

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 reports have been finalised, with more reports due to be finalised by January. There is much work in progress and new

work due to start in Quarter 4, but they are 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 are beginning to be implemented more quickly with a 21% reduction in the number of outstanding actions. With reference to Page 21 of the report, the first paragraph refers 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 demonstrates the mapping of SCC strategic risks against audit work; the only exception to the coverage of strategic risks regards climate change, which is scheduled for later in the fourth quarter. Page 23 gives an overview of the current status of implementation of agreed actions from the limited assurance reports, which have decreased from 113 to 89 over two months. Page 25 details the safeguarding in schools follow-up work (after the original audit last fiscal year in 2021), the results of which were fed to the local authority; good progress has been made in implementing the recommendations, although a couple of them are still not fully complete and will require more time to implement in full as part of a larger ongoing development in relation to safeguarding. They are satisfied, however, that enough work has been done to mitigate the original risks reported, and no further follow-up work is 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. It was responded that it is the Council who will review the policy, while SWAP's fraud lead will 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 considered and commented on 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 today's report would provide an update highlighting any changes, as there was

a small amount of work still outstanding in September. He referred to Page 51, Appendix A regarding audit adjustments, which highlights 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 are 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). This is an immaterial reclassification in both the current and prior periods, so 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; an additional amount of contributions approximating £400,000 annually with a total value of about £4 million was reported by a third party. This situation was not limited to only SCC and was the case against all pension funds with Brunel, so management has been asked to engage more with Prudential in future, but it was reiterated that this was an amount of low triviality and does 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; it was responded that there are strict guidelines as to what is important to auditors and what would change the view of stakeholders, so on Page 39 of the report, it is set out what the materiality is based on the gross value of the fund. As the materiality for the Pension Fund audit is set at approximately £26.1 million, the triviality level is £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 is a matter between the purchaser and the pension provider and whether it is audited; the response was that it is a requirement within the Pension Fund accounts to disclose the information provided, and it is 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 are a disclosure but are not included in the primary statements and are not part of the valuation of the fund given in the net assets statement, nor are the contributions included in the fund account.

It was asked if were possible to have an update from the minutes of the last meeting, where it was noted with respect to the assets of the Pension Fund that 77% had been moved to Brunel by March and 93% by September; the reply was that the fund is valued monthly and the figure for the end of October was

£2.894 billion. What is left is 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 will remain with the internal treasury team until further notice.

It was mentioned that, as we move to the unitary Council, and all Councillors and residents have a better understanding of the Pension Fund audit, there might be more interest with respect to investments involving fossil fuels and other considered investments; it was responded that a revised investment strategy statement for the Pension Fund is being examined and that there was a review by the Pension Board last week which will come before the Pensions Committee in December. The report will include enhanced disclosures regarding our carbon footprint, adjustments to mitigate it, and the adoption of a net zero target for the fund. They are waiting for the department for levelling up housing and communities to confirm their reporting requirements for LGPS funds to disclose; he is not sure whether this will be part of the accounts or part of the annual report of the fund. So preparations are being made to include this type of metrics, but guidance on what is needed is being awaited; once that is known, they may seek to even exceed the requirements.

The Key Audit Partner then discussed the Letter of Representation, noting that it is the standard letter and no additional disclosures are being asked; there is only one unadjusted misstatement of £7.6 million which has been identified and is well below the materiality figure, so subject to the Committee's approval, the letter can 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 has been completed and, subject to the Committee's approval of the report, the accounts, and the Letter of Representation, they should 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 SCC'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 is based on that. Page 85 sets out the significant risks that are required for consideration; the first is the management override of controls, where the key areas looked at were journal authorisations and transactions undertaken at

SCC, and management's use of estimates and judgements. It was highlighted that they are awaiting four responses from people who have posted journals to their standard confirmation requests, as two persons have left SCC's employ, one is off on long-term absence, and one is on maternity leave. It was identified that there is no formal approval process for posting journals, meaning some persons are able to approve their own journal transactions, which is an identified weakness, but a mitigating control measure is in progress. As far as the extent of journals being processed at SCC, there are 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 is quite high, so the Finance team has been encouraged to review this situation, and management have agreed.

There are no issues regarding revenue and expenditure cycles. Page 87 sets 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 has been improved but is still in progress. A number of different issues have been raised with respect to property, plant and equipment; and there are some quite large figures in relation. Several million were involved, but they basically cancelled each other out; the net impact was £61,000, so it was not adjusted in the Financial Statements. Further work was done on the depreciated replacement costs assets, and there was assurance given that at 31 March these were not materially misstated. Page 89 discusses the Pension Fund liability from the Council's perspective (no issues); Pages 90-91 regard key judgements and estimates, and an assessment has been given with respect to the land and building valuation and the net pension fund liability.

