

Appendix 1 – Corporate Audit Committee Annual Report

CORPORATE AUDIT COMMITTEE

ANNUAL REPORT TO COUNCIL 2021/22

1. INTRODUCTION

This is the seventeenth annual report of the Committee since it was established by the Council on 12 May 2005.

The 2020/21 Committee Annual Report went to Full Council on 15th February 2022 and covered the meetings of the Committee for the extended period July 2020 to December 2021. This report covers the financial year 2021/22 so there will be some duplication of reporting in terms of work carried out by the Committee at its meetings of 29th April 2021, 23rd September 2021 and 15th December 2021.

2. REVIEW OF WORK DONE IN 2021/22

a. Financial Governance – Annual Accounts

- i At its meeting on the 29th April 2021 the External Auditor Update to Committee from the Grant Thornton Engagement Manager reported that they were 2-3 months behind in their work for the audit plan for 2021 (2020/21 financial statements). The Committee resolved to endorse the Audit Plans for the Council and Avon Pension Fund.
- ii. A further update by the External Auditor Grant Thornton was provided on 23rd September 2021 and it was reported that based on available resources it was hoped that the work on the Statutory Accounts would be completed in time to report to Corporate Audit Committee on 15th December 2021. Based on this revised deadline, the members of the Corporate Audit Committee requested that the External Auditor Engagement Lead write to the Chair of the Committee at the end of October 2021 to confirm whether or not, based on work carried out in October, this deadline would be achieved.
- iii. The Governance Reports for Council and the Avon Pension Fund and Audited Statement of Accounts 2020/21 were presented to the 15th December 2021 meeting of the Committee. Following the presentation entitled 'Overview of the 2020/21 Statement of Accounts' the External Auditor confirmed that following approval by the Committee the Auditors Opinion on both sets of accounts would be signed. The requirement to produce consolidated accounts including ADL accounts and the issues found in relation to property asset valuations were explained by the External Auditor. The Committee resolved that the audited Statement of Accounts, including the Letters of Representation for both Bath & North East Somerset Council and the Avon Pension Fund for 2020/21, were approved.
- iv. At the meeting on the 3rd February 2022 the Service Director – Commercial and Governance presented the report in the absence of the External Auditor Engagement Lead. He stated that the External Auditors work was on track

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to meet the deadline of 16th March 2022 to conclude and report on its VFM findings (see c. External Audit point vii below).

b. Financial Governance – Treasury Management

- i. The Treasury Management Outturn Report 2020/21 was presented to the 23rd September 2021 meeting of the Committee which was after the report to Full Council on the 22nd July 2021. The Committee noted the Treasury Management Report to 31st March 2021, prepared in accordance with the CIPFA Treasury Code of Practice.
- ii. A Treasury Management Performance Report to 30th September 2021 was presented to the meeting on the 15th December 2021. It was reported that the Committee Report had already been presented to both Council and Cabinet.
- iii. Committee Members reviewed the Treasury Management Strategy Statement for 2022/23 on the 3rd February 2022. This set out the treasury limits in force, treasury management indicators, current position, borrowing requirement, prospects for interest rates and the borrowing and investment strategies. It was resolved to recommend the proposed actions within the Treasury Management Strategy Statement to February Council; and to note the Treasury Management Indicators (detailed in the Appendix 1 of the Statement).

c. External Audit

- i. The 29th April 2021 External Auditor Report to Committee included the Grant Thornton Annual Audit Letter for 2019/20 (dated 8th March 2021) and it concluded that that the External Auditor was satisfied that the Council in all significant respects had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020. Noted within the VFM opinion are risks around the continued financial challenge (recommendations that Management continue to monitor the use of reserves and deliver sustainable budgets in the medium term).
- ii. The External Auditor's Audit Plan for B&NES Council was also presented to the 29th April 2021 meeting. The Plan recorded 'Key Matters' for the year and this included:
 - a) Council Developments – 2019/20 was the first year that the Council had produced Group Accounts consolidating Aequus Developments Ltd and Aequus Construction Ltd. No significant audit findings were identified from the review of the consolidated accounts.

