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 28 January 2021 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, Cllr P Ham and Cllr D Ruddle

Other Members present: Cllr C Chilcott, Cllr C Lawrence, Cllr T Munt, Cllr A Kendall, Cllr L Redman, Cllr M Rigby, Cllr L Vijeh, and Cllr J Woodman.

Apologies for absence:

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

There were no declarations made.

214 **Minutes from the meeting held on 19 November 2020** - Agenda Item 3

The minutes of the last meeting were accepted as accurate.

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

The Chair informed the Committee that there had been 1 request to speak from a member of the public, Mr David Orr, and that his 3 questions would be taken at the start of Agenda item 7, as they related to that Agenda item.

216 **Approval of Accounts** - Agenda Item 5

The Chair invited the Director of Finance to introduce this report to provide an update about the on-going process of closing the Council's 2019/20 accounts. It was noted the audit of the draft statement of accounts, for the year ended 31 March 2020, had still to be concluded by the external auditors, so approval of the audited accounts had not been possible.

Members heard that the delay had arisen due to a combination of factors. Firstly, the impact of the pandemic and the complexity of the work required had negatively affected the necessary work being completed. Secondly the increased assurance work that auditors were required to carry out, with respect to pensions and asset valuations, and the delays that had occurred in providing this additional evidence to support those valuations, to the Council's auditors.

It was explained that the asset valuations referenced were limited to school assets and other assets with what was known as depreciated replacement costs (DRC). It was explained that the DRC was an optimised form of replacement cost method used to make the estimate more realistic by adding the aspect of depreciation to a simple replacement cost concept for valuation purposes. However, the Council had been unable hitherto to provide the evidence of this and therefore assurance to the auditors.

It was stated that the work had been progressing and it was hoped that within the next few weeks the required information would be provided and if that showed there was not a material difference on the valuations already submitted it would be possible for the auditors to then provide approval and close the accounts. However, it was noted that this would be a decision for the external auditors.

The Chair then invited the Council's Head of Property to speak and he explained that his team would hope to submit information regarding valuations on 210 locations to the external auditors within the next few weeks. He noted that his team had complied a fresh methodology to help provide accurate valuations (plan and measurement tools) to calculate depreciation costs. The work to visit sites had been very labour intensive but this would help demonstrate if there had been material variances on the valuations already provided and, in his estimation, those valuations and the methodology used to calculate them would meet the requirements of the auditors.

The Chair invited questions from Members, and it was asked, given that the Council's accounts had been approved last year without similar issues, why the Council did not hold an asset register that contained a list of accurate valuations. In response it was noted that the Council did hold an up-to-date asset list and their valuations, it was just a specific type of asset and their valuations were the additional information had been requested.

It was also noted that over a 5 year period the Council would be required to submit valuations on all its assets, meaning approximately 20% of its assets were required to be valued each year, and it was amongst that group that the indices used for providing the valuations could not be evidenced and no assurance could be provided.

There was a question about the timescale, noting that Officers had described the work as being "on track" and it was noted in response that by the time of the next meeting of the Committee this issue should be resolved. It was explained that Officers had not been able to identify any previously agreed methodology and/or national indices to complete this required work.

There was a question about the additional assurance work being acceptable to the external auditors and if they had given approval of the methodology being used. Members heard Officers indicate they were confident the work would meet the requirements and provide the necessary information and assurances to the auditors.

The Council's Lead external auditor noted that they were simply looking for sufficient audit evidence to be provided regarding those properties. He also explained that the required information had first been requested on 6 August but there had been no final response received until 30 October and he noted the importance of timely responses.

There was a brief discussion of the cost of the extra work and the delay to closing the audit and it was confirmed that additional costs/fees would be incurred and those would be reported with a breakdown of those costs. It was noted that it was not unusual for accounts not to be closed but it was important that this work be concluded as quickly as possible.

The Chair thanked Members for seeking assurances from Officers and he noted that an update would be provided at the next meeting.

