

# Minutes

of the Meeting of the

## Audit Committee

**Tuesday 30 January 2020**

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

Meeting Commenced: 2.00 pm    Meeting Concluded: 3.30 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

**Other Councillors in attendance:** Mark Canniford, Ashley Cartman, Andy Cole, Ciarán Cronnelly, Don Davies, Catherine Gibbons, Richard Tucker

### Also in attendance:

Barrie Morris, Gail Turner-Radcliffe (Grant Thornton)

**Officers in attendance:** Steve Ballard (Corporate Services), Jo-Anne Buchan (Audit West), Peter Cann (Audit West), Michèle Chesterman, Richard Penska (Corporate Services), Jeff Wring (Audit West)

### AUD Chairman's Welcome

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The Chairman welcomed Executive Members, Chairs & Vice Chairs of Scrutiny and Chairs and Vice Chairs of Committees who had been invited to attend today. He expressed his appreciation of their attendance and invited them to contribute throughout the course of the meeting. He would be audio recording today's meeting.

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

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None.

### AUD Minutes of the Meeting held on 14 January 2020 (Agenda item 4)

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The Chair outlined the following amendments to the Minutes of the last meeting:

**Agenda Item 7, Page 2, paragraph 4**

After 'A discussion took place on' insert '*concerns about the level determined for ...*'

**Agenda Item 12, Page 6, paragraph 6, line 2**

After 'A discussion took place on the risk management section of reports and whether there was any specific guidance for report authors,' insert '*as the concern was that frequently reports did not clearly and quantifiably show the risk attached to reports in a consistent manner.*'

**Agenda Item 12, Page 6, paragraph 6, line 5**

After However, delete 'this could be addressed through the statutory sign off process by the Section 151 Officer and Head of Legal' and insert '*the Section 151 Officer agreed to take this on board and looked to addressing it in the future through the statutory sign-off process by the Section 151 Officer and Head of Legal, communicating to authors the requirement for improved clarity of information about risks.*'

**Resolved:** that subject to the amendments above the minutes of the meeting be approved as a correct record.

**AUD External Audit (Agenda item 6)**  
**21**

The Committee considered the reports submitted by the Council's external auditors. Appendix 1 provided an update on the External Auditors work for North Somerset Council along with references to a number of national initiatives, announcements and publications which might be of use to the Council. Appendix 2 detailed the proposed plan for the External Auditor to complete their work in relation to the 2019/20 Account. Appendix 3 provided an explanation of the scope of works and Scale Fee Variation Letter.

*External Audit Plan*

The Audit plan provided an overview of the planned scope and timing of the statutory audit of North Somerset Council for those charged with governance. The scope of the audit was set in accordance with the Code and International Standards on Auditing (ISAs) (UK). External Audit were responsible for forming and expressing an opinion on the Authority's financial statements that had been prepared by management with the oversight of the Audit Committee; and value for money arrangements in place at the Authority for securing economy, efficiency and effectiveness in the Council's use of resources. The key matters impacting the audit were the wider economy and political uncertainty and financial reporting and audit – raising the bar.

Risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error had been identified as:

valuation of land and buildings (rolling valuation); valuation of net pension fund liability; management override of controls; the revenue transactions included fraudulent transactions. Significant findings on the above areas as well as any other significant matters arising from the audit would be reported in the Audit Findings (ISA 260) Report.

Members were asked to raise any issues they felt should be brought to the attention of the Audit Committee.

Members asked what the term revenue recognition referred to – the External Auditors responded that this referred to the timing of when the Authority was reflecting on the incomes that came into the Council's accounts. Members also queried how often council assets were valued. The External Auditors responded that this would vary on the type of asset being valued and the risk of material misstatement, for example if the asset market value may have changed by more than 2%, the materiality level set by the external auditors. There were different types of assets, operational assets that could be valued on a 5 year revaluation cycle and investment assets that had to be valued annually. The Sovereign Centre, for example, as an investment property required valuing every year. The Authority revalued its land and buildings on a rolling basis. Office buildings were valued at market value whereas other assets would be valued differently, for example rental income being taken into account etc.

An executive member asked about the potential differences and risks thereof between accounting reports coming before the Executive and those going to the external auditors. It was noted these reports were different, one being the statutory accounts and the other being concerned with the monthly budget monitor/management accounts. It was noted (Section 151 Officer) that if there were concerns about risks in this area, this would be a matter for internal auditors to assure that was correct. It was also noted (EA) that the narrative report was often a reflection of the budget monitoring reports and one of the responsibilities of the Audit committee was to ensure the narrative report was consistent with the budget monitoring reports (EA) and this was how the EA report covered that audit linkage.

