

AUDIT COMMITTEE

Minutes of a Meeting of the Audit Committee held in the Luttrell Room, County Hall, Taunton on Tuesday 28th July 2022 at 10.30 am

Committee members present: Cllr Dean Ruddle (Chair), Cllr Andy Sully (Vice-Chair), Cllr Lee Baker, Cllr Mike Caswell, Cllr Norman Cavill, Cllr Mandy Chilcott, Cllr Steve Ashton (sub), Cllr Hugh Davies, Cllr Tim Kerley, Cllr Mike Lewis, Cllr Simon Coles (sub).

Committee members attending remotely: Cllr Simon Carswell, Jennifer Whitten (Independent member)

Other members attending remotely: Cllr Andy Dingwell, Cllr Leigh Redman, Cllr Liz Leyshon, Cllr Martin Lovell, Cllr Mike Stanton, Cllr Tessa munt,

Officers attending:

Jason Vaughan - Director of Finance and Governance Finance/S151 officer
Scott Wooldridge – Head of Governance and Democratic Services / Monitoring Officer
Angela Farmer – Equalities and Risk Manager Sedgemoor DC
Jonathan Hallows – Democratic services officer
Stephanie Gold - Senior Democratic Services Officer
Pam Pursley - Risk Manager

External officers attending:

David Hill – Chief Executive, Southwest Audit Partnership
Barrie Morris – Director and Engagement Lead Public Sector, Grant Thornton
Julie Misco – Engagement Officer, Grant Thornton

Item 1. Apologies for absence

Cllr Peter Clayton (Substituted by Cllr Steve Ashton) Cllr Jeny Snell, Cllr Habib Farbahi (substituted by Cllr Simon Coles)

Item 2. Declarations of Interest

There were no declarations of interest from members.

Item 3. Minutes from the last meeting (Pages 9 – 10)

he minutes of the previous meeting were approved as a correct record.

Item 4. Public Question Time

The Chairman informed the committee that there was a member of the public who wanted to ask some questions but did not submit those in time for committee. He advised that he had sent a full written response to those questions prior to the meeting.

(Please note the Chairman suggested and the committee agreed to take agenda item 6 before agenda item 5)

Item 6. Internal Audit Update (Pages 37 - 54)

David Hill, CEO of Southwest Audit Partnership presented the Report of Internal Audit Activity 21/22. He began by informing members that there are some similarities in Items 5 and 6 but these reports would not usually be presented in the same month. Due to a delay it is necessary for both items to be presented to the committee together.

He highlighted some key points from the report including:

- Page 38 shows an overview of the audit plan and summary of opinions given, 2 reasonable assurance opinion, 3 limited assurance opinions and 3 follow up audits
- Page 41 shows the action tracker of recommendations and management actions. There are 53 overdue actions and 8 of those are priority 1. He added that since the tracker has been in place there has been a better response on management actions with service managers.
- Page 43 to 45 is a summary of limited assurance reviews
- Page 46 shows the healthy organisation review. This review is about identifying key themes for the organisation to demonstrate a healthy organisation. He added that this is reviewed every 2 years.
- 47 to 49 shows more details of the 3 follow up audits.

At the end of the introduction members were invited to ask questions and the following questions were raised.

- Cllr Chilcott agreed that there were many duplications in the two reports and commented that some members may have found this frustrating.
- Page 44 - Cllr Chilcott asked about education safeguarding complaints. The actions are due by Sept 22 so would this be carried forward into future reports. The officer confirmed that this would be the case.
- Page 45 – Cllr Chilcott asked about transport budgets and the overspend on the budget. The Cllr felt that it is not acceptable that these actions are not due to be implemented until September 23. David Hill informed members that the timeframes in this report are a joint agreement between the auditors and the service managers and are based on what is reasonable. Jason Vaughan added that the transport actions had been identified as a result of the recent MTFP financial situation (budget gap). He suggested that he would review these actions and make sure that any actions that could be brought forward will be.
- Cllr Davies asked about DBS checks for members and when this would happen because he felt this was very important for the councillor role. In response Cllr Liz Leyshon, who was in attendance virtually) informed members that there is now a budget working group, and also that Cllr Tessa munt is exploring the situation with DBS, and the levels of checks required for members. Cllr Tessa Munt (who was in attendance virtually) reassured members that she was indeed looking at DBS and e-DBS checks for Cllrs. She confirmed that 43 Cllrs have e-DBS (enhanced DBS) because of their connections with children's and vulnerable adults' services.