217 **External Audit Plan and Sector Update** - Agenda Item 6

The Chair invited the Lead external auditor to introduce his update report and he began by noting the 2020/21 Audit would be starting soon with the preliminary planning. He noted that Somerset was not unique in having its previous financial years accounts still open as other Councils were also in this position and there were a number (the majority nationally) of local authority audits remaining open.

He noted there was a new national audit code of practice regarding value for money and that would change the focus of next year's audit, with more attention directed to the Council's measures to ensure its financial resilience and governance arrangements and economy, efficiency and effectiveness. A detailed audit plan would be submitted to the next meeting of the Committee.

The Chair asked if there were any questions and it was questioned why the majority of local authority audits were still open and it was explained that at the end of November only 48% of audits had signed off nationally. It was noted that this might be because the audits had been later starting, the audits had resulted in enhanced scrutiny and the pandemic had added to uncertainty of some estimates and working remotely had been a challenge.

The Committee accepted the update report.

218 **Advisory Audit Update** - Agenda Item 7

The Chair began by noting that this agenda item was being considered by the Committee after the findings of a non-opinion audit had been questioned and brought to his attention by some members of the public, one of whom had subsequently requested to speak at the meeting and he invited Mr David Orr to address the meeting.

Mr Orr spoke about a non-opinion audit (advisory audit) report that had been completed last year at the request of the Council's Highways Maintenance team regarding duplicate payment requests. Mr Orr suggested that in future all advisory audit reports should automatically be brought to the Committee when 1 or more major issues were identified. Question 1. Is there any evidence that (like Serco on the prisoner tagging contract) Skanska has been dishonest in their multiple work claims and overcharges to the Council? Question 2. When will the Council be able to determine the total overcharging from the contract start in 2017 and does the contract allow for the recovery of overcharges and duplicate payments? Question 3. I understand that Devon County Council also use Skanska. Has Devon had similar problems with Skanska? Should this committee recommend that a joint client with Devon be explored (to improve contract management performance and reduce client costs)?

The Chair asked the Director of Economic and Community Infrastructure (ECI) Operations and a Strategic Manager of Highway Maintenance to respond and introduce the report and the Director for ECI confirmed he would reply to Mr Orr's questions and provide written answers to all the questions he had submitted.

The Director for ECI began by reassuring the Committee that some external comment had suggested the Council had made an over payment of £350K but this was incorrect. He noted that although that figure had been requested the Council's own internal processes had prevented an administrative error and that amount had not been erroneously paid. He also highlighted that the report showed that appropriate interventions had been made by Officers and robust management practices were in place to manage the payment process correctly and the advice of the internal auditors had been sought so it had not been a secretive process rather it demonstrated the Council was self-aware.

The Strategic Manager began by noting that in early 2020, 2 payment requests amounting to £360K were received but had not been paid and he noted that decisive action had been taken and an early action notice had been issued to Skanska, expressing concerns about how the situation had occurred. He noted that the internal auditors had been asked to carry out a review in May and had delivered a final report last October after they had audited both the Council side and the Skanska side of the business. The report had identified 7 recommendations and the Council had agreed an action plan and a timeline for their completion.

It was stated that the internal auditors had not found any evidence of any duplicate payments being made but there might be some issues that would be picked up as part of the action plan. Corrective actions had been implemented and Officers were already working with and continued to liaise with colleagues in Skanska who recognised the importance of robust payment systems and both sides were committed to ensuring all of the auditors' recommendations were implemented.

The Director for ECI then responded to the 3 questions asked by Mr Orr and regarding Q1 – the auditor's report concluded no evidence of dishonest behaviour had been identified. Regarding Q2 – the contract allows for recovery of over charges and duplicate payments, and progress had been made on the reconciliation process and when identified adjustments could therefore be made to future months payments. Regarding Q3 – and possible collaboration with Devon, the focus for Somerset was on managing its own contract and relationship with Skanska. The arrangement for Devon County Council and its Highways Services would be different as would the different commercial and contractual aspects, however Somerset did work with collaboratively with all Skanska Local Authority clients.

