

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Thursday, 26th November, 2020, 3.30 pm

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

Independent Member: John Barker

Officers in attendance: Enfys Hughes (Democratic Services), 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), Andy Cox (Head of Audit and Assurance (One West)), Liz Woodyard (Investments Manager) and David Richards (Finance & Systems Manager (Pensions))

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

52 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.

53 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were no apologies.

It was noted that Sean O'Neill (Democratic Services Officer) with responsibility for Corporate Audit Committee had retired earlier in the year. The Committee wished to pass on their best wishes to Sean in his retirement.

54 DECLARATIONS OF INTEREST

There were no declarations of interest.

55 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was no urgent business.

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

There were none.

57 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

58 MINUTES: 30TH JULY 2020

On a motion from Councillor Brian Simmons, seconded by Councillor Andy Furse it was

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

59 GOVERNANCE REPORTS FOR COUNCIL AND AVON PENSION FUND AND AUDITED STATEMENT OF ACCOUNTS 2019/20

Peter Barber (Grant Thornton Engagement Lead) introduced the report. He explained that appendices 1 and 2 were the main conclusions of the statutory audit. The deadline had been extended this year due to the extra challenges due to Covid-19 and working remotely, it was now 30th November 2020. The challenges included: an increased number of audit input and queries, including consolidating the Council's wholly owned housing company into the Council's financial statement which increased the workload and absence due to sickness within the external audit team.

The external audit team remained committed to the extended deadline. If it was not possible to meet the deadline Grant Thornton would share a narrative to put on the Council's website to explain the situation.

Peter Barber thanked the Council officers involved for their support through the process.

Peter Barber stated his opinion on the key issues in the statement of accounts as follows:

- The materiality level of £6.7m for the financial statements is set out on Page 25 of the report.
- The key message was that there were no material errors in the draft accounts.
- There had been some changes made to disclosure notes.
- Good progress had been made on the outstanding issues to be resolved and some had been completed.
- He was confident that the Council had proper arrangements in place.
- Page 28, BANES had a large property portfolio, as regards investment properties it was noted that there was material uncertainty surrounding the year end valuations due to the impacts of Covid 19, however that was expected across all local authorities.
- Other Property plant and equipment was valued at £227 million and this was this had also been impacted by Covid-19 and the disclosure of the material uncertainty on the valuation was acknowledged, again this was seen across local authority clients.
- Pension liabilities, a new disclosure note was added highlighting that there was also material uncertainty associated with Council's pension net liability in respect of the valuation of the Pension Funds property investments.
- A correction was required to the Financial Instruments note to reflect Group balances totalling £15m in scope of IFRS 9 which were not included in the draft accounts. This was identified after the draft audit findings report had been published and the draft accounts have subsequently been updated.

- It was concurred that the Council was a going concern with a focus on financial liquidity with sufficient access to funds.

Peter Barber stated as regards value for money the key findings were as follows (page 45):

- A good track record of delivering financial targets was recognised with a £120,000 underspend on the budget achieved in 2019/20.
- Government grant funding in relation to Covid-19 was received and the release of contingency relating to SEND increased the reserves at the end of 2019-20.
- There was financial pressure in respect of the commercial estate due to retail income.
- In Children Services there was an overspend due to high need placements but Adult Services were on budget.
- This was offset by savings in other directorates.
- The report recorded the achievement of 76% of target savings, the main slippage was in contract management.
- Training budgets had been centralised but there was variable effectiveness in the associated savings being met.
- The savings plans were realistic.
- Reserves and Balances were considered to be accurate and £50 million was a healthy level, though there were still increasing pressures.
- For 2020-2021 the budget had been increased in Children and Adult Services to reflect demand pressures.
- Cabinet in July 2020 had approved a financial recovery plan with savings identified in response to Covid pressures impacting the Council's budget position in 2020/21.
- There was now more clarity on the level of support from government with two thirds of the loss on sales, fees and charges covered by Central Government. This enabled the removal of previously proposed staffing savings from the financial recovery plans.

