

Minutes

of the Meeting of

The Audit Committee

Thursday, 27 January 2022

New Council Chamber

Meeting Commenced: 10.30 am

Meeting Concluded: 12.44 pm

Councillors:

John Cato (Chairman)

Sandra Hearne (Vice-Chairman)

Patrick Keating

Marcia Pepperall

Richard Tucker

Also in attendance: Councillor Geoffrey Richardson.

Officers in attendance: Steve Ballard (Principal Accountant (Closure and Systems)), Amy Webb (Director of Corporate Services), Hazel Brinton (Democratic Services Officer), Peter Cann (Head of Audit and Assurance) and Melanie Watts (Head of Finance).

AUD Declaration of Disclosable Pecuniary Interest (Standing Order 37)

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None.

AUD Minutes 20 September 2021

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

AUD Notes from Informal Meeting

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Resolved: that the formal notes of the informal meeting held 25 November 2021 be approved as a correct record of the meeting and recommendations therein be adopted.

AUD Audit Committee Annual Report 2020-21

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The Chairman presented the Annual Report which set out a summary of the work undertaken by the Committee in the previous year and provided a commentary over key areas of financial and corporate governance and associated assurance activities. He thanked members of the committee and officers for their diligent hard work in bringing matters to the attention of members and officers to improve the work of the council. In particular, he highlighted the Audit Committee work in improving governance around capital projects and the committee's work plan

which whilst finalised could nevertheless be adjusted as circumstances dictated.

Members asked questions and received answers from officers on the availability of the Corporate Risk Register and the recruitment of independent members.

Resolved: that the Audit Committee Annual Report 2020/21 be approved;

and

Recommended to Council: that the report be received.

AUD 19 Value for Money Extension Letter - External Auditor

In the absence of the representative from Grant Thornton, the Director of Corporate Services presented the item to members. She noted the delay in the Auditors' Annual Report expected in December 2021 now to be published in February 2022 and highlighted the delay may mean that the relevance of the Value for Money report is diminished.

Members asked questions and received answers on the level of confidence that members could take from the letter given its delay; the reasons for the delay; any risks associated with the delay and whether compensation was available.

Resolved: that the committee noted the Value for Money Extension Letter from the External Auditors.

AUD 20 Annual Governance Statement Process 2021-22

The Head of Audit and Assurance (Audit West) presented the report on the process required for the Annual Governance Statement 2021-22.

In presenting his report, he noted that the Audit Committee is required to consider the Annual Governance Statement (AGS) and the framework which supports it. He commented that the AGS was based on the Local Code of Corporate Governance which could be found in the report's appendix and noted that was similar to that of previous years. He explained that the Annual Governance Statement required ratification by the Audit Committee as part of the Annual Accounts approval process.

The Head of Audit and Assurance made particular reference to the significant issue raised at the time of the last Statement in relation to Covid 19 and related grants and reminded members of the requirements for the matter to be included again as a significant issue.

He confirmed that members would have the opportunity at the committee's next meeting in April and during other informal meetings to input their views on any governance or significant issues and reassured them that this would be in good time to have their views incorporated.

Members made comments, asked questions, and received clarification on the matter of both national and local fraud and recovery of funds in relation to Covid grants and which had previously highlighted to members; the future administration

of grants; the presentation of the process within the report; whether the council was being funded by the government for the administration of Covid grants and whether this was sufficient to cover the council's additional costs.

Resolved: that the committee noted the report and the process for the Annual Governance Statement 2021-22.

AUD 21 External Audit Procurement Options

The Director of Corporate Services presented the report. She gave the background to the appointment process previously used by the council for External Audit services involving Public Sector Audit Appointments Ltd (PSAA) which has a role in setting audit fees and highlighted the recommendation to continue to use PSAA to maximise value for money and service quality benefits for the procurement of the statutory service.

In presenting the report, the Director of Corporate Services commented on the limited local market for local government audit and the challenges facing the local authority audit sector with the change in reporting deadlines and new regulatory requirements. This meant a balance was required between risk and opportunity in deciding whether to procure the service locally or nationally. She noted that the Redmond Review had commented on the sustainability of local government audits. In presenting her report she noted the benefits of procurement via the PSAA including savings on a large procurement exercise, economies of scale in audit fees and being able to tap into expertise.

The Director of Corporate Services noted the downsides of procuring via the PSAA including the possibility of continuing audit delays although she noted that delays in completing local authority audits were a national issue.

