

Public Document Pack

Contact: Hazel Brinton
Direct Dial: 01275 884811
E-mail: hazel.brinton@n-somerset.gov.uk
Date: Thursday, 15 April 2021

****Virtual Meeting**

Dear Sir or Madam

The Audit Committee – Friday, 23 April 2021, 10.30 am – Virtual meeting by Teams

A meeting of the Audit Committee will take place as indicated above. Councillors will be sent a Teams Meeting invitation to place the meeting in their Calendar and can then access the meeting from the link in that calendar item.

Please Note that any member of the press and public may listen in to proceedings at this 'virtual' meeting via the weblink below –

<https://youtu.be/szq2avDdtlY>

The agenda is set out overleaf.

Yours faithfully

Assistant Director Governance and Monitoring Officer

To: Members of the Audit Committee

Councillors:

John Cato (Chair), Sandra Hearne (Vice-Chairman), Patrick Keating, Marcia Pepperall and Richard Tucker.

This document and associated papers can be made available in a different format on request.

Agenda

1. **Public Participation (Standing Order 17 as amended by SO 5A)**

To receive written submissions from any person who wishes to address the Committee. The Chairman will select the order of the matters to be received.

Please ensure that any submissions meet the required time limits and can be read out in five minutes (up to a maximum of 30 minutes).

Requests and full statements must be submitted in writing to the Head of Legal and Democratic Services, or to the officer mentioned at the top of this agenda letter, by noon on the day before the meeting and the request must detail the subject matter of the address.

2. **Apologies for absence and notification of substitutes**

3. **Declaration of Disclosable Pecuniary Interest (Standing Order 37 as amended by SO 7A)**

A Member must declare any disclosable pecuniary interest where it relates to any matter being considered at the meeting. A declaration of a disclosable pecuniary interest should indicate the interest and the agenda item to which it relates. A Member is not permitted to participate in this agenda item by law and should immediately leave the meeting before the start of any debate.

If the Member leaves the meeting in respect of a declaration, he or she should ensure that the Chairman is aware of this before he or she leaves to enable their exit from the meeting to be recorded in the minutes in accordance with Standing Order 37.

4. **Minutes** (Pages 5 - 10)

28 January 2021, to approve as a correct record (attached)

5. **Matters referred by Council, the Executive, other Committees and Panels (if any)**

6. **External Audit Update** (Pages 11 - 32)

Report from the Council's External Auditor (attached)

Audit Progress Report and Sector Update Year Ending 31 March 2021

7. **Update on Annual Accounts** (Pages 33 - 44)

Report of the Director of Corporate Services (attached)

8. **Internal Audit Update** (Pages 45 - 76)

Reports of the Head of Audit West (attached)

9. Urgent business permitted by the Local Government Act 1972 (if any)

Any item of business which the Chairman is of the opinion should be considered at the meeting as a matter of urgency by reason of special circumstances (to be specified in the Minutes). For a matter to be considered as an urgent item, the following question must be addressed:

“What harm to the public interest would flow from leaving it until the next meeting?” If harm can be demonstrated, then it is open to the Chairman to rule that it be considered as urgent. Otherwise the matter cannot be considered urgent within the statutory provisions.

Exempt Items

Should the Audit Committee wish to consider a matter as an Exempt Item, the following resolution should be passed -

“(1) That the press, public, and officers not required by the Members, the Chief Executive or the Director, to remain during the exempt session, be excluded from the meeting during consideration of the following item of business on the ground that its consideration will involve the disclosure of exempt information as defined in Section 100I of the Local Government Act 1972.”

Also, if appropriate, the following resolution should be passed –

“(2) That members of the Council who are not members of the Audit Committee be invited to remain.”

Mobile phones and other mobile devices

All persons attending the meeting are requested to ensure that these devices are switched to silent mode. The chairman may approve an exception to this request in special circumstances.

Filming and recording of meetings

The proceedings of this meeting may be recorded for broadcasting purposes.

Anyone wishing to film part or all of the proceedings may do so unless the press and public are excluded for that part of the meeting or there is good reason not to do so, as directed by the Chairman.

Members of the public may also use Facebook and Twitter or other forms of social media to report on proceedings at this meeting.

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Minutes

of the Virtual Meeting of

The Audit Committee

Thursday, 28 January 2021

Virtual meeting by Teams

Meeting Commenced: 10.30 am

Meeting Concluded: 12.02 pm

Councillors:

John Cato (Chair)

Sandra Hearne (Vice-Chairman)

Patrick Keating

Marcia Pepperall

Richard Westwood

Officers in attendance: Steve Ballard (Principal Accountant (Closure and Systems)), Hazel Brinton (Democratic Services Officer), Peter Cann (Senior Auditor), Richard Penska (Interim Director of Finance & Property), Melanie Watts (Head of Finance) and Jeff Wring (Head of Audit West).

Also in attendance: Jon Roberts and Gail Turner-Radcliffe (Grant Thornton)

AUD Chairman's Welcome

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The Chairman welcomed everyone to the third virtual meeting of the Audit Committee.

He explained the procedures to be followed at the meeting and confirmed that decisions taken at this virtual meeting would have the same standing as those taken at a physical meeting of the Council in the Town Hall.

The Chairman reminded everyone that the meeting was being livestreamed on the internet and that a recorded version would be available to view within 48 hours on the North Somerset Council website.

At the invitation of the Chairman the Democratic Services officer took a roll call of councillors to confirm attendance for the benefit of those in the meeting and members of the public watching online.

AUD Declaration of Disclosable Pecuniary Interest (Standing Order 37)

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None

AUD 22 Minutes 19 November 2020

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

AUD 23 External Audit Update

A representative from Grant Thornton presented the report and drew members attention to the Annual Audit Letter which was the public facing summary of the detailed audit work and discussions already held with committee members and presented in the Audit Report at the previous meeting. He noted this would be the final Annual Audit Letter as it had been replaced henceforth by the Annual Auditors' Report. Members noted the areas of recommendation in the letter and that officers would regularly report on the implementation of the recommendations.

The representatives from Grant Thornton presented the Audit Progress Report and Sector Update. It was noted that the Annual Audit Letter closed the 2019/20 financial year with an unqualified opinion. Work had been completed on the Teachers' Pension claim certification, but an extension had been granted for the certification of claims and returns in respect of Housing Benefit claims. All the audit deliverables for 2019/20 had been received by the council and those for 2020/21 would be brought to the next meeting.

Members attention was drawn to the sector update which included information on the new Value for Money arrangements for 2020/21 which resulted from a review of the Code of Practice by the National Audit Office. It was noted that the most significant change had been to the criteria underpinning the external auditors' work which aimed to improve the value of the audit work to the taxpayer and council. Henceforth, the external auditors would analyse the council's arrangements for improving the performance of the value for money of the services it provided. A more holistic report would incorporate matters such as benchmarking and best practice comparisons to form a useful commentary on the council's arrangements for value for money. Going forwards the Auditors' Annual Report would highlight a change in recommendations and would focus on the identification of weaknesses rather than a binary opinion on the accounts and may take the form of general observations for improvement or in the case of a significant weakness, key recommendations on the action to be taken by the council.

Members asked questions on whether the previous criteria were not more active than the new criteria and the impact of the change in reporting approach on the council. Members noted that committee members had been making their own inquiries into the operation of other authorities' approaches to the work of their audit committees.

A representative from Grant Thornton further reported on revised International Auditing Standards (ISAs) and in particular the standard for Auditing Accounting Estimates and Related Disclosures which included significant enhancements in respect of the audit risk assessment process for accounting estimates of which the council had a number. She highlighted the "How can you help" section for the committee which noted that the auditor will be making additional enquires of committee members and management for 2020/21 on the council's accounting estimates in a similar way to their traditional enquiries on fraud risk assessment procedures and going concern considerations. An error in the list of material

accounting estimates was noted and a query raised on the meaning of level 2 and level 3 investments. A request for a glossary of terms in reports was made.

A representative from Grant Thornton reported on recommendations from the Redmond Review into local authority financial reporting and external audit. He explained the historical context to the report for member and noted that the report recognises the importance of the local government audit; sets out a new path for local authorities and their auditors including an annual meeting with the auditor and Full Council; recommends the greater inclusion of independent members on audit committees and appropriate training for audit committee members; comments on the role of the regulator in ensuring that audit quality is meaningful to the user of the accounts; recommends that CIPFA simplifies the current local authority financial reports making them more accessible to readers; recommends the creation of a new audit regulator; expands eligibility for appointment as a local public auditor; recommends the increasing of fees and work content and incorporates an extended deadline for delivering audited financial statements to councils. He also noted areas in which he felt the review could have gone further including the involvement of the NHS in the proposals.

The Chairman thanked the representatives for their presentation and noted that he and the committee members looked forward to engaging with them further on the review's proposals.

AUD **Risk Management Update** **24**

The Interim Director of Finance and Property presented the report on Risk Management to members and noted the provision to the committee of the Corporate Risk Register, Covid 19 Risk Register and the EU Transitions Risk Register as part of the report. He noted that risk management this year was being undertaken in greater detail due to the scale of risks brought about by Covid 19 and the UK exit from the European Union which were recorded in the relevant registers. Some crossover of entries was noted between the three registers. The Covid 19 and EU Transitions registers had been retained due to the size of the risks which were being managed in real time with a weekly review by the Corporate Leadership Team (CLT) of those currently impacting the business and a fortnightly emergency review by CLT particularly of the Covid 19 risk register. He added that going forwards, the format adopted for all risk registers will be that of the Corporate Risk Register. He noted the outstanding action regarding the internal audit report on risk management references and standardisation of them in decision making and committee reports

The Chairman noted his appreciation for the increase in quality of the presentation, visibility and clarity of the risk registers presented to the committee. A query was raised on the amount received and paid out in the form of government grants due to Covid 19. The Interim Director of Finance and Property advised that he received an update each week on the amounts and undertook to send out a briefing to members later that day.

Resolved: that the Audit Committee note the Corporate Risk Management arrangements and those exercised over the COVID 19 pandemic and Brexit.

AUD 25 Senior Management Review

The Interim Director of Finance and Property provided members with a verbal update on the Senior Management Review which had been concluded by the Chief Executive. A new Corporate Services Director who would also be the S151 Officer would be appointed in due course. The deletion of several posts and the creation of others were noted as were the movement of a number of services away from the Corporate Services directorate. He added that the Children's and Adult Services directorates had been separated.

Members requested an updated organisational chart and regular briefings as further changes were made to directorate structures.

AUD 26 Treasury Management Strategy 2021/22

A representative of the Interim Director of Finance and Property presented the report which highlighted the key messages arising from the treasury management risk workshop provided to members of the committee. The workshop had been facilitated by the council's finance officers and Arlingclose, the council's treasury management advisors, and delivered as part of the audit committee's role in overseeing the council's treasury management function.

He noted that it had been agreed that as a result of the workshop that there was no requirement for significant changes to the council's current Treasury Management Strategy and the outcome of the discussions had been used by officers to inform the drafting of the strategy for 2021/22. This had been submitted to the Executive for approval and subsequent approval by the Council.

The Chairman noted that he wished to have further discussions to clarify his understanding around the reporting processes of the Property Investment Board.

Resolved: that subject to the correction of typographical errors that the Audit Committee note:

1. the key messages from the treasury management member training workshop held on 13 January 2021
2. that Members recognised that the council's treasury management team would continue to work within the council's current Treasury Management Strategy, and accepted that it provides sufficient flexibility to allow investment opportunities to be considered, whilst providing sufficient mitigation of risk and
3. that information supporting the investment strategy will be subject to on-going review, by officers and members, supported by the council's treasury management advisors.

AUD 27 Internal Audit - Audit Committee Consultation

A representative from Audit West presented the report which updated members on the methodology used to create the Internal Audit Plan and requested member input into areas or themes they wished to be considered within the plan for 2021/22. He noted the report also outlined the intended approach towards COVID-19 activity and requested members note the intention to keep the plan under regular review so that resources could be prioritised.

He advised that Audit West would use the Reasonable Assurance Model with which members were familiar in order to plan its audit work and that a rigorous stakeholder consultation process would take place between January and April to inform the work plan. He further advised that as a result of ongoing Covid 19 pressures, the work plan would be subjected to a six-month rolling review to ensure the second half of the year was adequately resourced and prioritised and a Covid 19 contingency resource would be used to assist in the smoothing of any impact.

In addition to Covid-19 factors around financial resilience, local economic impacts and broader financial assurance around the use of Covid-19 grants, members attention was drawn to the inclusion of the Chartered Institute of Internal Auditors' ten key areas for 2021 which organisations should take account of in preparing their audit plans.

