

# Minutes

of the Meeting of

## The Audit Committee

Thursday, 21 September 2023

Kenn Room

Meeting Commenced: 10.35 am

Meeting Concluded: 12.36 pm

### Councillors:

Patrick Keating (Chairperson)

Marcia Pepperall

Joe Tristram

Richard Tucker (Vice Chairperson)

**Independent Members:** Peter Bray, Sharon Colk

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

**Officers in attendance:** Amy Webb (Director of Corporate Services), Melanie Watts (Head of Finance), Mark Anderson (Principal Accountant (Resources)), Steve Ballard (Principal Accountant (Closure and Systems)), Peter Cann (Head of Audit and Assurance) and Hazel Brinton (Committee Services Manager).

### **AUD Election of Vice Chairperson for Municipal Year 2023-24**

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**Resolved:** that Councillor Tucker be elected as Vice Chairperson of the Audit Committee for Municipal Year 2023-24.

The Committee noted that an additional member nominated by the Conservative Party and Independents Group was required for a full committee. Councillor Pepperall would take this forward with her group leader.

### **AUD Declaration of Disclosable Pecuniary Interest (Standing Order 37)**

2

None declared.

### **AUD Minutes of the meeting held on 9 March 2023**

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

### **AUD Q1 Risk Management Update 2023-24**

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The Corporate Services Director explained the risk management process which

followed the Risk Management framework approved by the Audit Committee in November 2022 and gave assurance that the process was followed across the council. She added that the National Risk Register had also been considered by the council earlier in the year and risks resulting from this exercise were known as “principal risks”.

She noted that the level of some risks had changed, and new ones had been added particularly as a result the cost-of-living crisis, but mitigations were being developed via a council-wide action plan. A review had been undertaken of the council’s buildings in light of the recent issues with Reinforced Autoclaved Aerated Concrete (RAAC) and following an initial assessment of schools, the council had been assured that there was no issue with school buildings and that the majority of other buildings were unaffected. One off funding had been approved to conduct additional survey work. The situation would continue to be monitored and resourced appropriately.

Members raised questions and received answers from officers on the following areas: whether any other building in North Somerset had issues with “High Alumina Cement Concrete” (HACC); what percentage of council buildings were affected by RACC; whether the council had any risk around pay equality issues as experienced by Birmingham City Council; whether there was a set ratio for councils for borrowing limits versus income and whether North Somerset Council was close to it; how the council would prioritise dealing with high residual risks given budget constraints; whether the council had loans out with other local authorities and how mature the council was with the cyber-attack risk.

The Corporate Services Director agreed to arrange an informal update on cyber security with the Audit Committee.

**Resolved:** That the Q1 updates to the 2023/24 Strategic Risk Register and escalated risks from the Directorate Risk Registers be noted.

## **AUD 5 Internal Audit Update September 2023**

The Head of Audit and Assurance (Audit West) presented the report on the Audit and Assurance Annual Report 2022-2023 and Update Report 2023-2024.

He noted that the report was later than usual due to the local elections and included an update on key pieces of audit work completed in the current financial year. He added that a summary of the headline information for the financial year 2022-23 was presented in section 4 of the report and that all but two of the audits completed had an overall audit opinion of satisfactory to excellent. Two audit reports were issued where it was considered that the overall systems of internal controls were weak – ICT Mobile Devices and Mandatory Training for Staff. He noted however that all recommendations made in the audit were agreed and had since been followed up with management to confirm they had been implemented. He informed members that a new Learning and Development System had been procured to be implemented in October 2023 which should address the key issues identified and further audit work would be conducted after this.

The Head of Audit and Assurance highlighted that one main audit investigation had been completed in the 2022-23 financial year in relation to two allegations

within the Place Directorate. Neither allegation was substantiated but opportunities for improvement were identified, and recommendations made. Additionally, he informed members of the audit work completed around Counter Fraud for 2022-23 which could be found in the March 2023 report to the committee.

Members were informed of the completion of the Internal Audit Plan for 2022-23. 48 pieces of audit work were in the plan of which 42 had been completed. Those that had been deferred to 2023-24 were in the Internal Audit Plan for that year. They also received information around the implementation of recommendations of which two had not been agreed including one relating to financial assessments for adult care.

The Head of Audit and Assurance summed up with his formal opinion on the Internal Control Framework 2022-23 which had remained as “satisfactory” and the management of risk continues to be reasonable as per the previous year. He would bring back a detailed update to the committee in November on the Internal Audit Plan for 2023-24.

