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(Audit Committee - 22 July 2021)

AUDIT COMMITTEE

Minutes of a Meeting of the Audit Committee held in the Luttrell Room - County Hall, Taunton, on Thursday 22 July 2021 at 10.00 am

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

Other Members present: Cllr M Chilcott, Cllr A Kendall and Cllr T Munt.

Apologies for absence: Cllr P Ham and Cllr M Rigby.

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

There were no additional interests declared.

235 **Minutes from the last meeting** - Agenda Item 3

The minutes of the last meeting were accepted as accurate by the Committee and were signed by the Chair.

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

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

237 **Annual Governance Statement 2020-2021** - Agenda Item 5

The Chair invited the Council's Monitoring Officer to present the Annual Governance Statement (AGS) 2020/21 and he began by explaining that the purpose of the AGS was to provide assurance that the Council has a sound governance framework in place to manage the risks that might prevent achievement of its statutory obligations and organisational objectives.

He explained that the Council was required to carry out, at least annually, a review of effectiveness of its governance framework. This review of internal controls provided additional assurance that the Statement of Accounts gave a true and fair view of the Council's financial position at the reporting date and of its financial performance during the year.

The Committee heard that the process carried out had been in line with guidance published by CIPFA / SOLACE in the new "Delivering Good Governance in Local Government". It was stated that there were robust arrangements for effective financial control through the Council's accounting procedures, key financial systems and the Financial Regulations. These had

been reviewed and assessed against the new CIPFA Financial Management Code with improvements forming part of an action plan. The continued improvements in the Council's Financial Management arrangements had been recognised by SWAP as part of their review of the Healthy Organisation with an improved rating from Amber to Green.

It was noted that despite the exceptional year, with many challenges for public services, the Council's internal auditors had confirmed continued improvement and assurance with the governance framework and systems. This had been a significant achievement by the Council for a challenging year and was a testament to the good governance framework it had in place.

Throughout the majority of 2020/21, the Senior Leadership Team had met twice weekly to manage the council's emergency response, maintain delivery of core services and prioritise resources accordingly. Regular position statements and updates were provided to elected members and reported to Cabinet meetings and other committees, including the formation of a new Member Engagement Board with partner representatives.

The Committee approved the draft Annual Governance Statement prior to it being signed by the Leader of the Council and the Chief Executive, and members noted the AGS would form part of the 2020/21 Statement of Accounts.

238 **Annual Audit Opinion** - Agenda Item 6

The Committee considered and discussed this report that contained information about the internal auditors' opinion on the adequacy and effectiveness of the Council's internal control framework for the year ending 31 March 2021. It was noted that despite a limited number of control issues previously reported to the Committee, SWAP had given a reasonable opinion for the control framework in place, and this had been incorporated into the Annual Governance Statement.

Members heard that the pandemic had resulted in a change to some of the audits planned as the Council realigned its priorities and this had resulted in new risks associated with mitigating against Covid-19 being established such as the audit of new grants. The plan delivered was different from the one originally intended but this had been the same throughout the country, however members were reassured that all the audits of strategic risks across the organisation were still delivered.

It was reported that the 'Healthy Organisation' was a review of the corporate control framework and remained a key source of assurance and had resulted in an overall rating of medium. It was noted this was a significant improvement

since the last review, two years previously, as the Council's financial management rating had moved from 'Amber' to 'Green' due to better budget planning, setting and management. Frameworks in areas previously assessed as strong, such as performance, programme and people management had also remained as such or had improved further. It was explained that the auditors had concluded that the considerable actions taken by the Council to respond to the pandemic, which included emergency governance arrangements and redeployment of hundreds of staff, had not resulted in any significant adverse impact on service delivery or the overarching control framework.

In response to a question, it was explained that it had been necessary to reschedule some of the planned follow-up reviews, to 2021/22, to allow more time for agreed recommendations to be implemented. Six follow-up audits had been carried out during the year and overall, this work had confirmed the implementation of agreed recommendations to mitigate exposure to areas of significant risk. For five of the six audits, the risks had been judged to have been reduced sufficiently to be removed from the risk management system.

There was a brief discussion of the report and in particular the phrase "agreed with managers" and it was explained that a plan of audit work was agreed with managers and the findings would be reported back informally and formally before the final report was issued and agreement to the recommendations was obtained. In respect of the advisory audit on highways maintenance it was noted this was in the plan for 2021/2022 and it was requested if the graphics to show the 'Healthy Organisation' summary could include an indication of direction of travel.

