



Audit Committee - Thursday 15th December 2022

For ease of reference (for those using the ModGov app) the draft minutes of the previous meetings held on 2 and 22 September 2022 are attached.

Agenda Item 1

South Somerset District Council

Minutes of a meeting of the **Audit Committee** held in the **Council Chamber, Council Offices, Brympton Way, Yeovil on Friday 2 September 2022.**

(10.00am - 11.00 am)

Present:

Members: Councillor Mike Hewitson (Chairman)

Robin Bastable
Brian Hamilton
Andy Kendall
Tim Kerley

Tony Lock
Paul Maxwell
Colin Winder
Derek Yeomans (Independent Member)



Officers:

Jane Portman
Karen Watling
Jill Byron
Paul Matravers
Angela Cox
Becky Sanders

Chief Executive
Chief Finance Officer
Monitoring Officer
Lead Specialist (Finance)
Specialist (Democratic Services)
Case Officer (Strategy & Support Services)

Also Present:

Martin Wale
Barrie Morris
Beth Garner
Dan Povey

Guest Councillor
Grant Thornton
Grant Thornton
Grant Thornton

34. Minutes (Agenda Item 1)

The minutes of the meeting from 28th July 22 were approved as a correct record and signed by the Chairman.

35. Apologies for absence (Agenda Item 2)

Apologies for absence were received from Councillors Dave Bulmer and Mike Best.

36. Declarations of Interest (Agenda Item 3)

There were no declarations of interest.

37. Public question time (Agenda Item 4)

The Committee was addressed by a member of the public who asked the External Auditors through the committee how much the auditors had spent on the Audit to date

that was over and above the agreed fee. He then raised several questions regarding the settlement agreement highlighted in the external auditors report. He suggested that it was in the public interest to know who was involved in the payment that was made and what sanctions were taken.

The Key Audit Partner, Grant Thornton explained that work was still in progress to complete the audit but a representation to public sector audit appointments had been made and they were proposing a fee of around £170,000.

In response to the other questions raised, the Chief Executive explained that the Chief Executive at that time asked payroll to pay the amount. Neither the Monitoring Officer nor the Leader of the council was informed and there was insufficient legal advice obtained. At that time there was insufficiently robust control arrangements in place. A report would be going to Full Council that would set out the control arrangements that had since been put in place so this didn't occur in the future. She clarified that the process was not followed appropriately, and that control arrangements were not put in place appropriately. It was not to say that the payment made was wrongful.

The settlement agreement between the individual and the council was a legal agreement, and both signed to say they would respect the confidentiality of that agreement. The council was not hiding behind HR policies but by law, would not be naming names of individuals.

The Key Audit Partner Grant Thornton confirmed that they would not want to breach a confidentiality agreement that was in place. The recommendation highlighted that it was a failure in the arrangements to ensure the amount was appropriate and represented value for money. They had deemed that a public interest report was not appropriate in this case and so it was raised as a statutory recommendation.

The Chairman thanked the member of the public for his questions.

38. Date of next meeting (Agenda Item 5)

Members noted the next Audit Committee had been arranged for 10.00am on Thursday 22 September 2022 in the Council Chamber, Brympton Way, Yeovil.

39. Progress on the 2020/21 Audit (Agenda Item 6)

The Manager, Grant Thornton introduced the report that provided a statement as to the progress of the Group PPE element of the External Audit. They had identified that there was a difference of opinion between the expert that the auditors had used and the expert that management had used, which was resulting in a potentially material difference in valuation of the battery site in Taunton. A decision had been agreed whereby a third party would be involved to produce a further valuation to take the matter forward and conclude work in the area. This was the key reason why the final audit report was unable to be produced.

In response to questions raised by members the Chief Finance Officer, Lead Finance Officer, Monitoring Officer, and the Key Audit Partner Grant Thornton gave the following responses.

