

## Minutes

of the Meeting of

## The Audit Committee

Thursday, 26 January 2023

Kenn Room, Town Hall, Weston-super-Mare

Meeting Commenced: 10.30 am

Meeting Concluded: 12.40 pm

### Councillors:

John Cato (Chairperson)

Sandra Hearne (Vice Chairperson)

Marcia Pepperall

Richard Tucker

**Apologies:** Councillor Patrick Keating

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

**Also in attendance:** David Johnson, Grant Thornton

**Officers in attendance:** Amy Webb (Director of Corporate Services), Melanie Watts (Head of Finance), Mark Anderson (Principal Accountant Resources), Stephen Ballard (Principal Accountant, Closure and Systems), Peter Cann (Head of Audit and Assurance), Michèle Chesterman (Committee Services Senior Officer), Emma Diakou (Head of Business Insight, Policy and Partnerships), Jess Robinson (Committee Services Support Officer)

**AUD 19 Declaration of Disclosable Pecuniary Interest (Standing Order 37) (Agenda item 3)**

None

**AUD 20 Minutes of the meeting held on 24 November 2022 (Agenda item 4)**

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

**AUD 21 Risk Management Q2 Update (Agenda item 6)**

The Head of Business Insight, Policy and Partnerships provided a verbal update on the directorate risk registers and against the strategic risk register as of the end of Q2.

The report was verbally presented and circulated post meeting due to being omitted from the Mod Gov pack in error.

It was reported that there were 14 risks in the strategic risk register as of Q2 which compared to 12 risks in Q1. Members noted that an additional 2 risks had been added during Q2 and that the 2 additional risks related to a risk that the Council did not have the financial resources and capacity to deliver care reforms and the risk that there would be rolling blackouts over the winter period affecting the council, partners, businesses and residents.

Members noted the high scoring risks which were the risk that the council was unable to deliver its priorities by not planning to meet the Medium Term Financial challenge and delivering a balanced budget; the risk that the council was unable to reduce or mitigate inflationary pressures (such as energy prices), resulting in impacts on services; the risk of increased demands on social care or market demands within available financial or staffing resources or adult social care; the risk that of the council being unable to deliver sustainable change in children's services at the right pace of the improvement journey; the 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 and risks to achieving a net zero position by 2030 given current resources and sphere of influence.

Two risks had been de-escalated from Q1 to Q2 from HIGH to MEDHIGH and MED which were the risks of ineffective recruitment across the organisation leading to capacity issues in key areas and the risk that the demand for children's social care and SEND placements within available resources was not managed. One risk was escalated from Q1 to Q2 from MEDHIGH to HIGH. This was the risk that the council did not manage the increased demands on social care or market demands within available financial or staffing resources for adult social care.

It was reported that there were 85 reportable risks across the five council directorates (Adults, Children's Services, Corporate Services, Place, and Public Health and Regulatory Services). Some of these risks were similar to the risks which had been escalated to the strategic risk register and are therefore held at both directorate and strategic level.

Members were informed that following inherent risk scoring, all risks were identified for mitigation. After mitigating actions were applied, 22 risks remain HIGH, down from 23 HIGH risks in Q1:

The High scoring risks were highlighted as follows:

- Risk that we do not manage the market demands and demographic changes on the cost of adult's social care within available resources (Adults directorate).
- Risk that we do not fulfil our statutory duties to safeguard adults as part of transition planning (Adults directorate).
- Risk that we do not manage budgets effectively in-year and ensure a balanced budget (Children's directorate).
- Risk that we do not deliver savings against the Medium-term Financial Plan (Children's directorate).
- Risk that we do not recruit/retain sufficient staff across the directorate (Children's directorate).

