

**Democratic Services**

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Date: 11 March 2015  
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**To: All Members of the Corporate Audit Committee**

Councillors: Will Sandry (Chair), Andrew Furse, Gerry Curran, Dave Laming, Brian Simmons and Brian Webber

Independent Member:

Chief Executive and other appropriate officers

Press and Public

Dear Member

**Corporate Audit Committee: Thursday, 26th March, 2015**

You are invited to attend a meeting of the **Corporate Audit Committee**, to be held on **Thursday, 26th March, 2015** at **5.30 pm** in the **Brunswick Room - Guildhall, Bath**.

The agenda is set out overleaf.

Yours sincerely



Sean O'Neill  
for Chief Executive

**If you need to access this agenda or any of the supporting reports in an alternative accessible format please contact Democratic Services or the relevant report author**

**whose details are listed at the end of each report.**

## **NOTES:**

- 1. Inspection of Papers:** Any person wishing to inspect minutes, reports, or a list of the background papers relating to any item on this Agenda should contact Sean O'Neill who is available by telephoning Bath 01225 395090 or by calling at the Guildhall Bath (during normal office hours).
- 2. Public Speaking at Meetings:** The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group. Advance notice is required not less than two full working days before the meeting (this means that for meetings held on Wednesdays notice must be received in Democratic Services by 4.30pm the previous Friday)

The public may also ask a question to which a written answer will be given. Questions must be submitted in writing to Democratic Services at least two full working days in advance of the meeting (this means that for meetings held on Wednesdays, notice must be received in Democratic Services by 4.30pm the previous Friday). If an answer cannot be prepared in time for the meeting it will be sent out within five days afterwards. Further details of the scheme can be obtained by contacting Sean O'Neill as above.

- 3. Details of Decisions taken at this meeting** can be found in the minutes which will be published as soon as possible after the meeting, and also circulated with the agenda for the next meeting. In the meantime details can be obtained by contacting Sean O'Neill as above.

Appendices to reports are available for inspection as follows:-

**Public Access points** - Reception: Civic Centre - Keynsham, Guildhall - Bath, Hollies - Midsomer Norton, and Bath Central, Keynsham and Midsomer Norton public libraries.

**For Councillors and Officers** papers may be inspected via Political Group Research Assistants and Group Rooms/Members' Rooms.

## **4. Recording at Meetings:-**

The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control.

Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators.

To comply with the Data Protection Act 1998, we require the consent of parents or guardians before filming children or young people. For more information, please speak to the camera operator

The Council will broadcast the images and sound live via the internet [www.bathnes.gov.uk/webcast](http://www.bathnes.gov.uk/webcast) An archived recording of the proceedings will also be available for viewing after the meeting. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

5. **Attendance Register:** Members should sign the Register which will be circulated at the meeting.
6. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.
7. **Emergency Evacuation Procedure**

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are sign-posted.

Arrangements are in place for the safe evacuation of disabled people.

<i>This Agenda and all accompanying reports are printed on recycled paper</i>
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## **Protocol for Decision-making**

### **Guidance for Members when making decisions**

When making decisions, the Cabinet/Committee must ensure it has regard only to relevant considerations and disregards those that are not material.

The Cabinet/Committee must ensure that it bears in mind the following legal duties when making its decisions:

- Equalities considerations
- Risk Management considerations
- Crime and Disorder considerations
- Sustainability considerations
- Natural Environment considerations
- Planning Act 2008 considerations
- Human Rights Act 1998 considerations
- Children Act 2004 considerations
- Public Health & Inequalities considerations

Whilst it is the responsibility of the report author and the Council's Monitoring Officer and Chief Financial Officer to assess the applicability of the legal requirements, decision makers should ensure they are satisfied that the information presented to them is consistent with and takes due regard of them.

**Corporate Audit Committee - Thursday, 26th March, 2015**

**at 5.30 pm in the Brunswick Room - Guildhall, Bath**

**A G E N D A**

**1. EMERGENCY EVACUATION PROCEDURE**

The Chair will draw attention to the emergency evacuation procedure as set out under Note 8.

**2. ELECTION OF VICE-CHAIR**

To elect a Vice-Chair (if required) for this meeting.

**3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

**4. DECLARATIONS OF INTEREST**

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

(a) The agenda item number in which they have an interest to declare.

(b) The nature of their interest.

(c) Whether their interest is a **disclosable pecuniary interest** *or* an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

**5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

The Chair will announce any items of urgent business.

**6. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS**

**7. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

To deal with any petitions, statements or questions from Councillors and, where appropriate, co-opted and added Members.

**8. MINUTES: 2ND DECEMBER 2014 (Pages 7 - 12)**

**9. EXTERNAL AUDIT UPDATE REPORT (Pages 13 - 60)**

**10. TREASURY MANAGEMENT STRATEGY (Pages 61 - 84)**

11. INTERNAL AUDIT REPORT (Pages 85 - 96)
12. INTERNAL AUDIT PLAN (Pages 97 - 112)
13. ANNUAL GOVERNANCE REVIEW UPDATE (Pages 113 - 118)
14. ANNUAL REPORT OF AUDIT COMMITTEE (Pages 119 - 124)

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.