In discussing the report, members asked questions and received clarification on whether using the PSAA prevented the council from changing its auditor as there were concerns expressed in using a national auditor in terms of quality of audit and reporting; officers' opinions on using other auditors that were on the list of auditors being explored by the Fire Authority as part of its procurement process; to what extent the council had the opportunity to feed into the PSAA process and scrutinise its choice of auditor; whether the council was obliged to accept the auditor appointed by the PSAA process; the state of the general external auditor market; who monitors the quality of the external auditors; the possibility of appointing an external auditor based in North Somerset; whether an alternative framework such as the Crown Commercial Service could be used and whether next time, the process of determining how the external audit would be procured could be brought to the Audit Committee a year earlier than required so that all procurement choices could be considered.

The Director of Corporate Services noted members observations on some aspects of the external audit reporting which she would feedback to the external auditors. She would also ascertain whether the council was obliged to accept the PSAA appointed auditor. She added that the External Auditor was coming in to carry out training for members on the external audit and there would be an opportunity for members to put questions to them and feedback any observations at that point.

Resolved: that the Audit Committee supported the recommended option for the future procurement of External Auditors to the Council by Public Sector Audit Appointments Limited (PSAA).

AUD 22 Internal Audit Plan - Audit Committee Consultation

The Head of Audit and Assurance (Audit West) presented the report noting that the intention was to keep the plan under constant review and the request that the Audit Committee submit any comments on areas or themes they would wish to see considered.

In presenting his report, he added that the methodology used to create the Internal Audit Plan had been updated and that the approach to be taken towards Covid19 activity was set out in the report. He explained the Reasonable Assurance Model to members and how it was used to give the Chief Internal Auditor sufficient information to independently assess the internal control framework and to be able to give a reasonable assurance opinion at the end of the year. He commented that the planning process involved extensive stakeholder consultation including consultation with the Audit Committee and Directorate Leadership Teams.

Members' attention was drawn to the Covid19 and 6 Monthly Rolling Plan Review section of the report which highlighted the intention of the Internal Audit Service to follow the same fluid approach to its review as in the previous two years in order to direct resources efficiently and effectively. It was explained that in addition to Covid 19 factors, the Chartered Institute of Internal Auditors has drawn up ten key areas for 2022 which organisations should take account of in preparing their audit plans and which were noted in the report.

In concluding his presentation, the Head of Audit and Assurance noted that Internal Audit would attend Directorate Leadership Team meetings in February and March, and he was looking for feedback from Audit Committee members by the end of February to feed into the consultation process. Additionally, he noted some areas for consideration in particular, such as the cost-of-living crisis which would entail a detailed look at the management of the Welfare Provision Fund; mental health provision, safeguarding of children and business continuity arrangements.

The Head of Audit and Assurance undertook to email members with his thoughts on areas to consider to which members of the Audit Committee were invited to feedback to him at their forthcoming informal meeting with any questions they may have.

Members asked questions and received clarification from the Head of Audit and Assurance on IT security, working from home and the use of officers' own devices; North Somerset Environmental Company (a subsidiary of the council) and the comparison of its financial report against outside contractors.

The Head of Audit and Assurance undertook to work with the Director of Corporate Services in constructing the Internal Audit Plan so that the work to be undertaken, objectives, timescales, required resources, Key Performance Indicators and key risks were identified in order that members have benchmarks to compare against. He also undertook to report on successes and areas for improvement on

a quarterly basis to the Audit Committee. It was agreed that an informal meeting with members, the Head of Audit and Assurance and the Director of Corporate Services would take place before the plan was adopted.

Resolved:

(1) that the request for the Audit Committee members to comment on any areas or themes they would like to be considered in relation to the Internal Audit Plan for 2022/23 be noted and

(2) that the intention to keep the plan under constant review, including a six-month reassessment, in order to prioritise resources as required be noted

**AUD
23 Treasury Management Strategy 2022-23**

A representative of the Director of Corporate Services presented the report on the council's draft annual Treasury Management Strategy for 2022-23. In presenting the report, she referred to the background and strategy for the management of the council's cash flows and its resources in order to support the provision of effective services by the council and noting that much of the management is routine and short term in nature whilst some will cover the medium and longer term. She added that there were significant dependencies with other financial strategies and plans including the Capital Strategy and Medium-Term Financial Plan.

She explained that the Treasury Management Strategy was a framework within which decisions were made daily in managing council's funds and makes no specific investment or borrowing recommendations. She added that the framework describes the types of issues that the council needed to consider at the appropriate time for example regulatory requirements and the council's approach to risk.