- Risk that we do not deliver sustainable change in Children's Services at the right pace of the improvement journey (Children's directorate).
- 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 (Corporate Services directorate).
- Risk of the financial envelope of the pay award and the impact on the budget (Corporate Services directorate).
- Risk of election not being delivered due to legislative changes resulting in timescales and/or requirements that are not deliverable (Corporate Services directorate).
- Risk of CPD online experiencing financial difficulties (Corporate Services directorate).
- Risk of cyber-attacks and malicious attempts to damage critical services within the council (Corporate Services directorate).
- Risk that we do not manage revenue budgets effectively in-year and ensure a balanced budget (Place directorate).
- Risk that we do not deliver savings against the Medium-term Financial Plan (Place directorate).
- Risks of significant financial pressures across the directorate resulting in contract risks and service delivery risks due to increases in energy costs and inflation (Place directorate).
- Risk that the home to school transport service continues to show volatility in financial performance due to cost pressures, increased demand and complex nature of contracts (Place directorate).
- Failure to recruit / retain skilled roles leading to failure to deliver decisions within agreed timescales (Place directorate).
- Risks to achieving a net zero position by 2030 given current resources and sphere of influence (Place directorate).
- Flood risk - climate change and rising sea levels present a significant risk to people, property, and the economy on low lying land across North Somerset (Place directorate).
- Risk of non-delivery of behaviour change for transport leads to severance, road safety dangers, lack of decarbonisation (Place directorate).
- Risk to development of transport and highways scheme pipeline and delivery of projects (Place directorate).
- Risk related to all council owned trees (tree risk management) (Place directorate).
- Ash dieback risk - health and safety risk from falling trees, financial risk as cost of removal is high (Place directorate).

The treatment for all risks following mitigations was to ACCEPT as the activity aligned to each risk could not be CEASED.

All Annual Directorate Statement commitments that were AMBER/RED or RED were reviewed as at end of Q2 to identify if a risk was aligned to them within the strategic and directorate risk registers and if not, to consider whether they should be. This ensures a clear link between the business planning framework and the risk management framework. Members noted that as of end Q2, 9 commitments were rated AMBER/RED. 4 commitments were RED. Of these AMBER/RED and RED commitments all were reflected in the strategic and/or directorate risk registers.

Members asked questions on the following:

**Q** Could clarification be provided regarding any staffing issues within Children's Services?

**A** North Somerset is not breaching the threshold criteria for turnover or vacancies within the service area.

**Q** What is the level of confidence for recruiting the people needed by the Council?

**A** Medium

**Q** What financial risk does the Workspace in the Sovereign Centre pose?

**A** The operation of this space has been contracted to a third-party operator and that the initiative was funded by the Building Back Better Grant, therefore this is not considered a risk for North Somerset Council

**Q** What is the impact of strike action and should this should be considered as an item to add to the risk register?

**A** This was assessed in the last financial year and is included in the Directorate Register and does not currently pose a strategic risk.

**Q** How do we know we have not missed items on the risk register?

**A** Risks are reviewed every quarter and monthly discussions with CLT took place. In the last quarter there were 2 more strategic risks

**Resolved:** that the oral report be **noted** and a copy of the report be circulated post meeting for any further comments at the next meeting.

## **AUD 22 Annual Governance Statement 2022/23 (Agenda item 7)**

The Head of Audit and Assurance (Audit West) presented the report on the process for completion of the Annual Governance Statement for 2022/23.

In presenting the report, he noted that the Audit Committee had specific terms of reference given to it which required it to consider the Annual Governance Statement (AGS) and the framework which supported it. He commented that the AGS was based on the Local Code of Corporate Governance which could be found in the report's Appendix 1 and noted that was similar to that of previous years. The Annual Governance Statement required ratification by the Audit Committee as part of the Annual Accounts approval process.

The Committee was being asked to note that whilst the report described the outline process for completion of the statement, work would be completed with the Council's Section 151 Officer as the statement was compiled to identify any detailed parts of the process which may benefit from being refreshed. Ahead of this, any comments from the Committee were welcomed.

Members were advised that feedback previously provided by the Audit Committee in respect of amendments to wording and presentation (Accounts Workshop September 2022) would be contained in the 2022/23 statement.

