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(Audit Committee (virtual meetings to commence from June 2020 due to Coronavirus) - 19 November 2020)

AUDIT COMMITTEE (VIRTUAL MEETINGS TO COMMENCE FROM JUNE 2020 DUE TO CORONAVIRUS)

Minutes of a Meeting of the Audit Committee (virtual meetings to commence from June 2020 due to Coronavirus) held in the Virtual meeting, on Thursday 19 November 2020 at 10.00 am

Present: Cllr M Lewis (Chair), Cllr M Caswell (Vice-Chair), Cllr H Davies, Cllr B Filmer, Cllr L Leyshon, Cllr G Noel and Cllr D Ruddle.

Other Members present: Cllr T Munt.

Apologies for absence: Cllr P Ham.

205 Declarations of Interest - Agenda Item 2

The Chair of the Committee invited Members to make declarations and noted the details of all Councillors interests including personal interests in their capacity as a Member of a District, City/Town or Parish Council were published on the Council's website. In addition, Councillors Caswell, Leyshon and Lewis each declared a personal interest as members of the Local Government Pension Scheme.

206 Minutes from the last meeting - Agenda Item 3

The Committee agreed that the minutes of the 24 September 2020 meeting were accurate, and the Chair undertook to sign them virtually.

207 Public Question Time - Agenda Item 4

The Chair of the Committee confirmed that no questions had been received or statements/petitions presented.

208 External Audit Plan and Sector Update - Agenda Item 5

The Committee considered an audit progress report and sector update from the Council's external auditors Grant Thornton introduced by the Engagement Lead. Members were reminded that the Council's financial statements had not been signed off as the external auditors were still working to obtain sufficient assurance regarding the valuation of the Council's property assets. Although most of the requested responses had been received there were some areas that required further information, and this meant the audit would not be completed by the end of November.

It was reported that the audit on the Pension Fund had been completed however this could not be issued until the audit on the Council's financial

statements had been completed as they needed to be consolidated into a single statement.

The Committee was provided with an overview of the various component parts that comprised the report, noting the work related to dealing with the Covid-19 pandemic and a general sector-wide update. The report also reflected the auditors thoughts on the findings of the Redman review. It was noted that future reports would contain more in-depth reporting on issues such as Value for Money conclusions and this would help identify if adequate arrangements were in place.

Members heard from the external auditors that some councils were more confident than others in being able to manage their financial position during 2020/21 but all were concerned about 2021/22 and beyond. This was not just related to unexpected Covid-19 spending, but other global, national and local issues that would impact over the medium term, including the impact of a 'no deal Brexit', and new Government policies such as those expected on devolution and health and social care integration.

The Chair of the Committee asked the external auditors about why the proposed Audit fees would be higher than anticipated and it was stated that this was in large part due to on-going work to obtain sufficient assurance over the valuation of property assets. That work has been progressing over several months in order to obtain the required evidence to allow for those outstanding queries to be resolved but it had not yet been received.

The Chair asked if the information were to be received promptly would it mean the accounts could be completed by the end of the month and did the Council have adequate resources to enable the necessary work to be completed. In response the Committee heard that the external auditors would complete their work as quickly as possible, but this could only be progressed once they had received all the required information. The Council's Director of Finance gave an undertaking that the required resources would be provided to ensure the outstanding work was completed as quickly as possible and he would report back to the next Committee meeting about this.

There was a question about the work completed to provide assurance of the Value for Money statement and what areas the external auditors focussed on. In response it was explained that in arriving at a best value judgement the auditors looked at 3 areas, which could be summarised as: covering the Council's governance arrangements; the Council's financial sustainability; and the Council's efforts to improve its overall efficiency, economy and effectiveness.

There was a question about the work regarding the property valuations and it was explained that the Council had a 5-year rolling programme to value its assets and this would be updated and compared to indices over following years. The external auditors would then determine if the financial statements were fairly reported and if the indices showed whether valuations required a material change. The external auditors confirmed that the Council's practices and processes were acceptable and appropriate however, in certain areas the underlying initial figure for the valuation had no supporting evidence, and information to explain that initial valuation was no longer held. So, although the indices were correct there was no information regarding the accuracy of the initial valuation.