The Chairman thanked the internal auditors for their report and the work they were doing and noted a request for a further briefing session for members to discuss the issues noted in the report and any others that may arise.

Resolved: that the Audit Committee note:

1. the request by the internal auditor that the Audit Committee comment on any areas or themes they would like to be considered in relation to the Internal Audit Plan for 2021/22 and
2. the intention to keep the plan under constant review, including a six-month reassessment, in order to prioritise resources as required.

Chairman

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North Somerset Council Audit Progress Report and Sector Update

Year ending 31 March 2021

April 2021

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Agenda Item 6

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

Your key Grant Thornton team members are:

Jon Roberts
Engagement Lead
T 0117 305 7699
E jon.roberts@uk.gt.com

Gail Turner-Radcliffe
Engagement Manager
T 029 2034 7546
E Gail.Turner-Radcliffe@uk.gt.com

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. As we are still to complete a number of our planning procedures we have enhanced this document with an indicators of the key areas of focus for our upcoming audit.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at April 2021

Financial Statements Audit

We undertook our initial planning for the 2020/21 audit in March and April. We expect to begin our work on your draft financial statements in July.

Our interim fieldwork includes:

- Updated review of the Authority's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the Authority makes material estimates for the financial statements

Early work on emerging accounting issues

In April we will issue a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2020/21 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by August.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and will make more impact. Before beginning work, we will discuss with you:

- Timing
- Resourcing
- Fees

Please see page 8 for further details.

Progress at April 2021 (cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2019/20 claim was completed on 30 March 2021.

Meetings

We met with Finance Officers in January as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Fees

Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 and 2019/20 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting, along with the FRC's requirement that all Local Government audits need to improve.

We have reviewed the impact of these changes on both the cost and timing of audits. We will discuss these implications for North Somerset Council with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and will update the Audit Committee when we present our audit plan. All fee revisions will be subject to PSAA's formal approval.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<p data-bbox="120 406 264 438">Audit Plan</p> <p data-bbox="120 454 1377 566">We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.</p>	April 2021	Not yet due
<p data-bbox="120 582 421 614">Audit Findings Report</p> <p data-bbox="120 630 1377 678">The Audit Findings Report will be reported to the August Audit Committee.</p>	August 2021	Not yet due
<p data-bbox="120 694 340 726">Auditors Report</p> <p data-bbox="120 742 1377 805">This is the opinion on your financial statements.</p>	August 2021	Not yet due
<p data-bbox="120 821 452 853">Auditor's Annual Report</p> <p data-bbox="120 869 1377 904">This Report communicates the key issues arising from our Value for Money work.</p>	August 2021	Not yet due

Audit of Financial Statements

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We have determined planning materiality to be £7.27m (PY £7.25m), which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.36m (PY £0.35m).

Significant risks

We have not yet undertaken our planning work so cannot confirm at this stage the significant risks that we will be auditing. However, the section below are likely areas that we will expect our work to focus on.

Presumed significant risks

ISA (UK) 240 includes two presumed risks as follows:

- Revenue recognition may be misstated due to the improper recognition of revenue. This is a rebuttable risk if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. We will consider the risk factors set out in ISA240 and the nature of the revenue streams at the Authority to determine whether there is a risk of fraud from revenue recognition. We are cognisant that the Authority has been in receipt of additional revenue streams this year and we will be documenting the business processes of these streams as part of our planning procedures to help inform our consideration of the revenue recognition risk. We will also pay regard to the statement in Practice Note 10 that local authority accounts may be sensitive to manipulation in expenditure than income.
- The risk of management over-ride of controls is present in all entities. The need to achieve a particular financial outturn to as to minimise impact on general fund reserves could potentially place management under undue pressure in terms of how they report performance.

Other expected areas of focus

- We set out on pages 15 and 16 detail pertaining to the new accounting standards on Estimates. This 'raises the bar' in terms of what both we and management are required to do. Therefore while in the past, we have focussed on the valuation of property, plant and equipment, as well as the net pension liability, on the grounds that they are large and complex estimates in the accounts, this will occur to an even greater extent in 2020/21. This will also apply to any other material estimates made by management. For a Council the size and complexity of North Somerset we anticipate there will be further significant risks in addition to the presumed significant risks described above.
- We will also consider that accounting arrangements relating to the planned insourcing of the Council's waste collection service.

We will confirm all the significant risks in our Audit Plan.

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

Page 18 There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we will consider whether there are any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we need to perform further procedures on. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the table below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit fees

The 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £26,000. This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for the Sovereign Centre, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, has yet to be discussed with the Director of Finance so we will update members more fully on the fee implications as soon as possible.

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
North Somerset Council statutory audit	£98,221	£122,557	TBC
Total audit fees (excluding VAT)	£98,221	£122,557	TBC

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

The new approach to Value for Money

The nature of value for money work

Section 20 and 21 of the Local Audit and Accountability Act 2014 (the Act), require auditors to be satisfied that the body “has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources”. The auditor’s work on VFM arrangements is undertaken in accordance with the Code and its supporting statutory guidance. The Comptroller and Auditor General has determined through the 2020 Code and guidance that the key output from local audit work in respect of VFM arrangements is the commentary as reported in the Auditor’s Annual Report. It is therefore not a VFM arrangements ‘conclusion’ or an ‘opinion’ in the same sense as the opinion on the financial statements themselves. The Act and the Code require auditors to consider whether the body has put in place ‘proper arrangements’ for securing VFM. The arrangements that fall within the scope of ‘proper arrangements’ are set out in ‘AGN 03 Auditors’ work on VFM arrangements’, which is issued by the NAO. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria:

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services, including how the body:

- ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- plans to bridge its funding gaps and identifies achievable savings;
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;

- ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Governance

How the body ensures that it makes informed decisions and properly manages its risks, including how the body:

- monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- approaches and carries out its annual budget setting process;
- ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

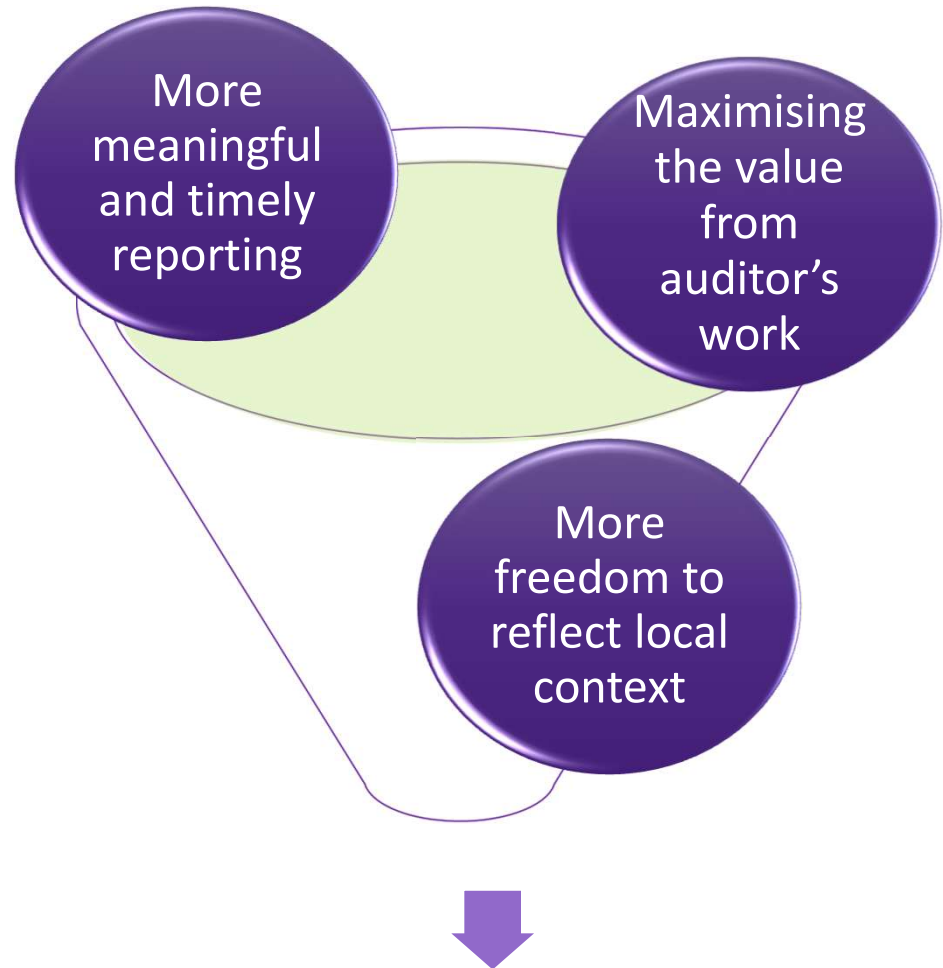
The new approach to Value for Money

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the body evaluates the services it provides to assess performance and identify areas for improvement;
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

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VFM arrangements commentary and recommendations

The new approach to Value for Money

The table below details what will be reported in the Auditor's Annual Report:

Section of report	Content
Commentary on arrangements	An explanation of the VFM work that has been undertaken during the year, including the risk assessment and any further risk-based work. It will also highlight any significant weaknesses that have been identified and brought to the body's attention. The commentary will allow auditors to better reflect local context and draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself.
Recommendations	Where an auditor concludes that there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.
Progress in implementing recommendations	Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily.
Use of additional powers	Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this should be reported in the auditor's annual report.
Opinion on the financial statements	The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements.

The table below details the three types of recommendations that auditors can make. Auditors may make recommendations at any time during the year.

Type of recommendation	Definition
Statutory recommendation	Where auditors make written recommendations to the body under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. A recommendation of this type requires the body to discuss and respond publicly to the report.
Key recommendation	Where auditors identify significant weaknesses in a body's arrangements for securing value for money, they have to make recommendations setting out the actions that the body should take to address them
Improvement recommendation	Where auditors do not identify a significant weakness in the body's arrangements, but still wish to make recommendations about how the body's arrangements can be improved

Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 in all areas summarised above for all material accounting estimates that are included in the financial statements.

Based on our knowledge of the Authority we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings and investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

The Authority's Information systems

In respect of the Authority's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Authority uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Authority (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 (Revised December 2018) we are required to consider the following:

- Page 26
- How management understands the degree of estimation uncertainty related to each accounting estimate; and
 - How management addresses this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to include:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

How can you help?

As part of our planning risk assessment procedures we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc. Responses to these enquires are completed by management and confirmed by those charged with governance at an Audit Committee meeting. For our 2020/21 audit we will be making additional enquires on your accounting estimates in a similar way (which will cover the areas highlighted above). We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Insight into accounting for grants in local government financial statements – Grant Thornton

The government has provided a range of financial support packages throughout the COVID-19 pandemic.

We have issued a brief bulletin aimed at helping local government bodies identify the key things they should consider when determining the accounting treatment for these grants in their financial statements for 2020/21.

There are no changes to the accounting treatment for grants as required by the CIPFA Code of Practice on Local Authority Accounting. What has changed, is the extent of additional funding to support the cost of services, to offset other income losses along with grant packages to be paid out to support local business. Local authorities need to consider the nature and terms of the various COVID-19 measures in order to determine whether there is income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement in 2020/21.

The report highlights the factors to consider, including:

- Where the funding is to be transferred to other parties, is the authority acting as principal or as agent?
- Are there grant conditions outstanding?
- Is the grant a specific or non-specific grant?

Our bulletin provides you with links to further information on the various support packages and summarises features that may be relevant to your judgements as you determine the appropriate accounting treatment.

Local authorities need to demonstrate their judgements on the accounting treatment to be reasonable and soundly based and, where these have a significant effect on the accounts, to ensure they include sufficient disclosures to meet the requirements of IAS 1:122.

