

AUDIT COMMITTEE

Minutes of a Meeting of the Audit Committee held in the Luttrell Room, County Hall, Taunton, on Thursday 23 September 2021 at 10:00 am

Present: Cllr Mike Caswell (Vice Chair, in the Chair), Cllr Bob Filmer, Cllr Graham Noel, Cllr Hugh Davies, Cllr Peter Burridge-Clayton, Cllr Liz Leyshon, Cllr Mike Rigby

Other Members present: Cllr Mandy Chilcott, Cllr Tessa Munt

Officers present: Director of Finance and Governance, Director for ECI (Operations), Service Manager for Investments, Strategic Manager for Finance Systems and Governance, Assistant Director of SWAP, Key Audit Partner (Grant Thornton), Committee Manager, Committee Clerk

Apologies for absence – Agenda Item 1

Cllr Mike Lewis, Chair (who attended virtually and was substituted by Cllr Burridge-Clayton in person); Cllr Phillip Ham did not attend

Declarations of Interest - Agenda Item 2

The Chair of the Committee noted the details of all Councillors' interests already declared in District, Town and Parish Councils.

Councillors Caswell, Leyshon and Burridge-Clayton declared personal interest as recipients of the Local Government Pension Scheme.

Minutes from the previous meeting - Agenda Item 3

The Audit Committee agreed that the minutes of the meeting held on 22 July 2021 were accurate, and the Vice Chair signed them.

Public Question Time - Agenda Item 4

The Vice Chair informed the meeting that no questions or statements were received by the PQT deadline of 5pm on Friday 17 September.

Advisory Opinion Audit Update - Agenda Item 5

The Director of Economic and Community Infrastructure (ECI) Operations was invited by the Chair to present the Advisory Audit Follow Up Report on the South West Audit Partnership (SWAP) Non-Opinion Audit of Highway Maintenance: Duplicate Payment Requests, as well as the Highway Maintenance – Application for Payment Follow Up Report; and he noted that the purpose of

the report was to provide an update to the non-opinion audit that had been carried out earlier this year to the Committee regarding the actions that were identified by the auditor.

The Director for ECI explained that the Highways Maintenance Contract was previously operated by Skanska UK Limited but was now being managed by Milestone Infrastructure Services, which is part of the M Group; and he noted that this change had not impacted on the actions or progress made. He reminded Members that this audit was requested by the service in order to consider payment procedures and ensure that they were robust and fit for purpose.

He reflected that the audit had identified seven key/priority actions; of those, three had been completed and four were in progress. There had been good collaboration, and positive progress and improvements have been made. A further follow-up audit has been requested by the service for the first quarter of the 2022/23 financial year to ensure that all of the actions have been completed.

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

Cllr Rigby, referring to an email he had sent to the Director for ECI, asked if the summary of findings had been written by the Auditor or the Officers; the Assistant Director of AP confirmed that she had written the summary of findings.

Cllr Rigby asked about additional Officer resourcing and if certification was being completed by Officers with appropriate qualifications. It was explained that recruitment was ongoing and that all inspections were conducted by those with necessary experience. There was a question about the number of days before certification, and the Director of ECI stated he would clarify this in writing.

Cllr Rigby asked, with respect to the 15 months covered by the data, what percentage of requests for payment showed a high differential between what was asked for and what was paid. In response, the Head Auditor from SWAP explained that a "high" differential is one of £1000, and the number of those was contained in the appendix of the report; the Director for ECI added that the appendix provides details of the number of high differentials for every month, e.g., 29% in August 2020. Cllr Rigby clarified that he was referring to the overall percentage of discrepancies, in order to identify how often the contractor might be asking for more money when compared to the order. The Director for ECI

confirmed that he would provide a detailed answer and that this would be circulated to the Committee.

Cllr Rigby asked about the total value of the additional costs applied for by the contractor over the time frame covered by the audit; the Director for ECI stated that £124,765,213 had been asked for, while £123,750,575 had been paid, and this pertained to the period from the start of the contract. Cllr Rigby asked if that represented the difference in value between work orders and payments over the 15 months of data, not before. The Director for ECI referred to Page 45 sets out task orders for new assets but said he would provide a detailed answer and would circulate this to the Committee. He added that no evidence of duplicate payments or overpayments had been discovered by the auditors. The Assistant Director of SWAP noted that during the follow-up audit they had repeated the process undertaken in the original audit; Pages 30-31 of the report set out what had been ordered and what was paid overall, and although it has not been completed, there had been no evidence suggesting duplicate payments.