There was a discussion on the issue of the property valuations and Members of the Committee that spoke expressed concern and asked why the requested information had not been made available to the auditors and why the delays had occurred, resulting in the issue being escalated to the Director of Finance. The Director acknowledged that it was a concern and he gave an undertaking to carry out a review to understand why the problem had occurred so that this did not happen again. The Chair of the Committee also suggested that the workings of valuers be saved so that they were available for a number of years. The external auditor noted that although they had required some additional information to be provided, the issue (regarding valuations) had not been encountered during audits for other Councils.

There was a question about the additional audit costs and the external auditor noted there was a likely 15% variation due to the Covid-19 pandemic, however regarding additional work on the property valuations issue the cost was not known. It was noted that this (valuations) had prevented the accounts being closed as they had to be a true and fair view and without that information the accounts could not be certified. It was noted that not every asset would be reviewed however the Council had to be assured its valuations overall were correct.

The Chair reflected the concerns of the Committee that had resulted in information regarding property valuations being delayed and noted the Director of Finance had the full support of the Committee to ensure he had the required resources for enabling the outstanding work on property valuations to be resolved as quickly as possible.

The Director reassured the Committee he had adequate resources to ensure the work was completed as swiftly as possible and he noted that he would be reporting to the Council's senior leadership team about this matter. He also undertook to report to the Committee's next meeting providing an overview of the issues, and that his report would include the costings of the additional work.

The Committee accepted the update from the external auditors.

209 **Internal Audit Update report - Agenda Item 6**

The Committee considered this report from the Internal Auditors at the South West Audit Partnership (SWAP) that provided details on the progress of the 2019/2020 audit plan. It was reported that overall good progress could be demonstrated, and this meant progress continued to be made and the auditors were on track to deliver the internal audit plan, although it would look different to the one agreed.

It was reported that despite the restrictions imposed by the Covid-19 pandemic the internal auditors had continued to deliver audit work, however progress has been slower than normal. A significant proportion of the work undertaken was new and Covid-19 related and therefore in line with the high-risk based approach, this had meant there had been a lack of resource to support some audits and perhaps inevitably there had been requests to defer some audits, which had been agreed.

It was reported that since the last update report several audits had been finalised however there had not been any limited assurance or high-risk findings. Attention was drawn to SWAP performance and page 53 of the agenda pack and although overall the audit was behind from the comparable position last year, this did not reflect the additional work that had been undertaken.

It was noted that some audits would not be completed this year, mainly due to the Covid-19 pandemic and as it was recognised the Council needed to prioritise work to respond to Covid-19, it was anticipated that delivery of some audits in the plan would not be possible. There were two main reasons for this: progress had been insufficient for the audit to take place (for example follow-ups) or due to a lack of resource to support the review. Appendix B of the report showed the current position and it was noted the Council's Senior Leadership Team had asked for all the non-deliverable audits to be identified.

The Committee noted that the internal auditors were proposing to concentrate their future work on focusing on fraud prevention, and SWAP had recently established a 'counter fraud service', and this would lead to a fraud risk assessment during the last financial quarter of the year and those outcomes would be used to inform next year's audit plan. The Council and SWAP had also joined the Cifas Fraud Prevention Service, and this would allow for data matching and comparisons with other Councils regarding potential high fraud areas.

There was a brief update on some changes to the plan and it was noted that those approved changes regarded certification of additional grants (awarded to cover Covid-19 expenditure) and attention was drawn to opinion audits and advisory audits. It was noted that in order to accommodate those newly requested reviews some audits would have to be deferred, and it was likely that only low-medium risk audits would be deferred. The audit plan that would be delivered would be different from that originally planned and CIPFA were working on guidance for auditors preparing their annual audit opinions to reflect the changes brought by the pandemic.

The Chair asked the Committee if they were any questions and regarding the risk-based nature of the audit work, it was asked if the internal auditors were concerned they might miss something through rolling forward some audits and the possible knock on effects. In response it was acknowledged that the anticipated CIPFA guidance on annual opinions would be important and most welcome. The unexpected audits that had supplemented those planned had all been in 'high risk' areas relating to the pandemic, but this would mean there would be less coverage of critical services, so the auditors would have to think about how they provided the audit opinion and the healthy organisation review would help support the audit opinion.

