

SWT Audit and Governance Committee - 14 March 2022

Present: Councillor Lee Baker (Chair)

Councillors Ed Firmin, Simon Coles, Hugh Davies, Dawn Johnson, Janet Lloyd, Martin Peters, Steven Pugsley, Terry Venner and Sarah Wakefield

Officers: John Dyson, Jackson Murray, Jessica Kemmish, Steve Plenty, Malcolm Riches, Alastair Woodland and Alison North

Also
Present:

(The meeting commenced at 6.17 pm)

53. Apologies

No apologies were received.

54. Minutes of the previous meeting of the Audit and Governance Committee

The Committee resolved to approve the minutes of the previous Audit and Governance Committee meeting held on 13th December 2021.

55. Declarations of Interest

Members present at the meeting declared the following personal interests in their capacity as a Councillor or Clerk of a County, Town or Parish Council or any other Local Authority:-

Name	Minute No.	Description of Interest	Reason	Action Taken
Cllr L Baker	All Items	Cheddon Fitzpaine & Taunton Charter Trustee	Personal	Spoke and Voted
Cllr S Coles	All Items	SCC & Taunton Charter Trustee	Personal	Spoke and Voted
Cllr H Davies	All Items	SCC	Personal	Spoke and Voted
Cllr D Johnson	All Items	SCC	Personal	Spoke and Voted
Cllr J Lloyd	All Items	Wellington & Sampford Arundel	Personal	Spoke and Voted
Cllr M Peters	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr T Venner	All Items	Minehead	Personal	Spoke and Voted

56. Public Participation

No requests for public participation were received.

57. **Audit and Governance Committee Forward Plan**

The Committee resolved to note the Audit and Governance Committee Forward Plan.

58. **External Audit – Progress Report and Sector Update**

The Corporate Finance Manager provided an introduction to the report:

- The report was the progress report and sector update from our external auditors, Grant Thornton.
- The recommendation of the report was for the committee to consider and note the report.

The Director from Grant Thornton provided a further introduction to the report:

- For the 2020-2021 Audit the Financial Statement Opinion was issued on 30th September 2021 and the Auditors Opinion was issued on 15th December 2021. These dates were in line with the statutory deadlines. The final proposed fee subject to the Public Sector Audit Appointment's (PSAA) approval was £68,500, this matched the fee in the original audit plan for 2021.
- Planning and interim work for the 2021-2022 audit had begun and would continue.
- In terms of the timetable for 2021-2022 accounts the regulation stated that the authority must have produced draft accounts by 31st July 2022. The deadline for published audited financial statements to be published by the Council this year was 30th November 2022.
- The Director from Grant Thornton proceeded to provide a verbal update on item eight on the agenda:
 - Normally Grant Thornton would have brought a report on the Audit Plan to be considered and noted by the committee but were not in a position to do so at present. This was due to there being ongoing discussions nationally with PSAA around fee proposals for 2021-2022 audits and there was also an emergency consultation on potential changes to the CIPFA financial code. Audit plans would not be issued until the consultation was complete.
 - The report would be issued to relevant officers and the committee Chair outside the normal committee cycle and then be brought to the Audit and Governance Committee in June for formal noting.
 - The date for the auditor's annual report was yet to be confirmed.
- In terms of value for money the External Auditors continued with the updated code of audit practice from the prior year. An auditor's annual report would be produced and provided.
- Undertook work to certify the Council's housing benefits subsidies claim in line with the Department for Work and Pensions (DWP) regulations. This was

reported on 18th February 2022. The DWP requested a small amount of follow up work based on some documents having been deleted in line with General Data Protection Regulations (GDPR) however the DWP required the Council to go back to claimants to recover that information. That work was completed, and the updated report provided back to DWP.

- Undertook work on the Council's pooling of housing capital receipts and the report on this was issued in advance of the national deadline.
- Discussed accounting changes with officers.

During the debate the following points were raised:

- It was asked about the figures which the DWP had asked Grant Thornton to go back and check, but which Grant Thornton then found the Council had deleted due to GDPR restrictions and whether this was a cause for concern. The Grant Thornton Director responded that if information was still used in ongoing award calculations, then that document should be maintained regardless of GDPR until there was a change in circumstances. The DWP's view was that unless calculations could be evidenced then it be categorised as being wrong which could then have a monetary impact on the Council. This had been discussed with officers who were then able to go back to claimants and obtain the necessary information but in future information needed to be retained.
- The issue of storing data for the correct length of time to prevent the above issue reoccurring was to be raised with the Monitoring Officer.
- It was asked whether this was something new the DWP had started doing. It was asked how long data could be kept under GDPR and how many cases DWP had sent back. It was responded by the Grant Thornton Director that it did happen that the DWP department would come back on any items they wanted further information on and that this was not new however, this appeared to be the first year where GDPR had caused issues as it was the first year documents were being deleted as a result of GDPR retention periods. There were four or five instances where claimants' details had been deleted. The Council had been able to retrieve the details by contacting those involved.
- It was asked about the Section 144 notice and the bankruptcy procedure for councils and where Croydon Council had issued a Section 144 notice due to a substantial amount of money being missing and whether the auditors had found any case like that for Somerset West and Taunton Council (SWT). The Grant Thornton Director responded that they had not identified any case like that for SWT. Section 144 notices were issued by the Section 151 officer of a local authority if they felt that financially the council could not continue. As an authority SWT was not in that position financially.