Cllr Chilcott added that online DBS checks for all councillors would be very welcomed. Cllr Munt added that all Cllrs should have basic DBS, and asked if it might be a good idea for all councillors to bring their original documentation to the next meeting of full council to avoid having to make a special trip into County Hall with the required documentation

- Cllr Lewis queried follow-up audits and in particular Page 49 Appendix c - the Childrens' Education Health and Care Plans. The report states the intention to cease monitoring of implementation of these actions when they are still 3 in progress. He asked if the committee were comfortable that these actions are no longer monitored. In response David Hill advised that in this case, Priority 1 had been completed and Priority 2 was well underway. The lower-level priorities would now be up to the individual service managers to monitor. However, he asked if members would like an oversight of this monitoring as this could be done.
- As a follow up to this Cllr Chilcott enquired as to how much work this monitoring would entail. The officer reassured the councillors that it would involve chasing service areas and obtaining evidence to confirm this has been done. Cllr Chilcott agreed that it would be wise for the internal audit to focus on the higher risk priorities.

The committee accepted the report.

Item 5. Annual Audit Opinion from SWAP (Pages 15 - 36)

David Hill from SWAP presented the report. He began by explaining that this report is about how well governance and risk operates within the authority. He added that it is a balanced view of how management controls have been operating in the year 21/22. He informed members that this is based on 4 opinion categories. He assured members that there had been no critical risks identified though the work.

The officer highlighted several key points including.

- Page 19-21 more detailed narrative around the opinion, and context
- Page 22 – audit committee to assure full council that risk is being managed effectively – swap happy with strategic risks
- Page 29 – external assessment key measure to ensure internal audit are compliant with public sector audit standards
- 30-36 – all audit for 21/22 and breakdown of recommendations made. It is this work that has informed out opinion.

After the introduction. the officer asked members of the audit committee for any questions or comments, and the following were raised.

- Cllr Coles asked about the internal audits deferred to 22/23. He asked if we can we be more specific on timeframes? What order, when is it each audit starting? The officer advised that risk management has changed dramatically over the past 3 years, and it is proving more difficult to plan. Future audits will be done based on assessment of need. He added that There is an annual plan that shows a more detailed breakdown
- Page 22 - Cllr Sully asked about the SEND costly packages and cross partner working. He asked what SCC are looking at doing in terms of children with extra needs. He added that he felt this was a high risk due to costs increasing for partners as well the council itself. The officer advised that cross partner working is all about supporting our partners through difficult times and learning how to manage these issues as a partnership.

- Cllr Kerley asked if it is normal to have this many deferred items on an agenda? (Referring to plan performance) The officer confirmed that this was to be expected.
- Page 31 - Cllr Cavill asked about new Berkley school. He asked what further dialogue the audit committee will get on this as it seems a very complicated issue. The officer confirmed that this was about segregation of duties and a follow up will come back to the committee.
- Page 20 - Cllr Lewis asked about the summary of audit work. He asked if it was concerning that there are 19 opinions, and 11 of those with limited assurance. The officer advised that this is about working with management to focus on high-risk areas. This is not surprising as it demonstrates using internal audit in the correct way by identifying issues. This is a measure of management response.
- Cllr Chilcott asked about major to medium risks and felt that more dialogue on the major risks would be useful. The officer advised members that there would soon be a new audit management dashboard system which allows the reader to drill down into opinions in more detail.
- Cllr Chilcott questioned the 53 overdue actions remaining and observed that the same number had been reported in March. The Cllr asked if it was the case that there had been no movement in those actions. In response the officer explained that there had been many difficulties in the period, largely due to LGR and its impact on resourcing, and this had meant a delay on some actions. He also advised that due to LGR some actions may not be a priority anymore. Cllr Chilcott suggested that any non-essential or non-relevant actions should be removed as it is not fair that staff have 53 outstanding actions that may or may not be relevant anymore.
- Cllr Baker thanked the officer and suggested that the key here is to challenge these actions. Are we confident that we are delving into these outstanding actions and trying to resolve?
- Cllr Coles asked the officer if they would you be able to do a review of the 53 outstanding actions prior to next audit meeting? The officer confirmed this could be done.
- Page 25 - Cllr Sully asked about postponing activities and the integrate 8 system. He asked what this system is used for. The officer advised that the software relates to the commissioning model and that this work will be picked up by new authority.