In conclusion the medium-term financial plan was up-to-date and had been approved last month. Using reserves was an option to mitigate some pressures. The 2019-2020 budget was well-managed but there were significant challenges ahead.

Questions followed:

- In answer to a question from Councillor Andy Furse about fraud during the pandemic, Peter Barber explained that this would affect the 2020-2021 accounts when the money received would be checked for how it had been spent.
- In respect of the medium-term level of reserves and the current economy from John Barker (Independent Member), Peter Barber stated that the medium-term financial strategy reflected what was known at that point in time. Any significant new information that would materially impact the strategy would be updated accordingly.
- In answer to a question from Councillor Lucy Hodge about PWLB loans and the City Regional Deal, Sophie Morgan-Bower (Grant Thornton) explained that the work was in progress on the loans and the critical judgement in

respect of the City Region Deal amount was small and was around the disclosure.

- Councillor Colin Blackburn asked about the group loans and Peter Barber responded that there was consolidation to avoid double-accounting as the ADL accounts were audited as well and work was in progress on this area.

In respect of the Avon Pension Fund Peter Barber stated that his responsibility was limited to his opinion. In respect of the higher materiality level of £44 million, the focus was on gaining assurance on the valuation of the investment assets. There were no material errors or uncertainties. There was more scrutiny of the Level 2/3 assets which are harder to value and involve greater degree of estimation and there was also more detailed testing on derivative valuations.

In relation to matters discussed with management of the Pension Fund the disclosure and material uncertainty re UK property funds would be reflected in the Pension Fund.

Peter Barber commented that there was excellent cooperation with Council Finance and Pension Officers.

He noted that the Committee had sight of the management “Informing the audit risk assessment” documents and it was agreed that they were comfortable with them.

Jeff Wring reminded members that revised recommendations had been circulated prior to the meeting in light of the supplementary findings circulated from the external auditors and that the audit was not yet finalised.

On a motion from Councillor Brian Simmons, seconded by Colin Blackburn, it was

RESOLVED (unanimously) that

- 1) The issues contained within the Audit Findings Report for the Council and Avon Pension Fund (circulated later) be noted;
- 2) The audited Statement of Accounts, including the Letters of Representation for both Bath and North East Somerset Council and the Avon Pension Fund for 2019/20 be approved, subject to, any amendments necessary upon quantification of the impact of any issues arising from the ongoing work by the external auditors;
- 3) The Chair of the Corporate Audit Committee and the Chief Finance Officer make arrangements to sign the Statement of Accounts for 2019/20 as representing a “true and fair view” of the financial position as at 31st March 2020, following any amendments necessary upon quantification of the impact of any issues arising from ongoing work by the external auditors;
- 4) If there was any concern before the accounts were signed-off, if necessary, the Chair would email the Committee; and
- 5) Council Finance and Pension Officers be thanked for their work to get the accounts to this stage.

60 TREASURY MANAGEMENT PERFORMANCE REPORT TO 30TH SEPTEMBER 2020

Gary Adams presented the report and reminded Members it had been to Cabinet and Council in November 2020. He ran through the headlines:

- The investment performance portfolio was £67 million at the end of September, with an average interest rate of 0.5% which was above the benchmark rate.
- Overachievement was due to the CCLA property fund with 3.43% return, the rest of the investments were short-term.
- Borrowing of £15 million was taken at the start of the financial year, in light of Covid-19, to ensure sufficient liquidity. This was a pro-active approach.
- The economic outlook was very well documented going forward, Arlingclose's interest rate forecast was for no change up to 2023 with more risk to the downside.
- HM Treasury had published its response to the PWLB consultation and it would prevent access to PWLB loans to fund assets purchased primarily for yield.

