

AUDIT COMMITTEE

Minutes of a Meeting of the Audit Committee held in the Luttrell Room, County Hall, Taunton, on Tuesday 30 November 2021 at 12:00 pm

Present: Cllr Mike Lewis (Chair), Cllr Mike Caswell (Vice Chair), Cllr Bob Filmer, Cllr Graham Noel, Cllr Hugh Davies, Cllr Liz Leyshon, Cllr Mike Rigby (virtual attendance).

Other Members present: Cllr Mandy Chilcott, Cllr Tessa Munt, Cllr Christine Lawrence, Cllr Bill Revans.

Officers present: (JV) Director of Finance and Governance, (PG) Service Manager-Chief Accountant, (AS) Service Manager for Investments, (BB) Strategic Manager for Finance Systems and Governance, (OW) Head of Property, (LF) Assistant Director of SWAP, (BM) Key Audit Partner-Grant Thornton, (NM) Committee Manager, (TB) Committee Clerk

Apologies for absence – Agenda Item 1

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 and the Pension Fund.

There were no new declarations.

Minutes from the previous meeting - Agenda Item 3

The Audit Committee agreed that the minutes of the meeting held on 23 September 2021 were accurate, and the Chair signed them.

Public Question Time - Agenda Item 4

The Chair informed the meeting that no questions or statements were received by the PQT deadline of 5pm on Wednesday 24 November.

Internal Audit Update - Agenda Item 5

The Chair invited the Assistant Director of SWAP to present the progress update for November, which focused on high-risk areas, and limited assurance reporting forms an important part of that. No reports with limited assurance have been finalised, but two reasonable assurance reports had been finalised, with more reports due to be finalised by January. There was much work in

progress and new work due to start in Quarter 4, but they were on track to deliver the scheduled audit plan.

As regards the reporting of implementation of agreed actions, which was introduced at the last meeting, implementation had been slowed due to the pandemic and limited resources, but agreed actions were beginning to be implemented more quickly with a 21% reduction in the number of outstanding actions.

With reference to Page 21 of the report, it was explained the first paragraph referred to meetings with DMT's and heads of service which took place in October to ensure that audit plan scheduled for the second half of the year contained key risk areas; this has led to some changes in the plan. Page 22 demonstrated the mapping of the Council's strategic risks against audit work; the only exception to the coverage of strategic risks concerned climate change, which was scheduled for later in the fourth quarter.

Page 23 provided an overview of the current status of implementation of agreed actions from the limited assurance reports, which had decreased from 113 to 89 over two months. Page 25 detailed the safeguarding in schools follow-up work (after the original audit last fiscal year in 2021), good progress had been made in implementing the recommendations, a couple were not fully complete and would require more time to implement in full as part of a larger ongoing development in relation to safeguarding. Members noted the Auditors were satisfied, however, that enough work had been done to mitigate the original risks reported, and no further follow-up work was proposed.

The 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:

A question was raised with respect to Page 27 regarding the whistle blowing policy review and whether the whole of the policy would be reviewed by SWAP, or whether that would be reviewed internally. In response it was noted that the Council would review the policy, while SWAP's anti-fraud lead would contribute in an advisory capacity.

The Chair thanked the Assistant Director of SWAP and stated that he looks forward to the January reports. The Audit Committee accepted the update report.

Approval of the Pension Fund Accounts 2020/2021- Agenda Item 6

The Chair invited the Key Audit Partner of Grant Thornton to present the Audit Findings Report, accounts, and Letter of Representation. It was noted that this report had already been presented to the Committee in September and that

this report would provide an update highlighting changes, as there was a small amount of work still outstanding in September. He referred to Page 51, Appendix A regarding audit adjustments, which highlighted the only change which relates to testing and agreement of investments.

It was noted that the UK equities figure of just over £12.9 million had been classified as Level 1, where inputs were directly observable, which they were unable to do, so this has been changed to Level 2 with management's approval (Note 30 has been updated to reflect that change). As this was an immaterial reclassification in both the current and prior periods, it was explained no further adjustments were required. Also, with respect to additional voluntary contributions to Prudential, this was not made available by Prudential but was a trivial amount. This situation was not limited to the Somerset Pension Fund and was the case for all pension funds managed by Brunel, so management had been asked to engage more with Prudential in future, but it was reiterated that this was an amount of low triviality and did not need to go into the report, hence the verbal update only.

The 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:

It was questioned why certain issues are referred to as "trivial" when they involve hundreds of thousands of pounds; in response it was explained that there were strict guidelines for auditors and what would change the view of stakeholders, and Page 39 of the report, set out what the materiality was based on the gross value of the fund. As the materiality for the Pension Fund audit was set at approximately £26.1 million, the triviality level was £1.3 million. Materiality is set at 1% of the Pension Fund balance, which is over £2.5 billion, with triviality set at 5% of materiality; so a figure of £1 million would not change the overall view of the financial information included in the report or compel a change in the financial statements.

