

# Minutes

of the Meeting of the

## Audit Committee

**Tuesday 14 January 2020**

held at the Town Hall, Weston-super-Mare, Somerset.

Meeting Commenced: 2.00 pm    Meeting Concluded: 4.55 pm

### Councillors:

P John Cato (Chairman)

P Geoff Richardson (Vice-Chairman)

P Sandra Hearne

P Richard Westwood

P Marcia Pepperall

P: Present

A: Apologies for absence submitted

**Also in attendance:** Barrie Morris (Grant Thornton).

**Officers in attendance:** Mark Anderson (Corporate Services), Stephen Ballard (Corporate Services), Jo-Anne Buchan (Audit West), Peter Cann (Audit West), Michèle Chesterman, Roz Hime (Corporate Services), Richard Penska (Corporate Services), Mel Watts (Corporate Services), Jeff Wring (Audit West)

### **AUD    Declaration of Disclosable Pecuniary Interest (Agenda item 3)** **9**

None.

### **AUD    Minutes of the Meeting held on 25 July 2019 (Agenda item 4)** **10**

**Resolved:** that the minutes of the meeting be approved as a correct record.

### **AUD    Terms of Reference (Agenda item 6)** **11**

The Service Director, Audit West, made the Committee aware that the Chartered Institute of Public Finance and Accountancy (CIPFA) had issued guidance for Local Authority and Police Audit Committees including suggested terms of reference for audit committees. Following review of CIPFA's best practice on the scope and remit of an Audit Committee in a Local Authority the Committee was asked to formally note and endorse a revised set of its terms of reference (Appendix 1 of the Report).

**Resolved:** that following recommendation to the Council meeting on 12 November 2019 the revised terms of reference for the Audit Committee be noted.

## **AUD     External Audit (Agenda item 7)**

**12**

The Committee considered the reports submitted by the Council's external auditors. Appendix 1 provided the Annual Audit Letter and Appendix 2 provided an update on the External Auditors' work for North Somerset Council along with references to a number of national initiatives, announcements and publications.

Grant Thornton's engagement lead Barrie Morris presented the Annual Audit Letter summarising the key findings arising from the work carried out at North Somerset Council for the year ended 31 March 2019. The letter was intended to provide a commentary on the results of Grant Thornton's work to the Council and external stakeholders, and to highlight any issues which should be drawn to the attention of the public.

The Audit Progress Report and Sector Update provided the Audit Committee with a report on progress on the delivery of the external auditors' responsibilities. The paper also included a summary of emerging national issues and developments that might be of interest to the Council and included a number of challenge questions in respect of those emerging issues which the Audit Committee might wish to consider.

A discussion took place on materiality and how North Somerset Council compared with other authorities – the external auditors had determined materiality for the audit of the Council's financial statements to be £6.88m, which was 2% of the Council's gross revenue expenditure - a percentage comparable with most local authorities.

Members also discussed controls on journal entries. Members were made aware that detailed testing was undertaken on journal entries that were of high risk. Controls were also in place to back up journals and External Audit sample checked journals during the year.

Members asked if External Audit provided guidance to officers and the Executive. The response was that External Audit did not provide guidance but scrutinised the mechanisms the local authority had in place and budget gaps. Budget setting processes were examined along with savings and how much was delivered (85% last year). Forward projections were looked at in terms of realistic pay rises, strategic investments and income streams such as council tax, business rates etc. It was noted that North Somerset Council performed well.

**Resolved:** that the contents of the Annual Audit Letter and Audit Progress Report and Sector Update Report be noted.

## **AUD     Treasury Management Strategy 2019/20 (Agenda item 8)**

**13**

The Principal Accountant (Resources) presented the report which set out the Council's treasury management activities during the first six months of 2019/20 and confirmed that the activities undertaken during the year had complied with both the requirements of the Accountability and Responsibility Framework and the approved Treasury Management Strategy approved by

Council in February 2019. The report also informed the Audit Committee of the Council's treasury management indicators for 2019/20 as required by CIPFA's Prudential Code for Capital Finance in Local Authorities.