Members were informed that there had been two significant issues identified in the 2021/22 statement; i) Coronavirus Pandemic (COVID-19) and consequent ongoing implications around: impact on public health, the local economy, financial

and organisational resilience, democracy and safeguarding, and ii) Capital Governance, identifying the need to enable greater transparency and oversight in this area through providing a clear, consistent and proportionate reporting mechanism.

Members noted the definition of a significant issue as being one of the following: significant failures in decision making at Council or Executive; significant unexpected use of Resources; significant performance failings or failures in service delivery; significant issues from inspections, audits, complaints etc; significant issues, failures in respect of statutory duties; significant issues from operational issues and third parties.

Further, whilst the statement formed part of the Annual Accounts it was a separate document and was a management statement which was signed/authorised by the Chief Executive and Leader of the Council before being presented to the Audit Committee.

Members noted the need for review periods to be displayed in a clear and transparent way whilst placing emphasis on the Principals of Good Governance. It was suggested that the Principals of Good Governance could be moved to a more prominent position on the report. The representative agreed to check these and also align with the Nolan Principles.

**Q** Would it be worth noting something about managing member and officer conflict of interest?

**A** This can be raised in the main part of the document.

**Resolved:** that the report and process for the Annual Governance Statement be noted

## **AUD 23 Internal Audit Plan 2023/24 - Audit Committee Consultation (Agenda item 8)**

The Head of Audit and Assurance (Audit West) presented the process for how the Internal Audit Plan 2023/24 would be produced to members. The report updated the Audit Committee on the methodology that would be used to create the Internal Audit Plan and asked for comments on areas or themes to be considered within the plan for 2023/24. Members were informed that the intention was to keep the plan under constant review.

The model used to develop the audit plan – the Reasonable Assurance Model (previously reported to Audit Committee and created and adopted in conjunction with a number of other councils in the South West) was clarified.

Members noted that a key part of the planning process was extensive stakeholder consultation. Members were informed that conversations in this regard usually took place between December to March, however this process had been shortened this year to meet revised Committee meeting deadlines. Discussions would therefore take place with the following officers/groups up until the end of February: Section 151 Officer, Finance Business Partner, Directorate Leadership Teams, Statutory Officers, Audit Committee (through formal and informal meetings).

In presenting his report, he added that during the financial year 2020/21, in particular, members would recall that some changes to planned work were required in order to redirect audit resources to unforeseen issues arising from the then emerging COVID-19 pandemic. At approximately six months in it was considered that the audit plan should be rebased for the rest of the financial year as a better understanding had been gained of the impact of COVID-19 and how resources should be subsequently prioritised which was discussed and agreed at the time with the Audit Committee.

Members were informed that whilst only small adjustments were then required to the plans for subsequent years (2021/22 and 2022/23), the Internal Audit Service would continue to ensure a fluid approach for the next financial year. Therefore, whilst the usual consultation process would follow a full-year audit plan would initially be kept under continual 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 would then take place, if necessary, in order to adequately prioritise and resource the second half of the financial year.

In conclusion the top risks for 2023 from the Chartered Institute of Internal Auditors report were highlighted which were cybersecurity and data security; human capital, diversity and talent management; macroeconomic and geopolitical uncertainty; climate change and environmental sustainability; business continuity, crisis management and disasters response; financial risk; organisational governance and corporate reporting. Members noted that the list may assist them as a point of reference to help understand where they felt audit coverage may be beneficial.

In discussing the report Members asked the following questions:

**Q** What training is offered to staff such as cyber security etc?

**A** Cyber Security, phishing and mandatory training

**Q** Are there any issues with manipulation of QR codes on bus stops, parking bay booths in North Somerset

**A** Not aware of any issues no

**Resolved that:**

(i) Members comment on areas or themes they would like to be considered in relation to the Internal Plan for 2023/24

(ii) The intention to keep the plan under regular review, including a six-month progress assessment, in order to prioritise resources as required be **noted**

**AUD 24 North Somerset Council - Audit Progress Report and Sector Update (Agenda item 9)**

**North Somerset Council – Audit Progress Report and Sector Update (Agenda item 9)**

The representative from Grant Thornton presented the Audit Progress Report and Sector Update (Year ending March 2023).

