



## **SPECIAL AUDIT COMMITTEE**

**MINUTES OF THE MEETING HELD AT PENALLTA HOUSE, TREDOMEN, YSTRAD  
MYNACH ON TUESDAY 23RD JULY 2019 AT 2.00 PM**

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PRESENT:

Councillor M.E. Sargent – Chair  
N. Yates – Vice Chair

Councillors:

M. Adams, C.P. Mann, G. Simmonds and J. Simmonds.

Together with:

R. Edmunds (Corporate Director for Education and Corporate Services), S. Harris (Interim Head of Business Improvement Services & Acting S151 Officer), R. Harris (Internal Audit Manager), A. Southcombe (Finance Manager - Corporate Finance) and A. Dredge (Committee Services Officer).

Grant Thornton – G. Hawkins and B. Morris.

### **1. APOLOGIES**

Apologies for absence were received from Councillors Mrs E. Aldworth, J. Bevan, A. Gair, Ms J. Gale, D. Hardacre, Mrs B. Miles and Ms T. Parry.

### **2. DECLARATIONS OF INTEREST**

There were no declarations of interest made at the beginning or during the course of the meeting.

### **REPORTS OF OFFICERS**

Consideration was given to the following reports.

### **3. LOCAL GOVERNMENT FINANCIAL STATEMENTS AND THE ROLE OF THE EXTERNAL AUDITOR - PRESENTATION**

Representatives from Grant Thornton delivered the presentation that set out the role of External Audit and the Audit Committee in relation to the Financial Statements.

The role of the Audit Committee includes scrutinising the Financial Statements and overseeing the internal control and corporate governance arrangements operating within the Council. It was explained that the audit process is monitored through consideration of audit plans, reporting and evaluating the effectiveness of internal and external audit and promoting

effective working between internal and external audit. The Auditor highlighted a number of factors for consideration that included previous assurance reporting from internal and external audit, findings from Inspections and other external reviews, awareness of deficiencies and risks and asking questions.

The Committee noted that the External Auditor is appointed by the Wales Audit Office (WAO) to undertake audits on behalf of the Auditor General for Wales and has undertaken the Financial Statements audit at Caerphilly since 2015. Their role is to provide an audit opinion on the Council's Financial Statements, as to whether they provide a true and fair view of the financial position at year end. They assess if the Financial Statements have been properly prepared in accordance with CIPFA's Code of Practice on Local Authority Accounting and undertake certification of grant claims and returns. They provide a view on the whole of Government Accounts submissions and they also correspond with the public and manage any objections to the Accounts. The Auditors highlighted that a key part of their role is to work with the Audit Committee to ensure its work is timely, effectively planned and to communicate, share and evaluate national reports and governance reviews. They must comply with legislation, the audit code, guidance from WAO and the Financial Reporting Council and ethical standards whilst undertaking their role.

It was explained that the Auditors determine a materiality level when auditing the Financial Statements. This is defined as '*misstatements, including omissions and are considered to be material if they individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements*', Following this, a determination of what is 'trivial' is also made. Based on this, the Auditors issue a 'true' and 'fair' opinion. The focus of an audit is the assessment of where the risks are in any set of Financial Statements.

In concluding, the Auditors briefed the Committee on their role with the External Auditors and Accounts. The Committee's role is to receive the External Auditor's findings report (ISA260) and formally consider any issues raised prior to the audit opinion being provided and the approval of the publication of the final Accounts. The Auditor's summarised what Members should look for within the accounts and the questions that should be asked when reviewing the accounts.

The Chair thanked B. Morris and G. Hawkins for delivering their presentation and the Audit Committee noted its contents.

#### **4. AUDIT COMMITTEE ASSURANCE OVER MANAGEMENT PROCESSES AND ARRANGEMENTS**

The Acting Section 151 Officer presented the report that provided the Audit Committee with the Chair's responses to the External Auditor, Grant Thornton, on how the Committee gains assurance over management processes and arrangements.

