

# **AUDIT COMMITTEE**

## **Minutes of the Meeting held on 19 September 2016 at 2.00 pm in the Council Chamber, Williton**

### **Present**

Councillor R Lillis.....Chairman  
Councillor T Venner.....Vice Chairman  
Councillor R Thomas  
Councillor R Woods  
Councillor A Behan

### **Members In Attendance**

Councillor M Chilcott

### **Officers In Attendance**

Finance Manager and Deputy s151 Officer (J Nacey)  
Corporate Strategy and Performance Manager (P Harding)  
Senior Corporate Accountant (S Plenty)  
Democratic Services Officer (E Hill)

### **Also In Attendance**

Peter Barber, Auditor, Grant Thornton  
Kevin Henderson, Manager, Grant Thornton  
Alastair Woodland, Associate Director, South West Audit Partnership (SWAP)

### **A.14 Apology for Absence**

Apology were received from Councillor Trollope-Bellew

### **A.15 Minutes**

(Minutes of the Meeting of the Audit Committee held on 21 June 2016 and amended minutes from 21 March 2016, circulated with the Agenda)

The Grant Thornton Audit Manager and Members of the Committee requested the following amendments to minute attached to the agenda. Amendments to minute numbers:

A.7 – bullet point one – the word ‘audit’ was removed and replaced with ‘certification’  
A.13 – bullet point eight – this point was expanded to include discussion surrounding the £2 million borrowing.

**RESOLVED** that the Minutes of the Audit Committee held on 21 June 2016, with the requested amendment be confirmed as a correct record.

## **A.16 Declarations of Interest**

<b>Name</b>	<b>Minute No.</b>	<b>Member of</b>	<b>Personal or Prejudicial</b>	<b>Action Taken</b>
Cllr N Thwaites	All	Dulverton	Personal	Spoke and voted
Cllr T Venner	All	Minehead & SCC	Personal	Spoke and voted

## **A.17 Public Participation**

No members of the public had requested to speak on any item on the Agenda.

## **A.18 Audit Committee Action Plan**

There was one recorded action from the last meeting on 21 June 2016. This action related to the construction of a letter to SWAP Chief Executive from the Deputy s151 Officer on behalf of the Committee expressing their concerns and requesting a letter of response.

The Officer informed the Committee that this request had not been actioned and that the Officer would complete this request following the meeting and provide an update to Members in due course.

**RESOLVED** that the requested action from 21 June 2016 to be completed by the Deputy s151 Officer, and an update provided to the Committee in due course.

## **A.19 Audit Committee Forward Plan**

(Copy of the Audit Committee Forward Plan circulated with the Agenda).

**RESOLVED** that the Audit Committee Forward Plan be noted.

## **A.20 Grant Thornton External Audit – External Audit Update Progress**

(Report No. WSC 106/16, circulated with the Agenda)

This was a regular update report for Members by external auditors, Grant Thornton. Specifically the report provided an update in relation to their work for the 2015/16 financial year and also provided an update in relation to emerging national issues.

The Audit Manager for Grant Thornton outlined the report, which provided a pdate on the work undertaken to date as at 8 September 2016 and included the status of all the planned audit work for the Council. Additionally, the report shared headlines on some national issues that might have an impact upon the Council.

During the discussion of this item the following points were made:-

- Members asked how the introduction of the early close down of the Council accounts was going to work and what effect this would have on the Council, and

were informed that Officers would need to create a formal procedure and action plan, which would be shared with Elected Members and there was a planned trail run during 2016/17 and 2017/18, which would allow Officers time work out any issues and update the plan. This would be shared with Members.

- Members raised concerns about the lateness of the receipt of the report detailing the Statement of Accounts for the Council, which had not been available until 15th September. This had meant amendments had been made at the last minute, resulting in Members not having enough time to read through the report.
- Members requested that Officers send out a reminder to all Elected Members about the publishing of the 2016/17 draft unaudited accounts and the availability of the unaudited accounts.
- Members were informed by the External Auditors that they could make available to Members of the Committee the checklist document for approval of the Statement of Accounts, which would provide more information to the Committee Members.

**RESOLVED** that the Auditor's update report be noted.

#### **A.21 Grant Thornton External Audit – External Audit Findings**

(Report No. WSC 98/16, circulated with the Agenda).