Members were directed to page 38 of the report which provided information on progress at January 2023 in relation to Financial Statements Audit 2021-22

Accounting for Infrastructure; Financial Statements Audit 2022-23 and Value for Money.

Members were informed of a correction on page 40 of the report. Of the 2021/22 Audit related Deliverables – Teachers Pensions Scheme – certification – (the report submitted to Teachers Pension based upon the mandated agreed upon procedures) the report stated that this had not been completed. This was incorrect and should have read completed. Also, in relation to Housing Benefit Subsidy – Certification (the report submitted to Department of Work and Pensions based upon the mandated agreed upon procedures) the report stated not yet completed – this would be delivered by the end of the week.

The report detailed the timeline for audit reporting milestones as follows: Interim Audit Findings – March 2023, Audit Finding Reports – September 2023, Auditors Report – September 2023, Auditor’s Annual Report – December 2023.

**Q** The Committee questioned in relation to the report highlighting that 60 Local Authorities are at risk of running out of money, whether North Somerset was deemed to be a significant risk.

**A** Representative confirmed that North Somerset didn’t contribute to this statistic and does not present as a risk under this criterion.

**Q** The Committee questioned the independence of the internal auditing process.

**A** It is not a statutory requirement for internal auditing to be independent and that key roles are also subject to professional body guidelines and criteria. However, the Audit West representative is not line managed within North Somerset and Grant Thornton are a third party to North Somerset.

**Resolved:** that the report be **noted**.

## **AUD 25 Treasury Management Strategy 2023/24 (Agenda item 10)**

The Head of Finance presented the report presenting the council’s draft annual **treasury management strategy** (TMS) for the 2023/24 financial year and explained that it built on the previous report considered by the Audit Committee in November 2022.

Members were informed that the report contained details of how the council planned to manage its cash-flows and resources in the year ahead to ensure effective treasury management; the proposed Prudential & Treasury Indicators for 2023/24, and the proposed policy for making Minimum Provision in respect of the repayment of the council’s external debt, within the revenue budget.

Members’ attention was directed to the Figure 1 (page 48) which provided a flow chart of the Treasury Management Strategy – its definition, constituent parts and its relationship with other policies and regulation. Each of the core components of treasury management was summarised in Section 3 of the report with further technical detail provided within the Treasury Management Strategy in Appendix 1. Members were informed that the intention was to separate out the strategic direction of travel introducing new investments and decision making.

Members were informed that:

- Paragraph 3.2 contained the Borrowing Strategy (to support the council's capital spending plans),
- Paragraph 3.3 contained the Treasury Investment Strategy (to support the daily operations of council services; to ensure that the council was a responsible investor \*\* new for 2023/24; to manage longer-term cash-flows and generate financial returns to support the annual revenue budget).
- Paragraph 3.4 contained the Non-treasury investment strategy (to support place-making ambitions across the district and to support the annual revenue budget).
- Paragraph 3.5 contained the Minimum Revenue Provision policy and;
- Paragraph 3.6 contained the Prudential indicators and management indicators.

It was noted that over recent years Member training and workshops had been provided to support understanding of technical matters, with the latest session being held in January 2022. The timing of the session enabled further opportunities to consider the proposed Strategy for 2022/23. It was proposed that **a further workshop session be held during the last two weeks of February 2023 to enable work to start on the development of the council's ESG investment policy.**

Previous meetings were facilitated by Arlingclose, the council's external advisors and featured information relating to the legal framework, the definitions and differences between capital and treasury investments and impacts, the types of investments available to the council and how these might fit in with the council's borrowing plans, as well as further information to understand the more strategic factors which were likely to influence treasury strategy decisions of a council. It was agreed that they also attend future sessions.

Members asked question and sought clarification in relation to the following matters:

**Q** Referring to page 50 of the report – as at 31 December 2022, the council held £177m of borrowing which it has drawn down over several years to fund capital expenditure – how quickly is this being paid back?

