accounts 2019/20.** - Agenda Item 5

The Finance Director presented the report and summary and findings detailed below:-

As part of the formal process of closing the County Council's 2019/20 accounts, the Chief Financial Officer was required to approve the draft Statement of Accounts by 31 August and the Audit Committee was required to approve the audited accounts by 30 November.

The Accounts and Audit Regulations issued by the Secretary of State set out the requirements for the preparation and publication of final accounts. These regulations included the requirement for the formal approval, by a full Committee, of the Council's Statement of Accounts.

The Statement of Accounts (set out in Appendix A) had been prepared in accordance with the current Code of Practice on Local Authority Accounting in Great Britain. The Statement was required to present a true and fair view of the County Council's financial position at 31 March 2020 and also the income and expenditure for the financial year 2019/20. A separate Statement of Accounts was produced for the Pension Fund.

The Statement of Accounts was available for public inspection during the 30-working day period running from 1 July to 11 August 2020.

The issuing of the Audit Certificate would be delayed until completion of the audit of the Whole of Government Accounts (WGA) submission. This delay is unavoidable due to the timing of the issuing of the WGA toolkit by HM Treasury and WGA submission timetable. Work is currently underway to submit a draft WGA return by the 31st September submission deadline. A final audited WGA return must be submitted by no later than 31st December 2020. The Council is working with Grant Thornton to ensure the final audited submission is submitted by the deadline. The Committee would be notified on receipt of the final Audit Certificate

Debate

- The Chair of the Committee formally thanked Officers from Grant Thornton and Somerset County Council in the work undertaken as part of the approval of the Statement of Accounts.
- High level summary was considered, this was provided by performance team and set out the direction of performance statistics rather than the RAG rating.
- The change in criteria was questioned in addressing the DSG deficit and Schools Balances.
- The financial year's DSG could be netted off against Schools reserves – which were the standard applied changes from year to year, the authority was able to set a negative earmarked reserve which had been rectified for the current year. There was still ongoing discussion over the treatment of negative DSG balances.
- It was established that there were no other negative earmarked reserves other than DSG, this was reflected in the GT value for money judgment.
- Thanked s151 for the continuity of the last few years, it was considered a significant achievement to go from an adverse to unqualified opinion in two years, all officers involved were praised on the progress made.

The Committee approved:-

- The audited Statement of Accounts for 2019/20 (Appendix A);

- The Letter of Representation for 2019/20 (Section 5.1 and Appendix B);
- The updated Annual Governance Statement as included within the Statement of Accounts (Section 6) Members are also asked to note the position of the External Auditors assessment of the Council's Value for Money (VFM) judgment (Section 7).

199 The Audit Findings for Somerset County Council - Agenda Item 6

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. The Council have faced a number of challenges including operational capacity, remote working and delays from third parties including external confirmation.

Pension Funds are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.

We have considered emerging guidance issued by the Financial Reporting Council (FRC), CIPFA and actively contributed to audit firm and NAO technical meetings where the impact of the virus on the financial reporting disclosures and audit approach has been discussed.

We updated our audit risk assessment to consider the impact of the pandemic on our audit which was reflected in our Audit Plan. In the Plan we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VFM approach. Further detail is set out on page 6.

Restrictions for non-essential travel has meant both the Pension Fund and audit teams have had to develop new remote access working arrangements including remote accessing financial systems, video calling and alternative procedures over the verification of completeness and accuracy of information produced by the entity. There have also been key challenges for the Pension such access to key data from external organisation and changes to governance requirements.

The Committee noted the report.

200 Approval of Pension Fund Accounts 2019/20 - Agenda Item 7

As part of the formal process of closing the Pension Fund's 2019/20 accounts, the Chief Financial Officer is required to approve the draft Statement of Accounts by 31 August, this has already been done. The Audit Committee is subsequently required to approve the audited accounts by 30 November.

Grant Thornton completed their audit work and issued The Audit Findings Report for the pension fund and this is included in the papers. The report, which will be presented by our external auditors, summarises the findings from the 2019/20 audit of the Pension Fund financial statements.

The report indicated that the accounts had received an unqualified opinion.

Debate

The Committee thanked all officers involved in for their hard work in the creation of the report.

The Committee:

- Approved the audited accounts of the Pension Fund for 2019/20; and
- Approved the letter of representation on behalf of the Council.

201 **Report of Internal Audit Activity Plan Progress 2020/21** - Agenda Item 8

The Internal Audit Assistant Director presented the report:-

The schedule provided at Appendix B contains a list of all audits as agreed in the Annual Audit Plan 2020/21. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective "assurance opinion" rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these.

The assurance opinion ratings have been determined in accordance with the Internal Audit "Audit Framework Definitions" as detailed at Appendix A of this document.

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted in them receiving a 'Partial Assurance Opinion' is given as part of this report. In circumstances where findings have been identified which are considered to represent significant corporate risks to the Council, due to their importance, these issues are separately summarised.

Debate

- Concerns were raised in relation to planned audits that were postponed in Adults and Children's services.
- It was recognised there had been some work postponed due to the Covid-19 pandemic.
- Finance director was having ongoing conversations at SLT level and would report back to the Audit Committee.
- Important wide coverage of key risks across the council
- The committee emphasised the importance of the internal audit and assurance was sought on the progress of the Internal Audit Activity.
- A request was made for SLT to recognise concerns from the Audit committee regarding lack of internal audit in high-risk areas such as Adults and Children's services

The Committee noted the report.

