

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Wednesday, 1st November, 2023, 4.00 pm

Councillors: David Biddleston (Chair), Lucy Hodge, George Leach, Malcolm Treby and Sam Ross

Independent Member: John Barker

Officers in attendance: Enfys Hughes (Democratic Services Officer), Jeff Wring (Director - One West), Andy Rothery (Chief Finance Officer (S151)), Gary Adams (Head of Financial Management), Jamie Whittard (Corporate Finance Manager) and Andy Cox (Head of Audit and Assurance (One West)), Tariq Rahman (Head of Audit & Assurance – IT)

Guests in attendance: Beth Bowers (Grant Thornton)

14 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer drew attention to the Emergency Evacuation Procedure.

15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

16 DECLARATIONS OF INTEREST

There were none.

17 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

19 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

20 MINUTES - 15TH MARCH 2023 AND 5TH JULY 2023

RESOLVED that the minutes of the meetings on 15th March and 5th July 2023 be confirmed as a correct record and signed by the Chair.

21 BRIEFING PRESENTATION - ACCOUNTS 2022/23 (NO PAPERS) 4PM - 4.45PM

The Head of Financial Management gave a presentation on the draft Accounts for 2022/23 assisted by the Corporate Finance Manager and the Head of Audit & Assurance.

The presentation gave a brief overview of the key components. The Narrative Report was the executive summary to assist the reader with details of financial and non-financial performance and looked forward and backward.

The Comprehensive Income and Expenditure Statement (CIES) summarised the resources generated and consumed in providing services and managing the Council during the year.

The Movement in Reserves Statement showed the movement in different reserves held by the authority, both usable and unusable.

The Balance Sheet showed the assets and liabilities as a whole as at 31st March.

The Cash Flow Statement summarised the inflow and outflows of cash from external transactions for capital and revenue and reconciled with the cash and cash equivalents figure in the Balance Sheet.

The Collection Fund showed transactions in relation to tax payers of Council Tax and Business Rates and its distribution to preceptors.

The Group Accounts helped reflect the overall picture of Council activities including its Group entities.

The Annual Governance Statement (AGS) is a management statement and describes the Council's governance arrangements. It is signed by the Council's Chief Executive and Leader of the Council. It includes 'significant' reportable issues and for the 2022/23 financial year these were recorded as: 1. Financial Challenge (inflationary pressures), 2. Children Services increase in service demand and costs. A Local Code of Corporate Governance has been adopted by the Council and this helps carry out the governance review resulting in the AGS. The Local Code is to be reviewed and updated during this financial year and would be presented to the Committee in 2024.

The Head of Financial Management informed the meeting that the audit was still in progress with Beth Bowers (Grant Thornton) present to give an update later on the agenda. He was not currently aware of any material changes required to the accounts. The accounts and external audit findings report should come to Committee on 22nd November 2023 for approval.

During questions the following points arose:

- The delay with the audit (Councillor George Leach) was as a result of the local audit market not being in the best state, capacity issues for the External Auditor Grant Thornton, the scope and level of work had increased by 50%, regulation had upped expectations. There had also been an impact from the pandemic and working from home.

- In respect of the DSG safety valve payment (Councillor Lucy Hodge) it was explained there was significant pressure on SEND and care plans in the authority causing the overspend and the deficit on the Dedicated School Grant (DSG).
- The DSG (Councillor David Biddleston) safety valve recovery plan would be revisited as a result.
- With reference to national press reports on fraudulent payments during Covid (John Barker), it was explained in the national context that this was Covid loans to businesses. BANES support was grant funding to small businesses and Internal Audit work carried out did not identify any significant fraudulent activity. The Section 151 Officer confirmed that BANES had passed all the assurance tests and there was no recovery of funds for BANES.
- In relation to the purchase of the Old Bath Post Office (Councillor David Biddleston), It was planned for the Fashion Museum funded through WECA RIF grant linked to generating economic benefits as part of the Milsom Quarter Master Plan.
- The negative reserve if it is unusable was it based on statement requirements (Councillor Malcom Treby). It was explained that unusable reserves are established for specific accounting purposes so that these technical accounting adjustments don't impact on service provision or the taxpayer.