With respect to the AVC's (voluntary contributions), it was queried whether this was a matter between the purchaser and the pension provider and whether it is audited. In response Members heard that it was a requirement within the Pension Fund accounts to disclose the information provided, and it was not a comment on the performance of the Finance team that Prudential did not provide the information. It was added that the figures from Prudential were a disclosure but not included in the primary statements and were not part of the valuation of the Fund given in the net assets statement, nor were the contributions included in the Fund account.

It was asked if were possible to have an update with respect to the assets of the Pension Fund had been moved to Brunel which stood at 93%, and it was noted that the Fund was valued monthly and the value for the end of October was

£2.894 billion. Of the assets left this was principally cash and illiquid long-term investments; therefore, the amount moved will change very slowly over the next few years and will only reach a total of 97-98%, so the transition process is for all intents and purposes now complete. Cash would remain with the internal treasury team until further notice.

The Key Audit Partner then discussed the Letter of Representation, noting that it was the standard letter and no additional disclosures were being asked; there was only one unadjusted misstatement of £7.6 million which had been identified and was well below the materiality figure, so subject to the Committee's approval, the letter could be signed.

The Audit Committee considered and commented on the report and unanimously approved the audited Pension Fund accounts and Letter of Representation on behalf of Somerset County Council.

Approval of the Statement of Accounts 2020/2021 - Agenda Item 7

The Chair invited the Key Audit Partner of Grant Thornton to present the Audit Findings Report. He confirmed that the audit had been completed and, subject to the Committee's approval of the report, the accounts, and the Letter of Representation, they would be able to issue the audit opinion later today.

As set out on Page 84, materiality was reviewed as a result of the financial statements received; it was noted that the Council's expenditure increased from £12.3 million at the planning stage to £13.5 million, and although there was no additional risk, the Council's expenditure did increase and the materiality setting was based on that. Page 85, sets out the significant risks that were required for consideration; the first being the management override of controls, and the key areas looked at were journal authorisations and transactions undertaken by the Council, and management's use of estimates and judgements.

It was highlighted the Auditors were waiting for four responses from people who had posted journals to their standard confirmation requests. It had been identified that there was no formal approval process for posting journals, meaning some persons were able to approve their own journal transactions, which is an identified weakness, but a mitigating control measure is in progress. As for the extent of journals being processed at the Council there were 125 persons posting journals, more than 7500 journals, 480,000 transaction lines, and a value of £9.2 billion. The scope for error in so many journals was therefore quite high, so the Finance team were reviewing this situation, however it was noted there were no issues regarding revenue and expenditure cycles.

Page 87 set out the work on the valuation of land and buildings, which contributed in the 2019/20 audit to a significant delay to the audit opinion; the process had been improved but was still being progressed. A number of different issues had been raised with respect to property, plant and equipment; the net impact was £61,000, so it was not adjusted in the Financial Statements.

Further work had been done on the depreciated replacement costs assets, and assurance was provided that at 31 March these were not materially misstated. Page 89 discussed the Pension Fund liability from the Council's perspective (there were no issues); Pages 90-91 regard key judgements and estimates, and an assessment had been given with respect to the land and building valuation and the net pension fund liability.

On Page 92, highlighted the considerable work completed regarding the Minimum Revenue Provision (MRP) and ensuring that it was appropriate. The Auditors had confirmed they were comfortable with the Council's MRP and the way it had been calculated. Page 93 highlighted a deficiency regarding internal control around the IT review, as there were control deficiencies around the segregation of duties, as developers had access to the production environment within the financial system and some conflict within the SAP system. Management had agreed to review these processes, which have been identified as a deficiency but not a significant deficiency. There were no other matters regarding the Financial Statements, and no concerns with respect to the Council's preparation of them as a going concern.

Regarding Value for Money (VFM) and the brief commentary on Page 99, the work had not concluded, but they had given assurance that there was not a risk of significant weakness in the Council's arrangements. He confirmed their continuing independence and ethical declarations on Page 106; noting that management had responded to each of the recommendations made; pointing out the follow-up to their recommendations made in the prior year on Page 110; and in Appendix C, set out the audit adjustments that had been made as well as the impact of unadjusted misstatements.