## 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 30<sup>th</sup> September 2014 has been prepared in accordance with the CIPFA Treasury Code of Practice;
2. To note the Treasury Management Indicators to 30<sup>th</sup> 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 had 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 draw 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**

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<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>Corporate Audit Committee</b>	
MEETING DATE:	<b>26<sup>th</sup> March 2015</b>	<b>AGENDA ITEM NUMBER</b>
TITLE:	<b>External Audit Update</b>	EXECUTIVE FORWARD PLAN REFERENCE:  <b>E</b>
<b>AN OPEN PUBLIC ITEM</b>		
<p><b>List of attachments to this report:</b></p> <p><b>Appendix 1 – External Audit Update Report</b></p> <p><b>Appendix 2 – Audit Plan</b></p> <p><b>Appendix 3 – Grant Certification Report</b></p>		

## **1 THE ISSUE**

- 1.1 The External Auditor will provide a general update to the Committee on their work, including their proposed Audit Plan and Grant Certification Report.

## **2 RECOMMENDATION**

- 2.1 The Corporate Audit Committee is asked to note Plan and various updates from the External Auditor.

## **3 FINANCIAL IMPLICATIONS**

- 3.1 There are no direct financial implications as a result of this report.

## **4 THE REPORT**

- 4.1 Appendix 1 details an update of External Audit's progress against their planned work whilst Appendix 2 provides their Audit Plan for 2015/16 and Appendix 3 is a copy of their annual grant certification report.
- 4.2 The External Auditor will provide a fuller verbal briefing on all these areas at the meeting.

## **5 RISK MANAGEMENT**

- 5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance. There are no new significant risks or issues to report to the Committee as a result of this report.

## **6. EQUALITIES**

- 6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

## **7 CONSULTATION**

- 7.1 Consultation has been carried out with the Section 151 Finance Officer.

<b>Contact person</b>	Jeff Wring (01225 47323)
<b>Background papers</b>	
<b>Please contact the report author if you need to access this report in an alternative format</b>	

# Audit Committee Update for Bath and North East Somerset Council

Page 15

**Year ended 31 March 2015**

March 2015

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



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# Contents

Section	Page
Introduction	4
Progress at 13 March 2015	5
Emerging issues and developments	
Grant Thornton	7
Local government issues	9
Accounting and audit issues	12

# Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- All aboard? our local government governance review 2015
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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# Progress at 13 March 2015

Work	Planned date	Complete?	Comments
<b>2014-15 Audit Plan</b> We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014-15 financial statements.	May 2015	Yes	Included on the agenda.
<b>Interim accounts audit</b> Our interim fieldwork visit includes: <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• early work for the Value for Money conclusion.</li> </ul>	January to February 2015	In progress	The interim audit is in progress, but should be completed by the end of March 2015. Progress to date is reported in the Audit Plan.
<b>2014-15 final accounts audit</b> Including: <ul style="list-style-type: none"> <li>• audit of the 2014-15 financial statements</li> <li>• proposed opinion on the Council 's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	July to September 2015	Not yet due	

# Progress at 13 March 2015

Work	Planned date	Complete?	Comments
<b>Value for Money (VfM) conclusion</b> The scope of our work to inform the 2014-15 VfM conclusion comprises: <ul style="list-style-type: none"> <li>• Key indicators of financial performance</li> <li>• Strategic financial planning</li> <li>• Financial governance</li> <li>• Financial control</li> <li>• Prioritising resources</li> <li>• Improving efficiency and productivity</li> <li>• Management of natural resources</li> </ul>	February 2015 – July 2015	Not yet due	
<b>Other areas of work</b> If requested, we will certify your Regional Growth Fund (RGF) returns in accordance with the Government department timetable.	January and February 2015	In progress	At the time of writing we had completed and reported our work on RGF 2. Our work on RGF 3 is in progress.
<b>Other activity undertaken</b> <ul style="list-style-type: none"> <li>• Met with the Chief Executive, the Resources Strategic Director and the Divisional Director: Business Support to discuss current issues affecting the Council</li> <li>• Met finance team and management accountants to set out our expectations with regard to supporting evidence for the final accounts</li> <li>• Shared Grant Thornton national reports with the Divisional Director: Business Support. These included <i>All Aboard and Rising to the Challenge</i>.</li> </ul>		Not applicable	Copies of Grant Thornton national reports have also been made available to members.

# All Aboard? - Local Government Governance Review 2015

## Grant Thornton

Our fourth annual review of local government governance is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Local-Government-Governance-review-2015-All-aboard1/>.

We note that the challenges faced by local authorities are intensifying as austerity and funding reductions combine with demographic pressures and technological changes to create a potential threat to the long -term sustainability to some organisations. Maintaining effective governance is becoming ever more complex and increasingly important.

Against this background we have focused this year's review on three key areas:

**Governance of the organisation** – the main area of concern highlighted in this year's governance survey is the level of dissatisfaction with the scrutiny process.