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- b) Impact of Covid19 Pandemic – it noted that they would review medium Term financial planning and the impacts of Covid19 on financial planning as part of the VFM work.
 - c) Financial Reporting and Audit (raising the bars) – This was linked to the guidance from the Financial Reporting Council to be more sceptical and to increase testing.
- iii. The External Auditor Actual Fee for 2019/20 was reported as £138,281 and was proposed to increase to £154,201 for the 2020/21 Audit. This was compared to the scale fee published by the Public Sector Audit Appointments Ltd (PSAA) of £95,351. The additional fees charged by Grant Thornton above the PSAA scale fee was subject to scrutiny by the Committee. In addition to the Audit Fees for 2019/20 Grant Thornton charged ‘non-audit services’ for the certification of the Housing Benefits Claim (£28,830) and the certification of the Teachers Pension Claim (£5,010).
- iv. The Audit Plan set out: the significant risks requiring special audit consideration (Council income streams, management override of internal controls, valuation of land and property, valuation of pension fund net liability); materiality for audit purposes; Value for Money arrangements; and Audit Logistics (timing of the work and audit fees).
- v. At the 23rd September 2021 Committee Meeting the future procurement of External Audit Services was discussed. The Council’s S151 Officer informed the Committee that he had just received a letter from the Local Government Association (LGA) regarding the ‘Retender of External Audit Contracts’ which confirmed the need for the Council to make a decision by 11th March 2022 whether they wanted to stay in or opt out of the national PSAA arrangement. Legislation requires a resolution of Full Council if a local authority wishes to opt into the national arrangement. The Committee resolved that a paper should be prepared and submitted for its consideration to enable it to make a recommendation to Council on whether to opt in or out of the national arrangement.
- vi. A report on the procurement options of External Auditors for the five-year period commencing 1st April 2023 was presented to the Committee on the 15th December 2021. The report considered three alternative methods for B&NES Council to appoint its external auditor:
- 1) Undertake an individual auditor procurement and appointment exercise;
 - 2) Undertake a joint audit procurement and appointing exercise with other bodies;
 - 3) Join PSSA’s sector led national scheme.

It was resolved that the Audit Committee recommend to full Council that they approve the use of PSAA to carry out the re-procurement of External Auditors to the Council.

Note: At 16th February 2022 meeting of full Council it was resolved to approve the use of Public Sector Audit Appointments Ltd (PSAA) to carry

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out the re-procurement of External Auditors to be appointed to B&NES Council for the 5-year period commencing 1st April 2023 and that the Council's Chief Financial Officer (S151) writes to PSAA to formally accept the invitation to opt into the national scheme before the deadline of Friday 11th March 2022.

- vii. On 19th May 2022 the External Auditor presented their Annual Report. Based on the National Audit Office Code of Audit Practice a more detailed report had to be prepared on the Council's overall arrangements for 2020/21 to secure economy, efficiency and effectiveness in its use of resources (Value For Money). For the three areas (criteria) under review – financial sustainability; governance; and improving economy, efficiency and effectiveness 'no risks of significant weakness' were identified. A number of improvement recommendations or opportunities for improvement were reported including:
- a. Management of the schools deficit;
 - b. Opportunities to develop risk reporting;
 - c. Introducing a regular annual update of the register of interests and declarations of gifts and hospitality completed by Members.
 - d. Continuing development of performance management reporting including Key Performance Indicators;
 - e. Strengthening the existing benchmarking processes;
 - f. Raising the profile of work completed in response to external regulators e.g. Ofsted;
 - g. Strengthening contract management arrangements.

The Annual Report also summarised its opinion on the Council's financial statements and referred to the Auditor's December 2021 Audit Findings Report. An unqualified audit opinion was provided on 16th December 2021.

The Committee resolved to note the Annual Report and recommendations arising.

- viii. At the May 2022 meeting the External Auditor also presented the External Audit Plans for the Council and the Avon Pension Fund.

The National Audit Office Code of Audit Practice records the responsibilities of the auditors and expectations of the audited body. The external auditor's responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by the Public Sector Audit Appointments (body appointing the Council's External Auditors).

The Grant Thornton report highlight a quality inspection review of its work by the Financial Reporting Council. Based on it's sample of audit files (local government & NHS) there were no 'significant improvements required'.

The Audit Plan recorded the purpose, respective responsibilities and scope of the audit work. The external auditor as group auditor is required to obtain

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sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to provide an opinion on the group financial statements (including Aequus Developments Ltd & Aequus Construction Ltd).

Accounting estimates and the audit risk assessment has been highlighted by the Financial Reporting Council's updated International Standard on Auditing [ISA(UK)}540]. The Audit Plan therefore advises that further information will be requested in terms of valuations and estimates e.g. land and building valuations, and pension liabilities.

Other audit responsibilities recorded in the Plan:

- Verify consistency between financial statements and the Narrative Report and Annual Governance Statement (AGS).
- Verify AGS is in line with CIPFA requirements.
- Verify compliance with duties under legislation.
- Certification of completion of the audit.

