

## **AUDIT COMMITTEE**

### **Minutes of the Meeting held on 25 September 2017 at 2.00 pm in the Council Chamber, Williton**

#### **Present**

Councillor K Mills – Vice Chairman (In the Chair)	Councillor N Thwaites
Councillor P Pilkington	Councillor R Woods
Councillor R Thomas	Councillor T Venner

#### **Members In Attendance**

Councillor M Chilcott

#### **Officers In Attendance**

Corporate Strategy and Performance Officer (R Doyle)  
Finance Manager (J Nacey)  
Principal Corporate Accountant (S Plenty)  
Democratic Services Officer (C Rendell)

#### **Also In Attendance**

Rebecca Usher, Manager, Grant Thornton  
Alastair Woodland, Assistant Director, South West Audit Partnership (SWAP)

#### **A.16 Apologies for Absence**

Apologies were received from the Chairman (Councillor R Lillis) and Peter Barber, Manager, Grant Thornton.

#### **A.17 Minutes**

(Minutes of the Meeting of the Audit Committee held on 20 June 2017, circulated with the Agenda)

**RESOLVED** that the Minutes of the Audit Committee held on 20 June 2017, be confirmed as a correct record.

#### **A.18 Declarations of Interest**

Name	Minute No.	Member of	Personal or Prejudicial	Action Taken
Cllr P Pilkington	All	Timberscombe Parish Council	Personal	Spoke and voted
Cllr R Thomas	All	Minehead Town Council	Personal	Spoke and voted
Cllr N Thwaites	All	Dulverton Town Council	Personal	Spoke and voted
Cllr T Venner	All	Minehead Town Council	Personal	Spoke and voted
Cllr M Chilcott	All	SCC	Personal	Spoke

#### **A.19 Public Participation**

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

#### **A.20 Audit Committee Action Plan**

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

There were three recorded actions from the last meeting on 20 June 2017, all of which had been resolved.

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

- Members of the Committee requested an explanation, why the date of the meeting was changed and why several of the reports were distributed after the agenda was compiled.  
*The Finance Manager apologised and explained this was due to the delay in the Accounts being audited.*
- Members queried why the item on the Transformation Project had been pushed back to the December Audit Committee when the original request was made in March.  
*It was deemed that the June and September meetings were too soon for the Transformation Team to give a proper update to the Committee.*

**RESOLVED** that the Action Plan be noted.

#### **A.21 Audit Committee Forward Plan**

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

**RESOLVED** that the Audit Committee Forward Plan, with the requested amendments, be noted.

#### **A.22 Grant Thornton External Audit – Audit Findings Report**

(Report No. WSC 95/17, circulated with the Agenda).

The purpose of the report was to outline the findings from the audit of the Statement of Accounts and arrangements to secure Value for Money. This also incorporated a review of the financial resilience of the Council.

The Unaudited Statement of Accounts 2016-2017 was signed off by the Council's Section 151 Officer in June 2017.

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

The auditor had also reviewed the arrangements to secure economy, efficiency and effectiveness in the use of resources and provided an opinion in the form of a value for money (VFM) conclusion. Last year the Auditor provided a 'qualified except for' VFM conclusion due to the financial challenges the Council faced. This year they had provided an 'unqualified' VFM conclusion that recognised the progress in delivering savings but also reiterated the need for transformation savings included in the Medium Term Financial Plan.

In the Executive Summary, the Auditors had identified two non-material adjustments. One related to a classification error of £346,000 of grant income, which management had adjusted for in the final version of the financial statements. The second adjustment related to an error that was identified in a sample testing of revenue expenditure funded from the capital under statue, where one item selected related to 2015-2016.

Within the Audit Findings, it was reported that in the audit plan the overall materiality was £425,000, which was 1.8% of gross revenue expenditure from the 2015-2016 financial statements. During the course of the audit and upon receipt of the 2016-2017 financial statements, it was considered whether this level remained appropriate. The materiality had been adjusted to £409,000 which represented 1.8% of the reported 2016-2017 gross revenue expenditure.

There were five Internal Controls highlighted within the Findings. These were:-

- IT Security Policy and lack of review and acknowledgment by staff;
- No proactive reviews of user access in the Active Directory;
- PPE Valuations;
- Register of Interests; and
- Purchase Orders.

Details of Adjusted Misstatements, Unadjusted Misstatements and Disclosure Changes were also given to the Committee.