**Governance in working with others** – there is an urgent need for scrutiny to exercise good governance over the complex array of partnerships in which local authorities are now involved. Boundary issues notwithstanding, by 'shining a light' on contracted-out activities and joint operations or ventures, scrutiny committees can bring a new level of transparency and accountability to these areas

**Governance of stakeholder relations** – despite the work that a number of local authorities are doing with the public on 'co-production', almost a third of respondents to our survey did not think their organisation actively involves service users in designing the future scope and delivery of its services.

We conclude that local authorities need to ensure that their core objectives and values are fulfilled through Many other agencies . This implies a greater role for scrutiny and a need to make sure local public sector Bodies' arrangements are a transparent as possible for stakeholders.

Additional hard copies of our report are available from your Engagement Lead or Audit Manager.



# Stronger futures: development of the LGPS

## Grant Thornton

Our second review on governance in LGPS funds in England and Wales is based on comprehensive research with pension fund senior officers, supported by insights from pension fund auditors and is available at <http://www.grant-thornton.co.uk/Publications/2015/Stronger-futures-development-of-the-LGPS/>

With the local government pensions scheme (LGPS) continuing to face significant change and challenge, there is a clear commitment to ensuring its survival and the provision of affordable pension benefits for the future. Following the implementation of a career average pension scheme in 2014, administering authorities are preparing for significant changes in governance arrangements effective from April 2015.

Some of the key messages from the report are:

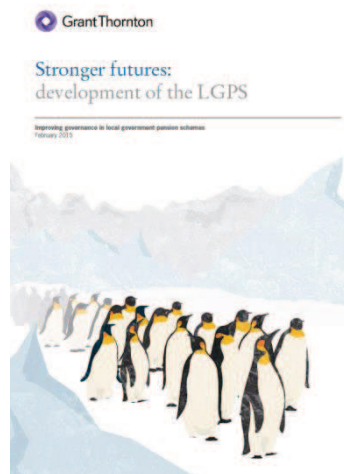
- there are increasing strong examples of innovation and increased collaborative working across the LGPS to achieve reduced costs and improved use of specialist skills and knowledge;

- implementation of the career average scheme from April 2014 went well and demonstrated good project management and effective communication with members and employers; and

- there have been several other positive trends across the LGPS since our 2013 review particularly around the widening scope of reporting to Pension Committees including performance reporting, risk management and internal audit reviews.

However, we saw a wide variation in practice, including a concentration of risk reporting on investment risk, over half of funds have not implemented the CIPFA knowledge and skills framework as part of their member training, 45 per cent of Pension Committees do not receive internal audit reports and 15 per cent do not have specific internal audit coverage, and nearly half of funds have no information around the value of their liabilities in between the triennial valuations.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



# Independent Commission into Local Government Finance

## Local government issues

The Independent Commission on Local Government Finance was established in 2014 to examine the system of funding local government in England and bring forward recommendations on how it can be reformed to improve funding for local services and promote sustainable economic growth. It published its final report, [Financing English Devolution](#), on 18 February 2015.

The report notes that the core of the Commission's proposition is the devolution of powers, funding and taxes to sub-national entities over a 10 year period. They estimate that this could lead to over £200 billion in public expenditure being controlled at a sub-national level. The expectation is that councils and their partners would work collaboratively to manage differences in capacity and resources. They see local areas becoming self sufficient.

The Commission advocates a 'variable speed' approach to reform with 'Pioneers' able to and wishing to reform at a faster pace. Reforms advocated for all authorities include:

- An independent review of the functions and sustainability of local government in advance of the next spending review
- Freedom to set council tax and council tax discounts and full retention of business rates and business rates growth
- Multi-year financial settlements
- The ability to raise additional revenue through the relaxation of the rules on fees and charges

'Pioneer' authorities would also implement:

- Single placed-based budgets for all public services
- Management of funding equalisation across a sub-national area
- Further council tax reforms including the ability to vary council tax bands and undertake revaluations
- Newly assigned and new taxes such as stamp duty, airport taxes and tourism taxes
- The establishment of Local Public Accounts Committees to oversee value for money across the placed-base budget.

## Issue for consideration

Have members been briefed on the key findings of the Independent Commission's final report?

# Councils fear school place tipping point

## Local government issues

Just ahead of the 15 January 2015 deadline for parents to apply for primary school places for their child for September 2015 the LGA warned that the £12 billion cost of creating places for the 900,000 extra pupils expected at England's schools over the next decade could push schools to breaking point. Whilst the government has committed £7.35 billion to create extra school places the LGA claims that this still creates a backlog.

The LGA is calling on the Government to fully-fund the cost of all school places, now and in the future, and to give councils the powers to open new schools without bureaucratic burdens so they can be delivered according to local need. The LGA's 'Investing in our nation's future' campaign outlines measures which it claims would save the public purse £11 billion, tackle the country's housing crisis, ensure every child had a place at a good school, reduce long-term unemployment, address the pothole backlog and improve the nation's health.

## Issues for consideration

Have members:

- been briefed on the headline messages from the LGA's 'Investing in our nation's future' campaign?
- received adequate assurances that locally the authority has a robust and adequately funded schools programme in place to ensure that school places are created on time and in the right places?



