

AUDIT ADVISORY BOARD

Minutes of a Meeting of the Audit Advisory Board held virtually via Teams, on Thursday 27 January 2022 at 10:00am

Present: Cllr Mike Lewis (Chair), Cllr Mike Caswell (Vice Chair), Cllr Hugh Davies, Cllr Bob Filmer, Cllr P Ham, Cllr Graham Noel, Cllr Liz Leyshon, Cllr Mike Rigby and Jennifer Whitten (Independent Member).

Other Members present: Cllr Mandy Chilcott and Cllr A Kendall.

Officers present: (JV) Director of Finance and Governance, (AS) Service Manager for Investments, (BB) Strategic Manager for Finance Systems and Governance, (LF) Assistant Director of SWAP, (BM) Key Audit Partner-Grant Thornton, (NM) Committee Manager, (AR) Committee Clerk (JH) Committee Administrator, (NB) Unite Branch Secretary.

Apologies for absence – Agenda Item 1

There were no reported apologies for absence.

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 Advisory Board accepted that the minutes of the meeting held on 30 November 2021.

The Chair reminded the meeting that last week the Monitoring Officer of the Council had confirmed the appointment of a new independent member of the Audit Committee, Ms Jennifer Whitten. On behalf of the Committee, he welcomed Ms Whitten to her first meeting and invited Ms Whitten to introduce herself and she thanked the Board for their warm welcome.

Public Question Time - Agenda Item 4

The Chair invited Mr Nigel Behan to make a statement and ask questions. Mr Behan noted that: " ORG0054 Strategic Risk 2020: Climate Change: SCC fails to take action to mitigate and adapt to climate change. This includes failing to commit adequate resources and/or failing to act early enough" with the

maximum current risk assessment score of 25. The cause being attributed to “At present agreement with the Districts to co-fund key enabling activities is limited to 4 projects. Unless sufficient funding is agreed between the 5 Councils it will not be possible to deliver on all the agreed outcomes and Actions as set out in the Thematic Action Plans”. Mr Behan asked what impact would this have on, for instance, carbon reduction targets if all the agreed outcomes and actions are not met?

Mr Behan reflected that the Climate Change Committee (CCC) noted (December 2021). “The next year is critical for climate action in the UK and internationally. At home, we need to walk the talk and urgently deliver actions in the Net Zero Strategy.” He asked will the Somerset Local Authority(ies) Climate Change agreed actions be revisited urgently (with more practical proposals and actions) and should the next risk review date be much earlier than next Autumn (September 2022)?

The Director of Finance and Governance committed to providing a written response on behalf of the Director of Commissioning ECI following the meeting.

Medium Term Financial Plan Reports - Agenda Item 5

The Chair invited the Strategic Manager for Finance and Systems to present the Medium Term Financial Plan Reports, which focused on the Treasury Management Strategy Statement for 2022/23 and attached in Appendices C and D included the Capital Strategy and MRP Statement 2022/23.

Treasury Management and Prudential Codes were published in December 2021, too late to be wholly incorporated into this year’s written strategy. However, SCC Treasury Management would operate within the letter and the spirit of the revised Codes. Given that Local Government Reorganisation (LGR) in Somerset will see the new unitary Somerset Council starting in April 2023 it is considered more appropriate to defer until 2023-24 when the overall position for the new Council can be clearly set out.

It was explained that £324.55m of debt was held by the Council as part of its strategy for funding previous years’ capital programmes. Of this, £159.05m is Public Works Loan Board (PWLB) debt, £108m is Lender Option Borrower Option (LOBO) debt, and a further £57.5m of fixed rate bank loans. As at 31st December 2021 the average rate paid on all debt was 4.66%.

Members heard that Investment balances for 2021-22 to the 31st December 2021 have ranged between £261m (6th April) to £358m (25th July), averaging £313m. The average included just over £114m of cash held on behalf of others during the period. £114.86m was being held as at 31st December 2021 on

behalf of others, including entities where the Council is the accountable/administering body. An average rate of 0.54% had been achieved, yielding income in excess of £1.27m. Within this figure £45m was invested in Pooled Funds, £15m with the Churches, Charities, Local Authorities (CCLA) Property Fund, £15m with a Royal London Investment Grade Credit Fund, and £15m with the M&G Corporate Bond Fund

