

Minutes

of the Meeting of

The Audit Committee

Thursday, 24 November 2022

New Council Chamber

Meeting Commenced: 10.30 am

Meeting Concluded: 12.45 pm

Councillors:

John Cato (Chairman)

Sandra Hearne (Vice-Chairman)

Patrick Keating

Marcia Pepperall

Richard Tucker

Other Councillors in Attendance: Bridget Petty

Independent Members: Peter Bray, Sharon Colk

Also in attendance: David Johnson, External Auditors, Grant Thornton

Officers in attendance: Amy Webb (Director of Corporate Services), Melanie Watts (Head of Finance), Mark Anderson (Principal Accountant (Resources), Peter Cann (Head of Audit and Assurance), Michèle Chesterman (Committee Services Senior Officer), Emma Diakou (Head of Business Insight, Policy and Partnerships) and Alex Stafford (Emergency and Business Continuity Manager).

AUD 11 Declaration of Disclosable Pecuniary Interest (Standing Order 37) (Agenda item 3)

None

AUD 12 Minutes of the meeting held on 22 September 2022 (Agenda item 4)

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

AUD 13 Risk Management Strategy (Agenda item 6)

The Head of Business Insight, Policy and Partnerships (Head BIPP) presented the report on the Risk Management Strategy. Members were informed that this was a refresh of the North Somerset Council Risk Management Strategy.

It was reported that the current Risk Management Strategy (2019-2024) had been jointly developed by North Somerset Council and Audit West. However, the

Director of Corporate Services had requested that the strategy be reviewed and refreshed ahead of schedule to ensure that there was a clear vision and set of aims for how risk was managed; clarity on approach; appropriate organisational-wide guidance be provided on how risks were identified, analysed and controlled, and there was assurance that risk was embedded within decision making and appropriately reported and escalated when required. The Risk Management Strategy had now been refreshed with the detail provided in the report and Members were directed to the draft strategy in Appendix 1.

Members were informed that alongside the Risk Management Strategy a number of toolkits had been updated to support risk identification, analysis and control, and escalation. The toolkits were available as part of the Programme Management Office internally for staff, as needed.

Members asked questions which were answered by officers on the following:

Q Why principle risk was not included here as it is now a requirement?

A The S151 Officer and the Head BIPP have discussed the difference between principle risk and strategic risk and are going to review this and discuss with the Corporate Leadership Team (CLT). It will be brought back to the Audit Committee.

Q How the Council's risk appetite was arrived at?

A By reference to individual directorates, and the Head BIPP, SI51, Audit West and CLT will be carrying out a workshop session to review and improved the process balancing resource and value at risk.

Q The frequency with which risk scores were re-evaluated.

A Monthly and reported quarterly to Audit Committee.

Other questions were asked relating to the links to climate emergency, biodiversity and the need for a clear matrix framework, the availability of risk management training for staff and consistency of approach, page 15 Impact Table – likelihood of high impact events and the need for a business continuity plan for these events.

Resolved: that the refreshed Risk Management Strategy be approved

AUD 14 Internal Audit Update November 2022 (Agenda item 7)

The representative from Audit West presented the update report on the delivery of the 2022/23 Annual Internal Audit Assurance Plan and summarised activity from 1 April to 1 November 2022.

It was noted that there had been no internal audit reports issued where it was considered that the systems of internal control were poor ('Level 1'). Work on the plan continued to progress and as at 1 November 2022 approximately 69% of audit activity was in progress or complete. There had been one audit report issued in draft where it was considered that the overall systems of control proved 'Limited Assurance'. All recommendations that were due to be implemented had been followed up. One investigation had been started and completed. Separate to this, a detailed fact-finding piece of work had also been completed at the request of Senior Management. Whilst no major changes to planned work were required, due to the additional time spent on the investigation, the fact-finding work and also

extended work which would be likely on a planned audit (Home to School Transport), it was possible that a small amount of audit activity would be deferred into 2023/24. A range of fraud prevention and detection measures were in place, including recent provision of new fraud prevention training material, and also staff guidance in association with International Fraud Awareness Week.

In presenting the report, the representative drew members' attention to the fact that, as previously reported to the Audit Committee, one investigation had been undertaken so far this year relating to two allegations within the Place Directorate which related to reported non-compliance with procurement processes. The investigation had been completed and concluded that neither of the two allegations were substantiated. 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. Audit work in this service had already been planned for 2022/23, however the scope of the planned review changed and the depth of the work increased at the request of Senior Management. The work had now been completed and the findings reported to the Assistant Director (Neighbourhoods & Transport) and the Council's Section 151 Officer.

Members noted that the Counter Fraud Strategy had been revised and associated policies updated (approved by the Audit Committee in April 2022). Fraud prevention information had continued to be provided to staff, including through new bite-sized training PowerPoint videos entitled '5 Minutes of Fraud'. The videos were accessible to staff and provided a broad overview of fraud risks to look out for and guidance on what to do to prevent them from happening. Work would continue on the development of further videos to highlight new and emerging risks.