Cllr Rigby asked whether the two outstanding priority issues in the audit report would be brought back to a future meeting; the Vice Chair confirmed that this would be considered by the Committee at a future meeting and reiterated that an additional audit had already been requested by the service for the first quarter of 2022/23.

Cllr Leyshon enquired, given the move from Skanska to Milestone and the fact that Skanska had had contracts with other Councils besides SCC, whether those other councils had experienced the same situation, if the Council had contributed to the novation of the contract, and how many entries there were for Skanska on accounts payable versus how many there were for Milestone. In response, the Director for ECI stated that the novation and changes to the contract had been completed late last year and confirmed earlier this year by M Group services; and all benefits and liabilities associated with the contract had been transferred to Milestone. On the question of whether other Councils had encountered similar issues with duplicate payments, it was noted that seven had moved from Skanska to Milestone, with regular dialogue occurring between the client group organisations focusing on collaboration, service delivery, and new technologies. Cllr Leyshon asked whether this dialogue included financial arrangements, or if that was confidential, and whether it would help to know if other Councils had experienced similar issues and how they had resolved them. In response it was noted that discussions included opportunities for service improvement, contract management and collaboration but not confidential financial information. Cllr Leyshon asked if the Committee could have the details about the number of entries in accounts payable for both

Skanska and Milestone; the Director of Finance and Governance confirmed that he would provide those details and that this information would be shared with the Committee.

Cllr Noel asked if the differentials arose because the original estimates were too low, or because more work needed to be done than originally thought, or because fraud had been attempted. The Director for ECI thought that differences could result from a change in the work delivered on the ground or the design of the process (for example, the inspector could see that the pothole had become bigger), in which case, more time or materials were required. He also highlighted Page 31 of the report, under the New Assets section, that the remedy for the problem may change through the process, and 'compensation events' would be the name for this re-measuring of time and/or materials. On the potential fraudulent activity, it was stated that checks were regularly carried out to ensure that the work was completed, including taking 'before and after' photos of defects needing to be fixed, with payment being withheld until the work was completed.

Cllr Filmer enquired about recruitment and whether the Audit post being recruited would be full or part-time. He also noted that the quarterly reconciliation process was a useful way to improve, depending upon how it was addressed in an ongoing process. The Director for ECI said that they had been unable thus far to fill the post and were currently using temporary resources, but they were committed to filling the position and would review the recruitment process, including the terms and remuneration. He noted that the post mentioned on Page 34 was currently for one part-time post holder, but they would like to increase this to full-time. Regarding the new quarterly reconciliation process, the new software and payment process should be in place by the end of October, and this would enable regular monitoring. He reiterated that the audit had been requested by the service, and the actions arising would allow the service to become more automated/digitised and would improve the full transparency of payments before certification.

Cllr Davies reflected that he was frustrated by the situation, as some questions remained unanswered, and he thought that the action plan was unclear. The Director of ECI responded that the action plan, agreed with the auditors, had been included in the audit report, and he undertook to provide answers to all the questions asked to all Members of the Committee.

The Committee accepted the report and update, and the Vice Chair noted that the Committee would receive a further update on progress made against the action plan after the follow-up audit in 2022/23 is completed.

Internal Audit Update - Agenda Item 6

The Vice Chair invited the Assistant Director of SWAP to present the regular internal audit report, which she noted was the first progress report of 2021/22, presented in an updated format to reflect the increasing complexity and volume of audit reporting. The key information for Members was highlighted, and it was explained that reports would now have standardised reporting on limited assurance audits, as well as follow-up audits, including summaries of the recommendations and their priority rating.

Attention was drawn to Page 54 that provided a key summary showing that there were three limited assurance reports and that there had been six additions to the plan, demonstrating that the internal audit had been responsive to the identified needs and changing risks of the Council. This year SWAP had taken over the implementation of the recommendations arising from audits, and those recommendations would now form part of the progress report to each Committee meeting. In relation to limited assurance reports, it was noted that there remained a significant number of overdue actions on which the pandemic and limited resources had slowed progress. A summary of the implementation of recommendations would form part of the regular report so that Members could track progress made across the year, and an overview was provided of the three limited assurance reports.

