BATH AND NORTH EAST SOMERSET COUNCIL

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Tuesday, 2nd December, 2014, 5.30 pm

Councillors: Andrew Furse (Chair), Gerry Curran, Will Sandry, Brian Simmons and Brian Webber
Independent Member: John Barker
Officers in attendance: Jeff Wring (Divisional Director, Risk and Assurance), Andy Cox (Group Manager (Audit/Risk)) and Gary Adams (Finance and Resources Manager)
Guests in attendance: Barrie Morris (Grant Thornton) and Kevin Henderson (Grant Thornton)

25 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

26 ELECTION OF VICE-CHAIR

RESOLVED that a Vice-Chair was not required on this occasion.

27 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

28 DECLARATIONS OF INTEREST

There were none.

29 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

Members agreed that the next meeting of the Committee, currently scheduled for 3 February 2015 would be deferred until 26 March 2015.

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

There were none.

31 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

Councillor Sandry thanked Councillor Furse for chairing the Committee during his leave of absence and also thanked officers for their support.

John Barker offered Members a choice of dates for a training seminar. It was agreed that the preferred date was 2 February 2015, with the second preference as 5 February 2015.

32 MINUTES: 25 SEPTEMBER 2014

These were approved as a correct record and signed by the Chair.

33 TREASURY MANAGEMENT UPDATE REPORT

The Finance and Resources Manager presented the report. He said that because of deadlines this report had already been to Cabinet and Council. The budgeted rate of return for investment return had remained 0.35% for four years. The average rate earned was 0.43%. Only small sums were invested. Investments continued to be focussed on UK banks. The UK was introducing legislation to implement the provisions of the EU Bank Recovery and Resolution Directive a year ahead of most EU countries. This Directive would reduce the ability of governments to bail out failing banks and would transfer risk to bank shareholders. It was anticipated this would have an adverse impact on the credit rating of banks. The Council had therefore been asked to approve an amendment to the Treasury Management Policy in line with the changes shown in Appendix 8, to allow investment in lower-rated banks, but only for very short-term loans.

[Councillor Curran arrived at this point.]

A Member referred to paragraph 2.8 of the report. He wondered why the shortfall of £8m in cash flow had not been forecast, and why the money had been not been borrowed in the money markets. The Finance and Resources Manager explained that at the time it was known that interest rates would fall, so borrowing was deferred for a week; it did not make sense to borrow at a higher rate than would shortly be available. To reflect this type of situation a non-mandatory prudential indicator of exposure to liquidity risk had been adopted as detailed in paragraph 2.14.

A Member asked whether a credit rating of BBB would become the equivalent of a current A rating and what would be the impact if the UK left. The Finance and Resources Manager replied that the impact of the EU Directive would be spread over a few years. The UK would one of the first to implement it and other EU countries would follow over the next 2-3 years. It was to be expected that there would be a general reduction in the credit ratings given to banks. The main factor that would affect credit ratings was the degree of financial support given to banks by governments. It was difficult to say what the impact of EU exit would be.

RESOLVED:

1. To note that the Treasury Management Report to 30th September 2014 has been prepared in accordance with the CIPFA Treasury Code of Practice;

2. To note the Treasury Management Indicators to 30th September 2014;

3. To note the amendments to the 2014/15 Treasury Management Strategy set out in paragraphs 5.19-23 and Appendix 8.

34 INTERNAL AUDIT UPDATE REPORT

The Risk Manager presented the report. He referred to the Audit and Risk Dashboard for the second quarter of 2014/2015 and noted that only 39% of planned work had been completed. This was because of various factors as detailed in paragraph 4.3 of the report. Critical/high risk recommendations implemented stood at 67%. This figure would have been higher had 2 high risk recommendations been implemented by June, but there had been delays as detailed in paragraph 4.6. Management had now provided assurance that these recommendations would be implemented. Referring to Appendix 2, he said that of the 27 audits completed, only 3 were rated as less than satisfactory; these were detailed in paragraph 4.5 of the report. There would be a follow up for IT software licensing in August 2015 and for Parks and Green Spaces in March 2015. One of the findings in respect of Parks and Green Spaces was that the Council's tree stock was not being inspected in line with the timescales adopted by the service. In fact it was not possible for the service to comply with these timescales within current resources, and they were reprioritising the inspection regime according to risk level.

A Member said that if Parks and Green Spaces did not have enough people to inspect all trees, the effect of the audit might be that they diverted resources to tree inspection from other areas of the service, which might then suffer. The Risk Manager replied that the service had its own methods for assessing risk and priorities and it was up to the professionals in the service to do that. What the audit team had told them was that they could not carry out their current inspection regime within current resources.

In response to a question from a Member, the Risk Manager informed the Committee that no new investigations had been launched in response to information from whistle blowers since April.

A Member asked why 17 recommendations had been made in respect of Payroll and only 11 had been implemented. The Risk Manager replied that it was important that recommendations relating to the main control systems were implemented. The Chair said that if there was resistance to implementing any audit recommendations the Committee would be expected to be informed about it.

A Member noted the large number of recommendations made by some audit reports and wondered whether the number of recommendations made was as much an indicator of things going wrong as the risk level of the recommendations. Mr Morris took up this point, and noted that for IT, a business-critical area, 25 recommendations were made. The Risk Manager explained that many of the recommendations related to the former Council offices at Riverside in Keynsham, where servers had been located. These problems had been resolved by the relocation to the new Civic Centre in Keynsham. Replying to a Member, the Divisional Director Audit and Risk said that there was no connection between the number of IT recommendations and the fact that IT services and been brought back in house. He went on to say that he had felt uncomfortable about the number of recommendations being made in some cases. In the initial phase of joint working with North Somerset and the South West Audit Partnership (SWAP) these organisations had used their own report formats and had followed different approaches, which would all eventually contribute to better ways of working. One thing that had to be reviewed was whether less important recommendations should appear in the final audit report.

