

Minutes

of the Meeting of

The Audit Committee

Thursday, 22 September 2022

Kenn Room

Meeting Commenced: 10.30 am

Meeting Concluded: 2.00 pm

Councillors:

John Cato (Chairman)

Sandra Hearne (Vice-Chairman)

Patrick Keating

Marcia Pepperall

Richard Tucker

Other Councillors in Attendance: Caroline Goddard

Independent Members: Peter Bray, Sharon Colk

Also in attendance: Barrie Morris, David Johnson, External Auditors, Grant Thornton.

Officers in attendance: Amy Webb (Director of Corporate Services), Steve Ballard (Principal Accountant (Closure and Systems)), Emma Diakou (Head of Business Insight, Policy and Partnerships), Peter Cann (Head of Audit and Assurance), and Michèle Chesterman (Committee Services Senior Officer).

AUD 1 Election of Vice Chairperson for Municipal Year 2022-23 (Agenda item 1)

1

Resolved: that Councillor Sandra Hearne be elected as Vice Chairperson of the Audit Committee for the municipal year 2022-23.

AUD 2 Declaration of Disclosable Pecuniary Interest (Standing Order 37) (Agenda item 4)

2

None

AUD 3 Minutes 28 April 2022 (Agenda item 5)

3

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

AUD 4 Q1 Risk Management Update 2022-23 (Agenda item 7)

4

The Head of Business Insight, Policy and Partnerships presented the report on the Q1 Risk Management Update 2022-23. She outlined the process followed in constructing the council's Strategic Risk Register using the five Annual Directorate Statements and specific operational risks and noted the use of a risk scoring matrix and the regular reviews of the register by the Corporate Leadership Team.

There were 12 risks in the strategic risk register. After mitigating actions had been applied, 8 risks remained high. High scoring risks were as follows:

- Risk that we are unable to deliver the priorities of the council by not planning to meet the Medium Term Financial challenge and delivering a balanced budget.
- Risk that we are unable to reduce or mitigate inflationary pressures (such as energy prices), resulting in impacts on our services.
- Risks of ineffective recruitment across the organisation leading to capacity issues in key areas.
- Risk that we do not deliver sustainable change in children's services at the right pace of the improvement journey.
- Risk that we do not manage the demand for children's social care and special educational needs and disabilities (SEND) placements within available resources.
- Risk that despite protecting the council's systems and essential data from cyber-attacks, malicious attempts to damage critical services within the council could be disruptive.
- Risks aligned to any delay to the Local Plan process exposing council to risk of speculative development and unplanned growth through appeal.
- Risks to achieving a net zero position by 2030 given current resources and sphere of influence.

In the next round of risk assessment it is recommended by officers to bring into Q2 risk assessment risk items around 1. digital information management and resource capacity to deliver, 2. resolution of complaints within children's directorate, and 3. provision of an effective and reliable planning service. There is an ongoing review of all the directorates action plans.

In discussing the report, members noted that that they had received briefings on the risk register previously and that members' questions on the process of constructing the register had resulted in the production of a consistent and standardised framework.

Members asked questions which were answered by the representative on the following areas: clear mapping of our commitments to the risk register, quarterly process of review, availability of training in risk management for staff to ensure clarity and consistency of scoring and peer assurance; performance management training, identification of opportunity arising from risks assessed, other authority best practice peer learning opportunities, the addition of risk reference numbers in future reports; representation in reports of direction of travel of risks, recruitment risks; concerns with respect to the large number of risks remaining high after mitigation; the risk cap and the cost incurred if all risks remained red; mitigations for red risks. (In terms of a register of all systems across the council, officers to consider building this into reporting going forwards).

Resolved: that the Audit Committee note the contents of the report and the accompanying document in Appendix 1 outlining the development of the Q1 2022/23 risk register.

AUD 5 Internal Audit Update September 2022 (Agenda item 8)

The representative from Audit West presented his update report on the delivery of the 2022/23 Annual Audit Assurance Plan. It was noted that there had been no audit reports issued where it was considered that the overall systems of internal control provided 'No Assurance' or 'Limited Assurance'. Work on the plan was well underway and as of 1 September, approximately 53% of audit activity was in progress or complete. All recommendations that were due to be implemented had been followed up. One new investigation had been started and completed. Separate to this, a detailed fact-finding piece of work was also nearing completion. A range of fraud prevention and detection measures were in place and work was ongoing to continue to support the Council's fight against fraud.