# Care services for people with learning disabilities and challenging behaviour

## Local government issues

The National Audit Office (NAO) published its report, [Care services for people with learning disabilities and challenging behaviour](#) on 4 February 2015. It concludes that the Government has not met its central goal of moving people with learning disabilities and challenging behaviour out of hospital by 1 June 2014, because it underestimated the complexity and level of challenge in meeting the commitments in its action plan.

Following the exposure in May 2011 of abuse of patients at the Winterbourne View Hospital, the Department of Health set out its action plan in the 'Winterbourne View Concordat' for moving people with learning disabilities and challenging behaviour out of hospital and into community care. At September 2014 however there were still 2,600 inpatients with learning disabilities in mental health hospitals, although NHS England's stated ambition is to discharge 50% of these into "more appropriate care settings" by 31 March 2015.

The NAO also report that there is no financial incentive for local commissioners to bring such patients home. They have to bear the additional costs of expanding local community services to meet the patients' needs, following discharge from hospital, when NHS England had centrally funded patients' care in mental health hospitals.

## Issue for consideration

Have members been briefed on the arrangements that the authority is putting in place with its health care commissioner and provider partners to locally implement the 'Winterbourne View Concordat'?

# Accounting for schools – Code update and LAAP Bulletin 101

## Accounting and audit issues

### Non-current assets

In December 2014, CIPFA issued an Update to Appendix E of the 2014/15 Code which states "The recognition of non-current assets used by schools shall be determined in accordance with the relevant standards adopted by Chapter Four Non-Current Assets of this Code as appropriate to the arrangements for the assets. These assets shall be recognised in a local authority's balance sheet if they meet either the appropriate recognition criteria (see Chapter Four) for the local authority or for a school within the local authority area".

CIPFA also issued in December LAAP Bulletin 101 Accounting for Non-Current Assets Used by Local Authority Maintained Schools. The Bulletin provides application, clarification and interpretation but is secondary to the Code and accounting standards.

Due to the varied and sometimes complex arrangements for use of school land and buildings, the accounting treatment for these non-current assets will require the chief finance officer to make significant judgements in the preparation of the statement of accounts. These judgements should be based on the circumstances for individual schools and will involve consideration of the rights of the school as an entity and any rights held by the local authority. Judgements should be robust and well documented as auditors will be required to consider whether these are reasonable and supported by appropriate evidence. Local authorities should discuss and agree these judgements with Those Charged With Governance.

### Other matters

The work required to identify and consider the arrangements over the use of schools may be significant and progress to date has been variable. Local authorities need to consider the resources required to identify and review arrangements and to undertake any necessary valuations. Good project management arrangements also need to be in place to ensure the requirements of the Code are met.

Treating a school as an entity means that local authorities are satisfied that, for each school, they have captured all the financial information relating to the school as an entity. This means all income and expenditure (including voluntary donations and related expenditure), cash flows and all assets and liabilities.

# Accounting for schools – Code update and LAAP Bulletin 101

## Accounting and audit issues

As part of their accounts preparations local authorities should ensure transactions between the local authority and schools are eliminated, all required disclosures are made and any appropriate governance matters are disclosed in the Annual Governance Statement.

A more detailed summary of the issues arising from the Code Update and LAAP Bulletin 101 is included with this report for information.

## Issues for consideration

- What progress has been made in making judgements on the accounting treatment of schools non-current assets on a case by case basis?
- Are arrangements in place to ensure the accounting requirements for schools are met?

# Provision for Business Rates Appeals

## Accounting and audit issues

### Unlodged appeals

The Chancellor's Autumn Statement included a change to the rules relating to business rates appeals. As a result we do not expect to see any provisions for unlodged appeals in local authorities' 2014/15 accounts, although we will expect this to be re-considered for 2015/16 accounts.

The change restricts the backdating of Valuation Office Agency (VOA) alterations to rateable values. Only VOA alterations made before 1 April 2016 and ratepayers' appeals made before 1 April 2015 can now be backdated to the period between 1 April 2010 and 1 April 2015. The aim is to put authorities in the position as if the revaluation had been done in 2015 as initially intended, before the deadline was extended to 2017.

There may be some fluctuations in provisions at 31 March 2015 as unlodged appeals provisions are released. However, there may also be increased numbers of appeals lodged prior to 31 March 2015. These appeals may be more speculative in nature and therefore authorities may need to consider whether prior year assumptions remain valid in estimating their provisions.

### Utilisation of provision

As part of the provisions disclosures in the accounts, local authorities need to disclose additional provisions made in the year, the amounts used (i.e. incurred and charged against the provision) during the year and unused amounts reversed during the year.

We understand that the software used for business rates may not provide values for the amounts charged against the provision during the year and that there is no simple software solution for this for 2014/15. Local authorities will need to consider available information and make an estimate of the amount for appeals settled in the year.

### Issues for consideration

- Has the finance team reassessed the methodology for making the business rates provision?
- Are there arrangements in place for the estimation of appeals to be charged against the provision?

# Inclusion of overtime in the calculation of holiday pay

## Accounting and audit issues

The Employment Appeal Tribunal (EAT) has delivered its judgement on the extent to which overtime pay should be included in the calculation of holiday pay. This case stems from an apparent conflict between UK law and European Law.

