

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Thursday, 24th November, 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), Andy Rothery (Chief Finance Officer (S151)), Gary Adams (Head of Financial Management), Andy Cox (Head of Audit and Assurance (One West)) and Tim Richens (Managing Director - Aequus Group)

Guests in attendance: Peter Barber, Sophie Morgan-Bower, Beth Bowers (Grant Thornton)

28 EMERGENCY EVACUATION PROCEDURE

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

29 ELECTION OF VICE-CHAIR

No Vice-Chair was appointed.

30 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Brian Simmons sent his apologies.

31 DECLARATIONS OF INTEREST

There were none.

32 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

34 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

35 MINUTES - 14TH JULY 2022

RESOLVED that the minutes of the meeting on 14th July 2022 be confirmed as a correct record and signed by the Chair.

36 COUNCIL COMPANY AEQUUS (ADL & ACL) ANNUAL ACCOUNTS 2021/22

The Section 151 Officer introduced the report and explained that the Corporate Audit Committee should note the accounts. The key points were that the accounts were profitable and there had been a release of dividends back to the Council. As regards company changes, this had been to full Council to revise the structure.

Tim Richens (Managing Director, Aequus Group) confirmed there were two sets of accounts for ADL the asset holding company and ACL the primary generator of financial returns to the Shareholder (B&NES Council). He explained that ACL delivers delivered new market and affordable housing. There were profits of £468,000 and sales including Riverside View (remainder of the 95 new apartments) and St Joseph's Court (2 houses this year, the rest next year). In summary they had achieved targets commercially, repaid loans and they were paying dividends. The sale of 117 Newbridge Hill following conversion into 7 affordable home and working with South Gloucestershire for the start on site of 30 low energy homes at Manor Gardens, Frenchay are progressing in 2022.

During questions the following issues were raised:

- The required profit on developments was normally 20%, with a commercial return on interest at 4% over the EU reference rate and a dividend paid to the Shareholder (B&NES) of £1m/year.
- That £1m would support B&NES Council Services and there would be a capital receipt to the Council for any land transferred to ACL.
- £81k was the margin on the interest charged to ADL by the Council for loan funding, £6m was the outstanding loan balance secured against the assets which was repaid over 50 years like a mortgage. For each property sold there was an independent valuation. The total value of properties held by ADL is £8.1m.
- With this being the first occasion the accounts had come before the Committee it was noted that the administration costs had increased. The reason for this was staff had increased from 4-5 to 11 and the costs had grown. The external auditor is required for each company's accounts and this cost had been subject to a recent tender exercise. The complexity of the accounts does result in a higher cost.
- The pension liability for the employer contribution in relation to those employees within the money purchase scheme equates to 6% of salary.
- The 52 private rentals were handled by Gregory's (as agent) with one apartment currently rented by the Council for temporary accommodation.
- The objective of ACL was to deliver new, low energy homes and this is the main generator of profits for the company and returns to the Shareholder (B&NES). It was positive that BANES and South Glos had a possible pipeline of 500 units in two more schemes.
- The core capability for the group was to deliver the Shareholder approved business plan. They could buy in a project management capacity and already work with large national construction companies to deliver the schemes.
- There was a baseline profit requirement of 20% but, with the current situation with house prices, increasing interest rates and increased construction costs, the balancing item will be future land values.

- Generally, in the market there is typically a 25% profit rate and some developers achieving up to 33% historically. The reason for 20% baseline for ACL was the focus on delivering low energy homes in the long term to satisfy the corporate objectives of BANES and South Glos, to address the climate emergency and the need for policy compliant levels of affordable housing.

RESOLVED that Corporate Audit Committee note, on behalf of the Council, the audited accounts of ADL and ACL (Council wholly owned companies), in line with the Committee's Terms of Reference.

37 EXTERNAL AUDIT - UPDATE

Peter Barber (Grant Thornton external auditors) introduced the report and the three appendices. In relation to the core audit 80-90% of the audit was complete, with a final findings report and accounts available for approval on schedule for January 2023. There was a caveat with an ongoing national issue on infrastructure assets (pg 78 refers). This affected all large councils like BANES due to the scale of the Property, Plant and Equipment. Grant Thornton are expecting a statutory override instrument to be approved on Christmas Day followed by detailed guidance. Once received Grant Thornton would assess the scale of additional work required. For information the Avon Pension Fund accounts sign-off were also indirectly affected as they are included with the Council's accounts.