Questions followed:

- In respect of John Barker's question about the potential for negative interest rates, Gary Adams responded that negative interest rates had not been seen and the Bank of England was consulting with financial institutions on this to see if systems could cope.
- In response to John Barker asking about payback of the long-term debt like the PWLB loans, Gary Adams explained that the Council had a long-term borrowing requirement and as interest rates were currently low there would be penalty charges for any repayment. Short-term borrowing had more flexibility in terms of repayment.
- Following questions from Councillor Lucy Hodge, Gary Adams stated the increase in the reserves was related to the receipt of government Covid grant support at the end of March and the release of contingency funding for SEND following confirmation from the DFE that this should be funded by the Dedicated Schools Grant. In respect to the increase in investments held in money market funds, Gary Adams explained that this was to maintain liquidity and gives flexibility. There were also restrictions with counterparties that could be used for investments in line with Arlingclose guidance taking into account current market conditions.
- With regard to a question from Councillor Colin Blackburn about group loans of £15 million, Gary Adams responded that actual borrowing taken would depend on cash flow and the length of the loan requirements. Some of the loans were short-term, for example in respect of the Riverside flats development, the loan would be repaid as the flats were sold. Assurance was given that although the £15 million disclosure on the group loans was not in the right table, it was included in the accounts.
- Gary Adams confirmed that central government money in respect of grants was coming to the Council with no issues. As to whether the level of application was as expected this would be seen over the next few months.

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

RESOLVED that

- 1) The Treasury Management Report to 30th September 2020, prepared in accordance with the CIPFA Treasury Code of Practice be noted; and
- 2) The Treasury Management Indicators to 30th September 2020 be noted.

61 INTERNAL AUDIT ANNUAL PLAN - SIX MONTH PERFORMANCE UPDATE

Andy Cox presented the report. He referred back to the Committee meeting in July when the impact of Covid-19 on the 2020/21 Audit Plan was discussed. He reported there was further impact due to the ongoing response and outlined the reasons for this.

He explained that the unplanned work - support to small businesses, discretionary grants, adult care provider relief, advice to passenger services and review of PPE stocks - had a significant impact on the completion of planned work. This added up to 151 days of unplanned work. It was therefore proposed that the number of reviews within the Internal Audit Plan be reduced. The basis for selecting audits to be dropped from the 2020/21 Plan was based on: the risk assessment score allocated during the Audit Planning process; consultation with management and taking into account other internal / external reviews. He added that further changes to the Plan might be necessary.

He commented that all audits were being carried out remotely and this impacted on both the time taken to complete audits and the effectiveness of audit testing and the level of assurance that could be provided.

It had been agreed that any audit reviews with a 'Poor / Weak' Assurance Level should be reported to Committee. During the first 6 months of the year there was a single audit with a weak assurance level - IT Application IDOX contract management. Management had responded positively to the audit report recommendations and the timescale for follow up was Quarter 1 2021.

Questions followed:

- How were the audit reviews that were dropped selected? (Councillor Mark Elliott). Andy Cox restated that selection was based on the risk assessment methodology used during the preparation of the plan. The majority of the audits to be dropped were those at the bottom of the list (risk order). He also commented specifically on the two property reviews included in the list of audits to be dropped and that the current Property Review led by the Chief Operating Officer would cover some of the scope of the planned audits.
- Those audit reviews to be dropped this year will be considered for inclusion in next year's Audit Plan.
- The External Auditor paper did not record any fraud within the Council but in July there was a presentation on fraud investigations. Why didn't the External Auditor refer to fraud? (John Barker). Andy Cox responded that there was

dialogue with the external auditor around investigations and any identified fraudulent activity. The fraud reported to the Committee was a single case and would have been regarded as immaterial by the External Auditor based on the value of losses.

- Why had GLL contract management planned audit been dropped? (Councillor Brian Simmons). Andy Cox stated that based on the impacts of Covid19 the financial viability of Leisure Service providers was a key risk and this would require contact with service management. However, the significant impact in service delivery enabled the dropping of the audit this year.

RESOLVED that

- 1) The progress made against the Internal Audit Plan for 2020/21 be noted; and
- 2) The revised Internal Audit Plan for 2020/21 resulting in a reduction of planned audit reviews from 35 to 26 be agreed.

The meeting ended at 5.00 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services