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

Cllr Leyshon asked if the exclusion data provided in the report represented data from all schools in Somerset, including Academy schools; the Assistant Director of SWAP confirmed that the data was from all schools in the County.

Cllr Filmer, reflecting on the high number of overdue actions resulting from a lack of resources and the effects of the pandemic, enquired if the necessary resources were available to remedy this; the Assistant Director of SWAP responded that all managers with outstanding recommendations had been asked for an update, and although progress was slower, she had been reassured that the work was being done. A schedule of follow-ups would gain evidence to ensure that the recommendations had been completed.

The Committee accepted the report.

External Audit Update - Agenda Item 7

The Vice Chair invited the Key Audit Partner of Grant Thornton to present the report. He noted that the report contained details of the progress at

September 2021 of the Financial Statements audit, the Council audit, and the Pension Fund audit. The Council audit was in progress, and the external auditors were working to complete the audit in October and report to the Committee in November. Members heard that following the significant challenges encountered regarding the valuation of land and buildings, this year the external auditors would benefit from being able to access more robust evidence following significant improvements and proactive action by Officers.

Attention was drawn to the Value For Money (VFM) extension letter; it was explained that normally this would accompany the publication of the financial statements, but this year there had been a change in the code and consequently the level of work, so the deadline had been extended to the end of January. It was explained that these changes in time scales affected the entire audit sector and not just the Council. The Key Audit Partner confirmed that the external auditors would not be able to certify the closure of the audit until the VFM work was concluded; however, the Financial Statements opinion would be issued in all other respects, and to date no significant weaknesses have been identified in the VFM arrangements.

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

Cllr Chilcott asked if extending the deadline for the VFM report could delay closure of accounts for all Councils and asked about the risks for Councils of this pushing into the following year. In response it was stated that the delay, due to capacity issues arising from the pandemic, had meant that it had taken longer to audit financial statements, while the new code increases work and detail. The new National Audit Office code significantly increases the level of work with a much more detailed review required; however, this requirement would bring more value to the final report and be more informative to Members. He noted that the Council took actions to correct factors that resulted in significant delays in last year's audit.

The Director for Finance and Governance stated that the VFM focus is a positive move and had been welcomed nationally; and with respect to the work in the Treasury team, most of the work had been completed on the Statement of Accounts.

The Committee accepted the report.

Pension Fund Audit Findings Report - Agenda Item 8

The Vice Chair invited the Key Audit Partner of Grant Thornton to present the report. He began by noting that it summarised the outcome of the audit work on the pension fund and said that assurance letters had been completed and

would be issued. The rest of the audit was substantially complete, with just a few outstanding queries remaining, and he praised the diligence of the Officers in responding to queries from the external auditors, particularly the Service Manager-Investments.

He provided an overview of his report and highlighted that materiality for the financial statements had been set at £26.1 million; he also pointed out the effectiveness of management controls over journals, which are automatically tested if high-risk characteristics or events were evidenced. He noted that the last valuation reports available were dated 31 December 2020, while the audit takes place some months later in July/August; therefore, officers had to take into account later information from 31 March 2021. As a consequence, with regard to key judgements and estimates, the Council was exercising caution by using the 31 December 2020 data, and all other valuations of Level 1 and Level 2 investments were appropriate. A letter of representation had been included within the report, but this would be signed later when the opinion on the main financial accounts was provided. He noted that Grant Thornton, as the Council's external auditors, also audited the Brunel Pension Partnership, and he referred Members to Appendices A, B, C, and D attached to his report for information on audit adjustments, fees, audit opinion, and management letter of representation.

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

Cllr Leyshon asked if the audit of the pension fund covers all pooled funds or just those with Brunel; the Key Audit Partner responded that the proportion of investments moved to the pool with Brunel had increased over the year and had been covered by the audit, as were those investments not yet transferred. The Service Manager-Investments added that, as of 1 March 2021, 77 percent of assets had been transferred the pool, while currently the figure was approximately 93 percent.