In presenting the report, the representative drew members' attention to the fact that Internal Audit had been asked to investigate two allegations within the Place Directorate which related to reported non-compliance with procurement processes. In addition, a related matter was also requested to be included within the investigation, which concerned the escalation process for complaints and the reporting of unresolved customer issues. The investigation had been completed and the overall conclusion was that neither of the two allegations were substantiated. The review of the customer service processes found that procedure was correctly followed in this specific instance and that the wider processes in general were operating reasonably effectively. The full findings from the review had been reported to the Director of Corporate Services and the Assistant Director (Placemaking & Growth).

Members were informed that Internal Audit had also been asked to undertake a detailed review of the project management and decision-making process around the council's Garden Waste subscription service. Whilst audit work in this service area was already planned for 2022/23, the scope of the planned review had changed and the depth of the work increased at the request of Senior Management. Work was nearing completion and initial findings verbally reported to the Assistant Director (Neighbourhoods & Transport).

Members noted that the Counter Fraud Strategy had been revised and associated policies updated (approved by the Audit Committee in April 2022) and were available to the staff via the intranet. In order to further support the Council in this area, over the coming month, resources were to be used, to further develop staff awareness and promote a positive anti-fraud culture. Members to be updated on as work progressed and the Committee was asked to consider any new fraud risks that they had identified since the audit plan was developed.

Data analytics work was in progress in order to prevent and detect internal fraud and error. Internal data matching takes place throughout the year and this is partly completed via IDEA – an internal audit data analytics software tool. In respect of

external matching, Members were advised that work on the National Fraud Initiative (NFI) 2022/23 had begun.

The representative from Audit West further commented on the progress of the Audit Plan (Section 2 of the report) and explained that there were currently 47 pieces of audit work within the plan and there had been no major changes to it since it was agreed in April 2022. Of the total number of audits: 4 audits had been completed and 1 was at reporting stage; 11 audits were in progress, 4 were ongoing pieces of work and 5 were in planning with 22 audits yet to commence. Those not yet started would be reviewed in the same way as last year to ensure that the items to be started were still of relevance. Any changes would be reported back and agreed with members of the committee.

The representative drew members' attention to Section 3 of his report on the implementation of recommendations and the risk profile of those recommendations as requested by committee members. A total of 37 recommendations had been made this financial year. That included recommendations made from 2021/22 audits where the reports were issued in 2022/23. Specifically, there were 6 High, 26 Medium and 4 Low rated recommendations. One specific opportunity was also highlighted.

Whilst all of the recommendations that were due to be implemented had been followed up with the officer(s) responsible, responses were awaited on nine recommendations across two audits to confirm the recommendations had actually been implemented.

Members asked questions which were answered by the representative on the following areas: why some items in 2.1 were complete with a n/a opinion, liaison with external auditors; feeding back into the Authority regarding awareness of any aspects of fraud; stress testing; the use of mystery shoppers; measures in place to tackle single person council tax fraud, detail on Metrowest and HIF and request for a more in depth briefing on the process of assessment; the quarterly provision of executive summaries of the audit reports to the audit committee, progress on payments to childcare providers and the long time before planned implementation, agreed to be reported to audit committee, the addition of item reference numbers in future reports. It was agreed as an action to provide Audit Committee with an overarching document showing the governance and how internal audit and our internal risk management interlinks.

Resolved: to note the progress in delivery of the 2022/23 Annual Audit Assurance Plan.

AUD 6 Auditors Annual Report on North Somerset Council 2020-21 (Agenda item 9)

Barrie Morris and David Johnson from Grant Thornton drew members' attention to areas of note in the Auditor's Annual Report on North Somerset Council 2020-21. Under the National Audit Office (NAO) Code of Practice there was a requirement to consider whether the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Auditor was required to report in more detail on the Council's overall arrangements, as well as

key recommendations on any significant weakness in arrangements identified during the audit. The Director of Corporate Services welcomed such a positive outcome for the council's first VFM report of the new programme

It was noted that 2020/21 had been an unprecedented year in which the Council operated with the majority of its staff home working whilst supporting local businesses and residents through the pandemic.

No significant Value for Money (VFM) weaknesses had been identified but 11 opportunities for improvement were set out in detail within the report:

Criteria	Risk Assessment	Finding
Financial Sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified and 4 improvement recommendations made
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements and improvement recommendations made
Improving Economy, Efficiency and Effectiveness	No risks of significant weakness identified	No significant weaknesses and 5 improvement recommendations made

It was acknowledged this audit report was significantly late though progress has already been made on those findings that have been identified.