This short covering report introduced the annual report of the external auditor Grant Thornton. The report also incorporated a review of WSC's financial resilience as a Council.

The Associate Director for Grant Thornton outlined their findings and stated that the unaudited Statement of Accounts 2015/16 was signed off by the Council's S151 Officer in June 2016 within the statutory deadline, and before the start of the external audit review.

The external audit review had been completed and the auditor had indicated their intention to issue an "unqualified opinion" for the Statement of Accounts, as showing a true and fair view of the Council's financial position and performance.

The auditor had also reviewed the council's arrangements to secure efficiency and effectiveness in our use of resources, and provided an opinion in the form of a value for money conclusion. In view of the scale of the financial challenge faced by the Authority, the Auditor had provided a "qualified except for" VFM conclusion. This was due to the concerns surrounding the current Medium Term Financial Plan forecasts.

During the discussion of this item the following points were made:-

- Members raised concerns about the downgrade in valuation of two Council assets and that the difference in the valuation was concerning due to the high level of money which had been potentially lost.
- In response to a question asking what had changed within the valuation criteria to cause such a change in value, the Committee were informed that the auditors had brought to the attention of the Officers that the valuation might not be up to date and suggested the re-valuation of the Council's large assets. In the original valuation, these large assets were valued using 'Depreciated Replacement Cost' (DRC) as unique or bespoke properties. The auditors had

highlighted this was now incorrect and the assets would need re-valuing on this basis. These Council assets should have been valued at 'Market Value' and not using DRC.

- In response to a question asking how re-valuations of our assets based on 'Market Value' and not DRC would affect those assets which only provide low income streams to the Council such as meetings and community halls, the Committee were informed that the rental agreements for meetings and community halls were classed at peppercorn rent. This was an agreement that the Council had made for the benefit of the community and the peppercorn rent did not reflect the value of the asset.
- Members were informed that the Council had two general types of assets, those properties which were investment properties and delivered a return on that investment and those assets which provided a service to the community such as meetings halls.
- In response to a question asking how often did the Council reassess the value of assets, the Committee were informed that this was a rolling program. In future, assets would be re-valued using the 2015/16 guidelines.
- Members suggested to External Auditors that the section on page 34 which referred to 'Basis for Qualified Conclusion' was an important section and should be brought to the beginning of the report and to the attention of the Committee and other Elected Members. The Committee were informed that on page seven of the report in the executive summary, there was a clear indication of the auditors' opinion and conclusion with regards to the Audit Findings of the auditors.
- Discussion took place regarding the level of explanation and terminology included with the External Auditors report and Members requested that more explanation of terminology be provided.
- Officers confirmed to the Committee that a glossary of terms could be included as well as more detail from the External Auditors report could be included with the covering report produced by the responsible Council Office.

**RESOLVED** that:-

1. The Council's Statement of Accounts and the action plan be noted.
2. The Auditor's qualified value for money conclusion reflecting concerns over financial resilience of the Council be noted

**A. 22 Approval of Statement of Accounts**

(Report No. WSC 99/16, circulated with the Agenda).

The Statement of Accounts for 2015/16 was required to be approved by the Audit Committee and signed by the S151 Officer (Shirlene Adam) and the Chair of the Audit Committee (Councillor R Lillis). The Statement of Accounts document was attached to this report.

The Finance Manager presented the report and gave a brief overview of four main statements contained within the Statement of Accounts under the following headings:

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet

- Cash Flow Statement

These statements reflected the Council's position on 31st March 2016. The Finance Manager stated that there had been no material errors relating to previous years, or other material changes to accounting requirements, therefore no further changes to comparative financial details in relation to 2014/15 were needed. There was also a supplementary statement which related to the Collection Fund (which deals with the collection and distribution of Council Tax and Business Rates).

During the discussion of this item the following points were made:-

- In response to a question asking which service or department was included within the 'Highways and Transport' financial information, the Committee were informed that this included the Council's Car Parks function.
- Members were informed that they could request from the Officer a document called the Budget Book. This document contained the budget information but broken down into more details.

