

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Thursday, 14th July, 2022, 4.00 pm

Councillors: Mark Elliott (Chair), Andrew Furse, Colin Blackburn and Lucy Hodge

Independent Member: John Barker

Officers in attendance: Jeff Wring (Service Director - Commercial and Governance), Gary Adams (Head of Financial Management), Andy Cox (Head of Audit and Assurance (One West)) and Simon Martin (Director of Regeneration & Housing)

Guests in attendance: Peter Barber and Sophie Morgan-Bower

13 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer drew attention to the emergency evacuation procedure.

14 ELECTION OF VICE-CHAIR

No Vice-Chair was appointed.

15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies for absence had been received from Cllr Brian Simmons.

16 DECLARATIONS OF INTEREST

There were no declarations of interest.

17 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was no urgent business.

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

There were no items from the public.

19 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were no items from Councillors or Independent Member.

20 MINUTES - 19TH MAY 2022

RESOLVED that the minutes be confirmed as a correct record and signed by the Chair.

21 EXTERNAL AUDIT - ANNUAL REPORT

Sophie Morgan-Bower (Grant Thornton) introduced the External Audit Annual Report and drew attention to the following:

1. The main audit of the Council's financial statements was due to start on 19 September and the audit of the Avon Pension Fund's financial statements had already begun.
2. The initial planning work had been finalised
3. The certification of claims and returns work had been completed.
4. There had been no significant issues highlighted as a result of the interim audit work, but this work was ongoing.
5. Walkthrough testing had been completed for Avon Pension Fund but not for the Local Authority.
6. The Local Authority's journal entry policies and procedures had been reviewed and nothing had been identified that would impact on the financial statements.

Peter Barber (Grant Thornton) addressed the issue of the indicative fees and responded to questions from the Committee as follows:

1. The audit plans were presented at the previous meeting and at that stage the indicative fee was to be confirmed. This information was now available and the increase in the baseline scale fee from Public Sector Audit Appointments (PSAA) was £6k, making a total of £101,351k with additional fees being forecast as £67,313k based on the increments that had happened over previous years and new issues for 2021/22.
2. External and Internal Quality Review: the time taken to respond to reviews would be shared across the audits and the proposed £1.5K was a share of this cost. The audit work on Bath and North East Somerset Council had been subject to review in 2021 and the outcome was positive score 2 (1 being the highest).
3. Extraction of IT data by IT Team: This was a proposed £4K to bring in IT colleagues to source baseline data. This was for specialist technical IT officers required to extract data and did not relate to journals work and this would be clarified in the next iteration of the document,
4. Infrastructure Assets: This had arisen as a result of Finance Reporting Council (FRC) comments in relation to another company and was driven by accountancy and audit standards. The release of Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on the issue had been delayed, but there was an expectation for more work to provide evidence of the capital value of infrastructure. In relation to Council owned infrastructure such as roads and bridges, this was challenging to quantify.
5. Remote working: There was a proposed uplift of £10k to cover the costs of Council finance officers working remotely. It was difficult to give a daily cost as this depended on the experience of individual auditors. The opinion of the External Auditors was that a review could be carried out more efficiently in the office with the Council's Finance Officers present and there would be an additional cost involved in a remote review as well as a likely delay in completion. This issue was the subject of further negotiations with Bath and North East Somerset Council. Members expressed concern about the impact of remote working on the delivery and cost of the audit.

RESOLVED that the update report be noted.

22 TREASURY MANAGEMENT OUTTURN REPORT 2021/22

The Head of Financial Management introduced the outturn report for 2021/22 and drew attention to the following:

1. The report had been drafted in line with CIPFA's Code of Practice requirements and would also be presented to Cabinet and Council.
2. Some changes had been made to reflect the recommendations of the External Audit Value for Money report to include comparative information on investment returns and borrowing to identify trends and also include the overall score and trend information in the Risk Register extract.
3. Overall investments performance averaged 0.36% which was 0.3% above the benchmark rate. This was mainly due to the £5m long term investment balance held in the CCLA Local Authority Property Fund, and a combined £5m invested across two long term Environmental, Social, and Governance (ESG) focused funds during 2021/22.
4. The Council's revenue budget for interest & capital financing costs was £1.078m under budget in 2021/22, mainly due to the high levels of cash balances resulting in a delay in the need to borrow.
5. The external borrowing total of £219.4m was a reduction from the previous year reflecting the repayment of shorter-term loans with no replacement borrowing being taken due to the Council's high cash balances.
6. In relation to the Performance Against Treasury Management Indicators as set out in Appendix 1, all indicators were within approved limits.
7. The economic and market review for April to March 2022 set out in Appendix 5 identified the main issues as the continuing economic recovery following the Covid pandemic; the war in Ukraine; higher inflation and higher interest rates. The Bank of England base rate increased from 0.1% at the start of the year to 0.75% at the end of the year in response to rising inflation.