On the issue of staff redeployment having had little impact on service delivery it was explained that the context had been to demonstrate the impact on the intended audit plan and the opinion had been based on a different plan to the one intended as some audits could not be delivered due to redeployment, but that those delayed audits had been carried forward and not lost. It was also noted there had been no cases of whistle blowing for 2 years and the Director of Finance confirmed that he was in discussion with the internal auditors and the Council's Monitoring Officer about how to address this and he would update a future meeting.

Members noted Appendix A, which detailed the summary of delivery of the work for 2020/21, and answers were provided for specific questions on various services areas and it was noted that some recommended actions that appeared to be outstanding for some time were due to programmed improvements and therefore did not mean that the required remedial work had not been addressed.

Members accepted the report and the internal audit Annual Opinion report and its conclusions.

239 Internal Audit Update - Agenda Item 7

The Chair invited the Council's internal auditor from the South West Audit Partnership (SWAP) to introduce her report that provided details on the last progress report for the 2020/2021 audit plan. The update report highlighted that since the last update report there had been no audits completed that had identified a high corporate risk.

The attention of Members was drawn to page 98 and a limited assurance opinion following an audit of the Council's debt management team to verify the framework of management of debt recovery. It was noted that the pandemic had had an impact on the debt recovery work of the Council as it had focused on business continuity and for a period had suspended debt recovery as resources and staff were reallocated. As some of the issues had been highlighted in an earlier audit the new recommendations had been sent directly to Service Finance Managers. It was noted that the audit report would also be considered at the July meeting of the Governance Board which would provide an opportunity to raise awareness of the remaining issues to senior staff across the Council.

Appendix C was highlighted as this provided an overview of a baseline assessment of maturity in relation to fraud and assessing anti-fraud controls at an organisational level and an amber rating had been provided. Appendix D provided an overview of a review into Cyber security and the findings and conclusions were noted. There was a brief discussion about security awareness and training, and it was noted that there would be a full audit undertaken as part of the 2021/22 Audit Plan and Members requested that a briefing be provided for Members on this topic by SWAP's IT audit specialist.

The update report was accepted.

240 External Audit Update - Agenda Item 8

The Chair invited Mr Davies, of Grant Thornton, the Council's external auditors to introduce his report and he began by directing attention to pages 116 and 117 and he provided an overview of the report, noting that the external auditors were aiming to provide their opinion on the Council's financial statements by 30 November 2021.

He noted that the value for money assessment had changed, due to a new Code of Audit Practice that required an external auditor's annual report (in addition to the external audit findings report based on the financial statements)

and that the annual report would contain a commentary on the value for money criteria and associated recommendations.

It was noted that the change to the timing of the financial statements report, and the increased work associated with the value for money assessment had impacted on the audit fee. There was a question about auditing the pension fund investments and it was noted that the auditors were concerned to ensure the valuations of the investments in the fund was accurate.

There was a question about the auditing of the Council's finances considering local government reorganisation and it was explained that there would be a seamless and rigorous process. The Director of Finance noted that he would provide further information on the 2 public interest reports so that the Council could benefit from the lessons learnt.

The update report was accepted.

241 Informing the audit risk assessment for Somerset County Council and the Somerset Pension Fund Audit Plans 2020/21 - Agenda Item 9

The Chair invited Mr Davies, of Grant Thornton, to introduce this report and he noted that it was a way of assisting both the external auditor and the Committee in understanding matters relating to the audit of the Council's financial statements and the pension fund.

He explained that the report contained the detailed responses provided by the Council to questions asked by the external auditors and Members of the Committee were invited to make additional comments, and consideration of the report would support the Committee in fulfilling its responsibilities in relation to the financial reporting process.

The Committee accepted the report, noting they were content that the responses provided by the Council to the external auditors' various questions were satisfactory and that the arrangements for accounting estimates were adequate.

242 Somerset County Council Audit Plan and the Somerset Pension Fund Audit Plan - Agenda Item 10

The Chair invited Mr Davies, of Grant Thornton, to introduce these reports that provided the Committee with an overview of the planned scope and timing of the statutory audits of the Council and the Pension Fund.

He began by noting that the significant risks, those requiring special audit consideration to address the likelihood of a material financial statement error,

had been judged to be in line with last years and had not changed. He explained that materiality had been assessed at £12.3m as this was 1.5% of the gross expenditure for the year, any figures above the threshold set for triviality, of £0.615m, would be included in the audit findings report.