Members asked questions and raised queries which were responded to by the representatives on the following areas: typographical error on page 21 – performance management first paragraph, should read 18 February; page 19 improvement recommendations and governance, frequency of reporting should be increased to quarterly, what was it before; where the Authority is placed in relation to other LAs; the external auditors view on the graph on page 10 displaying the Council's reserve position to other LAs, and page 19. with respect to Adult Social Care Unit Costs

Resolved: that the External Auditor's Annual Report on North Somerset 2020-21 be noted.

AUD 7 External Auditor reports 2021-22 (Agenda item 10)

Barrie Morris from Grant Thornton presented the External Auditor Reports 2021-22. Members were informed that the audit was progressing well with information of a good standard. A summary was provided in the report of the outstanding information to date which included sample testing of debtors, their recommendation on journals and journaling, payroll transactions, grants, fees and charges and cut off; review of employee remuneration disclosures, finalising of Other Land and Buildings testing, the revised standards for the valuation of infrastructure assets and the implications for the council finalisation of testing of pension liabilities; group audit work to review and assess work undertaken by the

component auditor; final review of audit file by key audit partner; receipt of management representation letters; and review of the final set of financial statements.

It was noted that the audit process had become significantly more challenging driven by quality expectations of the regulators and hybrid working etc.

Members asked questions and received responses in relation to the following:- governance of NSEC - contract performance was reported to the Executive Member for Contracts (Cllr Mike Solomon) who was provided with a monthly report. Shareholders reports were circulated to Cllr Ashley Cartman with a full report to Council on governance and performance and is subject to independent separate audit, not audited directly by the Grant Thornton; the valuation of treasury assets such as the Sovereign Centre and North Worle; pensions

Resolved: that the reports be noted

AUD 8 Statement of Accounts 2021-22 and Annual Governance Statement (Agenda item 11)

The Principal Accountant (Systems and Closures) presented the report on the Statement of Accounts 2021/22 and the Annual Governance Statement. Members were informed that the Council's draft Statutory Statement of Accounts had been prepared and approved ready for audit by the Director of Corporate Services on 7 July 2022. The audit of the Accounts was on-going. The latest revised Statement of Accounts for 2021/22 being attached at Appendix A. The revised accounts reflected the adjustments agreed with Grant Thornton during the course of the audit up to 9 September 2022, but clearly did not reflect the impact of any changes which may potentially be required as a result of any outstanding audit testing and assurance works.

Members were informed that the Council's external auditors, Grant Thornton, currently expected to give an unqualified audit opinion, but were unable to provide their audit opinion until their programme of audit assurance and testing was completed. Should any material impact of errors be identified from this work, they would need to be adjusted for and reported through to Members. The Accounts and Audit Regulations 2022 required the accounts to be formally approved and published by 30 November 2022. The next Audit Committee being due to take place on 24 November 2022.

In order to complete the audit process, it was requested that the Audit Committee delegated authority to approve the Letter of Representation to the Chairperson of the Audit Committee, and to approve the revised Statement of Accounts for 2022/22, subject to any further amendments necessary to reflect any material impact of matters arising from their on-going audit testing. Under the Code of Audit Practice the results of the external auditor's work on the Council's Value for Money arrangements would be reported in the Auditor's Annual Report, due to be reported to the Council by the end of December 2022.

The Annual Governance Statement (AGS) was required by the Accounts and Audit Regulations 2015 to be published with the Council's Statement of Accounts, and to be formally approved and signed by the Leader of the Council and the Chief Executive. The AGS for 2021/22 has been completed in accordance with the framework previously agreed by the Audit Committee. The AGS provided an update of the significant issues raised in the previous year's statement, and highlighted the key new risks to the Council arising during 2021/22. The Statement continued to reflect the current position as at September 2022.

It was noted that an informal Workshop had taken place on 12 September 2022 regarding the Accounts with a further Workshop scheduled for 11 November 2022.

Members asked questions and received responses in relation to the following: the Council Code of Corporate Governance as the tool to measure performance; the Council's strategy for growth; the definition of reasonable; a request to update population data in the report; clarification about the authorisation of additional fees to Grant Thornton for hybrid working, clarification of figures on pages 63 of the accounts and the reconciliation with the CIES on p42 and p67 income with the narrative report p7. Action report back to Audit Committee in due course. Asked that the language used in the narrative report in future better communicates clearly, transparently and well to residents. It was considered not to do so was a risk. Questions were asked about the source of resident information such as number of residents and households, from the ONS and accepted data is currently out of date.