The EAT found that non-guaranteed overtime (i.e. overtime, which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered), should be included in the calculation of holiday pay. Back-dated claims can only be made if it is less than three months since the last incorrect payment of holiday pay.

It is likely that there will be an Appeal to this decision. However that does not mean that authorities should hold off assessing the impact. Local authorities should be considering their own circumstances and if necessary taking their own legal advice as to the extent they might be affected by the ruling. If an authority is going to be affected they need to assess whether the liability can be reliably measured.

For an authority likely to be affected in a material way, where it is possible to reliably measure that liability, then appropriate provision should be made in the 2014/15 accounts. The fact that the issue might go to Appeal at some uncertain time in the future is not of itself grounds for not including a provision. The chances of any success would need to be taken account of in the legal analysis but, in any case, there are some indications that the key issue on Appeal would be whether to remove the three month cap (if this were done then the provision would increase), rather than dismissing the entire decision to include overtime in the calculation of holiday pay.

### Issue for consideration

- Has the Authority taken legal advice and assessed if a provision is required in the 2014/15 accounts?



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# The Audit Plan for Bath and North East Somerset Council

Page 31

**Year ended 31 March 2015**

13 March 2015

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



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# Contents

**Section**

1. Understanding your business	4
2. Developments relevant to your business and the audit	5
3. Our audit approach	6
4. Significant risks identified	7
5. Other risks	8
6. Value for Money	10
7. Results of interim work	11
8. Key dates	13
9. Fees and independence	14
10. Communication of audit matters with those charged with governance	15

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Alternative Delivery Models

- Partnership working with other bodies e.g. North Somerset Council (for Internal Audit) .
- New ways to generate income.

### 2. City Deal

- 2013/14 saw the launch of the Business Rates Retention scheme as a form of local government funding. The Council has been working with other councils in the West of England to formulate a scheme (the City Deal) which will allow them to keep 100% of growth in business rates over the next 25 years to invest in projects.

### 3. Local Transport Schemes

- Bath & North East Somerset, Bristol, North Somerset and South Gloucestershire Councils are working in partnership to plan and deliver transport improvements in the West of England area. Substantial funding is being made available by the Government as well as funding from each of the councils.

### 4. LG Finance Settlement

- The local government spending settlement showed local authorities are facing a cash reduction in their spending power of 6% in 2015-16.
- At the same time local authorities are facing increasing demands for school places and adult social care services.

### 5. Collaborative working with the NHS

- Development of new working arrangements to deliver the Better Care Fund
- NHS emergency care overload and the re-emergence of bed-blocking linked to adult social care capacity.

### 6. Capital programme

- The Council has an extensive capital programme in 2015/16. The approved budget was £115 million, although at 31 December, the forecast outturn was £78.3 million.

## Our response

- We will discuss your plans in these areas through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

- We have had, and will continue to have, discussions with officers on the City Deal.
- We will also continue to liaise with colleagues auditing the other West of England councils to ensure we have a co-ordinated audit approach.

- We will continue to discuss, with senior officers, progress on the transport schemes and ensure that risks are being managed, with appropriate governance arrangements put in place.
- We will continue to liaise with colleagues auditing the other West of England councils to ensure we have a coordinated audit approach to any work undertaken.

- We will review the assumptions underlying your plans for a Medium Term Financial Plan and financial strategy as part of our work on your arrangements for financial resilience.

- We will discuss your plans in these areas through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

- We will review the capital programme as part of our work on property, plant and equipment. An appropriate testing strategy will be developed.