RESOLVED that the presentation on the accounts be noted.

22 COUNCIL COMPANY AEQUUS (ADL, ACL & AGHL) ANNUAL ACCOUNTS 2022/23

The Managing Director of Aequus Tim Richens introduced the report. He explained that Aequus Group Holding Limited (AGHL) was the holding company and Aequus Development Limited (ADL) holds the 51 residential rental units. It was the smaller company with profit before taxation of £217k for the year as there was a strong demand for rental property. Aequus Construction Limited (ACL) delivered new housing, both affordable and private. He outlined some of the different projects along with the profit made on the developments. The accounts had been audited by Bishop Fleming and approved by the Board and the Shareholder on behalf of the Council. They are for noting by the Committee as it is a Council owned company.

He stated that the company was working with South Gloucestershire local authority (LA) on housing projects there and hoped to work with North Somerset in the future. He explained that South Gloucestershire did not have the time to set up a company, whereas BANES had the skills and experience. They get the housing they want and a share of the profits.

During discussion the follows questions were answered:

- Levels of profit (Councillor Malcom Treby), it was explained that the levels varied year on year and it was hoped with the partnerships with other LAs there would be a more sustained profit level.
- Sustainability (Councillor Sam Ross), there were lots of measures in place low energy EPCA. In Frenchay they had the lowest level of air tightness ever recorded by VISTRY. Refurbishments were harder in terms of sustainability due to working with planning and listed buildings.

- Repurposing commercial units into housing (John Barker), this helped the Council bring back empty property into residential usage so there was an economic benefit, along with a huge demand for rental properties.
- £1.169m revenue (Councillor Lucy Hodge), this was the dividend paid to the Council related to financial returns from 2020/21 and 2021/22.
- Tim Richens explained that there was a push to change the way developers think, not just for maximum profit but having the type of properties that were needed and being sustainable.

Aequus Group Holdings received the dividends and passed them to the Council. It was the smaller company with minimal accounts. In respect of the board of directors and what they are paid in terms of transparency, it was explained that the remuneration policy had been approved by the Council as shareholder and was reviewed every 2 years. The company provided all the information that was required of them.

During further questions the following points were raised:

- Risk assessments (Councillor Sam Ross) were shared with the board and it was for the Council to discuss with their officers.
- Jeff Wring explained that these were standardised report templates to each Committee.
- Previous accounts 2019-2020 (Councillor Lucy Hodge) were more detailed, this would be raised by the Section 151 Officer. It could be down to a change in auditors.

RESOLVED that in line with Corporate Audit Committee's terms of reference, the audited accounts of ADL, ACL & AGHL (Council wholly owned companies) be noted.

23 EXTERNAL AUDIT - UPDATE

Beth Bowers (Grant Thornton) presented the report. She explained there were two parts the audit plan for the Avon Pension Fund and audit for the VFM Assessment for B&NES. Some information was out of date and referred back to March 2023. In respect of the pension fund she outlined the 3 risks of weakness on page 96, valuation of level 3 investments was specific to BANES and incurred more detailed work. She discussed materiality, performance materiality and triviality.

The following points were raised during questions:

- Accuracy on investments (Councillor Malcolm Treby) there was no provision in the Code for VFM of the pension fund. It was explained that the Avon Pension Fund had its own Committee and Investment Panel and governance was its responsibility.
- Higher level of materiality (Councillor Lucy Hodge) was due to alignment with private sector pension funds which operate in a similar manner.