Please ask your audit manager for the full report:



Local government finance in the pandemic – National Audit Office

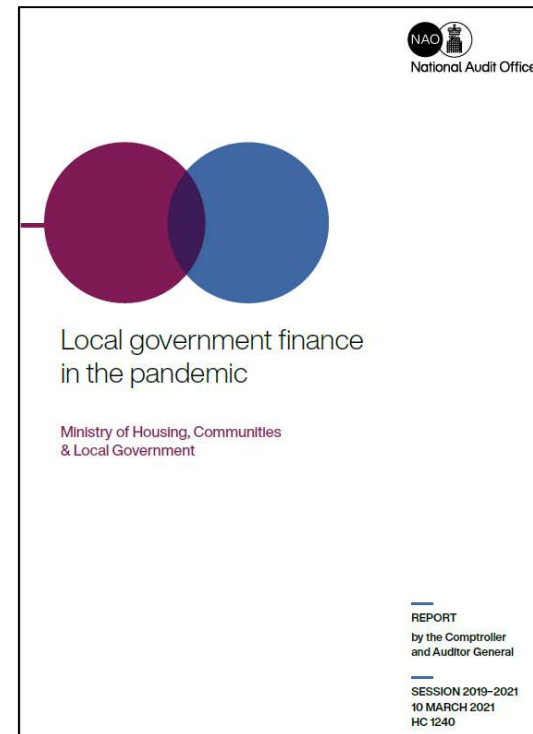
The National Audit Office (NAO) report, published in March, notes “The COVID-19 pandemic has been an unprecedented public health and economic emergency. Local authorities in England have made a major contribution to the national response to the pandemic, working to protect local communities and businesses, while continuing to deliver existing services. The pandemic has in turn placed significant pressure on local authorities’ finances, which in many cases were already under strain going into the pandemic.”

The NAO report examines if the Department’s approach to local government finance in the COVID-19 pandemic enabled it to assess and fund the costs of new services which local authorities have been asked to deliver. It also examines whether the Department fulfilled its responsibilities in securing financial sustainability across the sector.

The NAO report concludes “Steps taken by the government, led by the Department, have supported local authorities in the COVID-19 pandemic response. The Department’s successful monthly collection of data and continued intensive engagement with the sector provided a good evidence base to underpin the financial and other support provided by government. Action by the Department and wider government to support the sector has averted system-wide financial failure at a very challenging time and means that the Department has managed the most severe risks to value for money in the short term.

However, the financial position of local government remains a cause for concern. Many authorities will be relying on reserves to balance their 2020-21 year-end budgets. Despite continuing support into 2021-22 the outlook for next year is uncertain. Many authorities are setting budgets for 2021-22 in which they have limited confidence, and which are balanced through cuts to service budgets and the use of reserves.”

The NAO report found that “the combined impact on spending and non-tax income in 2020-21 is £9.7bn – equivalent to 17.6% of revenue expenditure. So far the government has announced £9.1bn of financial support, leaving a deficit of £605m.”



The full report can be obtained from the NAO website:

[Local government finance in the pandemic - National Audit Office \(NAO\) Report](#)

Good practice in annual reporting – National Audit Office

The National Audit Office (NAO) state that the guide, launched in February, “Sets out our good practice principles for good annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area.

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance

The NAO also state that the guide “provides further examples where bodies have made their context more understandable to the reader through use of graphics and clear language and signposting.”

However, The NAO observe “Done well, reporting in the public sector enables the public and Parliament to understand – with ease and confidence – an organisation’s strategy and the risks it faces, how much taxpayers’ money has been spent and on what, and what has been achieved as a result.”

Further, the NAO note “The significant impacts of the pandemic emerged in the UK in mid-March 2020. This means that, for many organisations, the reporting impact will be greater in 2020-21 than in the prior year. Transparent annual reporting will help stakeholders understand the impact of COVID-19 on an organisation’s strategy, plans and operational and financial performance.”



The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/good-practice-in-annual-reports-february-2021/>

2019/20 audited accounts – Public Sector Audit Appointments

In December 2020 Public Sector Audit Appointments (PSAA) published figures relating to the audit of 2019/20 local authority financial statements.

PSAA report “Audit arrangements in local councils, police, fire and other local government bodies are continuing to exhibit signs of stress and difficulty. In the latest audit round, focusing on 2019/20 financial statements and value for money arrangements, fewer than 50% of bodies’ audits were completed by the revised target of 30 November.

Figures compiled by PSAA, the organisation responsible for appointing auditors to 478 local bodies, reveal that 55% (265) of audit opinions were not issued by 30 November. This is a further deterioration on 2018/19 audits when 43% of opinions (210 out of 486) were delayed beyond the then target timetable of 31 July.

This year’s timetable has been deliberately eased by Ministers in recognition of the underlying pressures on the audit process and the significant added complications arising from the Covid-19 pandemic. The pandemic has posed practical challenges for bodies in producing accounts and working papers, and for auditors to carry out their testing. Both sets of staff have had to work remotely throughout the period, and the second national lockdown came at a critical point in the cycle.

Questions and concerns about the potential implications of the pandemic for some bodies have meant that both finance staff and auditors have needed to pay particular attention to the financial position of each entity. Additionally, following a series of increasingly challenging regulatory reviews, auditors have arguably been more focused than ever on their professional duty to give their opinion only when they are satisfied that they have sufficient assurance.”



The news article can be found here:

[News release: 2019/20 audited accounts – PSAA](#)

CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "CIPFA's Financial Resilience Index is a comparative analytical tool that may be used by Chief Financial Officers to support good financial management, providing a common understanding within a council of their financial position.

The Index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by extensive financial resilience work undertaken by CIPFA over the past five years, public consultation and technical stakeholder engagement.

Section 151 officers may also use the index in their annual report to the council setting out the proposed budget for the year and medium-term financial strategy.

While the impact of COVID-19 resulted in a delay to the publication of the index, it is still able to provide a comprehensive pre-COVID baseline, illustrating the financial resilience of authorities as they entered the pandemic."

CIPFA found that "there was a real-terms reduction of £800m in the level of reserves in 2020 compared with the previous year. At the end of March 2020 council reserves levels stood at £24.6bn, around 3% lower than £25.4bn recorded at the same period in 2019."

CIPFA note "The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index-2021?crdm=0>



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North Somerset Council

REPORT TO THE AUDIT COMMITTEE

DATE OF MEETING: 22 APRIL 2021

SUBJECT OF REPORT: UPDATE ON ANNUAL ACCOUNTS

TOWN OR PARISH: ALL

**OFFICER PRESENTING: STEVE BALLARD - PRINCIPAL ACCOUNTANT
(CLOSURE AND SYSTEMS)**

1. KEY DECISION: N/A

RECOMMENDATIONS

The Audit Committee are requested to **note** the following:

- a) the developments in the CIPFA Code of Practice for Local Government Accounts, including:
 - i. that there are limited changes to the Code for the 2020/21,
 - ii. that CIPFA has consulted on improving the clarity and focus of future local government accounts, and that changes to the format of the accounts are likely to be included in the 2021/22 Code of Practice, and
 - iii. that significant work continues to be required to quantify the impact of the implementation of 'IFRS16 – Leases' in 2020/21 for implementation in the 2020/21 accounts
- b) that officers are proposing no significant changes to existing accounting policies in 2020/21.
- c) that the Council's financial report document is being updated to a new template to comply with accessibility legislation,
- d) the requirement for the Council's accounts to provide a 'true and fair' view of the Council's financial position and transactions, the concept of materiality, the initial assessment of materiality limits applied by officers in drawing up the accounts; and disclosures which, although not material due to their value, are considered material due to their nature.
- e) officers' initial assessment of the critical judgements made in applying the Council's accounting policies, and the major sources of estimation uncertainty identified in the preparation of the 2020/21 accounts.

1. SUMMARY OF REPORT

1. The purpose of this report is to provide Members with an update of the issues which impact on the annual accounts process. These include changes to the Code and the annual review the Council's accounting policies.
2. The report also provides Members with a reminder of the concept of materiality, and outlines officers approach in applying materiality in preparing the draft financial statements.

2. POLICY

3. Local authorities in the United Kingdom are required to prepare their accounts in accordance with primary legislation, e.g. the Accounts and Audit Regulations 2011, as well as 'proper accounting practices', meaning compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).
4. The Code specifies the principles and practices of accounting required to prepare a Statement of Accounts which gives a 'true and fair' view of the financial position and transactions of a local authority. The Code is updated annually, and may introduce new, or amended, accounting standards or reporting requirements which need to be complied with.
5. The Audit Committee is charged with overseeing the Authority's financial reporting process, and is required to consider and, under delegated powers from the full Council, to approve the Council's Statement of Accounts each year. The Chair of the Audit Committee and the Chief Financial Officer are required to sign the Council's Statement of Accounts as representing a 'true and fair' view of the financial position of the Council and its income and expenditure for the year.
6. The Chief Financial Officer is responsible for:
 - the preparation of the Statement of Accounts in accordance with the Code,
 - selecting suitable accounting policies and then applying them consistently,
 - making judgements and estimates that are reasonable and prudent,
 - arrangements for internal control as he determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and
 - for being satisfied that the financial statements give a true and fair view of the financial position and transactions of the Council.
7. Audit Committee members therefore need to consider whether they receive adequate assurance over Council's arrangements for the preparation of the financial statements, including arrangements for making critical judgements in applying accounting policies, and for making accounting estimates, before approving the financial statements.

3. UPDATE ON THE COUNCIL'S ANNUAL ACCOUNTS

Changes to the Code – 2020/21 and 2021/22

8. The Code of Practice is updated annually to reflect new or updated accounting standards. There are only minor changes to the Code for 2020/21, none of which are likely to have a significant impact on the Council's accounts.

9. There is a consensus that the length and complexity of the accounts produced under the current Code can make the accounts impenetrable to many users. CIPFA has consulted on changes to the Code for 2021/22, with the aim of delivering accounts that more clearly communicate the authority's financial performance and future financial sustainability.
10. Officers will continue to keep Members informed of any significant changes in future Code requirements for the content and format of the Council's accounts.
11. 'IFRS16 – Leases' was due to be implemented within the Code for 2020/21. This change of accounting policy will require changes to the accounting treatment where the Council is the lessee of long term assets, and revisions to the related disclosures. Although the implementation of the new standard will be only reflected in the 2021/22 accounts, disclosure of the likely impact of this change will need to be included in the 2020/21 accounts. Significant work is still required by officers to quantify this impact, and detailed disclosure of the future impact may not be possible in the 2020/21 accounts.

Review of accounting policies

12. Accounting policies are the specific principles and practices applied by an authority in preparing and presenting its financial statements. The finance team has developed a 'library' of the Council's accounting policies. Of these, only those with significant impact are disclosed within the Council's accounts.
13. It is good practice for 'those charged with governance' (i.e. the members of the Audit Committee) to review the policies on an annual basis and approve any changes proposed.
14. Officers have reviewed the Council's library of accounting policies. Minor changes have been made, notably in relation to the Council's new subsidiary, North Somerset Environment Company Ltd. However, officers are not proposing any significant changes to existing accounting policies for 2020/21 to bring to the attention of Members.

Accessibility of the Financial report document

15. In September 2018 new legislation came into force requiring all public sector websites and apps to be fully accessible. From September 2020, the Council can only upload documents to its public website that can be read by specialist accessibility document reader software.
16. The Council's existing annual Financial Report has been reviewed, and found not to be accessible to this software. Officers in Finance and the Council's Graphics and Digital Communications teams have worked to develop a new template for the Financial Report, but due to the complex nature of the graphics and tables included in the report, have agreed that it is not currently possible to produce the report in a fully accessible format in the short time between the accounts being finalised and the deadlines for them to be published on the Council's website.
17. Officers have therefore proposed, as an interim solution, that the draft financial report be produced in a new template, which is as assessible as possible in the time allowed. This would be published on the Council's external website, made available for Audit Committee approval and review by the external auditors, on the proviso that the document clearly states that once the accounts are finally audited, approved and

published, an accessible version of the final document will be prepared by the Council's Graphics team, and also published on the Council's website.

Accounts which provide a 'true and fair' view of the Council's financial position and transactions, and the concept of materiality

18. Detailed consideration of the assessment of appropriate materiality levels for the Council's preparation of the accounts is set out in Appendix A.
19. Officers consider that it is appropriate to set an indicative materiality level in preparing the Council's accounts at approximately one third of the external auditor's materiality, i.e. based on 2 % of gross revenue expenditure at 'Cost of services' level in the previous years' audited accounts.
20. Disclosures which, although not material due to their value, are considered material by their nature, due to their potential impact on the decisions of likely users of the accounts, are:
 - a) disclosures of officers' remuneration, salary bandings and exit packages
 - b) disclosure of members' allowances
 - c) disclosure of related party transactions

Critical judgements made in applying the Council's accounting policies, and Major sources of estimation uncertainty in the preparation of the accounts

21. Officers have completed an initial assessment of the critical judgements made in applying the Council's accounting policies, and the major sources of estimation uncertainty identified in the preparation of the 2020/21 accounts. These are listed in Appendix B and C respectively.
22. Each year, members of the Audit Committee participate in a workshop session to review the draft annual financial statements. This provides an opportunity for officers to explain the accounting estimates used in preparing the accounts, and for members to question officers on the adequacy of the Council's arrangements for making accounting estimates.
23. Papers will be submitted to the Audit Committee later in the year setting out the detail of these issues, and the sources of assurance that members can use in making their assessment of the adequacy of the Council's arrangements to produce 'true and fair' financial statements.