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

- Members queried the missing Register of Interests reported by the auditors. Was this illegal behaviour which related to the Code of Conduct?  
*The Finance Manager explained the different rules and what was classed as illegal.*
- Members queried the sample used and how was it carried out.  
*The Audit Manager explained the process.*
- Members queried why £346,000 was missed out of the report.  
*The Audit Manager explained that this was not included because the bottom line had not changed.*
- The IT Security Policy was considered along with the relevance of the policy with data breaches that had been reported. Access and security were very different in each Authority.  
*Work would be carried out to review and combine the two policies for West Somerset Council (WSC) and Taunton Deane Borough Council (TDBC).*

- The EDF settlement was mentioned and although the agreement was not 'set in stone', it appeared that WSC was performing better.  
*EDF and the Valuation Office Agency had set a figure for the agreement but this could vary and was dependant on the results of the outage.*

**RESOLVED** that Members noted the report from the External Auditor on the Council's Statement of Accounts and supported the action plan in the report.

### **A.23 Grant Thornton External Audit – Progress and Update Report**

(Report No. WSC 106/17, circulated with the Agenda).

The purpose of the report was to provide an update on the work carried out by the external auditors in 2016-2017 and any emerging national issues.

The Audit Manager outlined the report, which provided an update on the work undertaken to date 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 point was made:-

- Members queried the use of Social Enterprises.  
*Research had been carried out on how to develop Social Enterprises for Local Government to help raise money.*

**RESOLVED** that the update report was noted.

### **A.24 SWAP Internal Audit – Progress Update 2017/2018**

(Report No. WSC 96/17, circulated with the Agenda).

The purpose of the report was to update Members on the Internal Audit Plan 2017-2018 progress and bring to their attention any significant findings identified through the work.

The Associate Director for SWAP presented the report and informed the Committee on the changes to the Audit Plan that had occurred since the last update in June 2017.

These were:-

- Due to the refurbishment work at The Deane House, SWAP had been requested to push the Development Control review back from quarter 2 to quarter 4.
- Due to the partial assurance on the Data Protection Act 1998 and the General Data Protection Regulations (GDPR), SWAP had utilised some of the follow up contingency days to programme a review in for quarter 4 which evaluated progress being made on the recommendations and additional requirements contained within the GDPR.

In addition there were also two follow up audits in relation to the Somerset Building Control Partnership (SBCP) and Homelessness.

The SBCP was a partnership between the four Somerset District Councils and had

commenced operations in April 2016.

Partial assurance had been given to this review and details of the weaknesses had been reported to the Committee in March 2017.

Since then, SWAP had undertaken a follow up review and could report that eleven of the twelve recommendations made had been implemented. The one recommendation that could not be actioned was due to a coding error and was caused by the online payment system which did not force applicants to enter the district information on the online form. This issue had been resolved and it was expected that the final recommendation would be implemented by the end of September 2017.

The Homelessness final report was issued in October 2016. Partial assurance was given in relation to the areas that had been reviewed and the controls that had been found to be in place. Some key risks were not well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

A total of eleven recommendations had been made.

Seven of the agreed actions had been assessed as 'complete'. Two of the agreed actions that were 'in progress' were now overdue and therefore revisions to the implementation dates had been agreed.

One of these was a priority four recommendation to ensure the control was in place to mitigate major health and safety risks. When this was reviewed, it had been identified that there was one tenant in a property with a gas oven that did not have a valid gas safety certificate. Whilst an updated control was in place, the weakness here was in relation to human error. The control put in place needed to be enhanced further to ensure all gas appliances were covered, not just gas boilers.

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

- Concern was raised on the progress made on the new data protection policy. The Auditor had stated that work should have commenced 12-18 months prior to May 2018, when the policy should be in place.  
*Officers had produced a GDPR action plan and attended training, so were able to offer assurance to Members that the work would be completed and in place for May 2018.*
- Concern was raised on the gas safety work that had been reported. It had proven difficult to find a gas engineer to inspect properties in the area. Members queried if there was a list of contractors available.  
*The Audit Manager confirmed that the Deane DLO would be used in the future. The Finance Manager advised Members that there was a list of contractors and that officers had been told to find the best value for money when selecting a service provider.*
- Members noted the 'Substantial' result given for the accounts.

**RESOLVED** that the significant findings and progress made in delivery of the 2017-2018 Internal Audit Plan be noted.

## **A.25 Approval of the Statement of Accounts**

(Report No. WSC 97/17, circulated with the Agenda).

The purpose of the report was to review and approve the audited Statement of Accounts.