Members asked that more information be provided to the Audit Committee on the security of ICT Mobile Devices by the council’s Information and ICT Security Manager.

Members asked questions and received clarification on the following issues: the reasons for the deferment of the 5 items from the 2022-23 Internal Audit Plan; the status of recipients of financial assessments for care; how the financial support given under financial assessments for care was monitored by the council to ensure it was being spent on the care need it had been provided for; progress made with the online solution for financial assessments and interim arrangements and the perception by tax payers of the use of the term “satisfactory”.

**Resolved:** that the Audit Committee noted the Internal Audit Annual Report for 2022-23 and the opinion on the Internal Control environment and noted the update on the 2023-24 Internal Audit and associated work.

## **AUD 6 Auditor's Annual Report on North Somerset Council 2021-22**

The representative from Grant Thornton apologised to members for the late delivery of the report for 2020-21 and the lateness of the report for 2021-22. He added that considering this, it was acknowledged that the council could not make progress on the recommendations in the report for 2020-21 and these had therefore not been reported again; only the recommendations for 2021-22 were included. Additional resource has been brought into the Value for Money team to align reporting into the correct year.

He informed members that the report was broadly positive and no further improvement recommendations or statutory recommendations had been made in relation to financial sustainability which had been assessed as “good.”

Members asked for clarity around the meaning and impact of a s114 notice in relation to local government finances. Clarification of the implications of a s114 notice was provided by the council’s s151 officer and the representative from

Grant Thornton.

The representative from Grant Thornton noted that the financial arrangements put in place by the council and the council's finance team were appropriate but future challenges remained. He added that the external auditors had made some recommendations around governance and improving effectiveness, economy, and efficiency. Discussions around these had been held with the s151 officer but he recognised that the recommendations had been made late in the process and a pragmatic view would be taken around the reporting of these for 2022-23.

Members asked questions and received clarification around the following issues: the materiality level against salaries; the council's commercial investment strategy approved in 2019 and Value for Money around the regeneration plan.

**Resolved:** that the Auditor's Annual report for 2021-22 be noted.

## **AUD External Auditor Reports 2022-23**

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The representative from Grant Thornton presented the report on the Audit Plan for 2022-23 which highlighted the programme of work, materiality levels and where work would be focussed around any significant risks.

Turning to the Audit Findings report, the representative from Grant Thornton noted that the report before members set out the current position with the audit and any outstanding matters. He added that progress had been made in respect of the outstanding matters with a small amount of work still to complete. He highlighted the following presumed areas of significant risks to members: materiality which had been discussed previously; the management override of controls and the presumed risk inherent in this; the number of journals being processed; recommendations around the secondary approval of journals; the presumed risk of fraudulent recognition of income; the valuation of land and buildings; investment property valuation with recommendations around processes rather than valuation and the pension fund liability which had decreased significantly in the year.

He added that in all areas there were no significant concerns and that sufficient mitigations were in place for the external auditors to be able to rebut the significant risks as identified in the report. Audit adjustments, disclosure adjustments and the impact of unadjusted misstatements as reported in the paper were brought to members' attention together with the audit fee stated in the accounts which required updating.

In discussing the issue of the number of journals being processed, the representative from Grant Thornton advised that the council was being asked in a constructively challenging manner to consider ways of eliminating some of the journals being processed to improve efficiency as this number was significant albeit some would be automatic journals. Members asked questions on recommendations on how the number of journals being processed could be reduced. Officers responded that the system of internal control was being considered with a view to addressing the human factor.

Members asked questions and received clarification on the following issues; whether risk was increased with the number of journals being processed; the

number of outstanding Declarations of Interest by councillors with regard to related parties' transactions; the outstanding audit of the accounts and financial viability of the North Somerset Environment Company (NSEC); the deficiency in the internal control noted in Audit Findings report around purchase orders and the provision by Grant Thornton of non-audit services;

Officers agreed to update members on the matter of the outstanding NSEC accounts. The representative from Grant Thornton advised that the Audit Findings report would be updated and brought back to the next committee meeting although with the agreement of the committee and providing that there were no material changes to the accounts, he would liaise via the Chairperson to sign with delegated authority from the Audit Committee, the updated and final Audit Findings Report. He would also ask for a Letter of Representation. He aimed to complete outstanding matters and have a signed audit opinion by the end of September.

**Resolved:** that the External Auditors' reports be noted.

## **AUD 8 Statement of Accounts 2022-23 and Annual Governance Statement**

The Director of Corporate Services representative presented the report and advised members that the purpose of the report was to agree the revised draft financial statements 2022-23. He noted that the draft accounts were published on the council's website on 31 May and that amendments agreed to date were noted in the reports pack. One further amendment was to be updated in order to finalise the accounts. He informed members that the audit work was ongoing, and an unqualified audit opinion was expected.