**RESOLVED** that:-

1. The Auditor's unqualified opinion on the 2015/16 Statement of Accounts.
2. The Statement of Accounts 2014/2015 as presented to the Committee be approved; and
3. The Chairman of the Committee and the S151 Officer be authorised to sign off the Statement of Accounts.

### **A.23 SWAP Internal Audit – Audit Plan 2015/16 Plan Progress Update**

(Report No. WSC 100/16, circulated with the Agenda).

The purpose of the report was to update members on the Internal Audit Plan 2016-17 progress and bring to their attention any significant findings identified through our work.

The Audit Manager for SWAP outlined and updated the Audit Committee on the work of the Council's Internal Audit Service and provided details on any new significant weaknesses identified during internal audit work completed since the last report to the committee in June 2016.

A schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

During the discussion of this item the following points were made:-

- In response to a question concerning the operational audit within the Homelessness Service asking why this was still at the draft stage only and why the response from the service manager been delayed, the Committee were informed that there had been sickness within the service, which had caused a delay in completing the suggested actions and the service manager responding to the auditors.
- Members raised concerns that the report stated there was no work planned for quarter three and asked was there a reason for this. The Committee were

informed that the audits ran parallel to the Council's financial year and the audits for quarter three had yet to start. Auditors were meeting with relevant service managers to discuss and organise audits for this period. The detail within the report was out of date and things had moved on since this had been produced and published.

- In response to a question asking how the Auditors would monitor and look for fraud while the Council merge into one new Council as well as how they would look for fraud within the new Council, the Committee were informed that the auditor monitored for fraud within each service audit. For the new merged Council, the auditors would be discussing direction and priority with the Service Managers and Joint Management Team (JMT).
- In response to a question asking if there would be continuity within the five year plan for the Council's finances when going from West Somerset Council and merging into the new Council or would there be separation, the Committee were informed that the Council would always need a five year plan for its finances whether it was a single authority or merged authority. But as the Council's got closer to 2019 for the merger, the plan would include the plan for the new Council.

**RESOLVED** that the progress made in delivery of the 2016/17 internal audit plan with the significant findings be noted.

#### **A.24 Assessment of Going Concern**

(Report No. WSC 101/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with the S151 Officer's (Director of Operations) assessment of the Council as a "going concern" for the purposes of producing the Statement of Accounts for 2015/16.

The Finance Manager presented the report, which detailed the main factors underpinning the assessment of the Council's Going Concern were:

- The Council's current financial position,
- Projected financial position,
- Governance arrangements;
- The regulatory and control environment applicable to the Council as a local authority.

Additionally, the report detailed emerging risks that could potentially affect the Council in the following areas:

- NHS claims for Business Rates Discount
- Asset Condition and Compliance Surveys
- Transformation and the Business Cases for change

It was considered that, having regard to the Council's arrangements and such factors as were highlighted in this report, the Council remained a "going concern until at least September 2017 i.e. One year from expected opinion on the Council's 2015/16 financial statements". This assessment would be undertaken annually in the course of preparing the Council's financial statements for each year.

During the discussion of this item the following points were made:-

- In response to a question asking what effect would the emerging risk of NHS Business Rate claims have on the Council, the Committee were informed that although there had been claims made by the NHS to local authorities, the Officer was not aware of any claims made locally, but there was potential and we would have to mitigate for that.
- In response to a question asking if the opinion of going concern was up to September 2017, what would happen in the financial years 2017/18 and 2018/19, the Committee were informed that the s151 Officer would look at the Council's assessment of Going Concern on a regular basis to monitor any change in the status.
- Members were informed that the current position for the Council's finances during 2017-18 was achievable but it was 2018-19, which would be the challenge for the Council.

**RESOLVED** that the outcome of the assessment made of the Council's status as a "going concern" for the purposes of the draft Statement of Accounts for 2015/16 be noted?

#### **A.25 Summary of Overdue High Priority SWAP Audit Recommendations**

(Report No. WSC 102/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with a position statement on the SWAP audit recommendations for West Somerset Council. The Corporate Strategy and Performance Manager updated the Audit Committee on those audited areas that had received either a priority 4 and 5 status. These were captured in the register to ensure progress was tracked and progress was reported to JMT and the Audit Committee.