- A written response from the relevant officer would be given about whether the new valuation report would include the disposal of the batteries at the end of their life.
- A separate valuer had been engaged and was being finalised. The timescale would be better known in a few days but it was thought the valuer would need around 1 month before the auditors were able to review the report, finalise their work and come back with any follow up questions.
- The valuation had no impact on the revenue or capital expenditure
- The current issue with the valuation only related to the Taunton site as it was currently the only site energised and operational.
- The total fee that was in the audit plan that had been previously presented to committee was expected to be £67,000. The final additional fees will be up from that figure.
- Several reasons and pressures had attributed to the increase in fees, a breakdown of increase would be provided to members if possible.
- The finance team were in the process of filling a vacant SSDC finance post.
- The exercise was to find out what the fair value of the asset was at the close of the accounting period 2020/21.
- The payment made to the employee was identified and backing documents were made available to the Auditors by officers when requested.
- The payment was known by officers after the event by undertaking the last quarters budget monitoring review, it showed an overspend and the money was identified.
- The previous CEO was not given any similar payment. He resigned his position and left the authority after his notice period.
- In settlement agreements it was normal to have a confidentiality agreement. The rules around public sector settlements at the time allowed for this.
- Members were advised not to make any assumption about which individual received the payment.
- The Chief Executive explained that she made the leader aware of the payment when she was made aware of the payment within the first month of joining the council. Internally it was made clear that the process followed at that time would not be allowed to happen again.

There were no further questions from members and the Chairman thanked the auditors for the progress update.

40. Introduction to the External Auditors' Annual Report 2020/21 (Agenda Item 7)

The Chief Finance Officer presented the Annual report which looked at value for money and governance issues. There was a statutory recommendation that would go to Full Council of the 15th September. There were also 2 key recommendations and 15 improvement recommendations. The management response was contained in the body of the report.

Full discussion of this item was considered under item 8 of the agenda prior to members agreeing to note the auditors report.

(note – the meeting of full council was subsequently postponed an rearranged for the 22 September)

RESOLVED: That the Audit Committee agreed to:-

- a. note the Auditor's Annual Report and recommendations and endorse management's proposed response and action to the various recommendations set out in the Auditor's Annual Report

Reason: To inform members of the background framework to the Auditor's Annual report and the next steps to be taken in response.

41. External Auditors' Annual Report for 2020/21 (Agenda Item 8)

The Key Audit Partner Grant Thornton introduced the Annual report and informed members that his colleague who undertook the detailed work was online for any questions if needed. The requirement for Value for Money (VFM) work was introduced by the national audit office and applied to this year to provide more comprehensive details around financial sustainability, governance and improving economy efficiency and effectiveness.

He highlighted to members the key recommendations and some of his comments included;

- A Statutory recommendation had been made.
- Significant weakness were found in the final accounts preparation process.
- Commercial Strategy and Investment key recommendation. It was found that there was a clear plan for the future funding of investments moving forward.
- Management had provided comprehensive responses found in the body of the report.

In response to questions from members the Chief Finance Officer, Lead Specialist Finance and Key Audit Partner Grant Thornton gave the following responses;

- The finance team were over establishment currently. Since the management response to the initial findings report, 2 permanent finance colleagues had left and management were keeping a close eye going forwards.
- The individuals who had left the finance team had now been replaced and were experienced local government officers.
- The Local Government Reform Program (LGR) was looking at all the Somerset districts investment for yield activity and identifying the potential options for the future that included handing over the assets and the reserves to the new authority.
- 3 million pounds from the commercial contingency reserve was moved to the general reserves fund. At the time of the budget the interest rate increase had not taken effect as much as now. It could be moved back if needed.
- In relation to the settlement agreement, there was no set of arrangements in place at that time that payroll could follow to ensure that the payment had gone through the correct process.
- The controls checks and balances had been designed but weren't followed in this instance.
- Best practice for agreements would be put to full council to adopt.
- In the scheme of delegation, the financial limits for senior officers had been in place for some time.
- Settlements like this were rare but undertaken on occasion in local government. The details would have been agreed between the lawyer of the individual and the council. The details of this agreement would not be disclosed.