Mr Morris asked about the SWAP assurance levels given in Appendix 2. The Risk Manager replied that these were the same as the Council's.

The Divisional Director Audit and Risk drew attention to information on resources and partnership development given in paragraphs 4.9-4.14 of the report. Decisions for the establishment of a fully integrated partnership between B&NES and North Somerset would be taken by the Executive of North Somerset on 9 December and by a B&NES Cabinet Member shortly. North Somerset staff would transfer to B&NES under TUPE arrangements and it was anticipated that other organisations would join the partnership over the next 2-3 years. He would provide a fuller briefing on how the new arrangements would work at the next meeting. It was anticipated that the partnership would result in a 5% cost reduction for both councils in its first year.

In response to a question from a Member, the Divisional Director Audit and Risk confirmed that North Somerset had the same external auditors as B&NES, though the personnel involved were different. This did aid communications to some extent, but the important thing was that the two councils would be working to the same framework.

The Independent Member referred to the public sector joint working arrangements that were being implemented in Hertfordshire and suggested that the Council might be able to learn from these.

RESOLVED to note progress made against the Internal Audit Plan for 2014/15.

35 EXTERNAL AUDIT UPDATE REPORT

Mr Morris tabled the annual audit letter and apologised that it had not been possible to include it with the agenda. He said that it summarised issues already presented in previous reports from the external auditor. The letter would be posted on the Audit Commission website. He drew attention to the unqualified opinion on the accounts and the unqualified Value for Money conclusion and the key issues and recommendations.

The Chair asked how worrying were the “significant differences” identified between the fixed asset register and the property asset database. Mr Morris replied that the asset values were very large, so it was important that there should be an adequate system for recording them for the purpose of capital charges and valuations. The issue was also significant because it was a recurrent one. The Divisional Director Audit and Risk said that an action plan was in place to address this issue.

Mr Henderson commented on the external audit update (Appendix 1). He drew attention to the DCLG’s consultation on proposals to bring forward the audit deadline for 2017/2018 to the end of July 2018. The Council needed to give attention to the actions necessary to achieve this deadline. It would be good if Councils could achieve an earlier closing of accounts before this deadline was imposed.

The Chair asked about the inclusion of Voluntary Aided (VA) and Voluntary Controlled (VC) schools on the Council’s balance sheet (agenda page 47). Mr Morris replied that there were ongoing discussions about this issue. CIPFA had issued a consultation document, but then had had second thoughts. It was likely that revised guidance would be issued.

Mr Henderson presented on the Audit Commission Protecting the Public Purse Fraud Briefing 2014.

RESOLVED to note the various updates from the External Auditor.

36 FINANCIAL REGULATIONS

The Divisional Director Audit and Risk gave a presentation on the Council's revised Financial Regulations. A copy of his PowerPoint slides is attached.

In reply to questions from Members he said:

- the Regulations were more relevant to some staff than others; all financial staff were given appropriate training in them; an effort would be made to drew the attention of staff to the changes in the Regulations

- the proposed Regulations had been discussed with the most relevant staff, but it was important to challenge them sometimes to ensure that there was compliance with national standards

- the document would accessible on the intranet

He said that he would bring the final document to a future meeting, but he hoped that the Committee would be able to approve it at today's meeting or at least delegate to the Chair power to approve the document. It was agreed that Members should send any detailed comments to the Divisional Director Audit and Risk, who would review them in consultation with the Chair and amend the document to reflect them.

RESOLVED to delegate to the Chair, having, in consultation with the Divisional Director Audit and Risk reviewed comments received from Members, the power to recommend to the Council the adoption of the revised Financial Regulations (Council & Schools).

37 CONTRACT STANDING ORDERS (PRESENTATION)

This item was withdrawn from the agenda, because the officer due to give the presentation was unwell.

The meeting ended at 7.23 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

This page is intentionally left blank

Financial Regulations

Audit Committee – Dec 2014

Background - Why do we have them?

- Council is accountable for large sums of public monies and a number of statutory responsibilities
- Local Government Act and Accounts and Audit Regulations set out key responsibilities
- Mostly these come under S151 Officer role
- ‘…Shall make arrangements for proper administration of financial affairs…’

Background - Why do we have them?

- Provide the rules to regulate our finances
- Protects the interests of key stakeholders
- Sets out to staff how we define the boundaries of how we effectively manage risk
- Sets out roles and responsibilities
- Supported by Codes of Practice, i.e. BMS
- Form part of the contract of employment for all staff, everyone must abide and follow them

Background - Why Now & Review Process?

- Not been updated for 10 years
- Financial System Changes
- Structural & Organisational Changes
- Governance & Delegated Authority Changes
- Based on national best practice
- Checked against neighbouring authorities
- Linked to key financial systems and processes
- Extended and Improved (no systemic issues)

Audit Committee’s Role

- Start of formal consultation process
- Financial Regulations form part of the Council’s policy and budget framework
- Only Full Council can approve them
- Audit Committee has delegated authority to oversee financial governance
- Audit Committee must therefore be satisfied they are appropriate and recommend them for approval by Council

This page is intentionally left blank