

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Thursday, 6th February, 2020, 4.30 pm

Councillors: Andrew Furse (Chair), Mark Elliott, Lucy Hodge and Brian Simmons

Independent Member: John Barker

Officers in attendance: Jeff Wring (Service Director - One West), Andy Cox (Head of Audit and Assurance (One West)), Donna Parham (Interim Director - Finance) and Gary Adams (Head of Corporate Finance)

Guests in attendance:

26 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

27 ELECTION OF VICE-CHAIR

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

28 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Colin Blackburn.

29 DECLARATIONS OF INTEREST

There were none.

30 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair announced that this would be the last meeting of the Committee to be attended by the Interim Director – Finance, as she would be leaving the Council. Members thanked her for her support to the Committee and wished her well for the future.

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

There were none.

32 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

33 MINUTES: 21 NOVEMBER 2019

A Member pointed out that 'Barker' in the first line of the second paragraph on page 7 should be 'Barber' and that 'Barber' in the second line of the third paragraph on the

same page should be deleted. The minutes were approved subject to these amendments.

The Committee went into exempt session to receive an update on the exempt minutes.

34 EXTERNAL AUDIT UPDATE REPORT

Mr Barber presented the report and appendices.

Appendix 1 was the Audit Progress Report for the Council and Avon Pension Fund. Draft audit plans for the 2019/20 audit of the Council and the Pension Fund would be presented at the next meeting of the Committee. At the previous meeting it had been reported that work was ongoing in relation to Housing Benefit Subsidy claim and on the Teachers' Pension claim. Work on these were now completed. There had been a great improvement in the compilation and accuracy of the 2018/19 Teachers' Pension claim compared with previous years, and the External Auditor had been able to sign it off without any adjustments or amendments. Information had been given to the Committee at the previous meeting of some of the challenges relating to the Housing Benefits Subsidy claim. The External Auditor had found many income and pension errors in the initial testing. Errors had been compounded by a technical issue that was not the fault of the Council, namely that the Excel workbooks supplied by DWP were corrupted. These were returned to DWP and the problem was corrected. Following completion of the work the claim was qualified and the amended claim signed off on 9th January, one day before the extended deadline. Errors noted are listed on agenda pages 20-21. There would be an additional fee for this work. Mr Barber drew attention to the information about the Redmond review of local audit given on agenda page 24.

Appendix 2 was the Fees Letter. This explained the increasing pressure from various quarters for more detailed and challenging audits and set out the areas in which more detailed work will be required in future. There would need to be additional work on Value for Money, for example. Pressure on resources meant that the External Auditor was already unable to complete audits for all its clients by the target date of the end of July; an audit for one client had only recently been signed off, six months late. However, Grant Thornton completed more audits by the deadline than any other audit firm. The External Auditor had to recruit additional staff with the appropriate skills, though that was difficult in this highly specialized area. Fees would need to be increased substantially for 2019/20.

The Chair responded that while the Committee wanted a quality audit that gave assurance about the soundness of the Council's financial statements, and understood that there had to be additional fees for specific additional work, it seemed that what was being proposed was a 20% increase in the general level of fees in relation to a financial year that was almost complete, for reasons that were entirely outside the control of the Council, during the life of an existing audit contract. A Member suggested that the changes in audit requirements were regulatory changes that the Auditor simply had to accept as part of the framework within which it operated. Mr Barber explained that the External Auditor did not have a contract with the Council, but with Public Sector Audit Appointments (PSAA), and that the contract contained terms relating to changes in regulations and requirements. The Chair asked how the additional £23,000 increase in fees would be paid for, given that there

was no provision for it in the 2019/20 Council budget. The Head of Corporate Finance confirmed that the increased fee could be paid from contingency without taking money from another service. The Interim Director – Finance said that officers were reviewing the impact and cost of future audit requirements and had had a meeting with Tony Redmond. Things would become clearer after his review had been completed. The Chair asked whether the issuing of the fees letter was the reason why the audit plan had been delayed. Mr Barber said this was not the case; the reason for the delay was simply because of the level of work. There had been a lot of additional work last year, and the External Auditor's staff had been working very long hours during the summer, including at weekends. The deadline for closing of Council accounts had been brought forward from June to May, so the External Auditor had less time to work and it was simply not possible to complete work for all clients by the deadline. The Chair asked whether the public sector was paying a price because of criticism of the inadequate auditing of private companies. Mr Barber agreed that this was to a certain extent the case. The Service Director – One West asked what would happen if the Council declined to pay the increased fee. Mr Barber said that PSAA would recommend that the External Auditor had discussions with the Council to explain the reasons for the increase, and would, if necessary, contact the Council to clarify its concerns, but they would certainly not condone the Council refusing to pay the fee for an audit done to the required standard.