The Chair invited questions from the Committee and during the consideration of the report, issues/concerns were raised, questions asked/answered and further information was provided on:

Cllr Leyshon asked a question about finding 1 in the internal auditors' report about the high differentials between the ordered and actual costs in the application for payment and £1 purchase orders and had this practice occurred across all the Highways groups in the County. Cllr Leyshon also asked about the company name and how many entries on the accounts payable included Skanska as this could be important if it had a slightly different company name.

Cllr Leyshon also proposed that the Committee should automatically receive internal audit reports (including advisory audits) that have a Priority 1 finding. The proposal was seconded by Cllr Ruddle.

In response the Director for ECI noted that the accounts payable system was used to ensure all payments logged were appropriately dealt with to avoid duplicates. On the £1 orders issue it was stated this had accounted for some of the high differentials, but this had stopped and was no longer an issue.
The Internal Auditor provided an overview about the advisory audits, these were quite normal and comprised a small proportion of audits delivered each

year. They are used to provide assurance, after a service had self-identified an issue, and they were delivered as additional work outside of the agreed audit plan. If a significant finding were identified a follow up audit will take place.

The Internal Auditor thought this advisory audit had demonstrated a positive commitment to improvement by Officers and showed an open culture existed to work through known issues and there had been good cooperation throughout the audit. She finished by suggesting it might be a good opportunity to look at the way audit findings were reported to the Committee and that it might be time for some internal audit training to identify how Members wanted to consider audit findings in future.

The Director of Finance suggested a workshop be held, before the next Committee meeting, to identify how reports were provided.

Cllr Leyshon welcomed the suggestion of a workshop and noted that the Committee had suffered from a fluctuation of membership. She also asked again how many entries were listed to Skanska on the accounts payable system.

Cllr Ruddle asked for assurance that this issue (duplicate payments) was not occurring in other areas. The Director of Finance undertook to look into how Officers could best provide assurance on processes and he would also look at the detail regarding the accounts payable question from Cllr Leyshon.

Cllr Davies requested that information in future audit reports be presented in a timely and clear way.

Cllr Noel welcomed the report and noted the improvements already made and he had confidence in the Officers and auditors.

Cllr Leyshon noted that although she welcomed the suggestion about how the Committee would receive future audit reports and training, she wished her proposal to be considered.

Cllr Rigby asked if the Council had contacted Devon County Council and what had been the outcome. He also noted there had been a series of negative payments over several years (2017 to the present) and what did they mean? He also asked did money to Skanska cover both revenue and capital spending and why had the money the Council paid in recent years fallen from £36m to £29m? He asked why some recommendations were still outstanding and yet to be actioned, and what had been the size of the sample used by the internal auditors and he requested a copy of the advisory audit report.

The Internal Auditor stated that she did not know about the sampling size, but she would find out and report back to the Committee. The Director for ECI noted that a report would be shared in confidence and the published report had been drafted carefully to accurately reflect the issues raised in the audit. The contract value did include revenue and capital spending and reflected fluctuations in activities and priorities. Regarding contact with Devon on the issue of duplicate payments he noted it would not be appropriate to discuss matters of commercial confidentiality with other clients, however there were regular discussions about contract delivery and possible collaboration. The Strategic Manager responded to the question about the negative payments and he undertook to respond after he had seen the information referred to.

Cllr Rigby asked about the seeming fall in the contract valuation as there appeared to be a steady decline of money spent on highways maintenance.

The Director for ECI noted he would provide a fuller response in terms of overall investment and he highlighted there would be differences in amounts over different years but he would respond with a breakdown with investment year on year and the quality assessment of services.

Cllr Filmer reflected that he thought a discussion on the delivery of the contract with Skanska would be a matter for Scrutiny and he thought the workshop and review should be held before making proposals for change on how internal audit reports were considered by the Committee.

Cllr Lock did not think it should be left for Officers to take any blame and she asked if other contracts were run in this way and she asked if a proposed audit of a contract with Discovery (regarding Adult Social Care) had occurred.