Data analytics work had been undertaken in order to prevent and detect internal fraud and error. Internal data matching took place throughout the year and this had been partly completed via IDEA – an internal audit data analytics software tool. Members noted that no fraud had been identified, however, 59 duplicate payments had been identified with an average value of £997. On investigation it was identified that the payments had already been identified by the Accounts Payable and had been either cancelled or reversed. As a result, no outstanding duplicate payments remained but work was ongoing with Accounts Payable team to understand the causes of how the payments originally occurred.

Members noted work on the National Fraud Initiative (NFI) continued and was on track to be completed by the end of the year. The results would be reported to committee when complete. There had also been an increase in Fraud referrals from external sources (28 to date). Members were pleased to hear that the dissemination of fraud alerts to staff and continued work with areas of particular exposure to fraud had resulted in the prevention of an attempted fraud of £58,560.

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 48 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: 8 audits had been completed and 5 were at reporting stage; 13 audits were in progress, 6 were ongoing pieces of work and 1 was in planning with 15 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. Members were unclear what the reporting table under 2.1 was meant to convey and looked for greater clarity in the future.

The representative drew members' attention to Section 3 of the report on the implementation of recommendations and the risk profiles of those recommendations as requested by committee members. A total of 37 recommendations had been made this financial year. This included recommendations from the 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 11 recommendations relating to the Housing Jigsaw System to confirm recommendations had actually been implemented.

Members asked questions which were answered by the representative on the following areas: frequency of staff training on fraud awareness and prevention and what was included in mandatory staff training; on R5, the plan of action, and on R6 and all jigsaw system action why action from May were still outstanding, the return on investment, and if it was possible to provide a review of the return on investment of each internal audit exercise (i.e Item 1.13 page 39 £58,560 fraud prevention saving) to identify lessons learned and be increasingly more effective and the representative committed to consider this and report back to the committee.

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

AUD 15 The Audit Findings for North Somerset Council (year ended 31 March 2022) (Agenda item 8)

The representative from Grant Thornton presented the Audit Findings for North Somerset Council (year ended 31 March 2022) and drew members' attention to areas of note. Members were informed that the report was an updated version of the report presented to the September committee with changes highlighted in blue.

Members were directed to the headlines table (page 3 of the report and page 61 of the main pack) which summarised the key findings and other matters arising from the statutory audit of North Somerset Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Members were informed that work was ongoing and there were no matters that would require modification of audit opinion or material changes to the financial statements, subject to the following outstanding matters which included finalising of Other Land and Building testing including review of assumptions used by the valuer; finalisation of testing of pension liabilities including receipt of the updated

pension fund auditor assurance response; group audit work to review and assess work undertaken by the component auditor; final review of audit file by the key audit partner; receipt of management representation letters; and review of the final set of financial statements.

The representative referred to the fact that the testing of fees and charges had included low value items which were defined as those below £1000 in line with the Council's accrual policy. The testing identified two errors from five sample items with an extrapolated misstatement value of approximately £3.5m although the external auditors would not require that the Council adjusted for an extrapolated error. The value was below materiality and therefore assurance had been provided that the Council's policy was appropriate. Testing of larger items within the sample population did not identify any errors.

Members noted that within the fixed asset register (FAR) there were a large number of assets that had a nil net book value (fully depreciated) and therefore at the end of their useful economic life. However, their gross book value remained on the FAR, with a value of £20.3m. The external auditors had queried with management whether these assets remained operational and if so whether the useful economic life assumptions were appropriate. A recommendation had been raised.

Members were informed that discussions had taken place with the pension fund auditor in connection with the controls surrounding the validity and accuracy of membership data; contributions data and benefits data, sent to the actuary by the pension fund, and the fund assets valuation in the pension fund financial statements. The discussions with the Pension Fund auditor had not identified any significant issues that needed to be reported at the current time.

Members also noted that it was the external auditors' view that employee expense was a significant cost to the Council and testing had identified a number of weaknesses within the process. Assurances had been taken over the overall value of employee expenses through other audit procedures, including the overall reconciliation to monthly payroll records. The issues identified were control deficiencies rather than an indication of fraudulent activities and sufficient assurance had been gained that the employee expenses included in the statement of accounts were not materially misstated. A recommendation had been raised in Appendix A of the report.

The representative from Grant Thornton referred Members to matters to be discussed with management. In terms of infrastructure assets the code required infrastructure to be reported in the balance sheet at historic cost less accumulated depreciation and impairment and that where there was 'enhancement' to the assets, that the replaced components were derecognised. Where authorities were not fully compliant with these requirements, there might be a risk of material misstatement. It was noted that the external auditors had yet to undertake detailed testing in relation to this balance as there was uncertainty due to the potential issue of the statutory override. It was likely that management would wait for this to come into legislation with the impact being that the reporting date would be missed. Management had agreed with the audit team to wait for the statutory override before they gave their audit opinion.

Members asked questions which were answered by the representative on the following areas: which areas/assets are tested the external auditors; how an asset's lifetime is assessed; the nature of training provided to ensure data is entered accurately; whether there is a fixed asset register for the whole of the authority and if there was a minimum value of assets held.

