

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Thursday, 4th February, 2021, 4.00 pm

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

Independent Member: John Barker

Officers in attendance: Jeff Wring (Service Director - One West), Andy Rothery (Director of Finance & S151 Officer), Gary Adams (Head of Corporate Finance), Jamie Whittard (Financial Accounting and Planning Team Leader) and Andy Cox (Head of Audit and Assurance (One West))

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

62 WELCOME AND INTRODUCTIONS

The Chair welcomed everyone to the meeting by explaining that this meeting is being held under The Local Authorities and Police and Crime Panels (Coronavirus)(Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020. The Council has agreed a protocol to cover virtual meetings and this meeting would operate in line with that protocol. The meeting has the same status and validity as a meeting held in the Guildhall.

63 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Brian Simmons sent his apologies for missing the start of the meeting due to a clash with another meeting.

64 DECLARATIONS OF INTEREST

There were none.

65 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were no items.

67 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were no items.

68 MINUTES 26TH NOVEMBER 2020

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

RESOLVED to note the minutes of the last meeting as a true and correct record.

69 EXTERNAL AUDIT UPDATE - REVISED AUDIT FINDINGS AND VFM ARRANGEMENTS

Peter Barber (Grant Thornton Engagement Lead) introduced the report. He stated that the Council Audit had been presented at the last meeting in November 2020 when the audit was 90% complete. He re-iterated that 2020 had been really challenging due to Covid and working remotely. BANES was more challenging due to its large asset base, property plans and equipment. It was the first time that group accounts had been produced for ADL. With the need for more information from the BANES finance team he thanked the team for their help.

Following a question from Councillor Blackburn it was highlighted that the commercial estate had not changed. Peter Barber stated that the reduced materiality affected the sample sizes and there was a big impact on the valuation of assets, resulting in more audit procedures and more work for staff.

The Chair stated it was disappointing to be told previously that there was a very short time to audit completion, yet it was still not complete. Peter Barber answered that they knew the more difficult areas but this work had raised more questions and subsidiary valuers had been used not just the main valuers. By Christmas staff had accrued leave which needed to be taken which incurred delay.

Sophie Morgan-Bower (Grant Thornton) reported on the updated audit findings:

- Significant risks were land and building valuations due to BANES large property base, financial challenges due to lost income, fees/charges, valuation of investment property, the pension fund (the largest liability) and the group accounts which had been concluded but was a new area for the Council and Grant Thornton.
- There were no material errors.
- Action Plan – suggested an additional review by officers, raising minor recommendations and identifying a schools adjustment.
- Disclosure – the financial instruments were put in now.

Questions followed:

- In response to a question from Councillor Furse in respect of the medium-term strategy to reach £10 million savings, it was confirmed that there was government funding to offset the lost income, though there was a lack of clarity about this. An incremental approach was needed to address the gap as it was recognised it could not come from service cuts. Central government was being lobbied to use reserves as the Council was more susceptible to loss of income due to its large property base.
- John Barker (Independent Member) raised the issue of lessons for the future to address the delay in completion of the audit and the possibility of relaxing the timescale this year. It was noted by Peter Barber that the current deadline for the next audit cycle was end of September 2021, this was compounded by the 'value for money' criteria which involved more work.

Peter Barber outlined the Value for Money (VFM) conclusion and stated there was a new VFM approach for 2021 with new criteria. He added that governance was well controlled with clear structures. They would make a detailed commentary and identify best practice. The annual report at the same time as the opinion, would be an added pressure. They would be recruiting more performance specialists to look at fees and impact.

Questions followed:

- Councillor Elliot raised the issue of the skill sets needed and the difference in assessments. Peter Barber stated there would be a 20% increase in workload 70% BANES and 30% VFM. Not all audits would be completed on time and more than 200 council audits had not yet been signed off. He agreed every council was different but there were similarities and benchmarking.
- John Barker queried local discretion around VFM and said addressing climate change would be a major item in the next few years so how could the criteria be maintained. Peter Barber stated that each council had a clear operating structure and priorities. Once priorities were set, costings and financial consequences would follow with wider aspirations in the strategy. The NAO (National Audit Office) Code provided a breakdown of the areas of audit focus.
- Councillor Blackburn stated group accounts meant a huge impact on workload and different types of valuations and Aequus had been created and he queried the costs of that type of property arrangement. He referred to a call-in about the potential sale of assets below valuation. Andy Rothery confirmed there was £600,000 refunded to the Council and they were on track. The cost was met by the income from developments.
- Councillor Furse questioned the role of Corporate Policy Development and Scrutiny Panel and Audit Committee. It was important that roles were understood and the issue to be scrutinised was checked against the governance structure.

On a motion from Councillor Furse, seconded by Councillor Elliott it was

RESOLVED that

- 1) The Chair write to the Section 151 Officer to clarify the role of Corporate Audit Committee and the Corporate Policy Development and Scrutiny Panel in the general governance of Aequus companies;
- 2) approval of the Councils accounts for 2019/20 be re-confirmed following receipt of the revised Audit Findings Report from the External Auditor; and
- 3) comments on the revised arrangements for the review of the Council's VFM arrangements be noted.

Gary Adams presented the report and stated they had fulfilled the annual requirement in line with the CIPFA Code to outline the strategy to manage cash flow and the associated risk. It was important to highlight the strategy sets operational boundaries and a flexible approach would be taken to adapt to market conditions and advisor guidance. The strategy needed approval from full Council on 23rd February 2021 and was on the Cabinet agenda for 11th February 2021.