Beth Bowers went on to discuss VFM, the draft report would be shared with management in the next few days. There were two key risks of significant VFM weakness that were being assessed – Council governance arrangements and how it makes informed decisions for its companies and securing financial sustainability for

the dedicated schools grant. She said it was key to note that VFM covered two financial periods (2021/22 and 2022/23).

The following points were raised during questions:

- Looking forward to the VFM report (Councillor Lucy Hodge) the recommendations would relate to one of the two financial periods and identify where improvements were needed.
- There were changes in the way the code 2020 onwards and a commentary was needed across the key areas, delivery and governance and the three Es.

Beth Bowers reported that the two audits of the 2022/23 accounts were well progressed. The Pension Fund was completed and the Council should be concluded this week and no material adjustments had been identified so far. She thanked the BANES Finance team for their work and contributions. The audit findings report would be considered by Committee on 22nd November 2023.

RESOLVED to note the 2022/23 External Audit Plan for the Avon Pension Fund (Appendix 1) and VFM Assessment for B&NES (Appendix 2).

24 TREASURY MANAGEMENT PERFORMANCE REPORT TO 30TH SEPTEMBER 2023

The Head of Financial Management presented the report and explained it would go to the Cabinet meeting next week and full Council at the end of the month in line with the CIPFA code of practice.

He explained the key aspects in respect of investments:

- Investment performance – average rate of interest earned was 4.64%, 0.09% below the benchmark rate (4.73%). Returns in September exceeded the benchmark for the first time in recent months as previous investments fixed at lower rates dropped out.
- The average return has continued to increase during the year from around 4% in April to just above 5% in September, as the Bank of England interest rate rises continue to feed through to our investments. The tables in Appendix 3 show the monthly rates earned with a comparison to the previous year.
- Paragraph 3.13 provides the split of returns between short-term investments which averaged 4.7% for the period and the long-term Strategic Investments which averaged 4.4%.
- Paragraph 3.12 updates on the continued impact on the value of the Council's strategic long-term investments, which have reduced by £740k since the start of the year. This is due to the current economic environment of persistent inflation and high interest rates impacting on the value of equity, bonds and property. We expect the values to stabilise and start to recover once there is more certainty that the peak in interest rates has been reached.
- Appendix 2 highlights that the average investment balance over the first 6 months was £54 million which is in line with the balance as at the end of September. The Appendix also provides further information on the make-up of the investment balances in terms of where they were invested and the credit rating of the investments. The majority of short-term investment

continues to be held with Money Market Funds for liquidity and diversification and we have increased investment with the government's Debt Management Deposit Facility during the period.

- The increased interest performance has resulted in additional interest income over budget of £300k.

Borrowing:

- The position on borrowing is covered in the section starting at paragraph 3.6. Borrowing at the end of the first 6 months was £218m an increase of around £8m from the start of the year reflecting £10m of short-term loans taken out in April to cover the annual pension prepayment and £2m of scheduled principal repayments in respect of the Annuity Public Works Loan Board loans. Full details of the Borrowing portfolio at year end is provided in Appendix 4.
- Paragraph 3.17 refers to the £20m Lender Option Borrower Option loans where the risk of the lender increasing the rate were highlighted at last committee. Although outside the time frame of this report, an update was given that the lender of £10m of these loans did propose a rate increase from 4.5% to 5.88% last week which was above equivalent PWLB loan rates for similar loans. The Council exercised its option to repay the loan and will continue to monitor market rates and cashflow balances before taking out replacement borrowing. The rate of the remaining £10m was not increased and the next option for the lender is now next April.
- Borrowing interest costs are forecast to be £800k lower than budget as result of the delayed borrowing required to fund the capital programme.

It was confirmed that all the Treasury Management Indicators reported in Appendix 1 were within approved limits. The Economic & Market Review in Appendix 5 highlights that inflation remained persistently high over the period, although recent data published was lower than expected and this was followed by the Bank of England deciding to keep interest rates on hold at 5.25% in September.