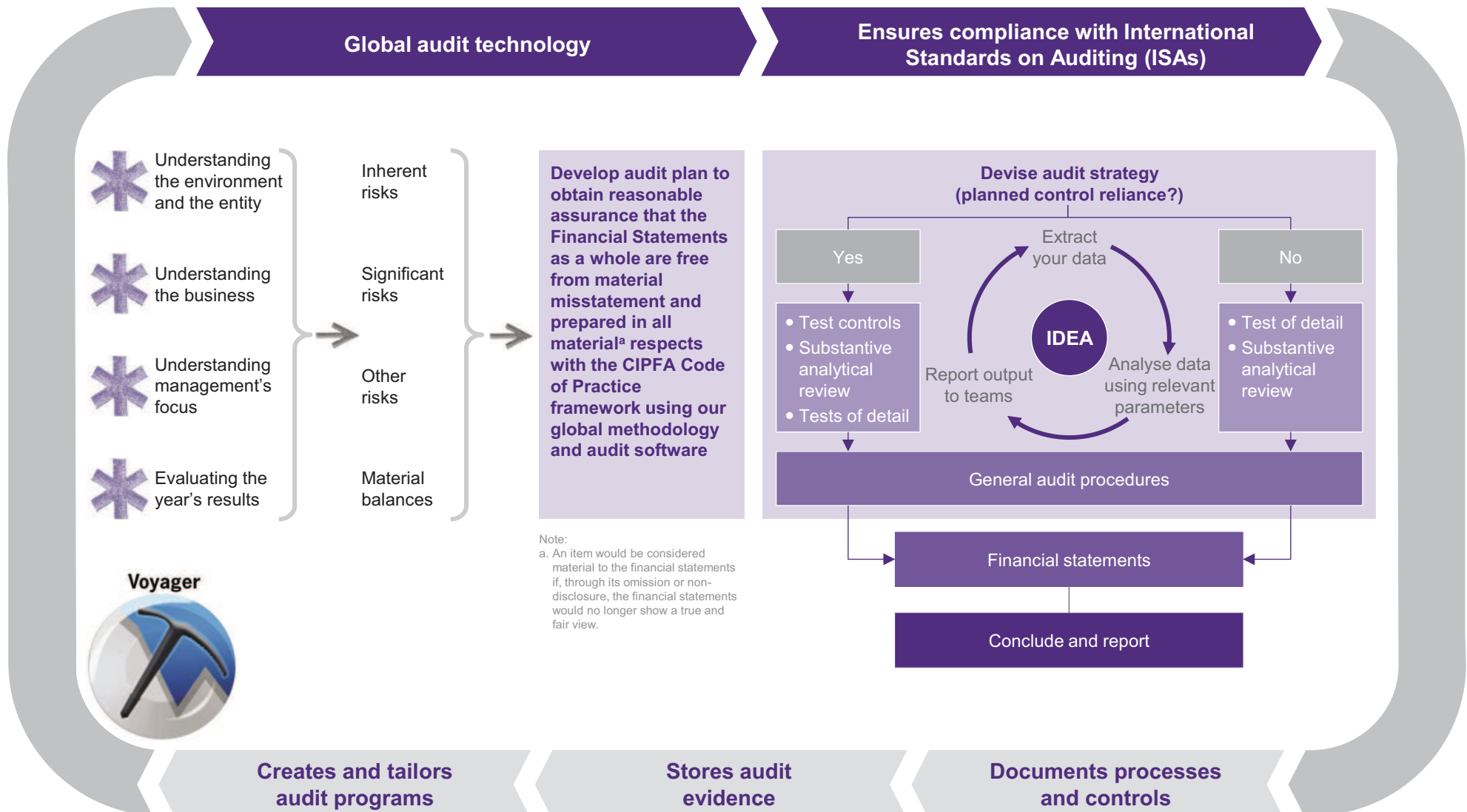
# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements					
<b>1. Financial reporting</b> <ul style="list-style-type: none"> <li>Changes to the CIPFA Code of Practice</li> <li>Changes to the recognition of school land and buildings on local authority balance sheets</li> <li>Adoption of new group accounting standards (IFRS 10, 11 and 12)</li> </ul>	<b>2. Legislation</b> <ul style="list-style-type: none"> <li>Local Government Finance settlement</li> </ul>	<b>3. Corporate governance</b> <ul style="list-style-type: none"> <li>Annual Governance Statement (AGS)</li> <li>Explanatory foreword</li> </ul>	<b>4. Better Care Fund</b> <ul style="list-style-type: none"> <li>Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015</li> </ul>	<b>5. Financial Pressures</b> <ul style="list-style-type: none"> <li>Managing service provision with less resource</li> <li>Progress against savings plans</li> </ul>	<b>6. Other requirements</b> <ul style="list-style-type: none"> <li>The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>The Council completes grant claims and returns on which audit certification is required</li> </ul>
Our response					
<p>We will ensure that</p> <ul style="list-style-type: none"> <li>the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing</li> <li>schools are accounted for correctly and in line with the latest guidance</li> <li>the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly</li> </ul>	<ul style="list-style-type: none"> <li>We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate</li> </ul>	<ul style="list-style-type: none"> <li>We will review the arrangements the Council has in place for the production of the AGS</li> <li>We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge</li> </ul>	<ul style="list-style-type: none"> <li>We will consider whether the BCF is a risk in the context of our VfM conclusion and will carry out further work if required</li> </ul>	<ul style="list-style-type: none"> <li>We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan</li> <li>We will undertake a review of Financial Resilience as part of our VfM conclusion</li> </ul>	<ul style="list-style-type: none"> <li>We will carry out work on the WGA pack in accordance with requirements</li> <li>We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.</li> </ul>

# Our audit approach

Page 36



# Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Bath and north East Somerset Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>there is little incentive to manipulate revenue recognition</li> <li>opportunities to manipulate revenue recognition are very limited</li> <li>the culture and ethical frameworks of local authorities, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Review of accounting estimates, judgments and decisions made by management</li> <li>Testing of journal entries</li> <li>Review of unusual significant transactions</li> </ul>

## Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning. The results of the work completed to date are reported on pages 11 and 12.