The 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:

On the issue of journals, the Director of Finance and Governance, noting this had been covered at recent Member training, adding that the work from Grant Thornton on this matter had been very useful, as the Council was now looking at the number of persons with access to journals and looking at a new system to ensure training and reduce the overall number of journals. It was asked if the persons approving the journals were able to approve their own expenditure and it was explained that the journals only entail moving money within the Council finance system. Another query regarded what assurance there was

regarding persons with access to journals and SAP and if they would have that access removed upon leaving the employ of the Council and it was explained that removing access was indeed part of the termination process. The Key Audit Partner explained that they had examined if anyone who had left the Council's employ was processing journals, and no such incidents had been identified. It was asked how the Council compared to others regarding journals and it was noted that although it is not the highest number amongst Councils it was on the high side and being acted upon, and reflected in the audit findings. The Service Manager-Chief Accountant noted that his team tested and reviewed the journals and that the value of the journals was less of a concern and that government regulations required that accounts were compliant with the code. On the question of long-term absences by journal users, it was agreed that access to the journals should be removed during the period of leave and that journals would have to be assigned to a role rather than a person. It was asked how the Council cross-checked that a person had changed roles or was off long term and it was noted that transfers of roles were notified to the delegations' team, and the line manager of the person in question was required to reassign the role, and he would confirm those arrangements during his review.

It was questioned whether there would be a new system to replace SAP, and if there was any information available regarding Minimum Review Process and the Councils' borrowing for investments and yield. It was explained that an examination of finance systems was part of the unitary council transition process, but given the age of SAP and its configuration, there was a possibility of change to reduce the number of journals. Regarding investments and borrowing for yield, there had recently been a consultation by CIPFA on the treasury management code and the prudential code that was closed just over a week ago; CIPFA was doing a 'soft launch' for next year's codes and then a full launch in 2023/24. Details on the codes were pending, but clearly there should not be borrowing for yield. The Key Audit Partner noted that it was a risk area for all Councils and was being tightened up; the guidance is clear where MRP has been charged on investment properties, and they were identifying any concerns at all Councils and reporting them.

With respect to VFM, it was noted that the commentary in the audit finding was positive, and sufficient assurance had been given as there were no significant weakness, but some improvements may be suggested. Due to the pandemic and more detailed requirements, this work would be completed by the end of February, and it was hoped that the report could be presented at the next Audit Committee meeting.

The Audit Committee approved the audited Statement of Accounts 2020/21, including the updated annual governance statement and the Letter of Representation.

Appointment of External Auditors - Agenda Item 8

The Chair invited the Director of Finance and Governance to present the report. He noted that there will be a process from 1 April 2023 for appointing external auditors, and all Somerset local authorities had been invited to take part in the national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA). If the Audit Committee recommended acceptance, the matter would be presented to Full Council in February with a decision for approval due by 11 March 2022.

The 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:

It was asked if the Council and all District Councils had the same external auditors and it was noted that four out of five did, and while it would be easier if all five did, it would be the PSAA who would make the appointment. It was clarified that there was no immediate plan to change the auditors of that one Council, as the procurement would only take effect with the initiation of the new unitary Council. In response to a question about paying for the audits at that time, it was stated that the 2022/23 financial year audit would be part of the new unitary council's responsibility and will be reported to the unitary Council's Audit Committee, but will cover all five previous Councils' accounts; the cost of delivering that audit will be met by predecessor bodies, but thereafter audit work will be paid by the unitary Council.

The Audit Committee: accepted the invitation to opt into the PSAA sector-led option for the appointment of external auditors for five financial years beginning on 1 April 2023; the matter will now go to Full Council.

Independent Member for the Audit Committee- Agenda Item 9

The Chair invited the Governance Specialist-Democratic Services to present the report from the Monitoring Officer following the recommendation within the Redmond Review earlier this year relating to the appointment of at least one independent member, suitably qualified with experience in audit but not a County, District or Parish Councillor, to the Audit Committee. This appointee would act in an advisory role and would not have voting rights. Recruitment was now live and ongoing, with the closing date for applications being 20th December, and it is proposed that recruitment will be completed in such time as to enable the successful candidate to attend the next Committee meeting.

The 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:

It was asked who would be on the interview panel and it was explained the panel would be comprised of the Director of Finance and Governance, the Strategic Manager for Finance Systems and Governance, and the Governance Specialist-Democratic Services. With respect to the person's qualifications and how they are checked, it was noted that Pages 380-382 of the recruitment pack (within the Agenda) provided the specifications that must be met, and colleagues in HR would carry out due diligence regarding the authenticity of the qualifications and experience claimed. Regarding how long the appointment will be for, the original appointment will be until March 30, 2023, but if the person is qualified and capable, this could be extended.

The Audit Committee accepted the report.

Committee Future Work Programme – Agenda Item 10

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

Any Other Urgent Items of Business - Agenda Item 11

The Chair noted that the next Audit Committee meeting will be held on 27 January 2022 and thanked the Governance Specialist-Democratic Services for all his hard work and valuable contribution, as he would be moving on to other work commitments. He also wished everyone a happy and healthy Christmas and New Year, and after ascertaining that there were no other items of business he closed the meeting.

(The meeting ended at 13:15)

CHAIR