Members discussed the treasury management process in terms of how it operated and how it was evaluated. The Council's lending and borrowing list was regularly reviewed during the financial year and credit ratings were monitored throughout the year. All lending/borrowing transactions were within approved limits and with approved institutions. Investment and borrowing advice was provided by Arlingclose, the Council's treasury management consultants.

**Resolved:** that the treasury management in-year monitoring report to 30 September 2019 and treasury management indicators to 30 September 2019 be noted.

#### **AUD 14**      **Statement of Accounts (Agenda item 9)**

The Principal Accountant (Closure and Systems) presented the report which provided an update on the issues which impacted the annual accounts process. These included changes to the Code and the annual review of the Council's accounting policies. The report also provided Members with a reminder of the concept of materiality and outlined the officers' approach in applying materiality in preparing the draft financial statements.

Members were advised that the Code of Practice was updated annually to reflect new or updated accounting standards. In respect of the 2019/20 financial year there were only a few minor changes to the Code, none of which were likely to have a significant impact on the Council's accounts. However, 'IFRS16 – Leases' was due to be implemented within the Code for 2020/21. This was likely to require the re-classification of the majority of leases which the Council was subject to as lessee and revisions to the related accounting entries and disclosures. Disclosure of the likely impact of this change would need to be included in the 2019/20 accounts which would likely require significant work by officers in the current year. It was noted that the Code had been published but the guidance was not yet available.

Officers would continue to keep Members informed of any significant changes in future Code requirements for the content and format of the Council's accounts.

Members were asked for their views on the discussions in the appendices to the report.

#### **Resolved:**

(1) that the developments in the CIPFA Code of Practice for Local Government Accounts, over the next few years, be noted including:

that there were limited changes to the Code for 2019/20; that significant work was likely to be required to quantify the impact of the implementation of 'IFRS16 – Leases' in 2020/21 for disclosure within the 2019/20 accounts;

and that CIPFA was currently undertaking a consultation/review to improve the clarity and focus of future local government accounts.

(2) that the requirement for the Council's accounts to provide a 'true and fair' view of the Council's financial position and transactions, and the concept of materiality be noted including:

proposals for the assessment of materiality limits to be applied by officers in drawing up the Council's statement of accounts and proposals highlighting disclosures, which, although not material due to their value, were considered material due to their nature.

(3) that the publication of the CIPFA Financial Management Code be noted including:

that the Code was designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability and that officers would be reviewing the Code and would then work with members to ensure the Council satisfied its requirements.

## **AUD 15      Audit & Assurance (Agenda Item 10)**

The Service Director, Audit West presented the report on the Internal Audit Assurance Plan Update 2019/20 which provided an update on progress in delivering the 2019/20 Annual Audit Assurance Plan and summarised performance from 1 April to 30 September 2019.

The performance chart illustrated that as at six months into the year (September 2019) the overall delivery of the plan was behind target. A significant level of sickness relating to a member of the team was impacting upon delivery of the plan. However, mitigating actions were in place. Customers related the service as 'excellent'. Critical and high-level recommendations had been implemented and audit reviews were substantially being completed within their allocated days. Finally, the state of the internal control framework was satisfactory, based on audit opinions.

An updated position statement would be provided for the next Audit Committee on 30 January 2020. At which time it was anticipated that there would be a significant improvement.

Members queried the measures being taken to keep a track on recommendations and were referred to chart 4 on the performance dashboard (page 2 of the report) which illustrated that all recommendations had been implemented within the timescales provided. In the case of any high-level deviations officers would be invited to explain the data at Audit Committee.

Members were advised that the audit service had undertaken two new investigations during the year, equating to approximately 32 days so far. In respect of the first investigation, Internal Audit were contacted by the Integrated Transport Unit (ITU) following some issues that had been identified with a taxi company with whom the Council had contracted to provide Home to School Transport. The second investigation remained

ongoing and therefore details of the specific issue and service area it related to could not be reported in full. However, it was confirmed that it related to a whistle blowing allegation of alleged fraudulent practice.

Members then discussed whistle blowing. Officers informed the Committee that the number of cases was similar this year as in previous years and there were no significant concerns. Members also discussed the IT outage incident that had occurred prior to the elections. Officers noted that this would be addressed as part of business continuity. It would depend if the IT outage was a one-off incident or if it happened repeatedly in which case it would be noted on the risk register.