4. CONSULTATION

24. Officers continue to undertake discussions with external audit with regard to key issues impacting on the preparation of the accounts, including significant accounting estimates and judgements, such as whether group accounts need to be prepared. Officers will continue to liaise with external audit on emerging issues as the accounts are finalised.

5. FINANCIAL IMPLICATIONS

25. Updates to the Code, and the proposed changes to the Council's accounting policies, are expected to have minimal impact on the Council's financial out-turn or balances.

26. As noted in Appendices B and C, critical judgements made in applying the Council's accounting policies, and accounting estimates used in the valuation of the Council's assets and liabilities will have a material impact on the Council's financial statements.

6. LEGAL POWERS AND IMPLICATIONS

27. The CIPFA Code of Practice determines 'proper accounting practice' in relation to the Council's statement of accounts. The Council's accounts are a key requirement of its operational responsibilities. Their accuracy and adherence to legislation and relevant guidance are important to ensure the Chief Financial Officer can discharge their statutory obligations.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

28. None

8. RISK MANAGEMENT

29. Failure to apply appropriate accounting policies, or to adequately assess materiality in relation to the Council's accounts, could result in the accounts not providing a 'true and fair view' of the Council's financial position, financial performance and cash flows, and leave the Council open to criticism by external audit, and potential qualification of their audit opinion on the accounts.

9. EQUALITY IMPLICATIONS

30. None

10. CORPORATE IMPLICATIONS

31. None, other than as highlighted above

11. OPTIONS CONSIDERED

32. Options considered in the update of accounting policies, and in setting materiality levels, are detailed in the body of the report above.

AUTHOR

Melanie Watts, Head of Finance Tel: 01934 634618
melanie.watts@n-somerset.gov.uk

Steve Ballard, Principal Accountant (Closure and Systems) Tel: 01275 884037
steve.ballard@n-somerset.gov.uk

APPENDICES

Appendix A Assessment of materiality

Appendix B Critical judgements in applying the Council's accounting policies

Appendix C Significant accounting estimates and sources of estimation uncertainty

BACKGROUND PAPERS

CIPFA Code of Practice on Local Authority Accounting 2020/21

Statement of Accounts 2019/20

Grant Thornton Audit Findings Report 2019/20

Assessment of materiality

1. Introduction

The CIPFA Code of Practice for Local Government accounting specifies the accounting practices required for the Council's Statement of Accounts to give a 'true and fair' view. However, Members should note that 'true and fair' does not mean 100% accurate, but 'materially correct'.

The Code provides a definition of materiality, which is applied to information and disclosures in the Council's financial statements: "Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting authority".

The assessment of materiality in drawing up accounts helps them to focus on the key messages of the accounts, notably in relation to the Council's performance, financial resilience and accountability for use of public funds.

2. Users of the accounts

The assessment of materiality is affected by the Council's perception of the financial information needs of users of the financial statements.

The Code currently defines the primary users of local authority financial statements as 'service recipients and their representatives, and resource providers and their representatives'.

'Service recipients and their representatives' are likely to consist of local residents and their locally elected representatives. 'Resource providers and their representatives' are likely to mean central government, and local Council Tax and Non-domestic rates payers.

Other users are likely to include existing and potential lenders, credit ratings agencies, financial advisors, the media, trade unions, statisticians, analysts and academics, and businesses considering entering into contracts with the Council.

Ensuring that the Council's audited financial statements focus on the needs of key users of the accounts is challenging, as different stakeholder groups will be interested in different information, have differing expectations of whether a particular transaction is material, and will have differing levels of financial literacy.

Hence, engagement with members, through the Audit Committee, provides a useful opportunity of officers to gain an understanding of the content of the financial statements which are likely to influence the decisions of members as users of the accounts.

3. Benchmarks for determining overall materiality

Determining a value for materiality involves the exercise of judgment. A percentage of a chosen benchmark in the accounts is often applied as a starting point. Appropriate benchmarks might include the total assets, liabilities, income, or expenditure in the

accounts. As a public sector entity other benchmarks used in the private sector, such as profit before tax, gross profit, revenue and equity, are of limited relevance.

As the Council has custody of public assets to deliver services, the value of long term assets might be considered an appropriate benchmark. Similarly, the Council holds long term borrowing to finance its long term assets. However, a materiality based on these measures alone would not be considered relevant to the wider financial performance of the Council reflected in the financial statements.

Council budgets are set and monitored based on net revenue expenditure (ie gross expenditure less gross income). However, use of net expenditure does not fully reflect the income and expenditure transactions, and hence is considered to lead to too low a materiality level to be meaningful.

The overall benchmark considered to be most relevant to users of the accounts is gross revenue expenditure, as it reflects both the revenue expenditure and income for the year, and can meaningfully be applied when considering entries in the Council's Balance Sheet.

4. External auditor's assessment of materiality

In conducting their audit of financial statements, the Council's external auditor seeks to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Auditors are required to determine their assessment of materiality for the financial statements as a whole.

In their Audit Findings Report for 2019-20, the Council's external auditors quantified their overall materiality at £7.25 million (being 2% of gross revenue expenditure at 'Cost of services' level in the draft 2019-20 accounts).

Note that this provides a lower measure of materiality than that based on a similar percentage of gross revenue expenditure at 'Surplus / deficit on provision of services' level, which includes the impact of financing expenditure and one-off expenditure on losses on disposal of non-current assets. It can be argued that the inclusion of such expenditure might mask the reflection of the cost of the provision of the Council's services in the accounts.

The external auditor's assessment of materiality is clearly a key benchmark in determining the Council's overall materiality level when preparing the draft accounts.

There is a risk that more than one non-material error or omission could be material to the accounts as a whole when considered in aggregate. Hence external auditors also set a 'performance materiality', at a level less than the overall materiality, in order to reduce to an appropriately low level the probability that the aggregate of uncorrected errors and omissions exceeds materiality for the financial statements as a whole.

External auditors typically quantify 'performance materiality' in the range of 50-75% of overall materiality in order to direct their audit testing. The assessment of performance materiality is typically based on a risk assessment, including:

- an assessment of the past experience of errors identified in the Council's accounts
- the knowledge, experience and continuity of the Council's financial reporting team

- the strength of the Council's overall control environment, including anti-fraud arrangements, and wider IT environment
- the strength of the Council's key financial reporting systems

In their Audit Findings Report for 2019-20, the Council's external auditors quantified their performance materiality at £5.45 million (being 75% of their overall materiality level).

5. Council's assessment of materiality

The Council needs to provide sufficient assurance to the external auditors that the financial statements are materially correct. Hence it is appropriate for the Council to take in to account the auditor's assessment of materiality when setting its own materiality in preparing the draft accounts.

Setting a materiality limit too high could lead to a risk of omission of information which might influence the user of the accounts, which could lead to the Council's accounts being qualified by their auditors. As the Council's accounts have previously been given unqualified audit opinions by the auditor, it is reasonable to assert that officers' assessment of materiality has not been too high in previous years.

Setting too low a materiality limit would not lead to a risk of qualification, but could lead to:

- excessive detail and 'clutter' being included in the accounts, detracting from the clarity of the key messages being communicated, and
- additional officer and auditor time being required to prepare and audit the accounts, when deadlines are already tight.

The Council has a history of producing high quality, accurate draft financial statements. The Council's financial reporting team have strong knowledge and experience of local government accounting, and accounts closure issues. The Council's overall control environment is considered strong, with no significant internal control weaknesses, including in relation to the Council's key financial systems, reported by the external auditors in their Audit Findings Reports, or by Internal Audit in the Annual Governance Statements, for at least the last 3 years.

It is therefore considered appropriate to set the Council's performance materiality level in preparing the accounts at one third of the external auditor's materiality (based on 2 % of gross revenue expenditure at 'Cost of services' level in the previous years' audited accounts), such that three such errors, impacting in the same direction, would be needed to lead to a misstatement material to the external auditor's opinion.

This gives a value of performance materiality to be used as a guideline in drafting the Council's 2020/21 accounts at **£2.42m**.

6. Items which are material by nature

Officers drawing up the accounts, and auditors undertaking the audit of the accounts, may identify particular classes of transactions, account balance or disclosures which are considered more likely to influence the user of the accounts, and hence where it may be appropriate to set a lower materiality level than for the financial statements as a whole.

For example, in their Audit Plan for the audit of the 2019-20 accounts, Grant Thornton disclosed that they would apply lower materiality thresholds to the following disclosures:

- Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements.

Their materiality for these disclosures was set at £20,000, due to 'public interest in these disclosures and the statutory requirement for them to be made'.

Officers have reviewed the statement of accounts, including the associated disclosures, for other items which would be most likely to impact on the decisions of likely users of the accounts, notably local residents. Other disclosures identified as 'material by nature' are:

- Members' allowances - as of interest to local residents, and
- Related party transactions –to ensure transparency of the Council's transactions with bodies or individuals who have control or influence over the Council.

Hence these disclosures will be retained in future statement of accounts, despite being below the value of the materiality for the accounts as a whole.

Other disclosures below the Council's materiality threshold, and which are not considered material by nature, will be considered for removal from the accounts, in order to 'de-clutter' the accounts, and allow better focus on the key messages in the accounts.

Critical judgements in applying the Council's accounting policies

In applying its accounting policies, the Council has had to make judgements about complex accounting transactions.

The critical judgements currently identified by officers are:

- the accounting treatment of Covid-19 response funding,
- the accounting treatment of Better Care Funding,
- the accounting treatment of schools' non-current assets,
- the classification of the Council's commercial investment property, and
- whether group accounts need to be prepared in 2020/21 following the establishment of a new subsidiary company, North Somerset Environment Company Ltd.

Appendix C

Significant accounting estimates and sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors.

There have been no significant changes to the basis of these estimates compared to the previous year.

The areas of the accounts which are subject to material accounting estimates, or significant estimation uncertainty are currently assessed as follows:

- investment property valuations,
- property, plant and equipment valuations, and
- pension fund (LGPS) actuarial gains/losses.

Other areas considered less likely to have a material impact include:

- estimated remaining useful lives of PPE / depreciation and amortisation,
- impairments of PPE,
- measurement of financial instruments,
- dad debt provisions / credit loss allowances,
- provisions for liabilities, and
- accruals.

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North Somerset Council

REPORT TO THE	AUDIT COMMITTEE
DATE OF MEETING:	23RD APRIL 2021
SUBJECT OF REPORT:	AUDIT & ASSURANCE ANNUAL REPORT 2020-21
TOWN OR PARISH:	NONE
OFFICER/PRESENTING:	PETER CANN - AUDIT WEST
KEY DECISION:	NO

RECOMMENDATIONS:

The Audit Committee notes the Internal Audit Annual Report 2020-21 and the opinion on the Internal Control environment.