The committee accepted the report

Item 7. External Audit Update (Pages 55 - 78)

Barrie Evans from Grant Thornton presented the report and highlighted the following key points.

- Page 58 is an Introduction to audits and the four significant risks –
 1. Revenue transactions
 2. Management override of controls
 3. Valuation of land and buildings
 4. Valuation of net pension fund liability
- Materiality - 13.5 mil materiality with a 1.5% gross expenditure. This means that there is a good control environment in place at the council.
- Page 60 provides more detail of work in relation to significant risks.

- Page 62 details other risks such as infrastructure assets which is a national issue. Many local authorities with material infrastructure have not been properly following audit practice and the code for accounting in relation to recording assets.
- Page 71 is about the audit team and page 72 to 73 details the audit fees.
- Page 74 shows the certification of the Teachers' Pension Scheme.

Questions

- Cllr Kerley asked about property valuations and the national issue. He asked how SCC compares to other authorities who may be experiencing this issue as well? The officer advised that the issue was widespread and largely due to the increase in demand for valuation of land and buildings.
- Cllr Davies asked about Infrastructure assets and specifically historical buildings. He asked if these were being undervalued because they need repairs. The officer explained that valuations would consider the 'as new' value of the property, and then factor in depreciation and how much work must be undertaken, to reach the net book value.
- Page 70 - Cllr Sully asked about transactions to new authority. He asked why this is not looking at '22/'23 budgets? The officer advised that auditors usually look in the past and have reviewed financial statements up to 31st March '22. He added that they also have regard to lessons learned and build this into the '22/'23 budget audit.
- Page 57 - Cllr Chilcott asked about climate change and asked if there are currently any financial assumptions or costs in place to meet this goal.
- Page 58 - Cllr Chilcott asked about value for money arrangements and specifically the weaknesses identified. When would this review be coming back to committee?
- Page 96 – Cllr Chilcott queried audit fees and the extra £10000 added to cost and questioned how remote working has caused an extra £10000 worth of audit work. What ways of working are causing the increase in fees?
- Page 61 - Cllr Baker asked about valuation of land and buildings. He asked for more details on the tender process for valuers? He asked for reassurance that there are no conflicts of interest here. The officer advised that Grant Thornton use three valuation firms, all of which are experienced in the public sector and suitably qualified, with no pre-existing or current relationships with the council.
- Page 53 – Cllr Lewis asked about cash handling and its deferral. He was concerned that this was a significant risk in the past. THIS QUESTION REFERS TO INTERNAL AUDIT ITEM 6.

Item 8. External Audit Plan for the Council and Pension Fund (Pages 79 - 124)

Julie Masci, Engagement Lead from Grant Thornton presented the report. She advised members that the Pension fund plan follows the same structure as the main council audit.

The following key points were highlighted to members.

- Page 108 identifies significant risks for pension fund audit. This is about management override of controls.
- There are two other significant risks for pension funds which are about the need to use estimates and judgements in determining values.

- Valuation of investments are on a 3-point scale. 1 being easier, 3 being hardest to value. These valuations may include judgements or estimations.
- Materiality considerations and net assets. 1% net assets position. 26.19 million.
- At the back of the plan members will find the proposed fees which have been itemised.