The members resolved to note and carry the recommendation in the report:

- 2.1 Members are requested to consider and note the Progress Report and Sector Update received from Grant Thornton.

59. **External Audit - Audit Plan 2021/22**

Having received the External Auditor's verbal presentation as part of the previous agenda item the Committee resolved to carry the recommendations in the report;

2.1 Members are requested to:

- consider and note the External Auditor's verbal presentation,
- delegate receipt and consideration of the final Audit Plan for 2021/22 to the Assistant Director – Finance (S151 Officer) and to the Chair and Vice Chair of this Committee, prior to it being presented to the June meeting of this Committee.

60. **External Audit Risk Assessment 2021/22**

The Corporate Finance Manager provided an introduction to the report:

- Senior Management of the Council had contributed to the responses to the range of questions passed to officers by the auditors. These responses were set out in the report.
- The questions followed a similar trend each year but there were some additional new questions added this year.

The Director from Grant Thornton provided a further introduction to the report:

- Each year auditing standards required that a number of questions were posed by Grant Thornton to management who then provided responses. The paper then comes to the Audit and Governance Committee as it is the body charged with governance at the authority. The Committee is then asked to consider whether the responses from management are in line with their understanding of the authority.

During the debate the following points were raised:

- It was asked about the bad debt provision expected credit losses and what type of bad debt would be written off and how it would be deemed irrecoverable. Officers responded that debts on both the General Fund and Housing Revenue Account were looked at. The older a debt was the less likely it was to be repaid. Calculations were done using formulas to work out the likelihood that debts would not be repaid. Debts were not looked at on an individual basis but rather on a group basis for doubtful debt. When debts were considered for being written off debts were looked at on an individual basis.
- It was asked if in the external auditor's opinion, they would advise the Council to exit the commercial investment portfolio it had and sell all properties. The Grant Thornton Director responded that it was not their place to answer that. Looking forward nationally the view of the sector and government bodies was that investments of the same commercial nature should not be made by local authorities. Selling all properties immediately could however also be a risk particularly if all other local authorities decided to do so at the same time.
- It was asked if the external auditors felt that actions taken by the Council in response to the auditor's recommendations had reduced the risk of the commercial investment. It was responded by the Grant Thornton Director that

the recommendations were there with a view to reducing and highlighting risk and to encourage officers and councillors to recognise that risk and take action to respond to it. It was a democratic decision to invest or not. The guidance from government was not to invest in properties for yield. Officers responded that the purchase of Commercial Investments by the Council had been completed and there were no plans to purchase any more commercial properties. The purchases had been completed before the new prudential code was established. It was the prudential code which now outlined guidance not to invest

- The granularity of the report was praised.
- It was asked about the separate approval threshold for journal transactions over £50,000 and whether that was the correct level in terms of threshold as well as how long that limit had been in place. It was raised that it would be worth some of the journals below the limit being reviewed in order to reduce the risk of fraud. Officers responded that they believed the threshold had been set based on risk. They would provide a full written response after the meeting. The Grant Thornton Director raised that any journal needed to be approved. Most authorities would not authorise all of their journals, only those over a certain value. This was considered during audits and as part of risk assessments.
- Regarding non-current asset valuations, it was asked what the tender process was for appointing valuers. Officers responded that they believed it would go out to tender but would provide a full response following the meeting. Contracts over a certain value had to go through a tender process and the value of the contract was likely above that threshold. The Grant Thornton Director responded that in house valuers had also previously been used as part of valuation programmes.

The Audit and Governance Committee resolved to carry the recommendation in the report:

2.1 The Committee notes the information provided to Grant Thornton LLP to inform their risk assessment in advance of the 2021/22 audit, and considers whether the responses are consistent with its understanding and whether there are any further comments it wishes to make.

61. **SWAP Internal Audit - Progress Report 2021-22 Internal Audit Plan**

The Assistant Director from SWAP introduced the report:

- The report was a progress update to be noted by the Committee.
- Cllr Pugsley left the meeting at 19:03
- It highlighted progress against and changes to the Internal Audit Plan and brought significant findings to the Committee's attention.
- Four reviews had been completed. No adverse opinions had been given.
- Council Tax Business Rates audit was given reasonable assurance and three low priority recommendations were raised.
- Housing benefits audit was given reasonable assurance. There were two low priority recommendations around use of printers and around system access.
- The audit around GDPR received reasonable assurance. There were a few level 2 priority actions.