1. SUMMARY OF REPORT

This is the closing Internal Audit Annual Report to the Committee for the financial year 2020-21. Also included is a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

2. POLICY

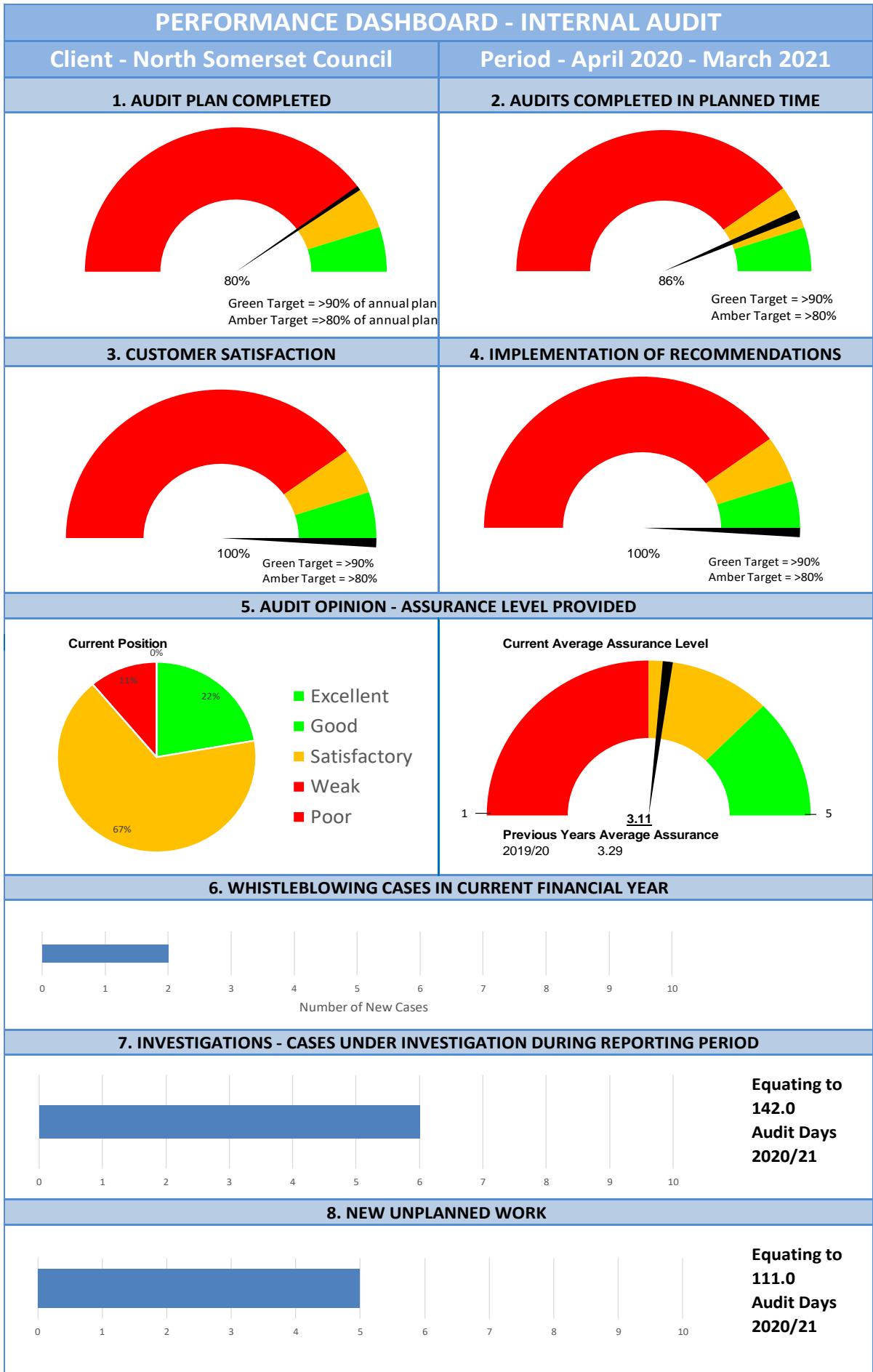
The work of the Internal Audit Service is to provide independent assurance to the council's senior officers and members that governance, risk management and controls are sufficient to ensure delivery of the council's objectives. As part of meeting statutory and professional requirements the Chief Audit Executive is also required to provide an opinion on the council's internal control environment.

3. DETAILS

At its meeting of 30 July 2020, the Audit Committee approved the Annual Audit Assurance Plan for 2020-21. The plan forms the principal work of the Internal Audit Service and is a significant source of assurance of the effectiveness of the council's internal control environment. The plan was revised during the year as part of our consideration of the impacts of Covid-19 and proposed changes were discussed with the Audit Committee at its November meeting.

In determining the scope, depth and breadth of the Audit Assurance Plan, the Audit Committee accepts limitations in coverage and the inherent risks associated with this. As resources or organisational risks may change dynamically over a year, audit coverage can be affected and this may impact on the level of assurance achieved through delivering the audit plan.

INTERNAL AUDIT PERFORMANCE



Audit Reviews - Position Statement 2021/22

<u>AREA</u>	<u>STATUS</u>
HOUSING (HMO'S)	Final
ICT DISPOSALS	Final
ICT BACK-UPS	Final
ICT DATA CENTRE CHANGE CONTROL	Final
HOME TO SCHOOL TRANSPORT	Final
BLUE BADGES	Final
COVID-19 BUSINESS SUPPORT GRANTS	Final
COVID-19 SELF ISOLATION GRANTS	Final
CUSTOMER ENGAGEMENT ROUTES AND PROCESS	Final
SCHOOL ADMISSIONS DATA MATCHING	Final
DATA ANALYTICS	Final
BURRINGTON CHURCH OF ENGLAND PRIMARY SCHOOL	Final
WINSCOMBE PRIMARY SCHOOL	Final
SCHOOLS FINANCIAL VALUE STANDARDS	Final
FRAUD (TRAINING, GUIDANCE, NEWSLETTERS, NFI)	Final
ANNUAL GOVERNANCE STATEMENT	Final
GOVERNANCE (AUDIT COMMITTEE BOARDS, ADVICE & GUIDANCE)	Final
FOLLOW-UP OF AUDIT RECOMMENDATIONS	Final
RISK MANAGEMENT SUPPORT & ADVICE	Final
GRANT CERTIFICATION – DFT BUS SUBSIDY	Final
GRANT CERTIFICATION – METRO WEST	Final
GRANT CERTIFICATION – WSM NORTH SOUTH LINK ROAD	Final
GRANT CERTIFICATION – WSM TOWN CENTRE ENHANCEMENTS	Final
GRANT CERTIFICATION – COASTAL TOWNS CYCLE ROUTE	Final
GRANT CERTIFICATION – FOOD WORKS INNOVATION CENTRE	Final
GRANT CERTIFICATION – WESTON CREATIVE WORKING HUB	Final
MISSION PROJECT BOARD	Final and ongoing advisory work
PAYMENTS TO CHILDCARE PROVIDERS	Position Statement and also in 21/22 plan
OUT OF AREA PLACEMENTS (CHILDREN)	Position Statement and also in 21/22 Plan

<u>AREA</u>	<u>STATUS</u>
RESIDUAL WASTE TREATMENT CONTRACT (WOE PARTNERSHIP)	SGLOS undertaking as Lead Authority
USE OF RISK MANAGEMENT IN COUNCIL DECISIONS	Reporting
COUNCIL TAX	Not Completed - Now in 21/22 Plan
CLIMATE CHANGE	Not Completed - Now in 21/22 Plan
FINANCIAL ASSESSMENTS (NON-RESIDENTIAL)	Not Completed - Now in 21/22 Plan
MAJOR PROJECTS – CAPITAL RECHARGES	Not Completed - Now in 21/22 Plan
INTERFACES – LIQUID LOGIC/ CONTROCC/ AGRESSO	Not Completed - Now in 21/22 Plan

Separate to the above, audits of; Alternative Provision (VLC), Payroll, Transactional HR, IT Cyber Security Threats (inc. Ransomware) and Debt Monitoring/ Collection were discussed with management and risk assessed. These were subsequently agreed to defer into the following year's plan.

PERFORMANCE SUMMARY

1) COMPLETION OF THE INTERNAL AUDIT PLAN

- 1.1 The performance dashboard shows that at the end of the financial year 80% of audits were completed. Whilst this is slightly behind the figures reported to the Audit Committee in the previous year's annual report, it does reflect the impact and disruption of COVID-19, not least with the level of unplanned work that was required.
- 1.2 Members are reminded that the Audit Plan was originally prepared pre-Covid-19 and so the impacts on the original plan altered our work throughout the year. The Committee have been regularly updated on this and understood the need for Internal Audit to be agile and supportive to Senior Management to ensure that the right work got completed at the right time, providing whatever support we could where it was needed, throughout a turbulent year. This included rebasing our planned time to focus on key issues and risks agreed with Senior Management and continuing to support the Council's Covid-19 work.
- 1.3 Additional issues that affected delivery of planned work included:

Level of unplanned work

See section 7.

Staff sickness

The absence of a key member of staff continued from 2019 into 2020. This was in respect of an employee who was largely involved in the operational management of the service and whom undertook complex audit reviews. At the end of August 2020 (5 months into the 20/21 financial year) the employee left their employment due to ill-health and further resources were allocated in replacement.

In addition, there was further sickness with an Audit Manager contracting COVID-19 and subsequently being admitted to hospital.

Remote Working

The move to full-time remote working has invariably affected performance due to a range of issues, including wi-fi and network availability, home working conditions, access to systems/ data remotely, and access to team members and management that we are auditing. As reported in November, this has slowed up or limited some of our work and our audit opinions are tempered by these facts.

- 1.4 Despite these challenges, Audit Management would like to formally record their thanks to staff for all of their efforts and commitment during the past year.

2) AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS

- 2.1 During the year, 86% of audit reviews completed were done so within their assigned days. The remaining 14% related to minor overruns primarily linked to the challenges described with full-time remote working. It should be noted however that productivity increased throughout the year as staff further adapted to remote working.
- 2.2 Joint working across the partnership remained essential in yielding further efficiency benefits when completing reviews. This included through sharing of research, knowledge, workplans and audit findings across the two authorities.

3) CUSTOMER SERVICE

- 3.1 Providing good customer service and value is fundamental to the success of the Partnership. Therefore, this remains an essential performance indicator for Audit West. The method used to capture information which then feeds into the 'Customer Service' performance measure has been discussed at previous Committee meetings. In July 2020, the Audit Committee were contacted and provided with further details and examples of the feedback mechanisms used.
- 3.2 Currently, feedback on customer satisfaction continues to be received through talking to lead clients and via quality assurance surveys that are sent to auditees at the end of a review. Whilst we are pleased to report that performance remains at 100%, it is acknowledged that this is based on limited feedback.

4) IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS

- 4.1 The follow-up of recommendations is prioritised on ensuring that critical and high level recommendations have been implemented. This is because the critical and high level recommendations made will have either identified significant risks, or identified improvements that could best help the organisation to achieve its objectives.
- 4.2 Audit West staff communicate continuously with auditees throughout the review process to ensure that proposed recommendations are understood, are relevant and are achievable to the business. Through following this approach, we are pleased to report that 100% of critical or high level recommendations made were found to have been implemented when followed-up.
- 4.3 The remaining lower priority recommendations continue to be followed-up in line with the dates that they are due to be implemented.

5) ASSURANCE LEVEL PROVIDED

- 5.1 Of the audits completed where an assurance rating has been given, all but one had an opinion ranging from satisfactory to excellent (i.e. between 'Level 3' and 'Level 5'). There have been no internal audit reports issued this year where it was considered that the systems of internal control are poor (i.e. 'Level 1').
- 5.2 There was one audit report issued where it was considered that the overall systems of internal control were weak ('Level 2') and this was in respect of Blue Badges (Disabled Parking Permits) which was previously highlighted to the Committee.
- 5.3 As background, the Department for Transport provide guidance and legislation on the issuing of Blue Badges. However, it is up to each individual authority to review and process application and at North Somerset Council the Blue Badge service is managed by Business Support (Agilisys) on behalf of Adult Social Services.

The team have various duties, including the responsibility for reviewing and processing both online and paper applications. This involves checking evidence of I.D. and addresses and determining the applicant's eligibility.

- 5.4 During the audit, a range of issues in relation to the ineffective operation of the Blue Badge service were identified and high-risk exposure was found in the areas of:

- Evidence required to support applications (badge requests) was regularly not being retained
- There was no formal independent quality checking process for applications processed by the team (which would ensure consistency and accuracy)
- Although proof of I.D. was checked against the application form details, there was no process for cross-checking the information against other Council systems i.e. Council Tax, Electoral Register, etc.
- The national Blue Badge database was not being checked to identify if applicants have an active Blue Badge elsewhere in the country
- There is a lack of formalised criteria for issuing organisational badges and where badges have been issued to organisations records are not always kept of what vehicle they have been issued to.

5.5 Notwithstanding the above issues, it was recognised that the team held clear written guidance for administering most aspects of Blue Badges and were processing large volumes of applications within the defined timescales. They also engaged well during the review, agreeing and implementing recommendations as the review proceeded and have also responded positively to the final audit findings.

6) INVESTIGATIONS/ WHISTLEBLOWING & COUNTER FRAUD

The audit service undertook six new investigations during the year, equating to 142 days of activity. A summary of the investigations and their status is as follows:

6.1 Investigation 1 - Closed

An employee had attempted to use the Council's internal post system to send private goods. Internal Audit completed background work and subsequently a conduct meeting was held in June 2020. The employee admitted the indiscretion as a one-off, citing excessive queues at the post office due to COVID-19 as the reasoning for this misuse. The employee was sanctioned accordingly.

6.2 Investigation 2 – Closed

A newly appointed employee was undertaking a physical role within the Council. However, concerns were raised that the employee, who was also a Blue Badge holder, may have submitted a false declaration – either through a false Blue Badge application or through false medical information on the employment application form.

