

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Thursday, 21st November, 2019, 4.30 pm

Councillors: Andrew Furse (Chair), Colin Blackburn, Lucy Hodge and Brian Simmons

Independent Member: John Barker

Officers in attendance: Jeff Wring (Service Director - One West) and Andy Cox (Head of Audit and Assurance (One West))

Guests in attendance: Peter Barber (Grant Thornton) and Sophie Morgan-Bower (Grant Thornton)

14 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

15 ELECTION OF VICE-CHAIR

RESOLVED that a Vice-Chair was not required on this occasion.

16 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Mark Elliott.

17 DECLARATIONS OF INTEREST

There were none.

18 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

19 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

20 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

21 MINUTES: 30 JULY 2019

These were approved as a correct record and signed by the Chair.

22 EXTERNAL AUDIT UPDATE REPORT

Mr Barber presented the report.

He commented on the Annual Audit Letter, which had been circulated as a late supplement to the agenda. He said that the Letter summarised the key findings of the external auditors in their work on the 2018/19 accounts for the Council and the Avon Pension Fund. Hopefully it would contain no surprises, since a detailed audit findings report had been presented to the 30 July meeting of the Committee. The Annual Audit Letter differed from the findings report in that it was the formal mechanism by which the external auditor communicated with the Council, and it was made available to the public and stakeholders. The external auditors had a twofold responsibility, to the Council and to the Avon Pension Fund. The materiality thresholds set for these two bodies were detailed on page 5 of the letter.

The external auditors had given an unqualified opinion on the Council and Pension Fund accounts on 30 July, and the message for the Committee as the body charged with oversight of governance in the Council was a generally positive one. There were no matters in relation to which the external auditors had had to invoke their additional statutory powers, and an overall positive value-for-money conclusion has been given, subject to two recommendations. Further to the statement at the bottom of page 3 of the Letter, he could now certify that the audit of the Council and Pension Fund based on code requirements was complete, because the Pension Fund annual report had been published and the work on the whole of government accounts had been completed.

Mr Barber noted that the accounts for the Council's subsidiary, Aequus Developments Ltd (ADL), were not consolidated with the Council's accounts in 2018/19. However, the projected turnover for this business in 2019/20 is likely to exceed the threshold for group accounts, and the external auditors are discussing with the Council's Finance Team whether ADL's accounts should be consolidated in 2019/20.

The Interim Director – Finance drew Members' attention to the turn round from a Council overspend last year to an underspend this year.

A Member asked whether ADL was responsible for valuing its own properties, or whether its property assets were grouped with other Council-owned properties. Mr Barber replied that ADL had to value its own assets every year for its own accounts. His understanding was that the basis on which ADL valued its assets was slightly different from the Council, though he was not entirely sure, as ADL have separate auditors. In response to a question from the Chair Mr Barber explained that Council property assets have to be valued every five years, but should be valued more frequently if the level of risk of material change in value justified this. If the accounts of ADL were consolidated with those of the Council, the valuation methods would have to be harmonised. A Member asked what the effect on ADL was of the rescheduling of the building work they were engaged in; that he understood that the purpose of ADL was to construct properties for sale and return the capital receipts to the Council. The Chair, however, said that he thought that the ambition ADL was that, while they might sell some properties, they should have a portfolio of properties for rent in order to generate income for the Council. The Interim Director – Finance explained that the Council received money from ADL in the form of capital receipts from land transfers, from dividends, though these were delayed until Riverside was completed, tax receipts and loan repayments. The Chair suggested that it would be useful to have a report showing how cash flowed between ADL and the Council, as

this is a matter of interest to the Committee. This might be something that Resources PDS Panel would also wish to see.

Mr Barker presented the Audit Progress Report and Sector Update. He commented on the certification work for Housing Benefits and the Teachers' Pensions Claim, for both of which the deadline for completion is 30 November 2019. The external auditors had had long conversations with the Council about the Housing Benefits claims in the past, as some Members would recall. The external auditor had made good progress on Housing Benefits this year, but issues had arisen in relation to the samples selected for testing and the integrity of the workbooks used by the external auditor. He understood that this was not because of any fault of the Council. The issue had been referred to DWP. Because of the problem the Council had written to the DWP asking for an extension of the deadline to 31 December. It was projected that the Teachers' Pensions claims work would be completed by the 30 November deadline. Reports on these two matters would be made to a future meeting of the Committee.

Mr Barber drew attention to the information on MHCLG's independent probe into local government audit on agenda page 20 and on the new NAO Code of Barber Audit Practice on agenda page 21. The Chair asked whether it was anticipated that a body resembling the abolished Audit Commission would be created. Mr Barber said that he had no information on this at the present time. A Member suggested that there should be a report to the Committee when the Redmond review was published.

After the discussion was concluded, the Committee **RESOLVED** to note the report and appendices.

23 TREASURY MANAGEMENT SIX MONTH UPDATE REPORT

The Interim Director of Finance presented the report. She reminded Members that the strategy for some years had been to fund capital expenditure from cash reserves while interest rates on invested cash were low. This had resulted in a reduction in in-year borrowing costs greater than the return that would have been earned on cash investments. She drew attention to the 1% rise in Public Works Loans Board interest rates in October. It was expected that this would eventually be reversed.

A Member noted that the PWLB interest rate increase had been a response to a substantial increase in the use of PWLB loans by some authorities, and that the NAO was due to publish a review early next year that could recommend tighter restrictions on the use to which PWLB loans could be put. It might be that they were restricted to capital developments and not permitted for commercial investments. The Interim Director of Finance replied that most local authorities do not borrow for individual acquisitions, but to finance their capital programmes. However, it did seem that the rate rise was intended to curb local authorities' aspirations for commercial acquisitions.