Resolved:

1. That the Audit Committee:
 - a. took note of any adjustments to the financial statements set out in the external auditor's report;
 - b. considered the matter(s) raised in the Annual Governance Statement;
 - c. delegated approval of the draft letter of representation to the Chairperson of the Audit Committee; and
2. That subject to any comments under 1 above, the Audit Committee:
 - a. approves the Statement of Accounts for 2021/22, subject to, any amendments necessary upon quantification of the impact of any issues arising from on-going work by the external auditors;
 - b. arranges for the Chairperson of the Council's Audit Committee and the Chief Financial Officer to sign the Accounts for 2021/22 as representing a 'true and fair view' of the financial position as at 31 March 2022, following any amendments necessary upon quantification of the impact of any issues arising from on-going work by the external auditors; and
 - c. arranges for the Leader of the Council and the Chief Executive Officer to formally approve the Council's Annual Governance Statement as part of the financial accounts and sign accordingly.

The Chairperson of the Audit Committee presented the report on the Audit Committee Annual Report 2021-22

He explained that the Audit Committee was committed to the principles of openness, effectiveness, and collaboration. The Committee was a key component of the Council's governance framework. Its function was to provide an independent and high-level resource to support good governance and strong public financial management. The purpose of the Committee was to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit activity it made an important contribution to ensuring that effective assurance arrangements were in place.

Members were informed that to this end, in the last year the Audit Committee had held informal working group meetings regularly over the year to keep abreast of issues which may be of concern to it and to receive appropriate briefings/ updates from officers. Discussions had given consideration to the following main areas:

- Internal Audit
- Internal Control Frameworks
- External Audit
- Council Performance and CMMI culture
- Understanding of the Council's participation in the National Fraud Initiative
- Risk Management and Risk Management Reporting Improvement
- Audit Committee Training
- Significant partnerships governance and assurance; clarity and visibility of their responsibilities, objectives and KPIs
- Requesting clarity and visibility of the organisation chart, roles, responsibilities, objectives and KPIs
- External Best Practice and Peer Education
- Asset and Treasury Management
- Amendments to the Council's Constitution inc. Financial Regulations and CSO's

The Chairperson thanked Members for their work on the committee and acknowledged how much work had been undertaken.

Resolved: that the report be re-submitted to the next Audit Committee on 24 November 2022 in order that some minor amendments could be made.

AUD 10 Treasury Management Out-turn Report 2021-22 (Agenda item 13)

The Director of Corporate Services presented the report which informed the Audit Committee of the council's treasury management activities during 2021/22 and confirmed that the activities undertaken during the year had complied with both the requirements of the Accountability and Responsibility Framework and the approved Treasury Management Strategy approved by Council in February 2021; Treasury management indicators for 2021/22, as required by CIPFA's Prudential

Code for Capital Finance in Local Authorities; Commercial investment property valuations and returns for 2021/22.

Members were informed of the headline metrics for the period 1st April 2021 to 31st March 2022: £789m of cash-flows were managed and turned around during the period; which was £1bn less than the equivalent prior year period, although was to be expected because the 2020/21 financial year reflected the exceptional impacts arising from Covid-19; Gross interest income earned on all investments totalled £0.621m, against a budget of £0.530m; The average rate of investment return for cash deposit type investments managed by the in-house team in 2021/22 was 0.13% and returns of 3.97% were achieved on external pooled fund investments; New additional external borrowing of £0.3m was undertaken during the period and £7.3m of borrowing was repaid, both as planned.

The council's Treasury Management Indicators for 2021/22 were approved by Council in February 2021. Members were directed to the Performance against the key indicators in Appendix 1 of the report. It was noted that all indicators were within target levels.

Members asked questions which were responded to by the representative on the following: how quickly funds were moved around into a more lucrative area; how negative performance in treasury assets (liquid and illiquid) were monitored and responded to, whether there was an ethical element to the strategy; key risks on the risk register; that we meet the requirements of the code, any areas where the strategy is diversified from. The Chairperson asked that the committee be included to discuss further and engage with officers on the Treasury Management strategy prior to next formal presentation to the Audit Committee.

Resolved: that the report be noted

The Chairperson thanked everyone for the diligence, contribution and perseverance on this long meeting.

Chairperson