With regard to pensions valuations, the External Auditors informed the Committee that one of the areas of work to be carried out this year involved using experts from PWC to examine what North Somerset Council did to ensure that the actuaries were using valid assumptions as the onus was on management to make sure the assumptions reflected the local workforce. The External Auditors would be involved in testing that those assumptions were accurate. They would also be taking into account any late cases, such as the McCloud and Sargeant cases, and new information was expected to be due out in July 2020. It was noted that the revised pension contribution for 1 April 2020 would not impact on the accounts.

Members were made aware that included under other key risks identified was the International Financial Reporting Standard (IFRS) 16 Leases (26:16). The public sector would implement this standard from 1 April 2020. Under the new standard the current distinction between operating and finance

leases was removed for lessees and, subject to certain exceptions, lessees would recognise all leases on their balance sheets as a right of use asset and a liability to make the lease payment. An exemption was in place whereby local authorities and the Health Service had a year longer to implement. It was noted that the Public Health website contained a helpful calculation tool. See: <https://improvement.nhs.uk/resources/ifrs-16/> This was considered a very complex area and it would have an impact on the Authority and a significant impact on the balance sheet and the workload. It was noted that the external auditors would need to see how this developed and would keep North Somerset Council up-to-date on this as developments arise.

The External Auditors were asked for feedback on any issues emerging from other local authorities. Members were informed that concerns had been expressed recently with some other local authority reserves being depleted and mergers taking place. North Somerset Council's materiality was at a level of 2% but there were other areas where there were lower levels of materiality. It was noted that North Somerset was in as good a position as it could be with cash flow for the next 2-3 years.

Under section 7 of the Audit Plan - Value for Money Arrangements – the External Auditors noted that the only risk area for the Council was future financial sustainability. Like many other similar local authorities, the financial outlook remained challenging. The fact that the Authority might make a deficit did not always mean poor arrangements were in place.

Members were informed that a new Audit Manager had been appointed, Gail Turner-Radcliffe, whose role was to be a key contact with the senior management and the Audit Committee.

#### *Audit Progress Report & Sector Update*

Members received the report from the External Auditors on the Audit Progress Report & Sector Update which provided the Audit and Standards Committee with a report on progress in delivering the External Auditors' responsibilities. The paper also included a summary of emerging national issues and developments that may be relevant to the Council; and included a number of challenge questions in respect of the emerging issues which the Committee may wish to consider.

Members asked about the reference to the NAO on page 4 that referred to page 9 for details on significant changes due to the Value for Money work from 2020, and it was noted this was missing from the report, but had been included in the last progress report.

The certification of Housing Benefit claim for North Somerset Council (page 6) had been completed on 29 November 2020. Overall the audit identified less error types than in previous years and saw an overall improvement in the findings indicating a well-run benefit service. The adjustments to the claim form had minimal impact on subsidy claimed, with an overall reduction of £893. It was noted that often across Councils it was hard to retain staff. Where there was a lack of capacity problems occurred. This was not the case for North Somerset Council.

The final fee for the work was £15,776 which was based on the level of work required to certify the claim and reflected the additional work required due to the errors identified within the initial testing and follow up of prior year issues.

Members were unable to access some of the links to the websites in the report and asked if the External Auditor could email through to democratic services for circulation to the Audit Committee.

Members discussed information in relation to the Council's investment properties, how this would be of interest to residents and that the figures could be published in an appendix of North Somerset Life. It was noted by the Section 151 Officer that current values and income of investment properties were included in the budget monitors report, and this information would be periodically made very clear and expanded.

**Resolved:**

- (1) that the reports presented by the External Auditor be noted.
- (2) that the External Auditor email a link to the websites referenced in the report to democratic services for circulation to the Audit Committee.
- (3) that Finance officers will report on investment properties in a more clear and expanded form in the budget monitor reports and will consider the publication of information on the Council's investment properties in an appendix of North Somerset Life.

**AUD 22 Treasury Management (Agenda item 7)**

The Principal Accountant (Closure and Systems) presented the Treasury Management Update. The purpose of the report was to note the key messages arising from the treasury management training workshop, provided and facilitated by Arlingclose, the Council's treasury management advisors, to members of the Audit Committee on 15 January 2020, and to summarise discussions to the preparation of the Strategy for 2020/21. The objective of the workshop was to provide members with an understanding of the Council's Treasury Management Strategy and the key risks and implications associated with this, and how members provided scrutiny of the Council's treasury management activities.