The Statement of Accounts for 2016-2017 was required to be approved by the Audit Committee and signed by the Section 151 Officer and the Chairman of the Audit Committee. The Statement of Accounts document was attached to the report for the information of Members.

The Statement of Accounts for 2016-2017 had been prepared on an International Financial Reporting Standards basis in line with the Chartered Institute of Public Finance Accountancy Code of Practice on Local Authority Accounting in the UK 2016-2017.

In 2016-2017 there had been a significant change in the Code of Practice to accounting requirements which meant that income and expenditure had to be reported in the same format that management accounts were presented to the Committee. This also meant that the 2015-2016 figures had to be reinstated in the same format for a comparative purpose. The format change had not affected the outturn figures.

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

- Comprehensive Income and Expenditure Statement;
- Movement in Reserves Statement;
- Balance Sheet; and
- Cash Flow Statement.

There were also supplementary statements related to the Collection Fund, which dealt with the collection and distribution of Council Tax and Business Rates.

The report provided the Council's financial position as at 31 March 2017, with comparisons with 31 March 2016. The net assets had remained fairly static at negative £916,000. This would have been a much healthier positive position were it not for the £2,890,000 increase in the Pension Deficit that was reported during the year. The increase in the liability was a result of a change in actuarial assumptions.

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

- Members queried if the Council had to use the new format for Income and Expenditure?  
*No, this was up to each Council to decide which format they used. This meant there was no continuity between the Councils.*
- The Principal Finance Officer advised Members that the system produced the figures in the two different formats and hoped that the new format would be logical for those that were involved in budget monitoring.
- The Finance Manager advised the Committee that the budgets did not appear in the Statement of Accounts compared to the Outturn Report.
- Members praised the Finance Team and the work involved in producing the

Accounts. This was credit to the officers because the issue of pension deficit was out of their control.

- Members queried investments and internal borrowing.  
*The majority used was from the CIM funds and this was held in store and other funds were invested in low risk schemes. A breakdown was given in the report.*
- Members stated that only external borrowing was reported.
- Members queried if it was possible for the pension deficit to be capitalised.  
*The Department of Communities and Local Government had been consulted about this point, but the Council had been told that this was not possible.*
- Members queried the external borrowing rates and if these could be used in the future.  
*The Finance Manager gave information on Arling Close and the procedures the Finance Team followed.*
- Members queried how a deficit could be deemed as a reserve.  
*Information was given on how the accounts were presented.*
- Did the Government provide pension protection schemes?  
*Protection was given to private companies but not the public sector.*
- Information was given on the measures taken to protect the pension fund.
- Members requested clarification on the term 'unqualified'.

**RESOLVED** that:-

- a) Members noted the Auditor's unqualified opinion on the Statement of Accounts;
- b) Members approved the 2016-2017 Statement of Accounts and
- c) The Chairman of the Committee be requested to sign the Statement of Accounts.

**A.26 Overdue High Priority SWAP Audit Actions**

(Report No. WSC 98/17, 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 WSC, which were assessed as high and very high priority, where the agreed action was overdue.

The Corporate Strategy and Performance Officer presented the report and highlighted the Priority four and five audit actions that affected WSC, where the agreed remedial action was overdue. There were six priority four actions which were overdue but zero overdue priority five recommendations.

The six priority four actions were:-

- Contract Management Bribery – The Procurement function was not limited enough;
- Contract Management Bribery – No assurance that the contract standing orders and the anti-bribery policy was embedded within the Council;
- Asset Management – Strategy linked to corporate priorities;
- Asset Management – Development of a new Asset Management Plan;
- Creditors 2016-2017 Final Report – Changes to the standing data;
- User and Access Management Final Report – Approval of Physical Access.

During the discussion of this item the following point was made:-

- Members were disappointed that the Corporate Strategy and Performance Officer had to chase officers for the outcomes of the priority four actions.
- Members requested that a column be added to the table to show the Implementation Date and suggested the layout of the table be improved.
- Members queried the result for the Creditors Final Report 2016-2017 and the key control for standing data of existing suppliers.  
*The Finance Manager apologised because the relevant officer had not responded by the time the report was published.*
- Members requested that the two priority actions on Contract Management Bribery be actioned in time for the next meeting because these actions were already 18 months overdue.

**RESOLVED** that the overdue actions be reviewed.

#### **A.27 Corporate Governance Action Plan Update**

(Report No. WSC 99/17, circulated with the Agenda).