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 Internal borrowing as part of the new Somerset Council, how would this be managed if loans had to be paid back on due dates and loans have to be externalised as part of the LGR process. In response it was noted that table 6 in the report, set out long term debt information, and decisions in respect of the new Council would be made at appropriate times as part of the LGR process.
- It was requested if the MRP amount for the previous 10 years could be provided and it was confirmed this could be supplied following the meeting.
- It was further questioned if significant changes in the strategy were envisaged within the next year? It was explained the strategy was for the current council, to give an overall picture with consideration of ongoing borrowing and internal borrowing and a workstream was underway for the LGR programme to bring finance and capital spending activity together for the new council.
- Revisions of the new code had minimal impact due to no new borrowing undertaken within the last year, there remained the ability borrow additional funding if required.
- Long term borrowing was considered, with PWLB loans no longer available to local authorities planning to purchase investment assets. It was questioned how this worked with the operational boundary limits and ability to borrow and it was noted the New Council would need to develop its own treasury strategy to take into account all borrowing and this would include clarification in relation to District Councils commercial investments.
- The LGR Joint committee on 4th Feb would set out budget proposals for 2022/23 and include all borrowing positions.
- It was clarified that every council is their own sovereign body until 31st March 2023 so could continue to make their own investment decisions until this date.
- The Finance and Assets protocol would be considered at the LGR Joint Scrutiny Committee on 31st January and at the LGR Joint Committee on

4th February, this would apply to this year prior to the new unitary in 2023. This would limit councils' revenue and capital expenditure and would be considered for councils to adopt as part of their budget setting process. The protocol set out that there shouldn't be borrowing for commercial need.

- It was noted that Finance would not form part of the draft Structural Change Order (SCO) as there would be a separate finance order and a section 24 notice which would align with the final government SCO.
- It was questioned if pooled funds were included as commercial investments with CIPFA? It was noted the code required consideration be given to commercial investments and pooled funds before a decision was made to progress borrowing, a reason was needed for keeping investments and going through the decision framework in relation to borrowing as opposed to disposing of investments.
- CIPFA would not force the Council to sell commercial investments, just to justify reasons for not disposing of them if it had an adverse impact on the authority.

The Chair thanked the Strategic Manager for his report. The Audit Advisory Board noted the current Treasury Management Practices attached to Appendix D of the report.

External Audit Committee Progress Report and Sector Update- Agenda Item 6

The Chair invited the Director of Audit for Grant Thornton to present the Progress Report and Sector Update.

The paper provided the Advisory Board with a report on progress in delivering responsibilities as External Auditors.

The report also included:

- A summary of emerging national issues and developments that may be relevant to you as a local authority and:
- A number of challenge questions in respect of emerging issues which the committee could wish to consider.

Progress as at January 2022 was set out with an unqualified opinion set out in the Financial Statements Audit on 30th November 2021. The Value for Money (VFM) for Somerset County Council was due for completion on 28th February 2022. VFM work was in progress and an Auditors Annual Report would be issued prior to the 3-month deadline. Further progress was set out in respect of Certification of Claims and returns and Audit Deliverables. The table of fee's were set out for further information.

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 how Covid-19 had impacted other county councils and the how the Council compared to other county councils. It was recognised some authorities have invested in investment properties which as part of the LGR some of these assets would be inherited.
- There was still some way to go to ensure valuations continued to be robust, with a range of measures introduced to address this, Council officers had remained responsive to any concerns raised.
- Delays on Value for Money (VfM) were questioned, and it was noted this was not an area of concern, the delay was as a result of the amount of work in financial statements which had risen exponentially. There was no significant risk or weakness identified for improvement and no areas of concern.
- VfM would next be considered at the meeting on 10th March. Due to the proximity to the election, it was questioned if officers considered it appropriate for a single item meeting to consider the full report from the external auditor. The report was likely to be available in the next two weeks. Officers were open to views from the Advisory Board but at this stage there appeared to be no concerns.
- The external auditors would need to form their opinion by the end of Feb which was statutory deadline. An extraordinary meeting would be accommodated if required. The VfM report would only be published if there would be an advisory committee scheduled to consider this.
- It was agreed that 10th March would be adequate to review, due to this being an item considered for information and a commitment was made to circulate the VfM report to members before the agenda was published.

The Audit Advisory Board considered and accepted the report.

Internal Audit Update Report - Agenda Item 7

The Chair invited the Assistant Director of The South-West Audit Partnership to present the Internal Audit Update Report.

The January progress update for 2021/22 reported against the plan agreed by the Audit Committee in March 2021. The schedule provided at Appendix D detailed progress made to date and new work agreed.

The assurance opinion ratings had been determined in accordance with the Internal Audit "Audit Framework Definitions" as set out at Appendix A of the document. The Advisory Board were assured that improvement actions had been agreed with management to address each finding reported.

