

Appendix 1 – Corporate Audit Committee Annual Report

CORPORATE AUDIT COMMITTEE

ANNUAL REPORT TO COUNCIL 2022/23

1. INTRODUCTION

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

The 2021/22 Committee Annual Report went to Full Council on 13th October 2022 and covered the meetings of the Committee for the extended period April 2021 to May 2022. This report covers the financial year 2022/23 so there will be some duplication of reporting in terms of work carried out by the Committee at its meetings of 19th May 2022.

2. REVIEW OF WORK DONE IN 2022/23

a. Financial Governance – Annual Accounts (Council & Avon Pension Fund)

- i. At the Committee meeting on the 19th May 2022 the External Auditor Update from the Grant Thornton Engagement Manager reported that they were 2-3 months behind in their work for the audit plan for 2021/22 (2021/22 financial statements). The External Audit Engagement Lead indicated that their work would be completed and reported to the Committee by December 2022.
- ii. A further update by the External Auditor Grant Thornton was provided on 24th November 2022 and it was reported that their core audit work was ongoing but based on an expected statutory override instrument being approved at Christmas completion of the audit work would be delayed. The scale of the additional work will be informed by the detailed guidance provided on accounting for infrastructure assets.
- iii. On the 7th February 2023 the Grant Thornton Engagement Lead informed the Committee that work was still ongoing regarding the Council's 2021/22 Accounts and due to issues with staff resources his report would be further delayed until the March Committee meeting. It was resolved to note the update report and the current position with regards to the audit of the Council's 2021/22 Accounts and that the Chair of the Committee in liaison with the S151 Officer would write to the external auditors Grant Thornton to voice concerns about the ongoing delays in completing their work.
- iv. At the meeting on the 15th March 2023 the Grant Thornton Engagement Lead presented the Audit Findings Reports for Council and the Avon Pension Fund. Work on concluding the audit was continuing and it was stated that an unqualified opinion would be issued. Based on the work completed and linked to the recent CIPFA guidance on infrastructure assets it was reported that adjustments to the statement of accounts were required. It was resolved that: a) the audited Statement of Accounts for the Council

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and Avon Pension Fund for 2021/22 be approved subject to any amendments necessary upon quantification of the impact of any issues arising from the external auditors ongoing work; b) that the Chair of the Corporate Audit Committee and Chief Finance Officer make arrangements to sign the Statement of Accounts for 2021/22 following any necessary amendments; and, c) the Chair would inform Committee Members if any significant concerns were highlighted before the accounts were signed.

b. Financial Governance - Annual Accounts (Council Owned Companies)

- i. In line with the Committee's revised Terms of Reference (October 2022) at the 24th November 2022 meeting the final approved and signed Aequus Developments Ltd (ADL) and Aequus Construction Ltd (ACL) Accounts for 2021/22 were reviewed. The meeting was attended by the Managing Director – Aequus Group and he presented the accounts and answered questions raised by Committee Members. It was resolved that that the audited accounts of ADL and ACL had been reviewed in line with the Committee's Terms of Reference, i.e. in accordance with Council company governance arrangements, statutory requirements and guidance.

c. Financial Governance – Treasury Management

- i. The Treasury Management Outturn Report 2021/22 was presented to the 14th July 2022 meeting of the Committee which was before the report to Full Council on the 21st July 2022. The Committee noted the Treasury Management Report to 31st March 2022, prepared in accordance with the CIPFA Treasury Code of Practice.
- ii. A Treasury Management Performance Report to 30th September 2022 was presented to the meeting on the 24th November 2022. 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 2023/24 on the 7th February 2023. 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 the 21st February Council meeting; and to note the Treasury Management Indicators (detailed in the Appendix 1 of the Statement).

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d. External Audit

i. 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.

- ii. 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 its 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 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).

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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.

- iii. At the Committee meeting on 24th November the External Auditor's Audit Progress Report under the 'Value for Money' heading stated that the National Audit Office had updated its guidance and that this allowed auditors to postpone completion of their work on 'arrangements to secure value for money' to focus resources on delivery of opinions on financial statements. The report also highlighted other work areas including the Authority's annual Teachers Pensions return and the certification of the Housing Benefit return in February 2022.
- iv. As stated earlier in this report at the Committee Meeting of 15th March 2023 the External Auditor presented on the Council's annual statement of accounts. It was reported as part of the Audit Findings Report for the Council that there had been a further uplift in audit fees payable of £9,000 (total £177,664) based on additional engagement with valuers in respect of Property, Plant and Equipment queries. In addition, the non-audit fees for the Housing Benefit and Teacher's Pension were recorded as a final fee of £42,350 (an increase from the indicative fee quoted of £33,600). It was also reported that the VFM report would now be a single report covering two years (2021/22 and 2022/23) and that this should be expected in mid-summer 2023.
- v. The 15th March 2023 Audit Findings Report included as an appendix the representation letter (dated 15th March) to the external auditors from the Council's Chief Finance Officer (s151) and the Chair of Corporate Audit Committee. This letter confirms fulfilment of responsibilities and requirements with regard the Council's financial statements; confirms information provided, confirmed that the Council's Annual Governance Statement for 2021/22 fairly reflects the risk assurance and governance framework & significant issues have been disclosed and that the narrative report fairly reflects their understanding of the Council's financial and operating performance. The letter of representation and the Informing the Audit Risk Assessment was approved by the Corporate Audit Committee and minuted.
- vi. At the Committee meeting on 14th July 2022 the External Auditor Actual Fee for 2020/21 was reported as £154,201 (up on the previous year charge