The purpose of the report was to provide an update on the progress made on the Annual Governance Statement (AGS) Action Plan.

The AGS was a statutory document which provided assurance on the governance arrangements in place within the Council.

The AGS included an action plan which addressed any new governance issues identified by the Corporate Governance Officers Group and relied on reports from internal and external audit.

There were two actions now planned for 2017-2018. These were:-

- Review the approach to the Risk Management culture; and
- To prepare the Corporate Governance process for Transformation and the possibility of a new Council.

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

- Members queried how far both Councils could progress with the Transformation Project whilst the Government made their decision.  
*The Councils would carry on with the assumption of the decision on implementing the New Council being approved.*

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

#### **A.28 Corporate Risk Management Update**

(Report No. WSC 100/17, circulated with the Agenda).

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



The Corporate Risk Register was a 'live' document which highlighted the key corporate risks that the Council faced. This was a joint register between TDBC and WSC and was formally reviewed by JMT on a regular basis as part of the Corporate Performance Review.

These regular reviews ensured that new strategic-level risks could be recognised; continued risks could be re-assessed and risks which were no longer considered important could be removed.

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 did not naturally sit with a single department or team.

There were currently fourteen strategic risks identified and approved by JMT. Eleven joint risks, one WSC risk and two TDBC specific risks.

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

- The Corporate Strategy and Performance Officer advised the Committee that Data Protection had been added to the report after it had been published.
- It was confirmed that the Data Protection policy applied to the Town and Parish Councils too.
- Members queried why Universal Credit was still included under the risk for Welfare Reforms.  
*Universal Credit was still deemed as a new benefit and so the risks were still relevant.*
- Members queried how they were made aware that all the corporate risks were included.  
*Officers should discuss all relevant risks and recommend to Members what should be reported. The risks on the register were updated regularly.*
- Members queried why Gypsies were only a risk in Taunton Deane and not West Somerset.  
*Gypsies had only been recognised as a risk within Taunton Deane due to recent behaviour. This would be added as a risk to both Councils.*

**RESOLVED** that the Committee:-

- a) Noted the current position in relation to the identification of risks and the corporate risks that had been tracked; and
- b) Requested that all the necessary corporate risks, of which they were aware, were detailed in the report.

#### **A.29 WSC Going Concern Assessment**

(Report No. WSC 107/17, circulated with the Agenda).

The purpose of the report was to inform the Audit Committee of the Assistant Director - Strategic Finance and Section 151 Officer's assessment of the Council as a 'going concern' for the purposes of producing the Statement of Accounts for 2016-2017. The concept of a 'going concern' assumed that an Authority, its functions and services,

would continue in operational existence for the foreseeable future. This assumption underpinned the accounts drawn up under the local authority Code of Accounting Practice and was made because local authorities carried out functions essential to the local community and were themselves revenue-raising bodies.

If the assessment determined that the Council was not a 'going concern', particular care would be needed in the valuation of assets, inventories and property, plant and equipment might not be realisable at the book values and provisions might be needed for closure costs or redundancies.

The main factors which underpinned the assessment were:-

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

The challenges the Council faced whilst setting a balanced budget and still providing an appropriate level of services to the public, were well documented. The Council had in recent years been extremely susceptible to volatility in its Business Rates funding position in particular with Hinkley Point B power station valuations and its significant changes in the rateable value which had caused large variations to the Council's annual funding.

The financial overview in the draft Statement of Accounts for 2016-2017 included reference to the Council's balance sheet on 31 March 2017 and concluded that it was robust. Factors which gave rise to this assessment included:-

- Review of debts owed to the Council;
- An assessment of the Council's net worth;
- The adequacy of risk-assessed provisions for doubtful debts;
- The range of reserves set aside to help manage expenditure; and
- An adequate risk-assessed General Fund Reserve to meet unforeseen expenditure.

It was considered that the Council remained a 'going concern' until at least September 2018. However, risk and uncertainty remained in view of the reliance upon a stable Business Rates position for Hinkley Point. A large reduction in Business Rates would require emergency measures to secure the financial viability of the Council in the short term and render the Council financially unviable in the medium to long term.

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

- Members commented that the accounts had been precarious but looked better for the next year.
- Concern was raised on the future of the Transformation Project.  
*Information on the Transformation project agreement was given to Members.*

**RESOLVED** that Members noted the assessment made of the Council's status as a 'going concern' for a basis for preparation of the 2016-2017 Statement of Accounts.

(The meeting closed at 4.32pm)