Internal Audit reviewed the information and documentation surrounding the case and provided advice to both service management and HR, particularly in relation to discrepancies identified in the documents and points to consider in a subsequent HR interview. Following interviews and additional conduct concerns unrelated to this case, the employee's employment was ceased.

6.3 Investigation 3 - Closed

This investigation was completed at the request of D&E Management, where Internal Audit were asked to carry out a fact-finding investigation in a specific service area. This was a significant review and, whilst the investigation has been completed, regular internal audit support remains ongoing to the service area.

6.4 Investigation 4 – Closed

An external complaint/ allegation against a Council officer's working practices was received via the Council's Fraud email address. An investigation began; however, the

allegation was later withdrawn by the complainant and the matter was subsequently addressed internally through line management arrangements.

6.5 Investigation 5 – Draft Report Issued

A payment was made by the Council to a Nursing Home. As part of this payment, a request was made to change the bank account details to which the payment should be made. Whilst this request came from the Home's email address the Home later stated that they never asked for the change of bank details, nor requested or received the subsequent payment made by the Council. However, the payment had reportedly been received and removed from the bank account that it was paid to.

The matter was investigated by Internal Audit and it was concluded that all communication relating to this payment came from the Home's usual email address and the invoices received in respect of the payment request were genuine, based on services charges incurred for a known Service User. Invoices were checked by the Council and additional personal spending receipts were requested and received from the Nursing Home prior to payment. Furthermore, later requests to change the bank details again were challenged by Council officers and prompt action was taken to escalate the issue through line management and hence led to this investigation.

The case currently remains open with Action Fraud. Separately, the Home are completing an internal investigation which will also cover this issue.

6.6 Investigation 6 – Investigation Ongoing

Internal Audit are working with another Council in respect of a COVID-19 grant fraud. As the investigation is ongoing, the value and type of the suspected fraud cannot yet be disclosed publicly. However, Internal Audit are continuing their localised enquiries, including work with Liberata to further identify the comprehensive details behind this incident. In this respect, it has already been established that the fraudster has not made gain from North Somerset Council elsewhere.

The information from this specific investigation will help to inform the approach taken as part of the extensive COVID-19 Grant Funding pre & post payment assurance work that is planned for 2021/22, with the aim to further protect the public purse and Council funds.

7) UNPLANNED WORK

7.1 As anticipated, the unplanned audit work that took place in 2020/ 21 was predominantly centred around the emerging Coronavirus pandemic. A description of this work was formally reported in detail in a paper to the Audit Committee at the meeting of 7th July 2020 and included specific information on:

- Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund
- Local Authority Discretionary Fund
- Fraud Alerts to staff
- Advice and Assistance to Service Areas
- Participation in the Institute of Internal Auditors 'COVID-19 forum'

7.2 The above work and further associated requests continued throughout the year and will now form a large part of the planned work in the 2021-22 Internal Audit plan (see separate agenda item).

8) COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS

- 8.1 In December 2017 a report was presented to the Committee on the Public Sector Internal Audit Standards and based on this report the Committee approved an Internal Audit Charter.
- 8.2 The Internal Audit Charter states that Audit West through its engagement lead will report periodically to the Corporate Audit Committee regarding Internal Audit conformance to the Code of Ethics and the Standards and is being separately reported in the Audit Plan report for information to the Committee.

9) FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK

- 9.1 As part of our statutory requirements the Chief Audit Executive is required to give an opinion on the internal control framework. In forming this view, I have considered the work of the Audit & Assurance function as well as other assurances I can rely on and consideration of the wider governance framework and performance of the council.

As highlighted during our mid-year report to the Audit Committee in November 2020, we then reported the state of the internal control framework as satisfactory based on our audit opinions. However, it was also highlighted at this time that our opinions were tempered by remote working as we could not observe normal practices due to Covid-19.

This has continued to be the case throughout the remainder of the year and, coupled with the level of unplanned work and subsequent necessary changes to the original schedule of planned work, has brought into consideration whether a limited or qualified opinion should be issued as a result of the changing plan. The Institute of Internal Auditors guidance in this respect is that if the Audit Committee has agreed to the changed plan, then there is no need for a limited opinion; the opinion will reflect the work detailed as agreed.

It is therefore my opinion that, based on the planned work completed due to the circumstances of Covid-19, the council's internal control framework and systems to manage risk are reasonable.

- Reasonable assurance can be provided over the council's systems of internal control, helping to ensure corporate priorities can be achieved;
- Agreed policies, Financial Regulations and Contract Standing Orders are broadly being complied with;
- Managers throughout the council are aware of the importance of maintaining adequate and effective governance arrangements;
- Appropriate arrangements are operated to deter and detect fraud and investigations did not identify any systemic failures although individual issues were noted;
- Senior Management - led by the Chief Executive – demonstrate a pro-active approach to the fundamental themes of good governance and risk management;
- There were no fundamental system failures or control breakdowns to business-critical functions. We remain alert however to the ongoing challenges impacted upon the councils operations due to Covid-19.

9.2 The ongoing financial challenge, especially within a year dominated by Covid-19 also places further pressure on services to respond and manage risk in a proportionate way. A robust Internal Audit service is a vital component of the Council's governance systems and provides the third and final line of defence in relation to the internal control framework.

9.3 The Audit Committee's support of our work and maintaining effective corporate governance is appreciated and I would like to thank members of the committee for their input and guidance over the year.

10. CONSULTATION

The Annual Report refers to facts and opinions that have been included within individual Audit reports which were distributed to, and agreed with, senior managers. The service meets regularly with the directorates to update them on the audit plan and ensures the plan continues to reflect the risks.

11. FINANCIAL IMPLICATIONS

There are no direct financial implications from this report which is focussed on performance.

12. LEGAL POWERS AND IMPLICATIONS

There are no direct legal implications from this report which is focussed on performance.

13. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

The council faces a wide variety of climate change and environmental impacts whilst delivering its many services to residents, some of which have a direct or indirect financial impact or consequence. There are referenced or noted, where appropriate, throughout the report and associated appendices.

14. RISK MANAGEMENT

Significant risks to the council arising from an ineffective Internal Audit service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit fees and undetected fraud. The Internal Audit Service assists the council in addressing its risk profile. Internal Audit helps by identifying risks, improvement areas and by institutionalising good practice.

15. EQUALITY IMPLICATIONS

Embedded within the audit process is consideration of compliance with statutory guidance and regulations which includes those relating to equality and diversity.

16. CORPORATE IMPLICATIONS

Failure to deliver the agreed Annual Assurance Plan may result in an inability to provide adequate assurance to officers, members and the public of the soundness of the council's corporate governance.

17. OPTIONS CONSIDERED

None, this is an annual report.

AUTHORS

Jeff Wring – Service Director

jeff.wring@n-somerset.gov.uk

Peter Cann – Head of Audit & Assurance

peter.cann@n-somerset.gov.uk

BACKGROUND PAPERS

Annual Audit Assurance Plan 2020/21

Audit Committee July 2020

Update Performance Report 2020/21

Audit Committee Nov 2020

COVID-19 Grant Funding Report

Audit Committee July 2020

Appendix A - Audit Opinion:

Assurance Rating	Opinion
Comprehensive Assurance - Level 5	The systems of internal control are excellent with a number of strengths and comprehensive assurance can be provided over all the areas detailed in the Assurance Summary
Substantial Assurance - Level 4	The systems of internal control are good and substantial assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary
Reasonable Assurance - Level 3	The systems of internal control are satisfactory and reasonable assurance can be provided. However there is one area detailed in the Assurance Summary which requires improvement and specific recommendations are detailed in the Action Plan
Limited Assurance - Level 2	The systems of internal controls are weak and only limited assurance could be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
No Assurance - Level 1	The systems of internal controls are poor, no assurance can be given and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee

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North Somerset Council

REPORT TO THE:	AUDIT COMMITTEE
DATE OF MEETING:	23RD APRIL 2021
SUBJECT OF REPORT:	AUDIT & ASSURANCE PLAN 2021-22
TOWN OR PARISH:	NONE
OFFICER/PRESENTING:	PETER CANN - AUDIT WEST
KEY DECISION:	NO

RECOMMENDATIONS:

The Audit Committee approves the Audit & Assurance Plan 2021-22.

1. SUMMARY OF REPORT

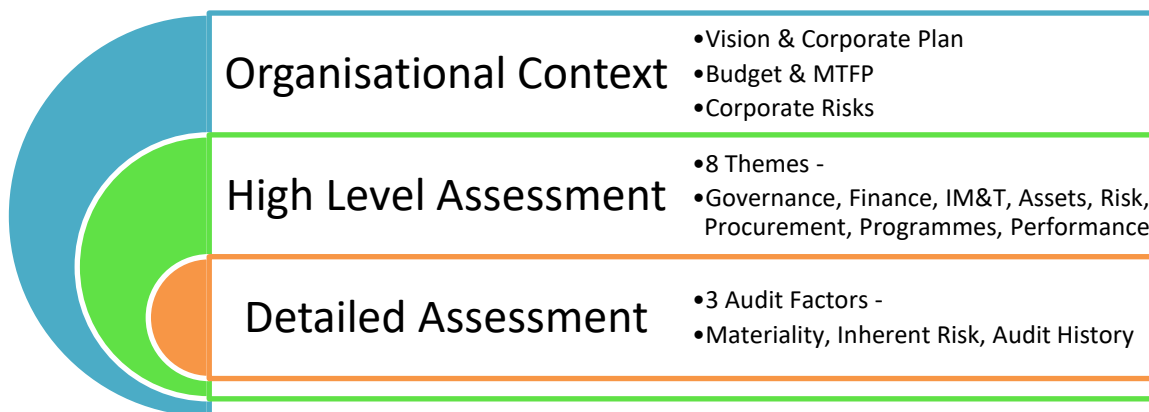
This report outlines the Annual Audit and Assurance Plan 2021-22 which forms the principal work of the Internal Audit Service for the new financial year. The Audit Committee is asked to endorse the plan. Also attached is the Audit Charter for the Internal Audit Service for information in Appendix B.

2. POLICY

The Annual Audit and Assurance Plan forms a key element of the council's corporate governance arrangements. The work provides assurance and improves the council's internal controls to ensure delivery of the council's objectives. The outputs inform the Head of Audit's opinion of the council's governance, risk and control environment as well as informing the Annual Governance Statement.

3. DETAILS

The Public Sector Internal Audit Standards require Internal Audit to prepare a risk-based plan and this is attached at Appendix A. The plan is formulated using the Reasonable Assurance Model the essential elements of the model are as follows –



Notwithstanding the assessment, specific circumstances (such as a significant reputational issue or request of S151 or Corporate Leadership Team) may on occasion mean that a low scoring or new topic is nevertheless included in the Plan, i.e. Covid-19.

The plan process involved extensive consultation between December and March including the following key stakeholders –

Senior Management
Directorate Leadership Teams
Statutory Officers
Audit Committee

Resources available to deliver the Plan will also inform the quantum of the Plan and these will remain the same during 2021/22. Our partnership arrangements also give us ongoing efficiency opportunities to reduce the amount of time spent on reviews and share best practice.

COVID-19

It should be noted that the 2021-22 Plan was completed during the third Covid-19 lockdown. It is therefore the intention of the Internal Audit Service to follow a similar approach as in 2020-21, whereas whilst the usual consultation process has followed and a full-year audit plan has initially been produced to cover the period 1st April 2021 – 31st March 2022, the plan will be kept under constant review and adjusted to cover any further unforeseen requirements over the first six months. A review of the annual plan at the six-month stage will then take place in order to adequately prioritise and resource the second half of the financial year. In addition to this, a COVID-19 contingency resource will also be held to help smooth any impact.

Internal Audit Charter & Professional Standards

The Public Sector Internal Audit Standards (PSIAS) came into effect from 1st April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government, Central Government and the NHS.

The PSIAS was revised wef 1st April 2017 and are based on the Institute of Internal Auditors' International Standards. The objectives of the PSIAS are to:

- Define the nature of internal auditing within the UK public sector.
- Set basic principles for carrying out internal audit in the UK public sector.
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations.
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

A key requirement of the PSIAS is an Internal Audit Charter which defines the internal audit activities purpose, authority and responsibility. The Internal Audit Charter establishes its position within the organisation; the nature of the Chief Audit Executive (CAE's) functional reporting relationship with the Audit Committee; formally records its access to property, records and personnel; and defines the scope of internal audit activities.