Our treasury advisors revised its forecast to reflect the central view that 5.25% will now be the peak in Base Rate, with short term risks to the upside if inflation increases again, but over the longer term they are predicting rate cuts from the third quarter of 2024 to a low of around 3% by mid 2026.

Gilt prices & PWLB rates remained volatile over the period, The rate of a 20-year annuity loan from the PWLB was 5.3% at the end of September, with current rates around 5.4%.

The Council continues to closely monitor its cash position and any potential need to borrow and liaise with our treasury advisors to discuss the timing, duration of any future borrowing should the need arise.

RESOLVED

- 1) to note the Treasury Management Report to 30th September 2023, prepared in accordance with the CIPFA Treasury Code of Practice; and
- 2) to note the Treasury Management Indicators to 30th September 2023.

25 INTERNAL AUDIT - UPDATE REPORT (PLANNED WORK 2023/24)

The Head of Audit and Assurance presented the report and reminded Members that the Internal Audit Plan had been presented to the Committee on 15th March 2023. The purpose of the report is to inform on the completed planned work, provide information on any audits reviews which had resulted in a limited or weak assurance rating being assigned, and to inform Members of proposed changes to the Audit Plan based on staff resources available and unplanned work being carried out.

Appendix 1 records the position at 30th September 2023 on the 35 planned audit reviews. Six reviews were at final or draft report stage and eleven were work in progress. All audit reports issued relating to the 2023/24 Audit Plan were assigned assurance level 3 or 4 (reasonable or substantial assurance). Within the first half of the year audit reports related to reviews associated with the audit plan for 2022-2023 had been finalised.

Tariq Rahman (Head of Audit and Assurance – IT) who manages IT audit reviews reported there were 2 IT related audit reports where the auditor provided a limited assurance opinion.

Software Asset Management (SAM) there was a lack of documented software policy which is necessary to provide a framework of internal control. There was no complete central register maintained by Council IT Services. 6 weaknesses were reported in the Action Plan and management had agreed to implement all the recommendations. Implementation of recommended actions would be followed up.

For the IT user, education and awareness audit report, this related to cyber security risk, 5 areas of identified weakness had been assessed as high risk. Senior leaders were not promoting cyber security training and there was no process to ensure e-learning was updated. All findings / weaknesses had been accepted and related recommendations agreed by management.

Following the detailed update on audit reports with a limited assurance level, The Head of Audit and Assurance (Andy Cox) explained about other work carried out by the Internal Audit Team including significant work on grant certification where funding had been received by the Council. 29 certification letters had been issued. There was also work on anti-fraud and corruption, specifically the co-ordination on carrying out the National Fraud Initiative which is a data matching exercise organised by the Government's Cabinet Office.

7 audit reports had been 'followed-up' as recorded in appendix 2 of the report to Committee. Only 1 recorded an amber assessment, the audit review of 'In-year budget management', as 5 of the 6 audit recommendations were still to be fully implemented. Assurances were received by management in terms of implementation and the auditor was of the opinion it was reasonable to close down any further monitoring of action implementation by Internal Audit.

In respect of the Audit Plan 2023/24, based on changes in the resources available the number of audits would be reduced. 4 audit reviews will be carried forward to 2024/25. Another would merge 2 proposals. Further adjustment to the planned audit work might be necessary.

RESOLVED to note the progress in delivery of the 2023/24 Annual Audit Assurance Plan and approves the proposed amendment to the Audit Plan 2023/24.

26 AUDIT COMMITTEE - DRAFT WORKPLAN

The Director – One West explained that the draft workplan was an opportunity to reflect and consider any informal sessions the Committee may like. He asked that Members contact him directly with any issues and concluded that the workplan would be a dynamic document.

During discussion the following issues were raised:

- Risk strategies and sustainability on the green agenda
- Work on revamping the local audit regime, officers would wait to see what is published
- Anti-fraud initiative

RESOLVED to note the workplan.

The meeting ended at 6.20 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services