Questions:

- Page 109 - Cllr Kerley asked about the reasons for rebuttal and in particular No.3 point on culture. He felt that this needed some further explanation.
- Cllr Chilcott queried fees and noted that additional fees that are being added every year. She acknowledged the extra work that is required but asked if these fee structures had been agreed nationally by industry regulator. She asked if there might be a national renegotiation of annual fees to set more realistic fees. The officer advised that the audit fee scale was set 5 years ago and is longer sufficient. Auditing fees are approved by PSAA, and any increases to fees are monitored, challenged, and justified. Some added that often invoices are late due to this process. She advised that the PSAA are currently going through retendering and look to set new fees for year '23/24. She reassured members that in future fee variations should be much less.

Item 9. Risk Management Update (Pages 125 - 176)

Pam Pursley introduced herself as Risk manager, a role she was returning to after a period working in democratic services. She explained that the document was essentially a risk management pathway which includes strategy, policy, and process documentation. The report outlines how Somerset County Council manages its own risk and it is available for all to read. She then made the following key points.

- There are several levels of risk across three categories, Operational (individual services), Project risks and Programme risks
- Appendix d has been generated from JCAD which is the software used by SCC to manage risk.
- She concluded the introduction by asking members of the committee if they are happy that this update is given quarterly, or would they prefer to see it at every meeting? Members agreed that it would be good to see the report at every other meeting of the audit committee.

The Risk Manager thanked members for their time and asked for any questions or comments on the update.

- Page 166 to 167 - Cllr Kerley asked for clarity on colour coding of risks and how this work with the scoring? The officer advised that the key information to look at would be the 5/5 scoring mechanism.
- Cllr Sully (vice chair) enquired about risk training for members. The officer advised that there are two risk training sessions scheduled for September and October and that she would be happy to work with officers and members on a 121 basis if required.
- Page 137 appendix b - Cllr Chilcott questioned why is this no longer used in council papers if it is part of the risk pathway?
- Page 170 - Cllr Chilcott questioned the sustainable MTFP scoring. This has a score of 25 but a controlled risk assessment is 12 and suggested that 12 is far too low given the current

MTFP situation. The officer advised that 25 is the current score (so very high to reflect the current situation) and 12 is the target score.

- Cllr Chilcott asked about the cost-of-living crisis and suggested that this should have a score of 25. The Risk Manager advised that this is factored into risk 57 as above, but it could now be a risk on its own. She would investigate that.
- Cllr Baker asked how often the risk pathway is reviewed. The risk manager advised that the risk pathway is reviewed every 2 years and added that a complete review would be due next year, and this is good timing given the changes that will come with local government reorganisation.

The committee accepted the report

Item 10. Draft Annual Governance Statement (AGS) (Pages 177 - 208)

Scott Wooldridge Head of Governance and Democratic Services presented the report and highlighted the following key points to the audit committee:

- It is the committee's role to review and comment on the Annual Governance Statement
- The Annual Governance Statement is a statutory requirement.
- Page 178 Para 3.3 refers to an exceptional year. Somerset has seen many additional challenges and opportunities due to Local Government Reorganisation.
- Page 179 - the healthy organisation. This is a critical tool.
- Para 3.6 – refers to the view looking forward at a critical point of transition for SCC
- This is about delivering on key responsibilities as well as organisational change.

Questions

- Cllr Chilcott wanted all members to acknowledge what a challenging year it has been and felt that staff should be commended.
- Cllr Ruddle (chair) agreed that this was a great report
- Cllr Andy asked if there an annual business plan? The officer confirmed that the new administration will have picked this work up.
- Cllr Davies asked about changes to NHS governance. Is this part of the AGS? The officer confirmed that CCG no longer exists, and it is now called the Integrated Care System.
- Cllr Carswell asked if members needed to formally approve the Annual Governance Statement. The officer confirmed that it is for comment and noting only.

The committee accepted the report

Item 11. Committee Future Work Programme (Pages 209 - 210)

Members were asked to consider the future work programme.

Jason Vaughan (Head of finance and S151 officer) talked though work programme and asked members for any questions or comments.

- Cllr Chilcott asked if the additional risk papers that had been requested under agenda item 9 would be coming to the next meeting of the audit committee.

Item 12. Any other urgent items of business

No other urgent business was raised by the Chairman.

Meeting closed 12.20pm