The content of the presentation included an introduction to treasury management; how members provide scrutiny of treasury management; the purpose and required content to the Council's Treasury Management and Capital strategies; an overview of the economic outlook; an overview of the Council's projected need for external borrowing; treasury management risks and how they were managed through the Council's Treasury Management Strategy; sources of capital financing and options for sources of borrowing; investment management objectives – security, liquidity, then yield and benchmarking the Council's investments by type and risk.

Members discussed issues arising from the presentation including equity funds; developing markets; borrowing to invest; property investments; risk appetite.

Under property investments, the Council held a £5m investment in the CCLA property fund (80 properties), returning about 4%. Members noted that some other property funds valuations had fallen and the economic outlook remained uncertain and that there was an inherent problem within the fund. Arlingclose had highlighted that the CCLA only had investors from the public sector, who invested for the medium term rather than the short term, although there was a potential risk regarding the liquidity if property needed to be disposed of to enable redemptions. The Section 151 Officer noted the point was not captured well enough in the paper and asked it be captured in this minute that this asset risk be further investigated by the team, action to follow up by the Section 151 Officer.

Members asked if any consideration had been given by the Authority to use some of its assets for green infrastructure. At a recent Local Government Association Workshop attended by the Chair on commercialisation it was noted that some authorities had utilised cash assets to invest in wind turbines, solar panels, etc that would serve/benefit the community and return a good yield in terms of asset value. The Interim Head of Finance expressed an interest in receiving a copy of the presentation from the LGA Workshop.

Members asked if information could be provided on the statistical twins of North Somerset. The Section 151 Officer suggested further investigation into the CIPFA resilience index to see if that might give us a better view across councils. Finance officers agreed to liaise with the Council's treasury management advisers, Arlingclose, to see if this would be feasible.

The Chairman thanked the officers on behalf of the Committee for their excellent work in presenting and facilitating the workshop on Treasury Management member training which was very useful and helpful.

**Resolved:**

- (1) that the key messages from the Treasury Management member training workshop held on 15 January 2020 be noted;
- (2) that the Council's treasury management team continued to work within the Council's current Treasury Management Strategy (as it provided sufficient flexibility to allow investment opportunities to be considered, whilst providing mitigation of risk) be agreed;
- (3) that the fact that information supporting the investment strategy would be subject to continuous review on an on-going basis, by officers and members, supported by the Council's treasury management advisors be noted;
- (4) that Finance officers liaise with Arlingclose regarding the feasibility of providing information on the statistical twins of North Somerset;

(5) that the Chair provide the Interim Head of Finance with a copy of the presentation from the LGA Workshop on commercialisation.

**AUD  
23**      **Internal Audit Plan (Agenda Item 8)**

The Service Director, Audit West, presented the report on the Audit Plan – Audit Committee Consultation which updated the Audit Committee on the methodology used to create the internal Audit Plan and asked for comments on areas or themes the Committee would like to be considered within their plan for 2020/21. The work of the Internal Audit Service was to provide independent assurance to the council's senior officers and members that governance, risk management and controls were sufficient in ensuring delivery of the council's objectives.

The Council used the 'Reasonable Assurance Model'. The model assessed level of Assurance in place over eight themes (risk management, financial management, asset management, corporate governance, programme & project management, procurement & commissioning, information management and performance management (and any new areas).

Members identified areas of possible work into areas of governance of procurement, use of risk management so there could be better informed decisions by members, adequate processes into children's education other than at school, levels of officer autonomy and associated risk, governance of commitments by developers, care provision governance, continual ongoing internal processes review and improvement.

Executive Members and Scrutiny Chairs had been invited to attend the Audit Committee and the Chair asked them to consider ways in which areas of governance could be improved.

Members were asked to provide feedback on the Internal Audit Plan by the end of March 2020. An updated report would be submitted to the Audit Committee on 30 April 2020.

**Resolved:** that the Committee comment on any areas or themes they would like to be considered in relation to the Internal Audit Plan for 2020/21.

**AUD     Annual Governance Statement (Agenda item 9)**

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The Service Director, Audit West, presented the report on the Annual Governance Statement 2019/20 which provided a brief overview of the process for the completion of the Annual Governance Statement for 2019/20. Whilst the statement was prepared and authorised by management and the Leader of the Council, the Audit Committee had specific terms of reference given to it which required it to consider the Annual Governance Statement and the framework which supported it which included primarily the local code of corporate governance.

The document formed part of the Annual Accounts and was subject to External Audit. It ensured that the Council was open and transparent. The annex detailed the time frames. Appendix 2 contained North Somerset Council's 2018/19 Annual Governance Statement. The only significant issue for last year was senior management capacity and the impact over the last 12 months.

**Resolved:** that the report and process for the Annual Governance Statement be noted.

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Chairman

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