Gary Adams outlined the following points:

- The economic impact of Covid would take some time to recover from and would not be before quarter 1 of 2022.
- There was a risk to banks and the credit outlook and increased risks on profitability with investments in banks.
- The interest forecast 0.1% would remain at that level until 2023 and borrowing rates would be fairly stable for 3 years.
- CCLA continued to perform well.
- Borrowing strategies were in line with previous, minimising cash balances given the low interest rate, looking to more short-term borrowing.
- There were new restrictions on loans PWLB (Public Works Loan Board), this was linked to buying assets for yield.
- Have to keep on top of the CIPFA advice relating to security and liquidity.
- Environment, Social and Governance (ESG) investment approach, opportunities were limited. There were two options – longer term funds UCITS regulated by the FCA, need to undertake due diligence. There would be a Members' Briefing to Corporate Audit members and Cabinet in April. The other option for short-term liquidity was deposits with some banks. Performance should be closely monitored against indicators.

Questions followed:

- Councillor Hodge asked with ethical investment whether there were indications of the engagement approach against the divestment approach and if it were a political decision or not. It was confirmed that the next step was to better understand the two approaches and formulate the details. This would be delegated to the Section 151 Officer with a briefing for Members to check the detail. The Section 151 Officer confirmed he would liaise with the portfolio holders and advisers and follow guidance in the Treasury Management Strategy looking at both sides to achieve the objectives.
- In relation to the borrowing strategy Councillor Furse asked if the £11.1 million increase on last year was included and it was confirmed it was already borrowed. Revenue reserves and capital programmes would slip into the following year.
- With regard to part 5 of the report, the tendering and selection process (John Barker Independent Member), there could be a role for the Corporate Audit Committee or it could be delegated to the Section 151 Officer. Currently they were part way through the contract but the period to extend for two years was in September 2021, so this could be raised with the Chair.

RESOLVED that

- 1) The actions proposed within the Treasury Management Strategy Statement (Appendix 1) to be approved at February Council, be noted; and
- 2) the Treasury Management Indicators detailed in Appendix 1 be noted.

71 INTERNAL AUDIT - PLAN 2021/22 CONSULTATION

Andy Cox presented the report and stated he was seeking Committee involvement in developing the Internal Audit Plan for 2021-22 and how it can respond and change as necessary throughout the year. He reminded Members that some audits had not been completed this year as planned due to Covid and based on this experience and continuing uncertainty it was reasonable to maintain a flexible approach to planning for 2021/22.

To assist in considering areas for internal audit review for 2021/22 he highlighted some areas suggested by the Section 151 Officer:

- work related to Covid funding – e.g. small businesses, retail and leisure grants
- debt recovery – based on the Council's challenging financial position
- information security – with working from home and the changes to working practices
- disaster and crisis preparedness.

Members of the Committee asked the following questions related to the report and/or raised the following issues for inclusion in the 2021-22 audit plan:

- What was subject to review in the planned 202/21 Audit of Traffic Signals and Intelligent Networks? (John Barker). Andy Cox responded this was a contract management audit looking at specific areas managed by the Highways team.
- There was similar pressure on other teams in the audit partnership to complete planned audit work. How would resources available be managed to minimise disruption? (John Barker). Andy Cox responded that plans were jointly developed to maximise efficiencies, i.e. developing and using a single work programme. If unplanned work was required the plan would be tailored to the resources available.
- Andy Cox stated that there was support for obtaining more audit resources to complete the increased unplanned work related to Covid. Approval received to recruit a Senior Auditor and Auditor for a fixed term contract period.
- Staff wellbeing post pandemic (Councillor Hodge). Preparing for the future and the impact on wellbeing due to working from home for nearly a year. In the future flexible working with working from home 2-3 days of the week and the effect on productivity, recruitment and retention. Andy Cox replied that such a review could be undertaken to consider how the risks related to home working had been managed. It was notable how staff response to home working had changed through the months - views had changed on home-working through the difficult winter period.
- The local authority had been a significant agent in the level of grant funding and the volume of transactions should be audited (John Barker). Andy Cox confirmed the Audit Team had been involved in providing advice about systems of internal control and carrying out post payment review work for grants to small businesses. It was clear that other work would be required on

the distribution of government funded grants including compliance with funding terms and conditions, to provide assurance that the money had been spent well.

- How were audit resources being used to provide emergency support for social care providers? (John Barker). Andy Cox reported that one auditor had been working three days a week on the distribution of Infection Control funding. This was an operational role and therefore another member of the team will be required to carry out an independent review of how funds were distributed. This work would be included in the Plan.
- The degree of contingency in the plan should be reviewed rigorously to maintain flexibility (John Barker). Andy Cox replied that if we continue to review and amend the audit plan throughout the year and maintain a flexible plan then there was less of a need to allocate a contingency (number of unallocated days). They would continuously monitor work required and reconcile that to resources available.
- Business grants was a massive piece of work and there was a need for transparency to see what funds were available to businesses in the community. There was some confusion and little communication as to what the grant is for (Councillor Blackburn). Andy Cox responded that the Council's primary objective was quite rightly getting the money out to the businesses. He agreed that communication could always be improved. It was hoped that communication would be better in the third national lockdown and it was confirmed that a lot had been learned through this process. Andy Cox gave the example of the initial failure to make application information as mandatory part of applications, i.e. mandatory fields – e.g. the registered company number.
- Items removed from last year's audit plan – Revenue Estate – Property Acquisitions / Asset Utilisation, the Montague Evans review (Councillor Blackburn). Andy Cox stated it was unclear whether these two audits would feature in the 2021/22 Audit Plan until all those areas highlighted for review had been risk assessed, placed in risk order and reconciled against resources available.

RESOLVED that

- 1) The comments on areas or themes to be considered in relation to the Internal Audit Plan for 2021/22 be noted; and
- 2) the intention to keep the plan under review, including a formal re-assessment, be noted.

The meeting ended at 6.10 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services