**Resolved:** that the progress in delivery of the 2019/20 Annual Audit Assurance Plan be noted.

## **AUD 16      Fraud & Corruption (Agenda Item 11)**

The Service Director, Audit West, presented the report on Counter Fraud Update, Anti-Fraud and Corruption Strategy 2019. An outline was provided of the work carried out to review and update the Anti-Fraud and Corruption Strategy and related policies which were being presented for consultation. The Audit Committee was also provided with an overview of the National Fraud Initiative (NFI) and information related to investigations carried out by the Internal Audit function.

Known fraud risk areas in local authorities included council tax single person discount fraud, disabled parking concessions (blue badge), business rates and procurement fraud.

Members discussed the availability of training to understand and detect incidents of fraud. The Council's e-learning portal contained a fraud module which formed part of the e-learning package for staff. Regular updates were also provided in the 'Knowledge' which was emailed to staff on a weekly basis. The Council also had access to data protection and information security experts. Training had been provided by organisations such as Barclays, for example, on bank mandate fraud. Fraud and corruption were also addressed in the Members' Code of Conduct.

A discussion took place on disabled parking concession (blue badge). Members were advised that it was estimated that approximately 2% of parking revenue was lost to Blue Badge fraud. It was estimated that the number of badges would increase due to the recent changes to legislation in August 2019, opening the applications to service users who were affected by 'hidden disabilities' including mental health disability, and not just physical disability. With the increase in badges it was expected that fraudulent use would also increase. A recent review of the procedures and processes for reporting Blue Badge fraud had been examined aiming to ensure clear reporting lines for the public and staff to report fraud.

The CIPFA Counter Fraud Centre had produced a Local Government Counter Fraud and Corruption Strategy which promoted three key themes 'Acknowledge, Prevent and Pursue'. The Council had adopted these themes in its Anti-Fraud and Corruption Strategy.

**Resolved:**

- (1) that the Counter Fraud Update Report be noted.
- (2) that the updated Anti-Fraud and Corruption Strategy and associated policies be received and reviewed.

**AUD 17 Risk Management (Agenda Item 12)**

The Service Director, Audit West, provided the Committee with an update on the Council's existing risk management framework which aimed to ensure that good governance was applied across all Council services.

Members' attention was drawn to the fact that the Audit Committee had received a report in January 2019 on a refreshed approach to the Council's risk management framework and endorsed a revised strategy and approach. Due to the change in the Committee's make up following local elections in May 2019 an update report had been requested.

The strategy (and toolkit) was designed to support officers and members in delivering on the Council's plans and operational objectives.

The strategy document outlined the risk management objectives, how these would be achieved and how good practice would be embedded along with key milestones and expectations (Appendix 1). The detailed approach to risk management was further explained and outlined in the Risk Management Toolkit (Appendix 2).

Since the new arrangements were approved the Council's Corporate Leadership Team had worked through a number of workshop sessions to create a refreshed Corporate Risk Register and this was also attached for information (Appendix 3).

A discussion took place on the risk management section of reports and whether there was any specific guidance for report authors. Officers responded that it would not be possible to provide a standard template for completion due to the many and varied types of decisions taken by the Council. However, this could be addressed through the statutory sign off process by the Section 151 Officer and Head of Legal.

**Resolved:**

- (1) that the Council's risk management arrangements be noted.
- (2) that the quarterly risk register be circulated to Committee Members.

**AUD 18 Work Plan (Agenda Item 13)**

The Service Director, Audit West, presented the Audit Committee Work Plan. The details of the Audit Committee Work Plan were set out in Appendix A and was based on the Committee's terms of reference and any statutory requirements such as the approval of the Annual Accounts.

Lay members to the Committee's membership could be recruited to assist the work of the Committee. The Audit Committee's terms of reference contained the authority to recruit such lay members. Any recruitment exercise would normally include the Chair of the Committee, a lead Council Officer and if necessary one additional member. Members' views were sought on any recruitment process and associated timeframes.

Members discussed the appointment of lay members and agreed that the process should be commenced.

**Resolved:**

- (1) that the ongoing work plan for the Audit Committee be noted
- (2) that the process to recruit lay members be commenced.

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Chairman

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