This report highlighted the Priority 4 and 5 audit actions affecting the Council, where the agreed remedial action was overdue. On this occasion there were 2 priority 4 actions, which were overdue but no overdue priority 5 recommendations for the Council.

A summary of the overdue actions was provided as an Appendix to the covering report.

During the discussion of this item the following points were made:-

- In response to a question asking if bribery was potential risk within procurement and what steps the Council had put in place to prevent this, the Committee were informed that there was a structure for approvals and set expenditure limits within cost codes. Members were informed that the Council is implementing a program of refresher training surrounding procurement and the correct procedures and the relevant limits.
- Members requested that the Officer investigates the possibility of Elected Members having access to the staff intranet site, where all the Council's policies, procedures and information, the Committee were informed that the Officer would investigate access for Members by discussing it with the ICT

Manager as well as including access to Officer's calendars through Members emails.

**RESOLVED** that the summary of overdue high priority audit actions be noted.

## **A.26 Corporate Governance Action Plan**

(Report No. WSC 103/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with an update of progress against the Annual Governance Statement Action Plan.

The Corporate Strategy and Performance Manager presented the report and updated the Audit Committee on the Corporate Governance Action Plan for the Council contained within the Annual Governance Statement (AGS), which was a statutory document.

Included with the covering report was the current action plan, which contained the identified governance issues identified by the Corporate Governance Officers Group.

During the discussion of this item the following points were made:-

- In response to a question asking if there was any dates arranged for Audit training for Elected Members, the Committee were informed that there was no dates for audit training arranged currently and that they had only run specific training for the Chairman and Vice-Chairman of Corporate Governance as they had only been elected in May 2015 to the TDBC.

**RESOLVED** that the current progress in relation to completing the actions identified within the Annual Governance Statement be noted.

## **A.27 Corporate Risk Management Update**

(Report No. WSC 104/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with an update on the corporate risks which were being managed by the Joint Management Team (JMT).

The Corporate Risk Register was a 'live' document, which highlighted the key corporate risks facing the Council. The register was a joint one between West Somerset and Taunton Deane and was formally reviewed by JMT on a quarterly basis as part of the corporate performance review day. The last JMT review took place on 19 May 2016 and the next review was scheduled for 30th September 2016.

Those risks which were managed at a corporate level were those which had a significant risk to the delivery of a corporate priority or which were cross-cutting risks that don't naturally sit with a single department or team. These risks had been identified and escalated from other risk registers within the Councils, officer

concerns or from external sources.

There were currently 17 strategic risks identified and approved by JMT (13 joint risks 3 TDBC specific risks and 1 WSC Specific Risk).

Mitigating actions had continued to be delivered in respect of the various risks and these were set out in the risk register and would continue in order to manage down the risks to an acceptable level.

An extract of the corporate risk register had been provided with the covering report.

During the discussion of this item the following points were made:-

- In response to a question asking what would happen at the end date of SWOne contract with those services and staff currently within SWOne, the Committee were informed that the Council had negotiated a phased return of services back to the Council. We would be starting with ICT, which included moving back staff from SWOne. The Council did not want to be in the position where we had no staff or service in place when the contract ceased.
- Members were informed that as part of the negotiations, it had been agreed to have a phased return of services back to the Council. SWOne employees who would return to the Council were working part time on the transformation project and were working to bring back these services into the Council.
- In response to a question asking the SWOne employees who were returning to the Council and were working on the transformation project, what experience and skills did they have in the area of transformation, the Committee were informed that these staff had experience and knowledge within the ICT service including programming, telephones and project management.
- Members were informed if the Council contracted out the work of bringing the ICT service back in house, the daily cost of contractors would be much higher than the experienced former Council staff from SWOne who had gained new skills and knowledge during their time at SWOne.
- Discussion took place as to whether or not just bringing the ICT and others services back in house without investigating other options such as joint working with other local authorities would mean the Council might be missing out on opportunities. The Committee were informed that the Council had looked at other systems through other local authorities, which included Sedgemoor District Council (SDC). There were two sides, equally the Council did not want to enter into another contract or delay too much. We must find a balance.

**RESOLVED** that the current position in relation to the identification and tracking of corporate risk be noted.

The meeting closed at 4.37pm.