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of £138,281) and was proposed to increase to £168,664 for the 2021/22 Audit. This was compared to the scale fee published by the Public Sector Audit Appointments Ltd (PSAA) of £101,351 for 2021/22. The additional fees charged by Grant Thornton above the PSAA scale fee was subject to scrutiny by the Committee and PSAA approval. In terms of the amount to be charged in excess of the PSAA scale fee this was broken down into: 1) 'on-going increases (included in the previous 2 years charges) which were additional regulatory / procedures and the expanded review of Value for Money VFM totalling £39,813; and, 2) new issues for 2021/22 which included additional journal testing, extraction of IT data, work on infrastructure assets and remote method of working totalling £27,500.

e. 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 2021/22 were presented to the Committee on 14th July 2022. The Committee was advised of the inclusion of three 'significant issues':
 - 1) Financial Challenge - significant increase in energy supply costs
 - 2) Adult Health & Social Care Contract - sale of Virgin Care to Health Care Resourcing Group
 - 3) Special Educational Needs Services – increasing assessment numbers and costs
- iii. In preparation for compiling the Annual Governance Statement (AGS) for 2022/23 a report on the governance review process was presented to the Committee on 7th February 2023 to enable the Committee to fulfil its responsibilities associated with the publication of the AGS 2022/23.

f. Internal Audit

- i. On the 19th May 2022 a report was presented to the Committee on the preparation of the Internal Audit Plan 2022/23 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 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

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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.

- iii. At the 14th July 2022 meeting the Audit Committee reviewed progress of Council's management to improve the systems of internal control relating to the property compliance function which in 2021 was assigned an Assurance Level 2 'Limited Assurance' rating. Following an introduction to the paper by the Council's Head of Audit & Assurance, the Director of Regeneration and Housing presented to the Committee and answered questions. It was acknowledged that progress had been made following the 2021 internal audit report. However, it was agreed that the Director would be asked to provide a further update on the implementation of agreed actions and measures taken in 2023. The attendance of the Director of Regeneration and Housing followed the attendance of the Chief Operating Officer at a Committee meeting in October 2021.
- iv. The Council's Internal Audit team provide a lead on counter fraud arrangements at the Council and at the July 2022 meeting the Head of Audit and Assurance provided a 'Counter Fraud Update Report. In addition to reference to a presentation provided to Committee Members on the Council's involvement in the Cabinet Office National Fraud Initiative and the work of the internal audit team on Covid19 small business grants and tenancy fraud a revised 'Anti-Fraud and Corruption Strategy' and associated policies (Whistleblowing, Anti-Money Laundering and Anti-Bribery & Corruption) was presented. The Strategy and Policies were approved by the Committee.
- v. The third report tabled at the July 2022 meeting was an update on the need for the internal audit team to comply with the Public Sector Internal Standards (PSIAS) and the Code of Ethics. In order to assess compliance an internal review had been carried out and there was a requirement to have to review independently externally assessed by the Devon Audit Partnership. It should be noted that a verbal update was provided to the March 2023 Committee meeting to advise that the highest rating 'Generally Conforms' rating had been assigned by the external review. A full report on the conclusions of the external assessor will be presented to Corporate Audit Committee in July 2023.
- vi. On the 24th November 2022 the Committee were provided an update on progress on completing the approved Internal Audit Plan 2022/23. The Committee noted the progress in delivery of the 2022/23 Annual Audit Assurance Plan.
- vii. On the 7th February 2023 the Committee members were consulted on the areas of audit activity to be included in the Internal Audit Plan

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2023/24 and the need to maintain a flexible plan subject to formal re-assessment at the half-year point. The Committee noted the areas / themes for consideration when compiling the Internal Audit Plan and that the intention was to keep the Plan under review including a re-assessment of the adopted Plan at the half year point. Any changes to the Plan would be reported to the Committee.

g. Review of Committee Terms of Reference

- i. At its meeting on the 21st July 2022, the Council considered a report presenting an updated Constitution and having considered the changes unanimously proposed by the Constitution Working Group, the updated Constitution (as set out at Appendix 4 to the Council report presented) was formally adopted. The Terms of Reference for the Corporate Audit Committee was included within the Constitution.
- ii. The annual report of the Corporate Audit Committee for 2021/2022 was presented to the 13th October 2022 Council Meeting and this proposed two changes from the version approved by Council on 21st July 2022 (highlighted in red text – See Appendix 2). It expanded on the role of the Committee in terms of the audited accounts of Council owned companies and provided examples of other matters relating to corporate governance which are properly referred to the Committee or which come to its attention, i.e. the procurement of External Audit Services, monitoring the governance of Council owned companies (Aequus Developments Ltd and Aequus Construction Ltd). The Terms of Reference for Corporate Audit Committee as adopted at the October 2022 Council meeting and recorded in the Council’s Constitution are attached – see Appendix 2.
- 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 2023/24

- 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 both the Annual Governance Statement (AGS) 2021/22 and the draft AGS 2022/23, i.e. AGS 2021/22 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.

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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 were:
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 One West, the Chief Financial Officer who leads on financial issues through his S151 role and the Head of Audit & Assurance.
- iii. The external auditors are currently represented by an Engagement Lead and Audit Manager from Grant Thornton.