Cllr Leyshon advised that she understood that all of the five Councils in Somerset had under-funded pension schemes, and she asked how all of the Councils' funds would be combined in the future. The Service Manager-Investment responded that each of the five Somerset councils had a deficit in their pension funds, which will be disclosed by two different methods/calculations. One of those would be found in their respective accounts each year, and overall (including 160 employers) the deficit stood at £2.3 billion as of 31 March 2019, which worked out to about 60 percent funded on an accounting basis. Using the second type of calculation, which dictated the level of contributions (required under the LGPS once every three years), as of 31 March 2019, it was approximately 86 percent funded. The next assessment would be made by the Fund's Actuary at the end of March 2022, and the results

should be available in October next year for each of the Councils. As far as the deficit numbers, they vary across the country, and Somerset's were not unusual; most local government schemes in England and Wales are in the 80 to low-90 percent range.

Cllr Leyshon enquired if there was a risk to the investments within the Pension Fund from outside; the Service Manager-Investments replied that the funds were secure under current regulations and could not, for example, be reappropriated by the Government, and all Somerset funds would be re-valued under the unitary.

Cllr Noel asked for confirmation that contributions were still exceeding payments; the Service Manager-Investments responded that during the current financial year there were £122.9 million in contributions and £115.0 million in payments, resulting in an excess of approximately £8.5 million.

Cllr Chilcott asked, with regard to Brunel and the £40,000 charged for their audit, whether the Council indirectly pays part of that via a service charge, if more funds were transferred to Brunel, would that decrease the amount of work done in the audit and the cost of the audit, since more funds would be held by Brunel. The Key Audit Partner replied that part of the audit of Brunel Partnership would be paid by service users, with the Council's contribution being approximately £4,000. As for the future, he advised that the audit work at the Council would not decrease and would remain the same for external auditors, even if all of the Council's pension funds were with Brunel.

The Committee accepted the report.

Risk Management Update- Agenda Item 9

The Strategic Manager for Finance Systems and Governance presented the report, which he noted was in a slightly different format and was a developing piece of work. He would welcome questions or comments either at the meeting or later in writing in order to improve the report. He noted that the management of most of the risk work was developing, e.g., the Zurich Municipal work with the Council's Senior Leadership Team (SLT) and the Strategic Risk Management Group. He provided an overview of the risks for the quarter, referring to the tables in the report, and noted that two risks had been closed and been superseded by new risks, including successfully delivering the unitary council by 1 April 2023 and the increasing supply disruption, which was largely due to the effects of the pandemic impacting external markets.

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

The Vice Chair enquired about progress on the transparency matrix; the Strategic Manager for Finance Systems and Governance replied that the Council was complying with the transparency code, and an updated version would be considered by the Governance Board. The Vice Chair requested that an update on the new matrix be provided at the next Committee meeting.

Cllr Leyshon enquired how dynamic the strategic assessments were, such as supplier disruption and the Council being able to obtain the information it needed from prospective suppliers in time, and was the risk percentage of 10 percent listed on ORG0056 accurate, or was this a default setting? The Service Manager for Finance Systems and Governance noted in response that the process was dynamic risk management reporting, and as the reports were quarterly updates, this meant the reports contained figures from a month ago. He noted that the potential for supply disruption was accurately represented in the report, although he agreed that it may be some sort of a default percentage, so he undertook to consider that when preparing the next report.

Cllr Filmer asked with respect to ORG0058 and the Local Government Reorganisation (LGR) why it had been closed when it had not yet gone through Parliament; he also enquired whether ORG0055 covered more than just cooperative working between the five authorities. In response, Members heard that the original risk which had been closed was the Business Case being put forward with the possibility that it would not have been accepted. There is a new risk that has been raised, but it is not the partnership working (ORG0055); it is another risk that relates specifically to delivering the unitary council by the deadline and what form the new Council will take. He noted that the new risk was not yet in the strategic risk report, so he undertook to consider that when preparing the next report.

The Committee accepted the report and requested that an update on the transparency matrix be brought to the next meeting.

Committee Future Work Programme – Agenda Item 10

The Committee noted the work programme that listed future agenda items and reports.

In response to a question from Cllr Leyshon, the Vice Chair advised the Committee that there were two training sessions coming up: One on 21 October regarding IT and cybersecurity, and one on 18 November regarding the Statement of Accounts and journal issues.

Cllr Munt suggested that any audit training be open so that all interested Members could attend, and the Vice Chair agreed that it could be, as appropriate.

Any Other Urgent Items of Business - Agenda Item 13

After ascertaining that there were no other items of business, the Vice Chair thanked everyone for their patience during his first time acting as Chair for the Committee, and he closed the meeting.

(The meeting ended at 11:39)

CHAIR