- The report did not say that the amount paid was unlawful. It was clarified that the legality was not confirmed through the Monitoring Officer nor was there evidence of obtaining separate legal advice.
- An officer of local government should be named publicly if they were earning £150,000 or more.
- A written answer would be provided to members on the question of the CEO overspend for transformation.
- The settlement agreement was made during a period of significant change for the organisation and that increased risks within the control environment.
- There would be a raised awareness of the arrangements that were being put in place for all officers who might likely be involved in the process.
- Members were updated on the independent investigation regarding Environmental Services on the 26th May and a further update on actions from the South West Audit Partnership (SWAP) audit was on the Audit Committee forward plan for January.

After questions from members the Key Audit Partner Grant Thornton clarified that the report had a holding position in relation to the opinion of the financial statements. Once concluded, the report would be updated and issued as a final version.

Management agreed to circulate to Audit members the process for settlement agreements for comment before going to Full Council.

There were no further questions and the Chairman thanked the officers for their responses.

42. Audit Committee Forward Plan (Agenda Item 9)

Following a brief discussion about the draft statement of accounts, Members agreed to keep the Draft Statement of accounts 2021/22 on the forward plan for the 22nd September meeting.

RESOLVED: That the Audit Committee Forward Plan be noted

.....
Chairman

South Somerset District Council

Minutes of a meeting of the **Audit Committee** held in the **Council Chamber, Council Offices, Brympton Way, Yeovil on Thursday 22 September 2022.**

(10.00 am - 11.45 am)

Present:

Members: Councillor Mike Hewitson (Chairman)

Mike Best
Brian Hamilton
Tim Kerley

Tony Lock
Colin Winder
Derek Yeomans (IM)



Officers:

Jane Portman
Karen Watling
Jill Byron
Paul Matravers
Michelle Mainwaring
Becky Sanders

Chief Executive
Chief Finance Officer – online via Zoom
Monitoring Officer
Lead Specialist (Finance)
Case Officer (Strategy & Support Services)
Case Officer (Strategy & Support Services)

Also Present:

Beth Garner
David Owen
Paul Ashton
Jason Dobson

Grant Thornton – online via Zoom
SSDC Opium Power
SSDC Opium Power
SSDC Opium Power

43. Apologies for absence (Agenda Item 1)

Apologies for absence were received from Councillors Dave Bulmer, Robin Bastable, Andy Kendall and Paul Maxwell.

44. Declarations of Interest (Agenda Item 2)

There were no declarations of interest.

45. Public question time (Agenda Item 3)

There were no members of the public present.

46. Date of next meeting (Agenda Item 4)

Members noted the date of the next meeting was scheduled for Thursday 24th November 2022.

47. 2021/22 unaudited Statement of Accounts (Agenda Item 5)

The Lead Specialist Finance introduced the unaudited statement of accounts for 2021/22. He explained how the draft statements were subject to change as the accounts for 2020/21 were not yet finalised and would have an impact on the 2021/22 accounts. He proceeded to highlight key points and figures in the report.

One member asked for clarification of the CEO budget and how it operates and the Lead Specialist, Finance reassured him that he would provide this as a written response.

He thanked all the officers that had worked hard to produce the accounts.

There were no other questions, and the chairman thanked The Lead Specialist, Finance.

RESOLVED: That Audit Committee:

- a) Reviewed the draft statement of accounts.
- b) Noted that it is anticipated that the audited statement of accounts, along with the external auditor's opinion on them, will be present to its meeting on 26th January 2023.
- c) Noted that the figures included in the 2021/22 unaudited statement of accounts are subject to change due to the audit of the 2020/21 statements not being concluded.

48. 2021/22 Draft Annual Governance Statement (Agenda Item 6)

The Monitoring Officer presented the draft Annual Governance Statement (AGS) for 2021/22 that gave an overview of the governance arrangements. She clarified that the AGS covered the whistleblowing investigation and explained what changes had been put in place throughout the year. The statutory recommendation made by the external auditors in their audit finding report for 2020/21 would be added to the 2020/21 AGS as it related to that year.

There were no questions from members, and it was proposed and seconded to approve the draft AGS. On being put to the vote this was approved unanimously.

RESOLVED That Audit Committee approves the draft 2021-22 Annual Governance Statement

Reason This report has been prepared for the Audit Committee to approve the Annual Governance Statement (AGS) for 2021-22.