- A small annual piece of work was done around system parameter testing. This was done to ensure various areas had been correctly updated in terms of terms and conditions.
- Operate a rolling audit plan. The priorities were agreed for January through to March with the Council's Senior Management Team.
- There were no adverse opinions to bring to the Committee's attention.

During the Debate the following points were raised:

- It was asked whether projects such as Tonedale Mill which were partly funded by Historic England or other groups were included under Regeneration Projects in the reporting. It was responded by the SWAP Assistant Director that the Regeneration Projects audit area was a high-level scope so when an audit was undertaken it would be decided what areas of Regeneration Projects should be looked at in terms of Governance.
- It was raised that there were some advisories which needed to be considered and concerns were raised about this in relation to local government reorganisation. In particular, concerns were raised about the time officers were spending on unitary work and the hidden costs of this. It was responded by the SWAP Assistant Director that the Unitary Preparedness review was to look at lessons learned from the Transformation this council went through and to use those lessons for the current local government reorganisation. There would be pressures on staff as a result of the work involved in the transition to a unitary authority and maintaining services would be a challenge.
- It was asked what issues had been highlighted from Dorset and what lessons had been learned. The Assistant Director from SWAP responded that the report with lessons from Dorset's transition could be provided once it was completed.
- It was asked about staff retention being included in the audit and why this had been included. It was responded by Assistant Director from SWAP that staff retention had been highlighted as a risk of Local Government Reorganisation. SWAP would look at what the Council was doing to address this risk and to support staff.
- It was raised that the Unitary Programme was currently four weeks behind and it needed to be considered what could be done to prevent any last-minute rush due to running out of time. It was asked if this could be considered by the auditors as part of the Unitary Preparedness audit. The Assistant Director from SWAP responded that the report from the Unitary Preparedness audit would be a high-level report but there was a quality review being done by PricewaterhouseCoopers which would also provide assurance.

The Audit and Governance Committee resolved to carry the recommendation in the report:

2.1 Members are asked to note progress made in delivery of the 2021-22 internal audit plan and significant findings since the previous update in December 2021.

62. **SWAP Internal Audit - 2022-23 Internal Audit Plan and Internal Audit Charter**

The Assistant Director from SWAP introduced the report:

- The report asked for the Committee's approval for the Audit Plan and the Audit Charter.
- Having an agile rolling audit plan would be important for the next twelve months. The items on the plan would change over time but the rolling audit plan was tailored based on what was expected to be a priority for the year.
- This year's plan was a quarterly rolling audit plan.
- The priorities for quarter one had been agreed with the senior management team and tied into the corporate risk register. Areas included homelessness and cyber security.
- The members of the Committee were asked to submit any items which they felt should be considered for auditing to the SWAP Assistant Director.
- The Audit Charter set out the nature, role and responsibilities of the Internal Auditors. It outlined the relationship between the Internal Auditors and the Council. The Audit Charter had not changed since last year. The Charter was reviewed to ensure it met the necessary standards.

During the debate the following points were raised:

- It was raised that one of the greatest savings from Local Government Reorganisation would be financial and that most of this saving was from a reduction in staff. Concerns were raised about how this would impact upon staff retention and how everything would be kept track of in terms of aspects such as payroll systems needing to be combined. The SWAP Assistant Director responded that they were in regular contact with senior officers and with the Unitary Programme. There would not be time to review and audit every area of the programme but focus would be prioritised based on risk.
- It was raised that there would need to be large numbers of redundancies due to the level of savings being talked about. Assurance of the robustness of any redundancy packages would be needed, particularly given the differences between the five authorities.
- It was asked about the increased Cyber Security risk given world events. The Assistant Director from SWAP responded that sanctions in relation to events in Ukraine could increase the risk of Cyber Attacks, particularly on government and local government.
- It was asked if all the five councils were looking at the same areas in terms of unitary and audits. The Assistant Director from SWAP responded that the rolling audit plan was for Somerset West and Taunton. The audits in relation to Unitary were agreed with the workstream leads from all five authorities and aimed to ensure no one authority was disproportionately burdened.

The Audit and Governance Committee resolved to approve the recommendations in the report:

2.1 Members are requested to approve the Internal Audit Plan for 2022/23. 2.2 Members are requested to approve the Internal Audit Charter.