On Page 92, considerable work was done, and there is much interest within some Councils, regarding the use of the Minimum Revenue Provision and ensuring that it is appropriate; this is often not focused on since the annual charge is quite low, but the cumulative impact could be significant. They are comfortable with SCC's MRP and the way it is calculated. On Page 93 there is one deficiency regarding internal control around the IT review; there are also couple of control deficiencies around the segregation of duties, as developers have access to the production environment within the financial system and some conflict within the SAP system. Management have agreed to review these processes, which have been identified as a deficiency but not a significant deficiency. There are no other matters regarding the Financial Statements, and no concerns with respect to SCC's preparation of them as a going concern.

As regards Value for Money (VFM) and the brief commentary on Page 99, the work has not concluded so they will not be issuing the certificate today, but they have given assurance that there is not a risk of significant weakness in the Council's arrangements. He confirmed their continuing independence and ethical declarations on Page 106; noted that management have responded to each of the recommendations made; pointed 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 have 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:

As far as the issue of journals, the Director of Finance and Governance noted that this was covered at recent Member training; he added that the work from Grant Thornton on this matter has been very useful, as SCC is now looking at the number of persons with access to journals and looking at a new system to ensure proper training and cut down on the number of journals. It was asked if the persons approving the journals were able to approve their own expenditure; it was explained that the journals only entail moving money within the SCC finance system. Another query regarded what assurance there was that persons with access to journals and SAP would have that access revoked upon leaving the employ of the Council; the reply was that removing access is part of the termination process. The Key Audit Partner stated that they had examined if anyone who had left SCC's employ was processing journals, and no incidents had been identified. It was asked how SCC compares to other Councils as regards the number and amount involved; it was responded that it was on the high side, so this is being acted upon, and although it is not the highest number amongst Councils, it needed to be pointed out in the audit findings. The Service Manager-Chief Accountant noted that his team tests and reviews the journals; he stated that the value of the journals is less of a concern and that government regulations require that accounts are compliant with the code. Many journals are required to be done; what needs to be targeted is the number of users. Returning to the question of long-term absences by journal users, it was asserted that access to the journals should be revoked during the period of leave; it was agreed and said that this was high on the review list, and journals have to be assigned to a role rather than a person, so he is reviewing how the role is passed from one person to another during absences. It was asked how the Council cross-checks that a person has changed roles or is off long term; it was replied that transfers of roles are notified to the SAP delegations team, and the line manager of the person in question needs to reassign the role, although he will confirm these arrangements during his review.

It was questioned whether there could be a new system instead of SAP, and if there was any information available regarding MRP (Minimum Review Process) and Councils' borrowing for investments and yield; it was responded that an examination of finance systems was part of the unitary council transition process, but given the age of SAP and its configuration, there is a possibility of change to reduce the number of journals. As for investments and borrowing for yield, there has recently been a consultation by CIPFA on the treasury

management code and the prudential code that was closed just over a week ago; CIPFA is doing a 'soft launch' for next year's codes and then a full launch in 2023/24. Details on the codes are being awaited, but clearly there should not be borrowing for yield. The Key Audit Partner noted that it is a risk area for all Councils and is being tightened up; the guidance is clear where MRP has been charged on investment properties, and they are 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, but it was asked when will it be concluded; it was replied that it was indeed positive, with SCC building up financial reserves and resilience, and as for the audit, the work has changed this year and become more detailed. Sufficient assurance has been given as there is no significant weakness, but some improvements may be suggested. Because of the pandemic and more detailed requirements, this work will be completed by the end of February, although it may be sooner; it is hoped that the report can be presented at the next Audit Committee meeting.

The Audit Committee:

- **Considered and commented on the report**
- **Noted the position of the external auditors' assessment of VFM**
- **Approved the audited Statement of Accounts 2020/21, including the updated annual governance statement**
- **Approved 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 1st April 2023 for appointing external auditors, and all Somerset local authorities have been invited to take part in the national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering 2018/19 to 2022/23. If the Audit Committee recommends acceptance, the matter will go 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; the response was that four out of five do, and while it would be easier if all five did, it will be the PSAA who will make the appointment. It was clarified that there is no immediate plan to change the auditors of that one Council, as this procurement will 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 will 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 will act in an advisory role and will not have voting rights. Recruitment is 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 Audit Committee meeting on 27 January 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:

The eligibility of the independent member as stated on Page 378 of the report was queried, as it stated that this member could not be a Councillor for SCC or the Parish Council but did not mention the District Council; this was confirmed to be an omission. It was asked who would be on the interview panel; this will 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) provides the specifications that must be met, and colleagues in HR will 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:

Noted the report, recruitment pack and timetable for recruitment.

Committee Future Work Programme – Agenda Item 10

The Audit Committee:

Noted the work programme that listed future agenda items and reports.

Any Other Urgent Items of Business - Agenda Item 13

After ascertaining that there were no other items of business, 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 is now moving on to other work commitments; he also wished everyone a happy and healthy Christmas and New Year, and he closed the meeting.

(The meeting ended at 13:15)

CHAIR