The Internal Auditor replied that an audit of the Discovery contract had been completed and there had been a subsequent regular contract management review that had completed a satisfactory reassurance.

Cllr Munt thought it was right that the contract should be considered, and she thought the Committee should receive reports when 'major' findings were reported as a matter of course. She also asked the Director for ECI if a Senior Quantity Surveyor (SQS) was already employed.

The Internal Auditor agreed the audit had not identified any duplicate payments but there were gaps in the internal control framework and the recommendations addressed those gaps. She reflected that her suggestion of a review to consider what was reported to Committee was about looking at audit reports in the round and her suggestion was not meant as a criticism that these priority 1 findings had not been automatically referred to the Committee. The audit findings had been agreed and were now being implemented with a formal follow up in place.

The Director for ECI noted there would be several technology solutions and those systems had to be integrated so the software was seamless to move away from a simple spread sheet approach. On the SQS question he noted it was a complex contract with a number of activities, pricing schedule and entitlement to payments and there was a significant tasks and invoicing process and there was a single SQS to check those processes were robust and a business case had been developed for a contract management team which had been submitted as a revenue pressure bid.

Cllr Rigby requested a copy of the audit report in his capacity as the Shadow Cabinet Member for Transportation and he thought if the Committee decided not to receive reports when the auditors had identified failings it would be surprising and newsworthy.

Cllr Leyshon repeated her proposal, notwithstanding the suggestion for a training/workshop session, that the Committee should automatically receive the full internal audit report each time a priority 1 finding had been identified at the earliest opportunity and Cllr Ruddle seconded the proposal.

The Chair put the proposal to the Committee. Cllr Davies, Cllr Leyshon and Cllr Ruddle voted in favour of the proposal. Cllr Caswell, Cllr Filmer, Cllr Ham, Cllr Lewis and Cllr Noel voted against the proposal and therefore the proposal was not agreed by the Committee.

The Chairman confirmed that he would like the proposal from Cllr Leyshon, about how internal audit findings would be reported in future, to be included in the training session/workshop to be arranged before the next Committee meeting. The report was accepted.

219 **Internal Audit Update Report** - Agenda Item 8

The Chair invited the Internal Auditor to introduce her report 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 noted that there had been some catching up on the delays to some audits previously reported and the expectation was that remaining work would be delivered. The plan would look different, to reflect additional grant work and Covid-19/pandemic related work and this had been replicated in other areas of the country.

An overview was provided of the high-level key strategic risks and how the audit work had been focussed on those aspects and the progress made in each risk area. Overall, it was noted the risks were reasonably well managed, although CIPFA had recently issued guidance to reflect the audits were not being delivered as originally planned.

The Director of Finance noted there were issues with audits regarding Adult's and Children's services, but those issues had been addressed and he noted that the style of the reports would reflect best practice.

There was a question about the advisory audit work and investigations on procurement and procurement cards and the Committee heard that the investigations were ongoing and it would be inappropriate to say anything further that might prejudice the investigation, but it would be reported back if issues were raised.

The Cabinet Member for Resources asked about the different types of reports and how their findings were actioned. It was noted that the audit plan would be matched against the Council's key risks, and the subsequent reports would contain opinions and provide a context and summary of the findings. These could be supplemented with a follow up report if a satisfactory level of assurance could not be provided and the follow up audit review would check the audit findings had been implemented.

The update report was accepted.

220 **Medium Term Financial Plan reports** - Agenda Item 9

The Chair invited the Director of Finance to introduce these reports, prior their submission to meetings of the Cabinet and Full Council in February as part of the Council's annual budget setting process.

Members attention was directed towards the Treasury Management Strategy (TMS) 2021-22 and it was explained 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 £232m had yielded an annual income of £1.27m, meaning an investment return of 0.73%.

The Committee was then asked to consider a report that set out the Council's proposed Capital Strategy 2021/24 which provided an overview of Capital Expenditure, Capital Financing and Treasury Management. A diagram was shown and it was explained that the Capital Strategy 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.