Following questions from the Committee, the Head of Financial Management responded as follows:

1. In relation to the inflationary pressures leading to higher interest rates, the impact on contracts would vary, but there would be a big impact on energy contracts which were being retendered. There would be a big increase in the cost of the contract and the Council had created an earmark reserve to help with this pressure. In relation to other contracts, the position would be monitored throughout the year.
2. The option to borrow at current interest rates to service capital was regularly reviewed but a balanced assessment needed to be made in terms of cash balances held and future interest rate expectations. CIPFA offered clear advice to local authorities with a borrowing requirement not to borrow to invest primarily for yield.
3. In relation to the circa £1m underspend on capital financing, this formed part of the Council's overall outturn underspend which was being transferred to specific earmarked reserves to cover contract risks including the energy contract price increases.
4. Arlingclose had extended the maximum investment duration limit for UK bank entities on its recommended lending list from 35 days to 100 days in September and the Council received regular updates and alerts from its treasury advisors if there was any action on a bank or a change of advice.

5. The high level of cash balances was due to a number of reasons. The Council had received Government grant funding to pass on to businesses during the Covid pandemic along with other capital grants that were received in advance of being spent which resulted in cash balances increasing. There were also other reasons relating to debtors/creditors.

It was agreed that future reports also include graphs with quantitative columns in addition to pie charts to help Members identify trends.

RESOLVED that

- (1) The Treasury Management Report to 31st March 2022, prepared in accordance with the CIPFA Treasury Code of Practice, be noted.
- (2) The Treasury Management Indicators to 31st March 2022 be noted.

23 PROPERTY COMPLIANCE INTERNAL AUDIT REPORT 2021 - UPDATE

The Head of Audit and Assurance introduced the report and advised the Committee:

1. The Property Compliance April 2021 Final Audit Report had been assigned a Level 2 'Limited Assurance'
2. There had been a further update to the December 2021 Committee which had reported progress against 3 high risk recommendations:
 - a. Lack of clarity relating to the role and responsibility of groups providing Scrutiny of Property Compliance.
 - b. Inadequate reporting to management/groups on Property Compliance responsibilities.
 - c. Failure to formally assign responsibilities to qualified Officers.
3. Following the December 2021 meeting, the management responsibility for the property compliance functions had been transferred to the Director of Regeneration and Housing who was in attendance to give a further update.

The Director of Regeneration and Housing reported that:

1. The vision and aim of the new structure were to ensure that all assets were corporately managed.
2. In relation to the first identified high risk, appropriate governance was now in place and scrutiny groups were operating with new terms of reference.
3. In relation to the second risk, there were monthly updates to the Health, Safety and Wellbeing Committee and monthly Property Health & Safety meetings were taking place with key managers from Property and Health & Safety to understand the risks and agree actions to mitigate.
4. The Team had undertaken a gap analysis and a plan was in place for interim resources.
5. In terms of technology, an integrated asset management system, Zetasafe would be introduced. There was currently several different systems in place that did not interact with each other, for example, there was no correlation between repairs and maintenance and asset income generation. Once the new system was implemented it would be possible to run dashboards on compliance.
6. In relation to the third high risk, the staffing structure had been changed and job descriptions amended to include dedicated compliance officers. This process was ongoing as not all officers were in post.

7. In relation to medium term risks, as well as the work on implementing an integrated data system, a leaseholder pack would be developed to outline compliance requirements.

The Director of Regeneration and Housing responded to questions as follows:

1. It was hoped that the new IT system would be ready to use in the next budget setting cycle and would inform future plans. It would allow the data to be easily accessed and help where obligations needed to be passed on, for example, to tenants.
2. In relation to the Curo estate, Bath and North East Somerset Council still had landlord obligations in relation to 72 of these properties. Compliance checks were in place, but some works still needed to be carried out.
3. The overall aim was to improve compliance where the Council was not currently compliant, the risk needed to be managed and mitigated.
4. In terms of the records not being kept in a timely manner, he undertook to report back with further detail.

In considering the officers' recommendations, it was agreed that a further update should be given to the committee near the end of the financial year and in view of the pre-election period, this meeting should be moved from April to March.

RESOLVED that

- (1) The update provided by the Director of Regeneration and Housing be noted.
- (2) A further update from the Director of Regeneration and Housing be received at the March 2023 meeting of the Committee (to be moved from April due to the pre-election period).

24 COUNTER FRAUD UPDATE REPORT - STRATEGY & ASSOCIATED POLICIES 2022

The Head of Audit and Assurance introduced the report and highlighted the following:

1. A presentation had been circulated to the Committee in advance of the meeting which detailed the results of the National Fraud Initiative exercise carried out by the Internal Audit Team.
2. The team had carried out focussed reviews in 2021/22 in relation to Covid 19 small business grants and tenancy fraud and was also involved in training and raising awareness for staff.
3. The Anti-Fraud & Corruption Strategy (Appendix 1) and associated policies had been updated to take into account the Fighting Fraud and Corruption Locally 2020 strategy for local government.
4. The Whistle Blowing Policy (Appendix 2) gave people the opportunity to whistle blow whilst being protected against repercussions using an external submission form.
5. The Anti-Money Laundering Policy & Guidance (Appendix 3) reflected the legislation and 2017 regulations.
6. The Anti-Bribery & Corruption Policy (Appendix 4) covered two forms of bribery, active and passive.