(Voting: Unanimous)

49. Informing the Audit Risk Assessment for the 2021/22 external audit (Agenda Item 7)

The Chief Finance Officer presented the report and members were asked to assess whether the responses in the report were consistent with their knowledge of the organisation and if there were any other comments to make.

One member raised a question about the checking and monitoring of consultants, which was noted.

There were no further comments and members noted the report.

RESOLVED That Audit Committee noted the information provided to Grant Thornton LLP to inform their risk assessment in advance of the 2021/22 audit, and considers whether the responses are consistent with its understanding and whether there are any further comments it wishes to make.

50. 2022/23 Q2: Internal Audit Progress Report (Agenda Item 8)

The Principal Auditor, SWAP introduce the internal audit report that provided members with an update on the 2022/23 audit plan. Of the reviews already completed, there were no limited or no assurances to report. He highlighted changes to the plan that now included grant certification work which would likely require urgent sign off. All work plans had now started, and the report showed the work that was ongoing to support the new authority.

The chair asked that an earlier question from a member relating to assurances on consultants was taken away by the auditor.

In response to questions, the Principal Auditor SWAP gave some of the following responses:

- Relating to Civil Emergencies work, the scope would be to look at the responses to covid and lessons learnt but would check and confirm the audit objective to members.
- The completed work areas were mainly grant work so would not usually result in audit recommendations being issued. There were no actions for management in relation to the restart grants at this time.
- Assurance work was ongoing with payroll at Somerset County Council and so to avoid duplication of work the scope of this work was being determined before any audit work commenced at SSDC.

At the end of discussion members noted the report.

RESOLVED 1. Members noted progress made in delivery of the 2022/23 internal audit plan and the significant findings since the previous update.

51. Risk Management Update Q2 2022/23 (Agenda Item 9)

The Monitoring Officer presented the report on behalf of the Risk Specialist that gave an update on risk management. Update reports were kept under regular review by the Senior Leadership Team and regular reports were now being brought to audit members.

The Chair advised members to email the Risk Specialist if there were any questions relating to the report and members noted the report.

RESOLVED Audit committee noted the SSDC Strategic & Corporate Risk profile as at 8th September 2022.

52. 2020/21 Housing Benefits Certificate of Claims Report - WITHDRAWN (Agenda Item 10)

This item was withdrawn from the agenda and would be considered at a future meeting.

53. Audit Committee Forward Plan (Agenda Item 11)

The Chairman asked that future Audit meetings did not clash with Somerset County Council Audit meetings.

RESOLVED That the audit forward plan be noted with the amendment to move any future meetings that clashed with SCC Audit Committee.

54. Report on SSDC Opium Power Ltd (Agenda Item 12)

The Chief Executive introduced the report and three of the directors from SSDC Opium Power were in attendance and introduced themselves to members. The Chief Executive then continued with a PowerPoint presentation that gave an overview of the joint venture investment, how the Battery Energy Storage made a return and how the investment was approved and assessed by the council.

The Directors of Opium Power and senior management officers responded to questions from members and some of their responses included:

- The management fee on Fideoak was payable for 5 years, and the fee on Fareham payable indefinitely.
- Explained the wholesale trading process and the different contracts held.
- The batteries used were lithium phosphate and batteries can be deconstructed and chemicals cleaned to be reused again. There will be battery recycling plants built in the future.
- For fire safety, a fire hydrant was being installed at Fareham and there was a strict minimum distance required between each container on site.
- Explained the lifecycle of the batteries, how they work out when they need to be replaced and what happens to them before recycling.
- Clarified reasons for not currently having any further investments in the joint venture.
- The company will become a Somerset Council company. The SSDC casting vote will transfer over to the Somerset Council.

- Somerset Council will determine their commercial strategy and will have to be mindful of the prudential code restricting investments purely for yield.
- Provided further information of paying back loans in the future using dividends.

At the end of discussions, The Chairman thanked the directors for attending the meeting, and members noted the contents of the report.

RESOLVED The Audit Committee noted the contents of this financial update paper.

.....
Chairman