As part of best practice we always present the Charter annually to the Audit Committee so that you are aware of how Internal Audit delivers its services and derives its authority and to re-confirm our independence.

Each year we will assess ourselves against the required standards and ensure a quality assurance and improvement programme (QA&IP) is in place requiring both internal and external assessment with an external assessment being required once every 5 years.

4. CONSULTATION

In developing the Audit Plan, the Internal Audit Service drew upon local and national intelligence and reports and consulted with a range of stakeholders. The Service used a risk framework to identify the topics to be included in the draft plan.

5. FINANCIAL IMPLICATIONS

The costs of delivering the Annual Audit Plan are contained within the budget set aside for the contract with Audit West. If this work identifies weaknesses in the council's control environment, this may result in additional costs. The work may also identify efficiencies and savings in the council's operation.

6. LEGAL POWERS AND IMPLICATIONS

There are no direct legal implications from this report.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

The plan process will consider key risks (& opportunities) which will include an increased focus on Climate Change and report back on whether assurances can be given on the delivery of the organisations plan to mitigate the risk in this area.

8. RISK MANAGEMENT

The Plan describes how Internal Audit will take a risk-based approach in applying its limited resources to provide a sufficient level of assurance to those charged with governance. This includes a risk assessment tool used to inform the content of the Annual Audit Assurance Plan.

9. EQUALITY IMPLICATIONS

Embedded within the audit process is consideration of compliance with statutory guidance and regulations which includes those relating to equality and diversity.

10. CORPORATE IMPLICATIONS

Failure to agree a sufficient Annual Assurance Plan may result in an inability to provide assurance to officers, members and the public of the soundness of the council's corporate governance

11. OPTIONS CONSIDERED

None as this report follows professional standards.

AUTHORS

Peter Cann Audit West peter.cann@n-somerset.gov.uk

BACKGROUND PAPERS

None

ATTACHMENTS

- Appendix A Annual Audit & Assurance Plan 2021-22
- Appendix B Audit Charter

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Audit & Assurance Plan 2021/22

Delivering Independent Assurance to Local Government



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An open, fairer, greener North Somerset

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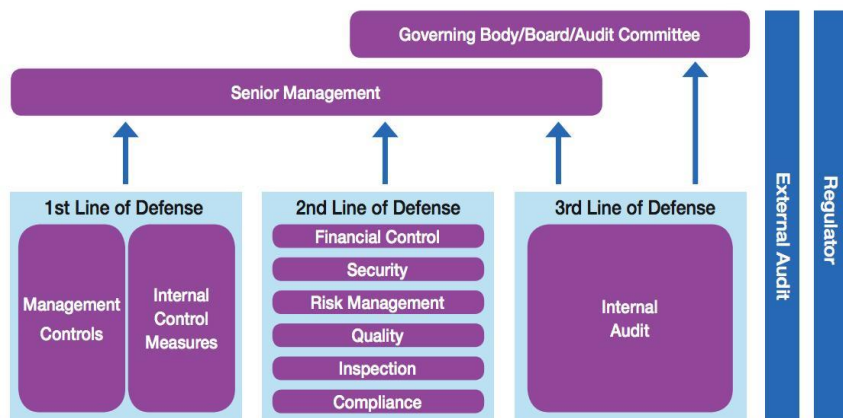
1. Our Role

Introduction

North Somerset Council strives to deliver excellent services to local people and pledges to be an open, fairer and greener Council. The Council has recognised through its Corporate Plan the importance of excellence in resource management and sound governance as fundamental to achieving its priorities.

Audit West fully recognises its need to be flexible and agile in the face of the significant changes affecting the whole of the public sector and meet the needs of its stakeholders. Independent assurance which is strong but supportive can provide a helpful and positive role not just to services but to elected Members and the Community at large by demonstrating that the Council is operating effectively and protecting its assets and resources for the benefit of all its stakeholders.

Three Lines of Defence Model



By being independent of management Audit West maintain the third line of defence and we continue to do this effectively by working with all our stakeholders - especially the Audit Committee, Statutory Officers and Senior Management – to improve the service we offer but also to provide an independent voice in supporting service change and transformation.

We also aim to offer continued value to all our clients based on the following key priorities –

- **Use of our Reasonable Assurance Model**
- **Maximising Use of Technology**
- **Investment in Skills**
- **Offering complimentary assurance services**
- **Providing Value for Money**

The remainder of this document outlines our approach and also the indicative areas for our audit and assurance plan for 2021/22.



2. Scope of Services



3. Key Priorities for North Somerset

A THRIVING AND SUSTAINABLE PLACE

PRIORITIES

- A great place for people to live, work and visit
- Welcoming safe and clean neighbourhoods
- To be a carbon neutral council and area by 2030
- A transport network that promotes active, accessible and low carbon travel
- A broad range of new homes to meet our growing need, with an emphasis on quality and affordability
- An attractive and vibrant place for business investment and sustainable growth

A COUNCIL WHICH EMPOWERS AND CARES ABOUT PEOPLE

PRIORITIES

- A commitment to protect the most vulnerable people in our communities
- An approach which enables young people and adults to lead independent and fulfilling lives
- A focus on tackling inequalities, improving outcomes
- A collaborative way of working with partners and families to support children achieve their full potential
- Partnerships which enhance skills, learning and employment opportunities

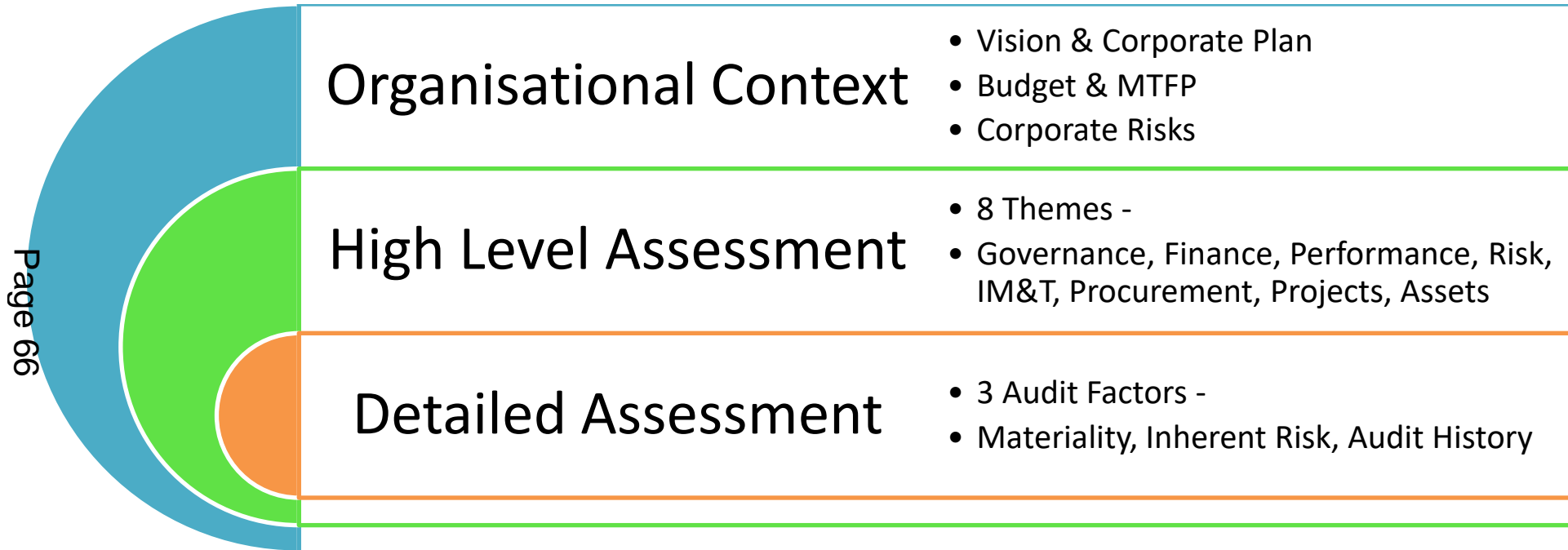
AN OPEN AND ENABLING ORGANISATION

PRIORITIES

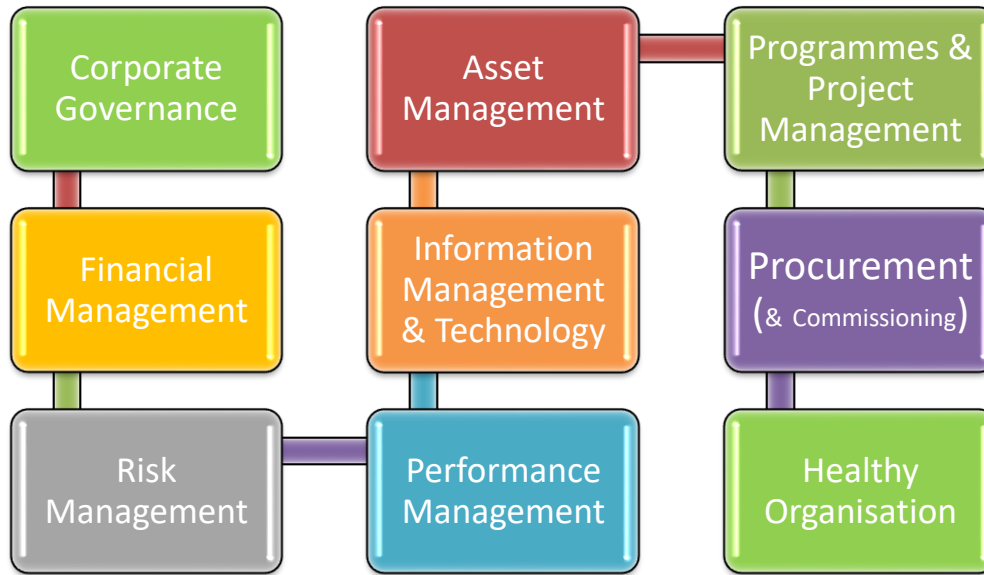
- Engage with and empower our communities
- Empower our staff and encourage continuous improvement and innovation
- Manage our resources and invest wisely
- Embrace new and emerging technology
- Make the best use of our data and information
- Provide professional, efficient and effective services
- Collaborate with partners to deliver the best outcomes

4. Reasonable Assurance Model – Producing the Audit Plan

The model is based on the fundamental requirement that the audit plan proposed will deliver sufficient work to enable the Head of Audit to independently assess the internal control framework and give a reasonable assurance opinion at the end of each year. This involves considering current context of the Council, what a 'healthy organisation' requires to operate effectively and then assessing independently against this in a staged process as follows –

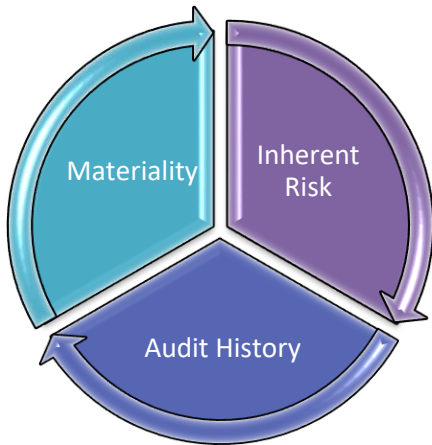


HIGH LEVEL ASSESSMENT AREAS – REASONABLE ASSURANCE

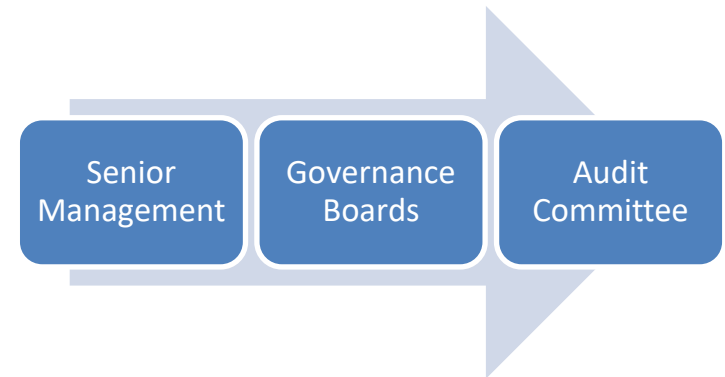


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DETAILED ASSESSMENT CRITERIA



CONSULTATION & APPROVAL



Results of our Reasonable Assurance Model Risk Assessment –

LEVEL OF RISK	HIGH		FINANCIAL MANAGEMENT			
	LOW	CORPORATE GOVERNANCE	INFORMATION MANAGEMENT & TECHNOLOGY	PROCUREMENT (& Commissioning)		
			ASSET MANAGEMENT	RISK MANAGEMENT		
			PERFORMANCE MANAGEMENT	PROGRAMME & PROJECT MANAGEMENT		
		HIGH	LEVEL OF ASSURANCE			LOW