**A** All borrowing elements have different lifespans.

**Q** Who is able to sign off financial matters in the absence of the S151 Officer?

**A** Within the constitution the Head of Finance is also the Deputy S151 Officer.

**Q** Members asked questions regarding the flexibility of cashflow, security and liquidity of monies

**A** The Head of Finance responded that funds could be moved and liquidised quickly

**Q** Members raised questions about yield performance of investments

**A** North Somerset Council avoided chasing yield as this was deemed high risk. Money was invested very conservatively to protect the public money

**Q** The Committee asked about the benchmarking strategy.

**A** Benchmarking was one tool which could be used. Whilst the Council had confidence in the benchmarking tool there were also other factors that were



analysed and considered.

**Resolved:**

i) that the contents of the report which summarised the key components of the draft Treasury Management Strategy for 2023/24 and associated impacts be **noted** and;

ii) that the development of a policy and framework linked to the council becoming known as a responsible investor bringing social, environmental and governance issues into part of its investment strategy be **supported**

**AUD 26 Update on Annual Accounts (Agenda item 11)**

The Principal Accountant (Closure and Systems) presented the report. In doing so he provided Members with an update of the issues which impacted on the annual accounts process. These included changes to the Code and the annual review of the Council's accounting policies. Members were also provided with a reminder of the concept of materiality, and officers' approach in applying materiality in preparing the draft financial statements.

The officer highlighted this year's changes to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Local Authority Accounts pointing out that there were only minor changes to the Code for 2022/23. Following review none were considered likely to have a significant impact on the Council's accounts. It was noted that the implementation of 'IFRS16 – Leases' into the Code had again been deferred until 2024/25. This change of accounting policy would require changes to the accounting treatment where the Council was the lessee of long-term assets and revisions to the related disclosures. There was a consensus that the length and complexity of the accounts produced under the current Code could make the accounts impenetrable to many users. CIPFA consulted on changes to the code for 2021/22, with the aim of delivering accounts that more clearly communicated the authority's financial performance and future financial sustainability. However, no significant changes had yet been proposed in the Code. Members were informed that officers would be holding a workshop with them to update on proposed changes to simplify and focus the Narrative report on key messages in the 2022/23 financial statements.

Members were also advised of changes to regulatory requirements. Regulatory developments outside of the Code that were likely to impact on the 2022/23 financial statements included: the Minimum Revenue Provision (MRP); IFRS 9 Statutory Override for pooled investments and the Dedicated Schools Grants deficits. Officers were due to attend update training in the next few weeks and would continue to keep members informed of any significant changes in Code requirements for the content and format of the Council's accounts.

Members were provided with information relating to review of accounting policies, accounts which provided a 'true and fair' view of the Council's financial position and transactions and the concept of materiality; critical judgements made in applying the Council's accounting policies, and major sources of estimation uncertainty in the preparation of the accounts.

Members noted that each year they participated in a workshop review session to review the draft annual financial statements. This provided 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. Members discussed training for Audit Committee members. It was noted that officers had completed a training needs analysis and a members' induction programme was being developed for new councillors.

Members sought clarification on the following:

**Q** What will the impact of the implementation of IFRS 16 leases be in the future?

**A** The impact has not yet been quantified – some are finance leases, some are operating leases. The new legislation will bring into the balance sheet as an asset and liability. The council's assets and liabilities will increase and there will be an impact on our balance sheet and INE.

**Resolved:** the Committee **noted:**

i) the developments in the CIPFA Code of Practice for Local Government Accounts, including that there are limited changes to the Code for 2022/23;

ii) that officers are proposing one additional accounting policy, relating to the Community Infrastructure Levy, for inclusion in the accounts, with no significant changes to existing accounting policies in 2022/23;

iii) officers' initial assessment of the critical judgments made in applying the Council's accounting policies, and the major sources of estimation uncertainty identified in the preparation of the 2022/23 accounts

iv) 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.

---

Chairperson

---