Resolved: that the External Auditor's Audit Findings for North Somerset Council (year ended 31 March 2022) be noted.

**AUD
16 Business Continuity Co-ordination (Agenda item 9)**

The Emergency and Business Continuity Manager presented the report on Business Continuity Co-ordination. The officer explained that Business Continuity (BC) planning, preparedness and response had undergone significant change in the 2021/22 financial year, as responsibility for BC co-ordination was brought back in house. This reversed a decision made in 2010/11 to separate BC from emergency management functions and transfer BC to One West.

The reasons for the decision to re-integrate BC into the Emergency Management Unit's (EMU) overall remit were summarised as follows: previous arrangement relied on good will as it did not include response to BC events; there were many synergies between Emergency Management and Business Continuity with BC and emergency plans dovetailing and complimenting each other; the response structure within the BC Corporate Plan relied on the structures and roles within EMU procedures and following lessons learned from the COVID response, BC was identified as an area for improvement.

The report provided members with an overview of the response structures of the Council's EMU and the activities to improve and reintegrate Business Continuity (BC) into the EMU's programme of work. It also highlighted the ongoing work to ensure critical services continued to function during Business Continuity impacts.

Members were provided with information in relation to the structure of the EMU, Identifying and planning for critical services including the development of a new BC Critical Service Plan Template which had been rolled out to 29 of 63 critical services (46%), a learning and development half day workshop on Business Continuity (delivered to 51 of 63 critical services (81%)), responses to BC impacting events (Storm Eunice, Fuel Price protests on the M5, 2 periods of heatwaves 2022, ICT disruption affecting 60% of workforce – October 2022) and other notable responses (COVID Pandemic, Brexit planning, Fuel supply disruption 2021), national and regional exercises which had taken place and future exercises, debrief process and next steps.

Members asked questions which were responded to by the representative on the following: risk strategy approach for low likelihood risks; the nature of the ICT disruption affecting 60% of the workforce; the Business Continuity debrief process; the nature of any work assessing the value of Business Continuity; future exercises planned around flood risk; the single most threatening event of concern in terms of business continuity and emergency; the nature of learning and development training and whether it was in-house, and the resource sustainability and 'clout' of the emergency and business continuity team.

Resolved: that the report be noted.

AUD 17 Audit Committee Annual Report 2021-22 (Agenda item 10)

The Chairperson presented the Audit Committee Annual Report which set out a summary of the work undertaken by the Committee in the previous year. Members noted the Audit Committee had specific terms of reference given to it from Full Council and as such was required to report back annually to Council on its activities.

Members' attention was directed to Appendix 1 which provided a commentary over key areas of financial and corporate governance and associated assurance activities including internal audit; risk management; governance; anti-fraud and corruption; audit committee performance.

The Annual Report was being re-submitted to the Committee to allow the requested changes from the September 2022 Audit Committee to be included as follows:

Report.

7. last sentence, link to Performance Management Risk Framework for ease of use

Appendix 1.

2. last bullet of first bullet list, correction, ... constitution exc. Financial Regulations...

3.b.ii request further assurance on integrated risk management of treasury assets

6.ii the Assistant Director of Legal & Governance for completeness

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

Resolved: that the Audit Committee Annual Report 2021/22 be approved;

And

Recommended to Council: that the report be received

AUD 18 Treasury Management Mid-Year Report 2022/23 & Consideration for the 2023/24 Strategy (Agenda item 11)

The Principal Accountant, Resources and Financial Planning, presented the report on the Treasury Management Mid-Year Report 2022/23 & Considerations for the 2023/24 Strategy. The report informed members of the treasury management activities during the first six months of 2022/23 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 2022 and also set out the framework and issues to be considered when drafting the Strategy for the 2023/24 financial year.

The officer informed members that the economic volatility and uncertainty of the first six months of the year, set against a backdrop of rising interest rates had

influenced the council's overall financial position as well as its treasury related activity and performance. Borrowing and investment balances were broadly consistent with the previous year.

The key messages for the period 1 April 2022 to 30 September 2022 were highlighted (context, borrowing, investment income, investment returns, cash flows and indicators), Balance Sheet Summary, Summary of Investment Returns and Activity [overview, security and liquidity, cash-flows and market rates, investment returns. (Table 4a provided an Analysis of Investment – non-pooled funds and Table 4b provided an Analysis of Investments – pooled funds), Budget Implications; Borrowing Activity and Further Update; Economic Impacts, Commercial Investments, Revisions to CIPFA codes and Initial considerations in relation to the draft Treasury Management Strategy for 2023/24 – background and draft proposal.

Members asked questions which were responded to by the representative on the following: commercial investments and returns, security and liquidity as well as yield with regard to monitoring against objectives; ESG, financial assets and the council's commitment to climate emergency and biodiversity, forecasts of bank rates and inflation rates and risk, forward facing scenario planning and potential financial pressures.

Resolved:

- (1) that the treasury management in-year monitoring report to 30 September 2022, including performance, prudential indicators, and commercial investments be noted;
- (2) that the proposed matters for inclusion in the Treasury Management Strategy 2023/24 be noted.

Chairperson