- ix. The Audit Fee for 2020/21 was confirmed in the Audit Plan report as £154,201. The fee for 2021/22 was subject to discussion with the Chief Finance Officer and communicated to the Committee.
- x. The final External Auditor report to the May 2022 Meeting was to obtain the Committees comments and / or confirmation that answers provided by management to inform the External Auditor's risk assessment were consistent with their understanding. This covered the following areas:
 - a. General Enquiries
 - b. Fraud
 - c. Laws & Regulations
 - d. Related Parties
 - e. Going Concern
 - f. Accounting Estimates

Members provided their thoughts on the responses documented and the Committee noted the responses to the risk assessment questions.

d. Corporate Governance

- i. The Accounts and Audit Regulations require the Council to carry out an annual review of its governance arrangements, and to produce an annual statement detailing the results of that review.
- ii. The results of the governance review for 2020/21 were presented to the Committee in December 2021. The Committee was advised of the inclusion of the single significant issue related to the many impacts of the Covid19 pandemic.

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- iii. In preparation for compiling the Annual Governance Statement (AGS) for 2021/22 a report on the governance review process was presented to the Committee on 3rd February 2022 to enable the Committee to fulfil its responsibilities associated with the publication of the AGS 2021/22.

e. Internal Audit

- i. On the 29th April 2021 a report was presented to the Committee on the preparation of the Internal Audit Plan 2021/22 and an updated Internal Audit Charter (setting out the purpose, authority and principal responsibilities of the Internal Audit Service). Both the Plan and the Charter were approved.
- ii. The Committee reviewed the outcomes and performance of the Internal Audit Team against the 2020/21 Internal Audit Plan on 29th April 2021. At the April 2021 meeting the Committee resolved that it noted the Internal Audit Annual Report 2020/21 and the formal opinion of the Chief Audit Executive.
- iii. On the 23rd September 2021 and 15th December 2021 the Committee were provided updates on progress on completing the approved Internal Audit Plan 2021/22. The Committee noted the progress in delivery of the 2021/22 Annual Audit Assurance Plan.
- iv. On the 3rd February 2022 the Committee members were consulted on the areas of audit activity to be included in the Internal Audit Plan 2022/23 and the need to maintain a flexible plan subject to formal re-assessment at the half-year point. The Internal Audit Plan 2022/23 and the revised Internal Audit Charter 2022 were approved by the Committee at the 19th May 2022 meeting.
- v. The Audit and Assurance Annual Report 2021/22 detailing work of the internal audit team and performance against the 2021/22 Internal Audit Plan was presented to the May 2022 meeting. The report also included the formal opinion of the Chief Audit Executive on the Council's internal control framework. It concluded that 'Reasonable Assurance' can be provided over the council's systems of internal control, helping to ensure Council priorities can be achieved. The ongoing financial challenge, heightened by the pandemic and more recently the conflict in Ukraine, places further pressure on all Council services to respond and manage risk in a proportionate way. The Council's financial position remains very challenging. A robust Internal Audit service is a vital component of the Council's governance systems and provides the third and final line of defence in relation to the internal control framework.

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f. Review of Terms of Reference

- i. As part of good practice, a high-level desktop review was undertaken of the Committee's Terms of Reference against CIPFA's best practice model for Audit Committees.
- ii. The Terms of Reference has been amended to include responsibility for monitoring Council Companies Governance – e.g. Aequus Developments Ltd and Aequus Construction Ltd.
- iii. In relation to independent support the committee has a co-opted independent member and the level of support to inform and advise the committee will be kept under review.

3. CORPORATE AUDIT COMMITTEE WORK PLAN FOR 2022/23

- i. Whilst the Committee's work will be broadly similar to previous years it will keep under close review a number of key issues –
 - a) Financial resilience of the organisation – monitoring significant issues recorded in the Annual Governance Statement 2021/22 i.e. significant increase in supply costs such as energy; and increase in service provision demand and costs e.g. Special Educational Needs (SEND) assessments;
 - b) Treasury Management Arrangements
 - c) External Audit Contract as arranged through the Public Sector Audit Appointments Ltd.
 - d) Council Companies Governance – e.g. Aequus Developments / Construction

4. MEMBERSHIP AND SUPPORT

- i. Councillor Mark Elliott has been Chair of the Committee since July 2020. The Committee Members since July 2020 are:
Councillor Andy Furse
Councillor Brian Simmons
Councillor Colin Blackburn
Councillor Lucy Hodge
Independent Committee Member – John Barker
- ii. The Committee is supported by a number of Officers notably the Service Director for Commercial & Governance (One West), and the Chief Financial Officer who leads on financial issues through his S151 role.
- iii. The external auditors are currently represented by an Engagement Lead and Audit Manager from Grant Thornton.