It was asked if SWAP had taken a similar approach at other Councils regarding its planned audit work and it was reported that it had, however as the Council was a tier 1 authority, its services were critical in enabling a response to the pandemic so this had to be considered. It was then asked about the how the assessment of risk of not completing some audits, such as those relating to Adults and Children's Services, was judged and the internal auditors had to ensure that their annual opinion was balanced, so they would have to consider those issues.

There was a question about an advisory audit regarding duplicate payment to a contractor, and it was noted that this was a special piece of work in respect of a specific large contractor and was not a representative audit across the Council. The audit was not about assessing the number of duplicate payments but the control processes in place to mitigate against that rather than quantifying the number of payments. If further information was required, this could be provided outside of the meeting.

The Chair thanked the internal auditor for the update and the Committee would keep in mind potential fraud issues when considering the risk management update. The report was accepted.

210 **Risk Management Update - Agenda Item 7**

The Committee considered this report introduced by the Council's Risk Manager, and she began by reaffirming that strategic risk management was the

process of identifying, quantifying, and mitigating any risk that affects the Council's overall strategy, strategic objectives, and strategy execution. It was timely as a year had passed since the strategic risk review.

The report provided details regarding the Council's Management of Risk Pathway documentation. Attention was drawn to the Management of Risk Strategy Pathway (Appendix A), Management of Risk Policy Pathway (Appendix B) and Management of Risk Process Pathway (Appendix C) of the report. It was explained that the Chief Executive remained the owner of the risk management process with responsibility delegated to the Director of Finance/Section 151 officer. The Member Risk Champion is the Cabinet member for Resources.

The Risk Manager provided a brief overview of each of the reports appendices and highlighted where each document had been updated, explaining the reasons for those changes. Attention was drawn particularly to the 3 tables in Appendix D of the report. The Strategic Risk Review had been updated following a review by the Council's Recovery and Renewal Board and explanations were set out for how the new outcomes, that were displayed in Appendix D, had been reached. The risks had subsequently been set out as risk to be retained, risks to be closed and newly identified strategic risks.

The Chair invited comments from Members and there was a question regarding the Council's financial risks, now that they had been divided between 2 separate risks. It was explained that the original financial risk ORG0043 was about the balanced budget in the short term and this had been supplemented with risk ORG0057 focussed on a sustainable budget over the medium term.

There was a question about a producing league table of risks based on their urgency and in response it was explained that all the risks were assessed based on their likelihood of happening and the impact if it did happen. The Council's risk management software JCAD can provide a ranking of the risks and it was noted the most severe or highest risks were the 3 newest risks: climate change; local government reorganisation; and organisational resilience.

Regarding the climate change risk and what that meant in practical terms it was explained that it would involve an ongoing assessment on how that change might affect the Council and how the Council's climate change strategy would help to mitigate against negative impacts.

There was a question about the internal audits within Adults and Children's Services and if those were not being progressed did that constitute a risk to the Council and the Risk Manager undertook to review that point.

The Committee accepted the report.

211 Committee Future Workplan - Agenda Item 8

The Committee considered the forward work plan of proposed agenda items for future meetings, noting the next meeting was scheduled for 28 January 2021.

It was noted that a report on the statement of accounts would be prepared for the next meeting and the Director of Finance stated that he would like the Committee to consider budget monitoring reports through the year.

The Lead Internal Auditor noted that she would bring the Annual Internal Audit Plan and Charter to the March meeting.

The Director of Finance noted that it would be timely to have a report at the January meeting on the Redman review and this would include the topic of an independent member for the committee.

212 Any other urgent items of business - Agenda Item 9

The Chair of the Committee, after ascertaining there were no other items of business, thanked all those present for attending and closed the meeting at 11.25am, wishing fellow elected members and officers a happy and healthy year ahead.

(The meeting ended at 11.25 am)

CHAIRMAN

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