202 **Independent Review of Local Authority Financial Reporting and External Audit** - Agenda Item 9

The Finance Director presented the report.

The report provided an update on the independent review into local authority financial reporting and external audit review by Sir Tony Redmond which was published on the 8th September.

Redmond found that there is a lack of coherence in local audit arrangements and in the approach to procuring audits. The review found that the cost of audit is 25% less than it should be and as a result the quality of auditors has fallen. Redmond noted that 40% of audits missed the deadline in 2018-19 and suggests that the deadline for audited accounts to be published be extended until 30th September.

The report also questions the effectiveness of audit committees and whether they have enough independent members. Redmond also considers the relationship between the audit committee and inspectors, and between the audit committee and full council. Recommendations include the creation of a new local government audit body ("small and focused" rather than a recreation of the Audit Commission) and ministers changing the way they judge the financial sustainability of councils.

He also recommends that there is at least 1 independent member required on 2 of 4 each Audit Committee, and that Audit Committee members and new S.151 officers need improved training on audit and final accounts. It is also recommended that 3 statutory officers meet External Audit annually and that

the External Auditor presents an annual report to the first council meeting after the 30th September.

The review concludes that the current reporting arrangements do not allow the public to understand the accounts and more should be done to improve transparency. He recommends the introduction of a standardised Statement of Services and Costs to enable a comparison between budget setting and outturn. CIPFA will consult on this between September and December with a view to trialling the statement in 2020-21 year-end. The recommendations of the review were set out in the report for the committee to consider.

Debate

- Following questioning around the timescale for the implementation of the recommendations from the review, it was determined that there was no definitive timeline, but changes would commence within next 6 months.
- With the addition of an independent member-assisted continuity at other councils, Councillors welcomed an independent view as a recommendation from the Redmond Review.
- The Committee requested a further update at the next meeting.

The Committee noted the content of the report and its potential impact upon the Council and the Audit Committee, if the recommendations of the Redmond Review were adopted.

203 **Debtor Management Update Report** - Agenda Item 10

This report reviews the recovery of outstanding debts (monies owed to the Council) and the current performance. The analysis below is based on the total of annual debt raised which is between £120m - £135m. The monthly outstanding debt can range between £7m-20m.

Services' total outstanding debt reported on the Accounts Receivable system stood at £6.219m as at 31st July 2020. This compares with a figure of £8.105m as at 31st July 2019, and £10.087m as at the 30th April 2020 reported at the last Audit Committee in June 2020.

The percentage of debts over 90 days as at 31st July 2020 was 42.72%, which represents a fractional decrease to the end of June which stood at 42.88%. The value of the decrease in outstanding 90-day debt was £1.779m.

Debate

- The headline figure was an improvement on the previous year's position, which was positive in the current climate, and the Committee recognised the pressure on debts and the trend increasing.
- The Council had a strong relationship with the NHS, which was maintained with regular meetings undertaken around debt management to establish an improved position.
- Debtor management and regular updates for the committee were considered valuable to understand the ongoing position and take actions where needed.

The Committee noted the position in relation to outstanding debt performance at the end of July 2020.

204 **Anti-Tax Evasion Strategy** - Agenda Item 11

The Director of Finance introduced the report.

Under the Criminal Finances Act 2017 (CFA 2017), the Council, if found to be facilitating tax evasion, could face an unlimited fine and consequent damage to its reputation. The Council would be guilty of the offence where a third party commits tax evasion which a member of staff (or an associate) has in some way assisted.

Part 3 of the Criminal Finances Act 2017 creates a new corporate criminal offence where a corporate entity fails to prevent the facilitation of tax evasion by its staff, agents and contractual associates. The legislation requires all bodies corporate to publish an Anti-Tax Evasion Policy.

The Council's Anti-Tax Evasion Policy was drafted and presented to the Governance Board meeting in December 2019 for consideration. The Board noted the commitments identified in Section 8 of the policy and the requirement for a risk assessment. The Board tasked the Strategic Risk Management Group (SRMG) with consideration of Section 8, with a specific focus on the requirement for a risk assessment.

The risk assessment was reviewed at the meeting of SRMG on 12th February 2020 and has been appended to this report for consideration by the Committee.

Debate

- The Whistleblowing Policy was still under review, although the existing policy still met statutory obligations; this was a work in progress, but the committee would be updated on the outcome of the review.
- Existing controls and compliance issues were in place as part of payroll, but this was an area to ensure that the measures in place were appropriate.
- Income tax and national insurance were the focus of the strategy.
- IR35 was a different focus; there were robust systems in place to address any instances of tax evasion.

The Audit Committee:

- Adopted the Anti-Tax Evasion Strategy (Appendix A) and associated Risk Assessment (Appendix B).
- On approval of the Anti-Tax Evasion Strategy, the Corporate VAT Team will put in place measures to ensure full compliance on all risks identified. Any additional risks or issues will be reported back to the Committee.

205 **Committee Future Workplan** - Agenda Item 12

The Committee noted the workplan that listed future agenda items and reports for the next meeting on 19 November 2020, and the workplan was accepted.

An additional item was requested for an update from the independent review of financial reporting and external audit.

206 **Any other urgent items of business** - Agenda Item 13

There were no other items of business.

(The meeting ended at 11:18)

CHAIR