With regard to the VFM work, this significantly changed last year and was more complex and will follow the main audit work being finalised and was expected to be completed by the end of February 2023. Finally housing benefit work had started. In relation to emerging findings some deficiencies had been found in IT controls with a list of recommendations relating to Agresso and two best practice points in respect of journal entry controls had been identified.

During discussion the following points were clarified:-

- The system currently allows journals to be posted without descriptions
- There was a need to review whether appropriate asset lives were being used for depreciation charges.
- The majority of issues on asset lives were related to Council vehicles which were used as long as possible.
- It was explained that this was a best practice recommendation

Avon Pension Fund (APF)

Beth Bowers (Grant Thornton) gave a summary as regards the Avon Pension Fund and the draft findings report. She explained the materiality threshold had not changed and the importance to note it had to be reported to the Committee. The audit reviewed areas where the financial statements are at risk of material misstatement, this included many areas including the standards associated with journals and the valuation of level 3 assets. She went on to explain the different levels of asset classification from complex where information was not readily available to those assets where asset prices were readily available on the open market.

During questions the following issues were clarified:-

- The levels were based on the nature of the asset.
- There was a lot more work and complexity with level 3 assets – triangulation, audit opinions, method of valuation, assessment of the integrity of the information.

Beth Bowers went onto explain that the APF did not have significant non-investment income but did have significant investments where key judgements and estimates were made. These investments were listed on page 99 and included level 2 and 3 assets and highlighted some estimation differences. Sometimes the estimation difference was due to timing and is not an indication of errors. Some additional testing and review work was required during the audit and page 117 highlights the additional fees for this work which would be subject to PSAA approval. Therefore, in summary due to the national infrastructure issue, they would need to publish the audit of the APF in draft format pending approval of the Council's accounts.

The Chair noted that Grant Thornton would continue to be the Council's external auditors for 2023-24. Peter Barber commented that there was a need to attract more people to do the audit work as there were not enough to do it in a timely manner.

RESOLVED to note the update report and current position with regards to the Council's audit of its Accounts for 2021/22.

38 TREASURY MANAGEMENT PERFORMANCE REPORT TO 30TH SEPTEMBER 2022

The Head of Financial Management presented the report which was the usual 6-monthly performance report. Due to the reporting cycle the report had already been to Council and Cabinet. He highlighted the following points:

- The average investment rate was 1.32% marginally above the benchmark;
- the average return had increased during the year as increases in the Bank of England base rate fed through to these investments;
- he outlined the average investment return on short-term and long-term investments, the average balance and the forecast impact financially was £450k in additional investment income;
- the level of borrowing was slightly down from the start of the year which reflected scheduled principal repayments with no further borrowing required during the period;
- in Appendix 1 the indicators were in line with approved limits;
- the economic market review highlighted the impacted of the conflict in the Ukraine, and the economic outlook globally and in the UK growth remains weak;
- Bank of England were tackling inflation through increasing interest rates, with rates increased to 2.25% from 0.75% over the six months.
- The markets had a dramatic response to the mini-budget announcement in late September as the unfunded tax cuts and implied additional borrowing leading to a sell-off of government gilts;
- As a result, PWLB borrowing rates had increased to 6% following the mini budget. Rates have reduced following the changes in Prime Minister and

Chancellor and the recent Autumn Statement announcement. Currently, rates on a 30 year PWLB annuity loan were just over 4%;

- In response to rising inflation and borrowing rates, a review of the Council's capital programme was being undertaken to assess potential for pausing, re-phasing or holding projects that are reliant on borrowing;

During the questions from the Committee members the following issues were raised:

- The capital programme re-profiling would assess individual projects viability and risks. It was important to get the profile right so as not to overcommit the Council;
- Some provisionally approved capital schemes might not be started this year but may be taken forward in future years;
- The Council had previously looked at options for the early repayment of the Ex-Avon County Council debt liability, but the repayment premiums were high and agreement was needed with the other predecessor authorities;
- The reduction in the investment balance to £64.4m included the capital payment for the property acquisition for the Fashion Museum, a grant claim has been submitted to WECA and the grant income was expected to be received soon;
- Medium Term interest rate forecasts are provided by the Council's Treasury Management advisors to inform next year's strategy.

On a motion from Councillor Andy Furse, seconded by Councillor Colin Blackburn it was

RESOLVED that

- 1) the Treasury Management Report to 30th September 2022, prepared in accordance with the CIPFA Treasury Code of Practice, was noted; and
- 2) the Treasury Management Indicators to 30th September 2022 were noted.