The Chair asked why there was a difference between the Capital Funding Requirement of £300.7m and the current borrowing of £234.4m. The Interim Director of Finance explained that there had been slippage on three big projects and there would be some catch up. The Chair asked about the monitoring of the delivery of the capital programme. The Interim Director of Finance pointed out that there was a regular report to Cabinet.

The Chair noted that the Committee was not provided with the risk register for Treasury Management activity, and asked that this be provided with the next Treasury Management report. It was particularly necessary when the Treasury Management Strategy was presented to the Committee.

A Member noted paragraph 7 of the covering report headed 'Climate Change' and asked how the Council engaged with fund managers about ethical investments. In particular, how did the Council engage with investment managers about pooled funds? The Interim Director of Finance replied that the Council did encourage fund managers to disinvest from fossil fuels and did review their investment strategies. It could be relatively expensive to withdraw from some funds because they were long-term investments.

RESOLVED to note:

1. the Treasury Management Report to 30th September 2019, prepared in accordance with the CIPFA Treasury Code of Practice;
2. the Treasury Management indicators to 30th September 2019.

24 INTERNAL AUDIT SIX MONTH UPDATE REPORT

The Head of Audit and Assurance (One West) presented the report. Members noted that less of the plan had been completed at the half year than expected and the reasons given for this in paragraph 4.2.2 of the report. One issue had been service restructuring and the loss of a number of staff. There had been recent recruitment and it was expected that the service would be fully staffed by January 2020. Other issues were work carried forward, the level of unplanned work and a high uptake of annual leave in the summer. 46% of critical/high risk audit recommendations had been implemented, well below the expected 80-90%. Information about the implementation of recommendations from the 5 audits followed up was given in paragraph 4.5.1.

Two out of the three investigations undertaken in the first half year had resulted from internal whistleblowing. A verbal update on one of these investigations would be given to Members in a private session at the end of the meeting.

A Member noted the 100% customer satisfaction shown by chart 3 on agenda page 42. However, he thought it was puzzling that this was accompanied by the implementation of only 46% of audit recommendations. The Service Director explained that there was a time lag: customer satisfaction was assessed immediately after the audit, but the follow up could take place six to nine months later, so the two sets of figures could not be directly correlated. The figures from last year showed a high level of implementation. The Member suggested that the time lag should be made clear in the commentary in future reports. If key recommendations are not being implemented, that needs to be escalated. Failure to implement recommendations could, in the light of the Redmond review, be viewed as impacting on the financial and management resilience of the Council. The Member recalled that in the past management had been invited to address the Committee. The Chair agreed that management should be invited to explain failure to implement

recommendations to the Committee. The Service Director – One West said that there was an escalation process. If an audit assessment of ‘poor’ was given to a service, it was expected that an officer from the service would give a report at a meeting of the Committee. The same applied if management had failed to implement a critical or high-risk recommendation. He said that Members who wished to do so could come to his office to inspect audit reports and ask questions about the details.

RESOLVED to note progress made against the Internal Audit Plan for 2019/20.

25 FRAUD AND CORRUPTION UPDATE REPORT

The Service Director – One West introduced this item. He noted that this meeting was taking place during International Fraud Awareness Week, as part of which CIPFA was sponsoring a number of initiatives. CIPFA had released a national survey that day on pensions fraud and corruption. He reminded Members that the Committee had a duty under its terms of reference to review the Council’s Anti-Fraud and Corruption Policy periodically. He introduced Joanne Buchan from One West who had assisted the Council in developing its anti-fraud and anti-corruption policies.

The Head of Audit and Assurance presented the 4 policy documents contained in Appendices 1-4. He explained that the Anti-Fraud and Corruption Strategy was an umbrella strategy that brought together the specific policies contained in the other documents. The Strategy adheres to the themes and principles of the CIPFA Local Government Counter Fraud and Corruption Strategy and links in to the Council’s Corporate Strategy Priorities. As a key part of fraud prevention the strong anti-fraud culture that had developed in the Council had to be maintained. Members, staff and partners of the Council must follow the principles of the policy. The policy had been updated to take account of the Bribery Act 2010, which makes it an offence for a commercial organization to fail to prevent bribery carried out on its behalf.

The Service Director – One West said that it was important that the Committee was seen to endorse these policies, so it was proposed that the Anti-Fraud and Corruption Policy would be preceded by a short foreword written by the Chair. The Chair said that it would have been helpful if the documents had included tracked changes, so that the extent of the revisions was visible at a glance. He asked for an estimate of how much the documents had changed from the previous versions. Ms Parker said that an attempt to make the Strategy document more interesting and easier to read. Otherwise the amendments related to a change in the anti-money laundering regulations in 2017 and an update of contact details.
May change on money laundering.

Before receiving a presentation on a current fraud case the Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED** that the public should be excluded from the meeting, and that the reporting of this part of the meeting should be prevented, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraphs 1, 2 and 3 of Schedule 12A of the Act as amended.

After the presentation the Committee **RESOLVED**:

- a) to review and comment the updated Anti-Fraud & Corruption Strategy (Appendix 1);
- b) to review and comment on the updated Whistle Blowing Policy (Appendix 2);
- c) to review and comment on the updated Anti-Money Laundering Policy & Guidance (Appendix 3);
- d) to review and comment on the updated Anti-Bribery and Corruption Policy (Appendix 4);
- e) to note work carried out by the Internal Audit Team related to Anti-Fraud & Corruption.

The meeting ended at 6.24 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services