To assist Members in their monitoring and overview role, in those cases where weaknesses had been identified in service/function reviews that were considered to represent significant service risks, a summary of the key audit findings that resulted in the 'limited Assurance Opinion' were listed in Appendix B. There were 3 reported over the period as well as 1 reasonable opinion audit. In total there had been 4 reasonable and 6 limited assurance audits finalised over the year. A significant proportion of limited assurance opinions were expected as the audit plan was focused towards those areas of highest risk to the Council. The implementation of agreed actions had been scheduled during 2022/23 and follow-up audits would then be carried out.

It was noted that the results of follow-up reviews performed in the period were set out in Appendix C of the document. This was to provide evidence that recommendations had been implemented to reduce areas of identified risk. This was found to be the case for 2 reviews, the third would continue to be monitored to gain assurance that the remaining actions would be implemented.

As well as assurance provided by follow-up audits, this year the managers responsible for agreed actions relating to limited assurance audits had provided progress updates to internal audit. The results of those updates were included on page 4 of the report. The total number of overdue actions reported was similar to the previous progress report, however it was noted over the last year there had been a reduction of 21% of overdue actions reported.

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 Audit of governance contracts register was questioned. It was explained a lot of work had been undertaken in relation to the contracts register to give assurance that it was a complete and accurate record and the scope of the project had been expanded to include procure to pay contracts.
- The Management of Highways maintenance contract was questioned and it was noted this was monitored as part of all the outstanding actions where recommendations had not been implemented in full by an agreed date. A closer consideration of this could be undertaken at the next meeting alongside Skanska highways contract.

- Reference was made to pages 205 and 207 in relation to the SEND investigation, it was understood one had been completed and an update was requested on further investigations.
- The Board were informed that from April there would be one head of internal audit across both County's and districts this will be Alastair Woodland who would be working together with the current head of Audit this quarter in advance of the next Audit committee meeting to ensure a co-ordinated plan was in place across the Districts.
- The next audit would bring the proposed Audit plan for 2022/23 at the next Audit Advisory Board.
- The Assistant Director, Lisa Fryer, was thanked for all her work undertaken across the Council over a number of years and the clear way she relayed complex information and Members wished her well in her new role.

The Audit Advisory Board considered and accepted the report.

Risk Management Update - Agenda Item 8

The Chair invited the Strategic Manager for Finance and Systems Governance presented the Risk Management Update. The management of risk had a direct link to the Council's Business Plan, the Medium-Term Financial Plan, forms an integral part of the Annual Governance Statement (AGS) and was a major component of the External Auditor's Value for Money Audit.

The Account and Audit Regulations 2015 required the Council to have in place effective arrangements for the management of risk. These arrangements were reviewed annually and reported as part of the Annual Governance Statement (AGS). The report set out the latest information strategic risk information obtained from the risk management system.

It was noted the report did not include the programme and project risks for the LGR. There was a risk management framework (which included identification, management and reporting of risk) in place that was managed by the LGR programme group and reported to the LGR Programme Steering Group and the CEO Programme Board.

While investigations into the replacement of the financial system were ongoing the associated risks were included under ORG0053 attached in Appendix A as well as the LGR risk register. These would be updated as the Discovery phase progressed.

There were 7 strategic risks recorded in JCAD that posed a threat to the achievement of the priorities of the Council. These risks and their current status were attached at Appendix A.

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 if the SAP replacement as part of the LGR programme was high risk and why the risk was not reported at the last review date on 5th January. It was understood that this had been discussed at Cabinet as part of a wider risk and the SAP replacement was reported on the LGR risk register as a separate risk and would be in the public papers published with the LGR joint committee.

There was a discussion about business-critical contracts and consideration of which contracts were expiring and reassurance was provided that those would be addressed. It was requested wherever possible to avoid contracts commencing on vesting day to ensure minimal disruption for the new Council. Some contracts could be extended and some could not and this would be a consideration as a future part of LGR work.

The Audit Advisory Board considered and accepted the report.

Committee Future Work Programme - Agenda Item 9

National Audit office report was requested to be removed from the November meeting.

It was requested if the Board would consider the use of framework agreements in procurement exercises, with these requiring a full tender process as a suitable way to letting large contracts. The Finance Director responded that national guidance stated this was an item for consideration at Scrutiny and not Audit.

The Audit Advisory Board noted the work programme that listed future agenda items and reports.

Any Other Urgent Items of Business - Agenda Item 10

After ascertaining that there were no other items of business, the Chair noted that the next Audit Advisory Board meeting will be held on 10 March 2022.

(The meeting ended at 11:44)

CHAIR