It was noted that as part of their audit planning and to comply with International Accounting Standards the External Auditor needs to gain an understanding of how the Audit Committee gains assurance over management processes and arrangements. A list of questions had been sent to the Chair of the Audit Committee and the responses received were appended to the report.

Following consideration and discussion, it was moved and seconded that the recommendation in the report be approved. By a show of hands this was unanimously agreed.

RESOLVED that the response appended to this report, be noted.

## 5. FINANCIAL STATEMENTS FOR 2018/19

The Acting Section 151 Officer, Finance Manager and the representatives from Grant Thornton presented the report which provided the Audit Committee with the 2018/19 Financial Statements and the External Auditor's report on the audit of the Financial Statements (ISA260 Report). The report sought a recommendation from the Audit Committee that Council approves the 2018/19 Financial Accounts at the meeting of Special Council on the 30th July 2019, subject to any further adjustments that may be required from ongoing audit work.

The Committee was advised that the 2018/19 Draft Financial Accounts (Appendix 1) were prepared and submitted to the External Auditor, Grant Thornton, on the 7th June 2019 in accordance with the agreed deadline. The Draft Financial Accounts have since been subject to External Audit review and this work is partially complete with final testing still to be completed in a number of areas. The External Auditor's Audit Report (Appendix 2) reflects the audit work completed to date.

The External Auditors updated the Committee on the audit work that had been undertaken the previous week, since the publication of the agenda pack. Handouts were distributed to Members that replaced pages 4, 5, 9, 18 and 19 within the External Auditor's report (Appendix 2). The amendments were highlighted with tracked changes. The changes related to the status of the audit, the response to the financial audit risks and matters arising from Exhibits 5 and 6. It was explained that there have been added complexities around public sector audits this year which has led to delays, with particular reference being made to pensions where a recent judgement has resulted in late changes being required to the Financial Statements. The Auditors thanked colleagues within the Finance Team for their valued contribution whilst working together during this process.

The Chair thanked Officers and Colleagues from Grant Thornton for their hard work during this process and for delivering the report and Members questions were welcomed.

A Member sought clarification regarding the impact of the McCloud/Sergeant Judgments on the Council's total pension liabilities. The cases related to age discrimination on pension liabilities. The legal ruling around age has implications for pension schemes where transitional arrangements on changing benefits were implemented, and this includes the Local Government Pension Scheme (LGPS). The implications have been discussed with management and more widely with the sector as a whole to ensure consistency. Management obtained updated figures from the Greater Gwent (Torfaen) Pension Fund which has resulted in an increase in the liability and a subsequent adjustment to the Financial Statements. The Committee discussed the Council's pension liability and it was suggested that a colleague from the Greater Gwent (Torfaen) Pension Fund be invited to attend the next meeting scheduled on the 15th October 2019, to provide any further clarification requested by Members.

A Member referred to the level of underspend across service areas and in response the Acting S. 151 Officer advised Members that a more detailed report on the underspend was presented to Cabinet on the 12th June 2019.

Clarification was provided in respect of the 2018/2019 Capital Expenditure set out on page 14 within the agenda pack. It was explained that this expenditure is funded from a range of sources including the Core Capital Programme, Section 106 monies and a range of capital grants. In terms of the WHQS Programme, Officers clarified that there are resources available within existing budgets to fund the Programme.

Following consideration and discussion, it was moved and seconded that the recommendations in the report be approved. By a show of hands this was unanimously agreed.

RESOLVED that for the reasons contained in the Officer's report:-

- (i) the External Auditor's Audit of Financial Statements Report, be noted;
- (ii) the Management responses to the Auditor's recommendations arising from the 2018/19 financial audit work completed to date, be noted;
- (iii) the 2018/19 Financial Accounts be approved subject to any changes that may be required as a result of ongoing audit work and be recommended to Council.

The meeting closed at 3.00pm.

Approved as a correct record and subject to any amendments or corrections agreed and recorded in the minutes of the meeting held on 15th October 2019, they were signed by the Chair.

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CHAIR