5. Areas for Review

INTERNAL AUDIT PLAN 2021/22 – PROPOSED REVIEW AREAS

Audit Area	Theme	Indicative Start (Q)
Fraud - Data Analytics	Financial Management	All
Fraud - NFI	Financial Management	All
Fraud - Training	Financial Management	All
Governance - Annual Governance Statement	Corporate Governance	All
Governance - Audit Committee, Boards, Advice & Guidance	Corporate Governance	All
Follow-up of Audit Recommendations (Across Multiple Audits)	Corporate Governance	All
Grant Funding (Non-COVID)	Financial Management	All
COVID-19 Grant Funding - Pre & Post Payment Assurance	Financial Management	All
Payroll	Financial Management	1
Transactional HR	Risk Management	1
Debt Monitoring	Financial Management	1
Council Tax Payments and Collection	Financial Management	1
Business Rates NNDR Income	Financial Management	1
Major Projects (Capital Recharges)	Financial Management	1
ICT - Server Migration	Information Management	TBC
ICT - Ransomware	Information Management	TBC
ICT - Software Asset Management	Information Management	TBC
Information Governance - Handling of Physical Post	Information Management	2
Contract Management - Re-commissioning Process	Procurement	3
Contract Management - Post Procurement Training	Procurement	3
New Waste Service - Governance Arrangements	Corporate Governance	All
Monitoring of Mandatory Training	Risk Management	3
Financial Assessments (Non-Residential)	Financial Management	3
Interfaces (Liquid Logic/ ContrOCC/ Agresso)	Risk Management	4
Housing Jigsaw System	Risk Management	3
Out of Area Placements (Children)	Risk Management	1
Payments to Child Care Providers	Financial Management	2
School Assurance Visits	Corporate Governance	4
SFVS	Corporate Governance	4
Alternative Provision (VLC)	Corporate Governance	1

Audit Area	Theme	Indicative Start (Q)
Green Waste - Charging & Income	Financial Management	3
Capital Projects and CILs	Infrastructure & Environment	3
Climate Change - Corporate Planning	Infrastructure & Environment	4
MetroWest	Infrastructure & Environment	2
Home to School Transport ICT	Risk Management	4
Sea Front Concessions	Risk Management	3

NB – Shaded rows indicate potential for joint working across BANES

Internal Audit Core Services
Contingency – Investigations and General Unplanned Work
General Advice and Guidance to Service Areas and Individual Teams

Internal Audit Charter

This document sets out the purpose, authority and principal responsibilities of the Internal Audit Service for North Somerset Council.

1 Internal Audit's Purpose and Mission

- 1.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on its control environment. Internal Audit helps the organisation to achieve its objectives through a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and control, processes. Its mission is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight

2 Internal Audit's Statutory Role

- 2.1 The Accounts & Audit Regulations 2015 (Local Government England & Wales) states that:

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

- 2.2 Section 151 of the Local Government Act 1972 requires the Council to designate an Officer to be responsible for “making arrangements for the proper administration” of the Council’s financial affairs. One of the ways by which this duty is discharged is by maintaining an adequate and effective Internal Audit Service.

- 2.3 The Audit Committee responsibilities are recorded in its Terms of Reference which were updated significantly during 2019/20.

3 Standards for Professional Practice of Internal Auditing

- 3.1 Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Chief Audit Executive will report periodically to the Council's Chief Financial Officer (S151 Officer) and the Audit Committee regarding Internal Audit conformance to the Code of Ethics and the Standards.

4 Management's Responsibilities for Internal Control

- 4.1 Responsibility for internal control rests fully with Management, who shall ensure that arrangements are appropriate and adequate. Management shall establish and maintain an adequate system of internal control to enable them to discharge their responsibilities and to ensure that the Council's resources are properly applied in the manner intended. This includes responsibility for the prevention and detection of fraud.

5 Internal Audit Responsibility & Objectives

- 5.1 Internal Audit is responsible for carrying out an appraisal of all the Council's activities, financial or otherwise, in line with this Internal Audit Charter. Internal Audit will provide an annual opinion to the Council (Audit Committee) and will carry out Audits and other assurance work in order to deliver this opinion. In addition, Internal Audit will report to Management any material facts that may affect the delivery of the opinion.
- 5.2 As stated in Section 3 Internal Audit will comply with the Professional Practices Framework, (including the Public Sector Internal Audit Standards), and will complete internal assessment of compliance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The findings of internal assessments and any required actions will be reported to the Council's Audit Committee. Compliance will also be verified through an external review assessment every five years.
- 5.3 One of the key service objectives of Internal Audit will be to produce a risk based Annual Audit Assurance Plan for approval by the Council's Audit Committee. The Audit Plan will remain flexible to take account of the Council's changing environment and risk profile.
- 5.4 Completion of all or a significant proportion of the approved Audit Plan will be a key performance measure of the Internal Audit Service.
- 5.5 Internal Audit will directly employ staff and contract as necessary to provide a service to the Council. This is carried out through a services agreement with Bath & North

East Somerset Council who work in partnership with North Somerset Council for Internal Audit Services.

6 The Scope of Internal Audit

- 6.1 Internal Audit's work is not limited to the Council's financial systems and records, it extends to all activities of the Council. This enables Internal Audit to give an independent and objective opinion on the adequacy and effectiveness of governance, risk management and the control environment as a source of assurance to management. Work includes: reviewing and evaluating compliance with policies, laws and regulations; assessing the reliability and integrity of information; and, safeguarding Council assets. In addition to this core internal audit work, it will undertake, where appropriate, other non-assurance work at the request of management. This may include consultancy and fraud / irregularity related work.
- 6.2 Where appropriate, there may be instances whereby Internal Audit works in partnership to meet objectives and deliver services. In these instances, Internal Audit will decide whether to conduct the work required itself or can place reliance on the work carried out by other Auditors or sources of assurance. If Internal Audit were to carry out the work, then access rights need to be established to all systems and documents. Management should ensure these are established as part of the partnership arrangements.

7 Internal Audit reporting lines

- 7.1 The Chief Audit Executive fulfills the role of the Council's "Chief Internal Auditor" through its contractual arrangements and reports to the Client - Director of Finance and Property. The Chief Audit Executive has freedom of reporting access without fear or favour to all relevant Members and Officers (including the Leader of the Council, the Chair of the Audit Committee and the Council's Statutory Officers - Chief Executive {Head of Paid Service}; Director of Finance and Property {Section 151} and the Head of Legal & Democratic Services {Monitoring Officer}).
- 7.2 The Council has an Audit Committee whose Terms of Reference include responsibility for monitoring the performance of the Internal Audit Service and approving its Annual Audit Plan. The Chief Audit Executive reports regularly to the Corporate Audit Committee and is required on an annual basis to provide a formal opinion of the adequacy of the Internal Control Framework and systems to manage risk.

8 Internal Audit Independence

- 8.1 A critical element of the performance of Internal Audit is independence from the activities it audits. This enables Internal Audit to form impartial and effective judgment for the opinions and recommendations made. To help ensure independence Internal Audit is allowed unrestricted access to Senior Management & Members, as stated in Section 7.1. the Chief Audit Executive reports in his own name and has enhanced

independence through the contractual arrangements with Bath & North East Somerset Council.

- 8.2 Internal Auditors will be impartial, have an unbiased attitude and avoid any conflict of interest. Auditors will not undertake audit reviews in services where they have previously worked (directly working for the function or carrying out 'consultancy services') in the last two years. In terms of 'consultancy services' this is work which is going beyond providing an opinion on the control environment, i.e. they are designing or developing systems to fulfil an objective.
- 8.3 Internal auditors will disclose any impairments of independence or objectivity, in fact or appearance, to appropriate parties.
- 8.4 Before Internal Audit agrees to carry out consultancy services consideration will be given to any potential conflicts of interest. If it is concluded that the proposed work would compromise delivery of the service's prime function, then the work would be declined.
- 8.5 Where the Chief Audit Executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.
- 8.6 The Chief Audit Executive will confirm to the Corporate Audit Committee at least annually of the independence of the internal audit activity.

9 Internal Audit Fraud related work

- 9.1 Internal Audit does not have responsibility for the prevention and detection of fraud. However, Internal Audit staff shall be alert in all their work, to risks and exposures that could allow fraud or corruption. Internal Audit work alone cannot guarantee that fraud and irregularities will be picked up even when work is performed in compliance with the Public Sector Internal Audit Standards.
- 9.2 The main source for Internal Audit to be alerted to possible fraud and irregularities will be through the awareness of Council Officer and Members of the Council's Anti-Fraud & Corruption Strategy and associated policies (Anti-Money Laundering Policy; Anti-Bribery & Corruption Policy and Whistleblowing Policy). Internal Audit maintain the Council's Strategy and Policies and report on this to the Audit Committee. The Strategy adheres to the themes and principles of the CIPFA Local Government Counter Fraud Strategy.
- 9.3 Internal Audit assist in the detection of fraud by assisting the Council's Director of Finance and Property (Chief Financial Officer) in roles related to the Cabinet Office National Fraud Initiative. Internal Audit assists Council Services in the preparation and submission of data to the Cabinet Office and then the review and investigation of data matches.

- 9.4 Internal Audit may also be requested by Management to assist with the investigation of potential cases of fraud and financial irregularities. The objective of the Internal Audit Service is to ensure that: 1) the matter is fully investigated and if deemed necessary referred for Police or disciplinary action; and 2) the system of internal control is enhanced to avoid a repeat of the issue. All reported irregularities would be investigated in line with adopted Strategies, Policies and protocols.

10 Internal Audit's Right of Access

- 10.1 The Accounts & Audit Regulations 2015 provides that any Officer of the Council must make available such documents of the Council which relates to its' accounts and other records as appear to be necessary for the purpose of the Audit.

In addition, the Council's Financial Regulations state that The Chief Audit Executive or their authorised representative, shall have authority to:

- Enter at any reasonable times, any operational or administrative Council premises or land and have access to all Council property;
- Have access to (and where necessary to copy or retain) all records whether manually or electronically held, documentation, correspondence and computer systems relating to any transaction of the Council, or non-official funds operated by Council staff;
- Require and receive such explanations as are necessary concerning any matter under examination;
- Require any employee of the Council to produce or account for cash, stores or any other property under their custody or control,
- Examine any work or services carried out for the council by an employee or contractor, and any goods purchased on behalf of the Council,
- Review appraise and report on the soundness, adequacy and application of internal controls. This includes those controls to protect Council resources, property and assets from loss / waste.

11 Relationship with External Audit & other Assurance Providers

- 11.1 The relationship between Internal Audit and the Council's External Audit should take account their differing roles. The External Auditor has a statutory responsibility to express an opinion on the Council's financial statements, whilst Internal Audit is responsible for assessing the adequacy and evaluate the effectiveness of its risk management, control and governance processes and advising Management accordingly.
- 11.2 Internal Audit will co-operate and co-ordinate with External Audit and other review agents to:

- Ensure that duplication of work is minimised
- Consider joint delivery where appropriate
- Determine the level of assurance that can be obtained from their work
- Review the reliance that can be placed on that assurance as part of Internal Audit's opinion on the control environment
- To enable access to all Internal Audit records as appropriate.

11.3 As part of its drive to secure efficiencies, Internal Audit will use all sources of assurance available to it to inform its opinion.

12 Quality Assurance and Improvement Plan

12.1 The Chief Audit Executive has developed a quality assurance and improvement programme that covers all aspects of the internal audit activity. It has been designed to enable an evaluation of the internal audit activity's conformance with the Public Sector Internal Audit Standards and an evaluation of whether internal auditors apply the Institute of Internal Auditors Code of Ethics. Identifying opportunities for improvement is a key requirement of the programme.

12.2 Internal assessments will be carried out to review compliance with the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework. The results of internal assessments referencing any related action plans will be reported in the annual report to the Council's Audit Committee.

12.3 An external assessment will be carried out at least every five years by a qualified, independent assessor from outside the organisation.

12.4 The Chief Audit Executive will inform the Audit Committee of the form of the external assessment and clarify the qualifications and independence of the external assessor. The results of the external assessment including any action plans will be reported in the relevant annual report to the Audit Committee.

12.5 Any non-conformance to the International Standards for the Professional Practice of Internal Auditing and Code of Ethics will be highlighted for consideration for inclusion in the Council's Annual Governance Statement.