A Member noted that PSAA was supposed to be an interim body. He also asked whether the External Auditors would support future scale fees that incorporated flexibility to allow charging for significant extra work for specific local factors. Mr Barber said they would certainly advocate this. He observed that PSAA had a staff of six; the External Auditors would advocate a more robust body to replace it that had stronger decision-making powers. There were currently many unknowns for the future of local audit, and he was not sure that the existing five-year audit contracts would last for the full five years. Mr Barber agreed with the Member that a replacement body for PSAA would have to be established by statute, and that, given the time required to implement legislation, there could be an overlap between two audit regimes.

When the discussion was concluded, the Committee **RESOLVED** to note the report and appendices and to express concern about the increase in audit fees, which will be kept under close review.

35 TREASURY MANAGEMENT STRATEGY

The two appendices to the report had been published as a late supplement. The Head of Corporate Finance presented the report. He reminded Members that the CIPFA Code on Treasury Management in the Public Services required the Council to approve a treasury management strategy before the start of each financial year. The strategy could also be updated during the year. The Committee was given the opportunity to comment on the strategy before it was submitted to Council for approval. There had been no significant changes in the strategy from last year. Interest rates were forecast to remain low for a long period of time and the present policy of using cash balances to offset borrowing would continue. The Government's decision to increase the interest rate charged by the Public Works Loan Board by 1% in October 2019 made the use of PWLB a relatively expensive option for long-term loans, so the Council would now consider long-term loans from other sources, as

detailed in paragraph 4.2 of Appendix 1. The strategy also set out the indicators used to manage risk.

The Chair asked about the risk register for Treasury Management activity referred to in paragraph 6.4 of the covering report and asked if this could be presented to the Committee. The Head of Corporate Finance explained that it was included in the Q3 financial performance report to Cabinet. He agreed that this report would be provided to the Committee.

After discussion it was **RESOLVED** to note:

1. the actions proposed within the Treasury Management Strategy (Appendix 1) to be approved at February Council;
2. the Treasury Management Indicators detailed in Appendix 1.

36 INTERNAL AUDIT PLAN

The Service Director – One West presented the report.

He said that his team were in the middle of planning the audit process for 2020/21. The report showed the methodology used to formulate the plan and the Committee as a key stakeholder had an opportunity to input into the planning process. The final plan would be presented to the Committee in April for approval. The methodology was based on eight themes, which together assessed what good governance would look like for the Council. This model, which had been used for several years, had won a public finance award several years ago. The Internal Audit team consulted with senior officers, gathered evidence on each of the themes, and carried out an assessment. The level of assurance and level of risk in each area were used to prioritize areas for the audit plan as the plan could not cover everything; it took a snapshot of the Council at a point in time and matched areas most needing scrutiny to the time and resources available. It was useful to get as much input as possible into that process, so that it was as relevant as possible. Paragraph 3.10 of the covering report listed the ten key areas which the Chartered Institute of Internal Auditors considered that organisations should take account of when preparing their audit plans. He said that Members were welcome to submit comments on the draft plan by email up to the end of March, when it would be finalised.

In response to a comment from a Member the Service Director – One West replied that IT security was being given increasing attention, as it underpins so much of what the Council does. A benchmark 5% of internal audit resources would be dedicated to this area. There was a need for an increase in the quality of staff engaged in IT audit; IT audit staff were the most difficult and expensive to recruit. Fortunately, recruitment last year had secured an IT audit manager, around whom a specialist team would be built. Responding to another Member, he said that the Council had already transitioned from Windows 7 to Windows 10.

A Member expressed dissatisfaction with the level of analysis in information provided to Members of PDS committees. She suggested that the quality and presentation of

information to Members was an area that might be worth reviewing. The Service Director – Audit West replied that the quality of financial information provided to staff was something that had been looked at previously, but not that provided to Members. He said that he would note the suggestion and consider whether it might be included in the plan. The Interim Director – Finance said that it was always possible to provide additional information to Members, but she expressed concern that they might be subjected to information overload.

RESOLVED to note the comments made on the audit planning methodology and areas for inclusion for the Internal Audit Plan for 2020/21.

37 ANNUAL GOVERNANCE STATEMENT

The Service Director – One West presented the report.

He explained that the Annual Governance Statement is a statutory statement that forms part of the annual accounts. The statement is a management statement that is signed off by the Leader of the Council and the Chief Executive. Under its terms of reference, the Committee has a duty to consider the Statement, including the list of significant issues, before it is signed off. It is public-facing statement explaining the Council’s governance arrangements and identifying any significant issues. The threshold for inclusion as a significant issue is fairly high, and does not relate to the ordinary risks facing the Council in conducting its normal business. In recent years the Statement has focused on the financial challenge, and the resulting pressures on services and the need for cost control. Appendix 3 contained the Statement for 2018/19, which was approved in July 2019. The purpose of today’s report was to give Members an overview of the process. At the next meeting there will be an update, when the process will be very nearly complete.

RESOLVED to note the process to be followed to produce the Annual Governance Statement within the prescribed timescales.

The meeting ended at 5.47 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services