39 INTERNAL AUDIT - UPDATE REPORT

The Head of Audit and Assurance presented the report. He outlined the following points:

- Of the 34 audits planned, 10 had been reported, 8 were work in progress so at the six-month stage approximately 48% of the Audit Plan 2022/23 had been 'completed';
- In terms of Audit Reports with a 'Limited Assurance' rating. There were two 2022/23 reports and an additional three reports related to 2021/22 planned work which was completed in this financial year (2022/23).
- S106 – Use of Funding
S106 funding is still significant - there was unallocated funds of around £12M; There was a reliance on Agresso and other service records to monitor use of funding rather than using the Exacom system, this was a big concern;
- Community Equipment Store (Radstock)
This 'due diligence' audit was required based on the transfer of the service from Sirona to the Council. Weaknesses included - failure to control access and movement of stock, failure to adopt stock levels (minimum and reorder

quantities). Management agreed to recommendations and a scanning stock control system was being introduced.

- Health and Safety Wellbeing (HSWB) – failure to maintain risk registers to record HSWB risks, lack of clarity around roles of those attending the HSWB Steering Committee meetings, lack of high level HSWB risk monitoring for service areas to enable the Committee to focus their attention on areas of potential weakness. Recommendations were accepted.
- IT capacity & availability – review of management practices to ensure ICT systems and services were sufficient to fulfil user needs. There were two high weakness areas – IT focussed on server operations rather than wider network infrastructure, firewalls, power supply; and, no formal process to identify / review implications of changes in business need;
- Cyber Incident Response – a review of the 2018 Council incident response plan against best practice (National Cyber Security Centre guidance). Accepted that the incident response plan not adequate. Funding has been approved and a consultant is reviewing the incident plan and will report and liaise with the Cyber Security Operational Group (which reports to the IT Steering Group).
- In addition to the planned work the team had carried out other work (some unplanned) which included:
 - 1) grant certification - 24 reviews complete;
 - 2) work related to the National Fraud Initiative which involves co-ordinating the data collection and uploading to enable data matching by the Cabinet Office;
 - 3) anti-fraud awareness work including preparation of training videos available through the Councils intranet on the subjects including – Bank Mandate fraud, procurement fraud and social care fraud;
 - 4) Review of income collection procedures and practices in the Council's One-Stop Shops following a reported loss of £1000;
 - 5) 8 follow up reviews as recorded in Appendix 2. These were RAG rated and 2 were assessed as amber as the agreed actions had revised implementation dates. The remainder were green based on recommendations being fully implemented.
- Based on the 6 month position it is anticipated that 3 planned audits – Revenue Estate Asset Utilisation, GLL Contract Management and an Income Audit would not be carried out as planned in 2022/23. It was highlighted that there had been issues with recruitment and retention of staff and 2 of the 3 Audit Manager posts were currently vacant. This was a factor in reducing the planned audit reviews from 34 to 31.

During questions the following points were made;

- The One-Stop Shop was a financial irregularity. The loss related to the insufficiently controlled movement of cash from the cash kiosk to the point of banking;
- Section 106 related to the Exacom system not being used properly – members were concerned capital had not been spent and there was a need for this to be monitored properly. The Section 151 Officer reported that it was an important audit that was now on management radar. A follow-up of this audit was programmed and could be reported back to the Committee;

- As regards recruitment there would be a re-structure of the whole audit team. The current issue is at the Audit Manager level not across the whole of the team covering B&NES Council and other clients such as North Somerset and WECA;
- Cycle schemes – in terms of this audit review the Head of Audit and Assurance stated that the work had been limited to a financial grant certification review of two grant funded cycle projects. The initial request from the Director had indicated a need to review compliance with technical guidance but this was not carried out as part of the work completed;
- Street works – this considered the ‘licensing’ process and the income generated. The indication was that income received did not match expenditure such as cost of highways inspection.
- IT Cyber Incident Plan - Audit response - recommendations to be monitored by the Cyber Security Operational Group and the consultant reviewing the cyber incident plan was liaising with IT and Information Governance.

On a motion from Councillor Andy Furse, seconded by Councillor Lucy Hodge it was

RESOLVED to note the progress in delivery of the 2022/23 Annual Audit Assurance Plan and approves the proposed amendment to the Audit Plan 2022/23.

The meeting ended at 6.05 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services