Other risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	Work completed to date <ul style="list-style-type: none"><li>- documented our understanding of processes and key controls over the transaction cycle</li><li>- undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li></ul> Further work planned <ul style="list-style-type: none"><li>- Complete testing to search for unrecorded liabilities</li><li>- Review goods received but not invoiced and test as appropriate</li><li>- Assess the Council's accruals methodology and the reliability of the estimate used</li></ul>
Employee remuneration	Employee remuneration, benefit obligations and expenses understated. (Remuneration expenses not correct)	Work completed to date <ul style="list-style-type: none"><li>- documented our understanding of processes and key controls over the transaction cycle</li><li>- undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li></ul> Further work planned <ul style="list-style-type: none"><li>- Complete a reconciliation of payroll costs to the general ledger</li><li>- Undertake an analytical review of monthly payroll trend</li><li>- test a sample of payments back to prime records.</li></ul>

## Other risks identified - continued

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Welfare Expenditure	Welfare benefit expenditure improperly computed	Work completed to date <ul style="list-style-type: none"><li>- documented our understanding of processes and key controls over the transaction cycle</li><li>- undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li></ul> Further work planned <ul style="list-style-type: none"><li>- Reconciliation of the expenditure recorded in the accounts to the benefits system</li><li>- Reconciliation of the expenditure recorded in the accounts to the housing benefit claim</li><li>- Completion of all testing modules dictated by the Department of Work and Pensions. A sample of individual claimants will be tested in line with Module 3 guidance.</li></ul>

# Value for money

## Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- Assess the arrangements in place to ensure financial resilience in 2014/15 and beyond.
- Review year end outturn and compare this to budget.
- Review arrangements for the Better Care Fund
- Discuss any findings with senior management

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

We will issue a separate report in respect of VfM and agree any additional reporting to the Council on a review-by-review basis.



# Results of interim audit work

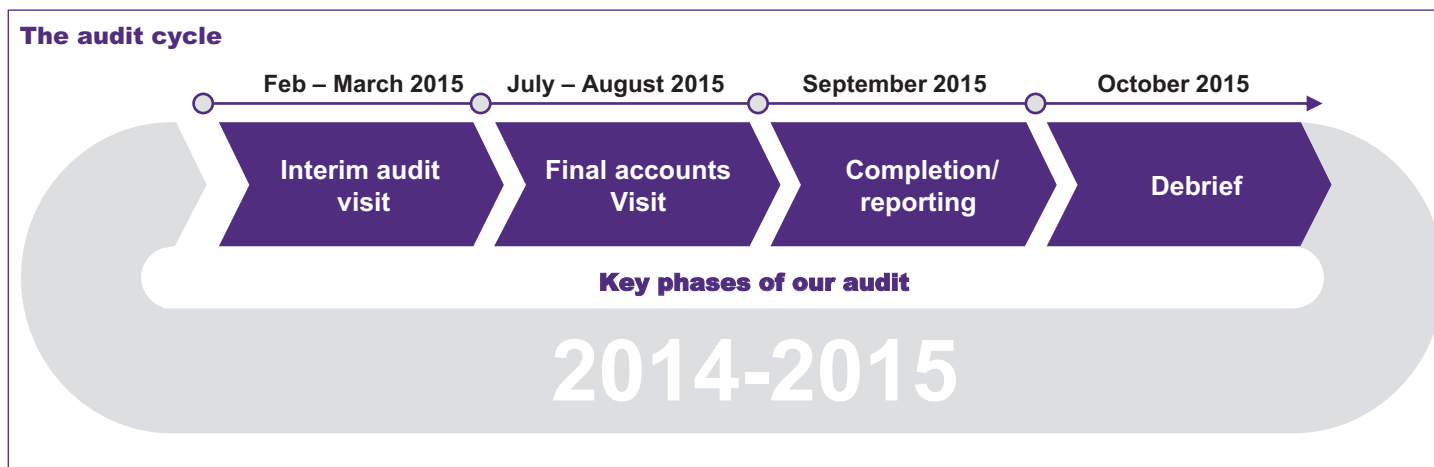
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding. However, we are in the process of following up a number of issues relating to control deficiencies that have previously been raised by Internal Audit.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements. However, until we have completed our review of issues raised by Internal Audit, we are unable to conclude as to whether or not there will be any change to our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

## Results of interim audit work cont'd

	Work performed	Conclusion
<b>Review of information technology controls</b>	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also undertake a follow up of the issues that were raised last year.	We are unable to provide a conclusion on IT controls at this stage as we are still to perform our review.
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We have selected a sample of journals for testing and expect to complete this testing by the end of March 2015.</p>	<p>We have not identified any significant weaknesses in the Council's journal entry policies and procedures.</p> <p>At the time of writing, we had not completed our testing of journal entries.</p>
<b>Early substantive testing</b>	Our early substantive testing of operating expenses and employee remuneration is in progress.	Our early testing is in progress and therefore we are unable to provide a conclusion at this stage. An update will be provided to the Corporate Audit Committee at its meeting on 26 March 2015.
<b>Value for money</b>	We have completed our initial risk assessment, but our detailed work won't be concluded until July 2015.	Our review of the Council's arrangements is in progress and therefore we are unable to provide a conclusion at this stage.