63. **Summary of Level 1 and 2 Internal Audit Actions**

The Business Intelligence and Performance Manager introduced the report:

- The report updated on progress on implementing the Level 1 & 2 Audit Actions. The report gave the position as of January 2022.
- Since the last report to the Committee there was one Audit which now had all Level 1 & 2 actions completed which was the audit on Procurement.
- Currently twelve audit actions open. Three of those were beyond their set date for completion. These were all on health and safety and whilst not yet complete progress had been made. The other nine actions had a completion date in the future.

The Audit and Governance Committee resolved to carry the recommendation in the report:

2.1 The Committee reviews the overdue actions contained in the report and notes progress to date.

64. **Capital Investment and Treasury Strategy 2022/23**

The Corporate Finance Manager delivered a presentation on the report:

- The document was a comprehensive report and included information on capital strategy, investment strategy, treasury strategy policy statements, minimum revenue provision, prudential and treasury indicators and mechanisms for control of the Council's finances. The Council were required to produce this report on an annual basis by CIPFA.
- Responsibilities for these strategies and policies were with members, the senior management team and the treasury management team.
- An update was given on some changes which had been made to the report before it would go to the Executive Committee following this Committee.
- The strategy sought to ensure that the Council's capital investment and everything around that including financing, borrowing and future revenue budgets, were affordable, prudent and sustainable.
- Public Works Loan Board (PWL) borrowing was restricted in November 2020 for the Council and other local authorities nationally who had undertaken investments in commercial strategies. The Council's strategy therefore had to work around this.
- The report included details of the Council's minimum revenue provision (MRP) and this would be reviewed by the auditors who would examine whether the Council was making adequate provision for debt repayment.
- The Council had various investments, of which the commercial properties were the largest.
- The report provided information on the Council's Treasury Management.
- The report detailed the Council's net turnover versus expenditure.
- It was raised that there was an error in two figures in the report and the correct figures were provided.

During the debate the following points were raised:

- It was asked if the financing costs to the authority for interest on loans and the MRP for debt were 1.24% of turnover in 2020/21 but would increase to

- 4.02% of turnover in 2021/22 and would continue to increase as a percentage in the following years. Officers acknowledged that this was correct.
- It was asked how the Council's investments and the financing costs associated with them would be kept safe and under control once the new authority was formed. Officers responded that a MRP would still be required and reviewed by the new authority's auditors. It may be that the new authority would make some voluntary debt repayments which was something that Somerset West and Taunton Council had done to manage the pressure of debts.
 - It was raised that the financing costs reduced in 2022/23 but the proportion of turnover increased. Understanding was that the capital on the investment properties would be being paid off so it was asked if the percentage should go down rather than increase. Officers responded that the figures went up based on predictions that interest rates would continue to rise but figures could change based on interest rates. Borrowing strategies were also applied by officers to achieve best value for the Council's borrowing costs. This was done using a balance on long-term, medium-term and short-term borrowing. For the Housing Revenue Account (HRA) the HRA's assets long life assets and so would more likely use long-term borrowing. But short-term borrowing was also undertaken to enable the new authority to make different decisions should they wish and to ensure they were not tied down and medium-term borrowing was also being undertaken to ensure best value.
 - It was asked if officers could confirm that yield per capital investment was being achieved on the properties the Council had invested on over the last 12 months. Officers responded that £98m had been invested into properties and the return for those properties had been built into budget projections. These returns would be monitored as part of budget management but was not part of the strategy report.
 - It was asked if the Council had to borrow money from banks or whether it could borrow from government or other local authorities. Officers responded that banks tended to charge higher interest. Officers looked at local authority to local authority borrowing and had done well at securing that type of borrowing. Borrowing options had had to be considered more carefully since the Council was no longer able to easily access PWLB borrowing. If it transpired that PWLB borrowing was still available to the Council then it would be used. The Council would not take out bank loans, though there may be some historical bank loans that the Council still had.
 - It was asked if it was the case that the Council could not borrow from PWLB for a period of three years after taking out borrowing for yield. Officers responded that they would provide a written response. The Director from Grant Thornton responded that there previously were conditions that a local authority seeking to use PWLB borrowing had to provide a three-year capital plan in which the stipulated that the borrowing would not be used for commercial investment, however, things had moved on since then and rules could have changed.
 - It was asked if the inability to borrow PWLB money would transfer to the new authority or whether the new authority would be able to access PWLB money. Officers responded that this question had been posed to PWLB but there had not yet been a response. Some authorities in Somerset had not used commercial investment.

The Audit and Governance Committee resolved to carry the recommendation in the report:

2.1 Full Council is recommended to approve the CIT Strategies and MRP Statement for adoption with effect from 1 April 2022

65. **Audit and Governance Committee Chair's Annual Report 2021/22 - For Information Only**

The Chair raised the need for members to complete the related party transaction forms and asked that members ensured they completed and returned them.

The Chair thanked the Committee for their support over the last twelve months.

(The Meeting ended at 8.11 pm)