In relation to questions from the Committee, officers confirmed:

1. There would be a report back on the whistle blowing data at the end of the year. There had been some confusion in reporting which had been raised by

the External Auditor and this related to people reporting breaches of Covid restrictions rather than reporting of fraudulent activities.

2. Contractors/partners would need to comply with the Council's corporate responsibilities.
3. Staff training was directed at certain groups such as frontline staff as well as anti-fraud induction training for all members of staff.
4. In terms of focussed areas for review, areas were targeted where real value could be achieved based on national data. In relation to the review of Covid Business Grant, the amount of fraud in the Bath and North East Somerset area had been negligible which suggested that the controls were in place to prevent fraud.

The Committee agreed that it would be useful for staff training to be enhanced and monitored to ensure that the anti-fraud policies were understood.

RESOLVED that

- (1) The updated Anti-Fraud & Corruption Strategy (Appendix 1) be approved and comments about the need for additional staff training be noted.
- (2) The updated Whistle Blowing Policy (Appendix 2) be approved.
- (3) The updated Anti-Money Laundering Policy & Guidance (Appendix 3) be approved.
- (4) The updated Anti-Bribery & Corruption Policy (Appendix 4) be approved.
- (5) The work carried out by the Internal Audit Team related to counter fraud & corruption be noted.

25 ANNUAL GOVERNANCE STATEMENT 2021/22 - UPDATE REPORT

The Head of Audit and Assurance introduced the report and drew attention to the following three significant governance issues:

1. The increase in energy supply costs and the forecast 143% increase in costs in the next financial year.
2. The sale of Virgin Care to Health Care Resourcing Group (HCRG) in November 2021 and the impact on the Adult Health and Social Care contract. Cabinet agreed not to extend the contract beyond March 2024 and to assess options for the future delivery of the service.
3. The overspend of the Dedicated Schools Grant (DSG) by £8m (combined with a £5.4m carry forward from the previous year) as a result of the increase and complexity of Special Educational Needs and Disability (SEND) assessments. Bath and North East Somerset Council had produced a recovery plan in accordance with Department for Education (DfE) guidance and it was hoped that the Council would enter the DfE safety valve programme in September 2022.

In response to questioning, it was confirmed that:

1. The DSG overspend and increase in SEND assessments was a national issue and a number of Councils were facing financial challenges in this area.
2. A proportion of the underspend in 2021/22 had been earmarked as a reserve for increasing energy costs and this sum was in addition to the contingency budget.

In considering the officers' recommendations, the Committee noted that this was a draft statement for consideration by the External Auditor and the final statement would be brought back to Committee later in the year.

RESOLVED that the work carried out on the draft Annual Governance Statement (AGS) 2021/22 be noted.

26 INTERNAL AUDIT - PUBLIC SECTOR INTERNAL AUDIT STANDARDS - QUALITY ASSURANCE & IMPROVEMENT PLAN

The Head of Audit and Assurance introduced the report and drew attention to the following

1. There was a need to verify compliance with public sector internal audit standards and the Code of Ethics and to have a plan to assess the current position.
2. The last external review of compliance was in 2018 and the next review needed to take place by March 2023 to comply with the 5-year timescale.
3. The assessment would take place in November/December 2022 and would be predominately a desktop review. The Assessor would speak to the Chair and possibly other members of the Corporate Audit Committee as part of the review.

In considering the officers' recommendations, it was;

RESOLVED that

- (1) the form of the planned external assessment of the Internal Audit Service Quality Assurance and Improvement Programme be noted.
- (2) the intention to appoint the Devon Audit Partnership to carry out the external assessment be noted.
- (3) the Council's S151 Officer role as the formal sponsor for the external assessment be noted.
- (4) a report be submitted to the Committee in early 2023 to communicate the results of the external assessment and any resulting action plans.

27 ANNUAL REPORT - CORPORATE AUDIT COMMITTEE

The Head of Audit and Assurance introduced the report and drew attention to the revised Terms of Reference (Appendix 2) which had been amended to provide examples of other matters relating to corporate governance. He asked the Committee to consider the Annual Report and revised Terms of Reference for submission to full Council.

John Barker referred to recent guidance from CIPFA which recommended that there should be at least two co-opted independent members on Local Authority Audit Committees and asked if this needed consideration. It was agreed that this could be considered in planning for the future year.

In considering the Annual Report, it was agreed that there should be an amendment in relation to paragraph vii relating to the summary of the External Auditor's report to include reference to recommendations relating to key performance indicators and lack of benchmarking and strengthening contract management arrangements.

It was agreed that the report would be amended and recirculated to the committee for approval prior to submission to Council.

RESOLVED that

- (1) The Annual Report (Appendix 1) and request that the Chair of the Committee present it to Council (15th September 2022) be agreed, subject to an amendment to paragraph vii of the report to relating to the summary of the External Auditor's report to include reference to recommendations relating to key performance indicators and lack of benchmarking and strengthening contract management arrangements.
- (2) Council (15th September 2022) be requested to approve the revised Committee Terms of Reference (Appendix 2).

The meeting ended at 6.23 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services