He added that in order to support members in their role of approving the accounts, all members had now attended the Chartered Institute of Public Finance and Accountancy (CIPFA) training and that an informal workshop on the draft financial statements had also been held to explain their roles in approving the accounts. This provided members with the key messages within the accounts and an opportunity to question officers on the accounts and the format of the report in response to last year's feedback. He noted that the report set out the statutes behind the accounts, members' role in approving them and the steps they could take in approving the accounts. He added that the draft audit opinion would be included when received from Grant Thornton and that the accounts did not yet include the relevant approval signatures.

He advised members that the template Letter of Representation had been received from the external auditors. The Audit Committee was requested to agree the letter be signed by the Chairperson before presentation at the next Audit Committee meeting in November. Approval was also sought for the use of electronic signatures for the Chairperson and Chief Finance Officer.

Members noted that the informal workshop was helpful in supporting them in their roles in signing off the reports and thanked officers for the adaptations to the narrative report which was now much clearer.

## **Resolved:**

(1) that the Audit Committee:

- a. noted the adjustments to the financial statements as set out in the external auditor's report.
- b. had considered the matter(s) raised in the Annual Governance Statement.
- c. delegated approval of the draft letter of representation to the Chairperson of the Audit Committee; and

(2) that subject to any comments under 1 above, the Audit Committee:

- a. approved the Statement of Accounts for 2022/23, subject to, any amendments necessary upon quantification of the impact of any issues arising from on-going work by the external auditors.
- b. would arrange for the Chairperson of the council's Audit Committee and the Chief Financial Officer to electronically sign the Accounts for 2022/23 as representing a 'true and fair view' of the financial position as at 31 March 2023, following any amendments necessary upon quantification of the impact of any issues arising from on-going work by the external auditors.
- c. would arrange for the Leader of the Council and the Chief Executive Officer to formally approve the Council's Annual Governance Statement as part of the financial accounts, and electronically sign accordingly.

## **AUD 9 Treasury Management Out-turn Report 2022-23**

The representative of the Corporate Services Director presented the report. He informed members that the report considered three principal areas of the Treasury Management outturn for 2022-23 and the council's treasury management activities for the first four months of 2023-24. He highlighted the appendices to members which covered economic updates and gave the context for both years in terms of activities including the impact of inflation and interest rate rises. He noted that inflation impacted the council's capital programme, cash outflow and the council's borrowing requirements.

Members were informed that the key driver was cashflows but forecasting these was challenging under current circumstances. The council did however have data which supported cash flow modelling, and which was sense checked throughout the year. He added that the key aim of treasury management was to have sufficient cash at the right time to fulfil cash outflows.

He highlighted the performance indicators set out in the appendices to the report to members and which covered affordability and managing risk. He added that flexibility was required to carry out unexpected actions and explained that the notes to the accounts contained a number of financial instruments which fed directly into this.

The officer indicated the key message to members: no external borrowing by the council; an increase in investment income; the types of investment carried out by the council and the counterparties the council dealt with including a list from the council's treasury advisors of those which were approved and those not recommended and the council's green investment balance.

He directed members' attention to appendices to the report which gave information on the 2022-23 and 2023-24 outturn performance indicators. These confirmed that the council had complied with both its mandatory authorised limit and mandatory operational limit for external debt. He added that the treasury management team had an active strategy for assessing interest rate exposure that fed into the setting of the annual budget and the quarterly budget update.

The Director of Corporate Services representative informed members that next year's treasury management strategy would be brought to the Audit Committee in November and January and would be driven by the CIPFA Treasury Management Code. The main change for 2023-24 was a commitment to develop a strategy for Environmental, Social and Governance considerations and this would also be included for 2024-25. Workshops held with the previous Audit Committee members had determined the priorities and these would be tested with current Audit Committee members.

Members asked questions and received clarification on the significant investment income increase compared to budget; confirmation that the council was underneath its own permitted level of borrowing; how the council proposed to cover the £50m budget shortfall; the management of prudential borrowing and how the council compared to other authorities in terms of its cash balances and reserves.

**Resolved:** That the Audit Committee noted:

- the treasury management out-turn monitoring report to 31 March 2023 which includes performance, prudential indicators, and commercial investments.
- the in-year performance to 31 July 2023
- the proposed matters for inclusion in the treasury management strategy 2024/25

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Chairperson

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