On the value for money arrangements, he highlighted those 3 areas that had been identified as risks and those were: ongoing concerns around financial stability; children's services (SEND) and progress against the action plan; and local government reorganisation in Somerset. He noted that the annual audit report had to be completed within 3 months of the issue of the audit opinion and he hoped that both reports would be completed by the end of November. He referred to the audit fee and noted a more detailed breakdown was provided on page 182.

There was a question about the audit fee given that some of the proposed work would need to be more detailed and yet the fee would be reduced and in response members noted that last year there had been much additional and unexpected work (on property, plant and equipment) that had to be charged to the audit fee and it was not envisaged this would be the case this year, hence the reduced fee.

On the topic of management override of controls and journal entries and the previous recommendation of external auditors for there to be a second person sign off the Director of Finance explained that there had been a high-level review of all significant journals to provide more assurance, however it would be for the auditors to review, and the Council would respond. The Chair noted that he would discuss this issue with the Director of Finance outside of the meeting.

Regarding the proposed audit plan for the Pension Fund, Mr Davies noted that that the significant risks, those requiring special audit consideration to address the likelihood of a material financial statement error, had been judged to be: revenue and expenditure recognition; management of override controls; and valuation of level 3 investments. He noted that the materiality figure for the Pension Fund had been corrected since the report had been written and was now £26.1m, this was due to an increase in the value of the Fund.

The Committee accepted the reports and approved the proposed 2021/2022 Audit Plans for the Council and the Pension Fund.

243 **Anti-Fraud and Corruption Review** - Agenda Item 11

The Chair invited the Strategic Manager for Finance Systems and Governance, to introduce the Anti-Fraud and Corruption review 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 reviewed them 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 to 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 2021/2022.

Mr Bryant highlighted the appendices attached to his report, Appendix A, the Anti-Fraud and Corruption Policy and Appendix B the Anti-Bribery and Appendix C the Anti-Money Laundering Policy. The report also provided, at Appendix D, the Anti-Tax evasion policy that remained unchanged. Members also noted Appendix E that contained details of 6 suspected instances of fraud (all closed) that had been investigated during 2020 and the case notes provided a non-specific overview of each case.

There was a brief discussion that included:

There was a question about insurance about potential losses due to fraud and it was noted that one of the examples provided in Appendix E that had led to an £11K loss had been due to control failings and he undertook to investigate if the Council was insured against cyber fraud.

It was asked if findings relating to fraud would be reported to the Constitution and Standards Committee and the Director of Finance noted that oversight and prevention of fraud was in the remit of the Audit Committee and the on-going review of the Whistleblowing policy would determine that how details would be shared with elected members.

There was a question about the transparency code and if the Council was meeting the spirit of the code regarding the accessibility and quality of data it held and the Strategic Manager noted that a corrupted file had now be corrected and the Director of Finance had instructed officers to undertake a review so that grants available to the voluntary and community sector could be easily located and associated information was accessible. The Chair indicated he would discuss this with the Director of Finance who indicated he was committed to ensuring the information held by the Council was clear and easily accessible to the public.

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. Members thanked officers for their work and noted their continued support for a zero-tolerance policy regarding fraud.

The Committee agreed the Anti-Fraud and Corruption policy, the Anti-Bribery policy, the Anti-Money Laundering policy and the Anti-Tax evasion policy.

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

The Chair invited contributions and the Director of Finance noted that as the accounting reporting period had changed the Statement of Accounts would not be completed in time for the next scheduled meeting. He suggested that the Statement of Accounts be presented to the November meeting and Members accepted his proposal.

Mr Vaughan then suggested that the 2 remaining agenda items for the August meeting (Risk Management update and Debtor Management update) could be considered at the September meeting. Members accepted this proposal and therefore agreed to cancel the August meeting.

It was requested if there could be information provided on the transparency code and the Director of Finance agreed to prepare a report for a future meeting.

There was a brief discussion about the role of audit during the forthcoming period of local government reorganisation in Somerset as the current Councils were to be abolished and a new unitary authority would exist from May 2023. The Director of Finance thought it would be important for the Committee to remain vigilant and continue to seek assurances and maintain its current approach to audit work. He noted that all of the Councils in Somerset used SWAP as internal auditors and that in 2023 the Council was due to reappoint its external auditors. He also noted that the existing Councils used different accounting systems and the transitional arrangements would contain workstreams to ensure the new Council would run smoothly and the new members elected in the May 2022 elections would have an important role in oversight of that process.

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

The Chair of the Committee, after checking there were no other items of business, thanked all those present attending both in person and remotely and he closed the meeting at 11.58am.

(The meeting ended at 11.58 am)

CHAIR

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