In explaining the report, she referred to the regulations and guidance with which the council is obliged to follow to remain compliant with Codes of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and noted that workshops and a glossary had been provided to members to aid understanding of a technical area of the council's operations.

She noted the key areas covered by the report including the management of cash flows; future borrowing plans and an overview of investment decisions and added that there were no material changes planned in the strategy for next year. She explained that the council was taking a balanced view in relation to treasury management performance and that treasury management activity would be reported during the year to the Audit Committee. Future reports would contain details of in-year activity and performance and an outturn report. In addition to routine meetings and reviews, activities were monitored monthly by the Section 151 Officer and the Executive Member for Corporate Services.

Members asked for and received clarification on the use of Tradition Limit as an approved counterparty; the impact of negative interest rates in respect of investment; the facilitation of regular benchmarking programs by Airlingclose and the comparison with local authorities; independent benchmarking; the selection criteria for longer term assets and the related visibility and benchmarking of

performance; the treasury management risk register and counterparty risk; the differentiation of the categories of risks on the risk register including the impact of the understanding of those involved in capital projects on the work of the finance team and treasury management; gross external debt and the capital borrowing requirement and the inclusion of the impact of inflation in the capital strategy.

The Director of Corporate Services undertook to review the criteria considered when a decision was made to divest out of an asset and the risks associated with capital losses in these cases and to report this to members. She also undertook to meet further with members to consider their questions surrounding the interplay between the capital financing requirement, treasury management, inflation and the treasury management risk register.

Resolved: that the contents of the report summarising the Treasury Management Strategy for 2022/23 and its associated impacts be noted.

AUD 24 Accounts Update Report (Accounting Policies)

A representative of the Director of Corporate Services reported on the issues which impacted on the annual accounts process including changes to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Local Government Accounts. In presenting the report, he made particular reference to the statutes behind the preparations of the council's accounts and the Chief Financial Officer's and Audit Committee's roles in approving the accounts. He noted that the deadline for the approval of the final accounts had once more been extended to the end of November due to the ongoing pandemic. He highlighted CIPFA's ongoing work and consultation on changes to the Code of Practice to support the delivery of accounts that were more readily understood by users and the significant work required by officers in quantifying the impact of the changes to the accounting treatment of leases.

The review of accounting policies by officers, which had resulted in only minor changes to existing policies, was brought to members' attention as was the requirement for additional policies in the preparation of the new group accounts to incorporate the accounts of the council's new subsidiary company, North Somerset Environment Company Ltd (NSEC).

Particular reference was made to Appendix A of the report which explained the concepts of "true and fair" and "materiality". It was noted that the external auditor's assessment of materiality for the council was set at 2% of gross revenue expenditure but certain items were material by nature even if they were below the level of materiality for the accounts. These included items such as officer remuneration, members' allowances and related party transactions. Members' attention was also drawn to Appendices B and C of the report which explained critical judgements in applying the council's accounting policies and an explanation of significant accounting estimates and sources of estimation uncertainty.

It was explained that formal workshops would be set up between officers and members around discussion of the draft accounts and to support member scrutiny of them to enable feedback and challenge and more details of the uncertainties taken into account and the impact of them when preparing the accounts would be

given. Risk assessments would also be completed for the external auditors, and these would also be presented to the Audit Committee.

Members asked questions and received clarification on the meaning of materiality; the materiality figure used and whether it was benchmarked with other local authorities or national guidelines issued for the level to be used; the impact of consolidating NSEC accounts into the group accounts and how the process would work; the impact of IFRS16 and whether there would be noticeable variations in the accounts with the resultant adjustments; the resource implications of the additional work due to NSEC and IFRS16 and the setting of the financial boundaries of the new company (NSEC).

Resolved: that the Audit Committee noted:

- (1) the developments in the CIPFA Code of Practice for Local Government Accounts, including:
 - i. that there are limited changes to the Code for the 2021/22,
 - ii. that significant work continues to be required to quantify the impact of the implementation of 'IFRS16 – Leases' in 2021/22 for implementation in the 2022/23 accounts
- (2) that officers expect to include group accounts, in addition to the North Somerset Council single entity accounts, in the 2021/22 financial statements, in order to reflect the material transactions undertaken by the council's new subsidiary company, North Somerset Environment Company Ltd (NSEC)
- (3) that officers are proposing no significant changes to existing accounting policies in 2021/22 but will recognise additional policies to be applied in the preparation of the new group accounts in the draft financial statements.
- (4) 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.
- (5) 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 2021/22 accounts.

The Chairman thanked officers for their ongoing work in clarifying and simplifying complex matters in both written and verbal reports.

Chairman