It was explained that the report 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 2021/22 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. 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.

It was highlighted there was a change in the report that would be considered by the Cabinet (Table 1 on page 144) that showed the capital expenditure would be £160m in 2021/22 and this had been stretched over later years and would now be £152m in the first year. A figure regarding capital financing (Table 6 on page 148) had subsequently been lowered from £98m of debt to £90m. (Table 8 on page 152) showed the percentage of debt against the budget, reflected an appropriate amount to cover the Council debt charges and the majority of money being spent on operational services and not financing debt. It was noted there were no proposals for non-treasury investments.

The Director of Finance noted that it was a lot of detail for Members to consider however he reflected it was good practice for the Audit Committee to review the reports particularly on the treasury side as many powers were delegated to him. There was a question about the investment strategy and if dormant funds were being effectively used. It was noted the treasury strategy provided a good variety of investments and were managed externally.

There was a question about pooled funds, and it was noted that there was a diversity of investments, moving away from longer term investments as it would diminish the internal borrowing approach. Currently the internal borrowing approach was sensible as the return on some investments were low and it made sense for security reasons as the credit ratings of some banks/institutions was poor, so internal borrowing removed that concern.

The reports and recommendations were all accepted.

221 **Redmond Review Update - Potential appointment of independent members to the Audit Committee** - Agenda Item 10

The Chair of the Committee invited the Council's Monitoring Officer to present this report that sought the Committee's approval to recommend to Council the appointment of a co-opted independent non-voting member.

It was explained that the Committee had considered this issue previously when reflecting on the review by Sir Tony Redmond on audit arrangements in local government. He noted that other Councils had taken this measure already and it was also recommended as being good practice by CIPFA.

Members welcomed and endorsed the proposal to begin the process of recruiting an independent member to the Committee, noting the proposal would be submitted for approval to the next meeting of the County Council in February.

222 **Debtor Management Report** - Agenda Item 11

The Chair invited the Director of Finance to introduce this report that provided details on the recovery of outstanding debts (monies owed to the Council) and the current performance. The analysis had been based on the total of annual debt raised, which ranged between £120m to £135m and the Committee was asked to note debt performance up to the end of December 2020.

Members heard that the overall position showed that Services' total outstanding debt reported on the Accounts Receivable system stood at £8.517m as at 31 December 2020 and this compared with a figure of £9.704m as at 31 December 2019. It was reported that the percentage of debts over 90 days at 31 December 2020 was 16.40%, which represented a significant decrease on the figure reported last September, when it stood at 42.72%.

Regarding the Council's response to the pandemic, debt recovery work had resumed last June after a 3-month suspension to support individuals, residents and businesses during the pandemic and the fluctuations were reflected in the graphs within the report. Although the current lockdown would have implications for consistent and timely debt recovery the Council continued to exercise a mindful approach to chasing debt in this period.

The Chair asked if the increase in debt had been experienced by other Councils and it was noted there had not been any recent benchmarking, but this could be included in future reports. There was a question about the debt recovery processes and if these had been changed to reflect the current situation and it was confirmed the full normal processes had now resumed. The Council was taking a mindful approach, and this would include reflecting difficulties and debts that some businesses had before the pandemic.

Members were pleased that the situation regarding outstanding payments from the NHS had greatly improved and the total number of debts over 90 days had reduced considerably. The Cabinet Member for Resources confirmed the Council now benefitted from a much closer and improved working relationship with the NHS.

The Committee accepted the report.

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

Members considered the work programme and it was confirmed that a workshop/training event would be arranged before the next Committee meeting in March. There was a brief discussion and the Chair confirmed that he wished the training to made available to Committee members only.

There was a request for the Auditor reports to have paragraph numbers for ease of reference. The work programme was accepted.

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

The Chair, after checking there were no other items of business, thanked all those present for attending and closed the meeting at 12.55.

(The meeting ended at 12.55 pm)

CHAIRMAN