# Key dates



Date	Activity
January 2015	Planning
February - March 2015	Interim site visit
March 2015	Presentation of audit plan to Audit Committee
July - August 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with Divisional Director Business Support
September 2015	Report audit findings to those charged with governance – The Corporate Audit Committee
By 30 September 2015	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	165,109
Grant certification	18,340
<b>Total fees (excluding VAT)</b>	<b>183,449</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

## Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

## Fees for other services

Service	Fees £ (estimate)
Regional Growth Fund 2	5,000
Regional Growth Fund 3	5,000
Teacher's Pension claim	4,200

## Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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# Certification report 2013/14 for Bath and North East Somerset Council

**Year ended 31 March 2014**

February 2015

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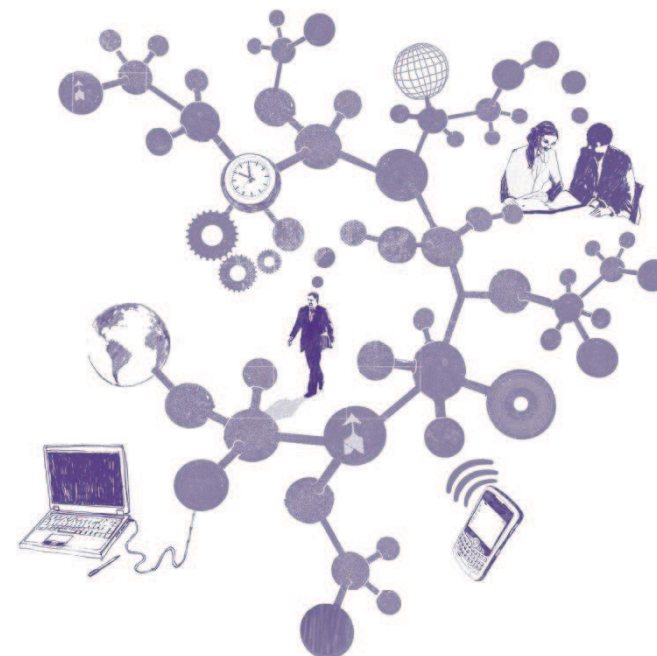
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# Contents

Section	Page
1. Summary of findings	4
<b>Appendices</b>	
A Details of claims and returns certified for 2013/14	7
B Action plan (Housing Benefit)	10
C Fees	13



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## Section 1: Summary of findings

### 01. Summary of findings

# Summary of findings

## Introduction

We are required to certify certain claims and returns submitted by Bath and North East Somerset Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified two claims and returns (under the Audit Commission regime) for the financial year 2013/14 relating to expenditure of £56.97 million. In addition, we have certified three further returns, for which separate letters of engagement have been agreed.

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Our approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform were set out in our Certification Plan issued to the Council in May 2015.

## Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below.

Aspect of certification arrangements	Key Messages	RAG rating
<b>Submission &amp; certification</b>	All claims and returns were submitted and certified by the deadlines.	Green
<b>Accuracy of claim forms submitted to the auditor (including amendments &amp; qualifications)</b>	Housing benefits – there were a number of errors, which resulted in a qualified claim.  Teachers' pensions (non Audit Commission regime return) – the return was qualified as contributions and contributory salary were understated.	Amber  Amber
<b>Supporting working papers</b>	The supporting working papers for all claims and returns were of a satisfactory standard.	Green

### Certification fees

The indicative certification fee set by the Audit Commission for 2013/14 for Bath and North East Somerset Council is based on final 2011/12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification (such as the national non-domestic rates return) have been removed. The fees for certification of housing benefit subsidy claims were reduced by 12 per cent, to reflect the removal of council tax benefit from the scheme. This is set out in more detail in Appendix C.

The indicative certification fee for Bath and North East Somerset Council for 2013/14 was £16,306. However this was only for certification of the housing benefit claim. A fee variation request has been submitted to the Audit Commission as we were required to undertake work on the Bath Transport Package return, a fee for which was not included in the indicative fee, and additional work on the housing benefit return. The additional fee requested is £2,199 for the transport claim and £6,043 for the additional housing benefit work. We are awaiting approval of the fee variation.

### The way forward

We set out recommendations to address the key messages above and other findings arising from our certification work at Appendix B.

Implementation of the agreed recommendations will assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

### Acknowledgements

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**  
**February 2015**

# Appendices

Page 52

# Appendix A: Details of claims and returns certified for 2013/14

## Audit Commission regime

Claim or return	Value	Amended?	Amendment (£)	Revised value	Qualified?	Comments
Housing benefit subsidy claim	£53,889,914	Yes	£770	£54,659,914	Yes	<p>Rent rebates (non-HRA properties) - we identified a number of errors relating to deductions and incorrect application of the weekly limit on the rent allowable for housing benefit. Additional testing undertaken and further errors identified. The claim was amended resulting in an increase in subsidy of £449.</p> <p>Rent allowances – one case incorrectly showed the landlord as a registered social landlord (further testing identified no additional errors) and one case where the rent was incorrectly recorded. Additional testing undertaken did not identify further errors relating to designation as a social landlord but did identify two further rent errors. The claim was not amended, but was qualified in relation to these errors.</p> <p>Rent allowances – as errors identified in 2012/13, testing of 40 cases was undertaken, which identified six where the income had been incorrectly calculated. The claim was not amended, but was qualified in relation to these errors.</p> <p>Rent allowances (overpayments) – due to a bug in the Northgate system some overpayments were not correctly categorised. The claim was amended resulting in additional subsidy of £321.</p> <p>Rent allowances (modified schemes) – testing identified an error in one of the three items in our initial sample. Additional testing undertaken but no further errors identified. The effect of the error was an under claim of £197. The claim was not amended.</p>

## Appendix A: Details of claims and returns certified for 2013/14

### Audit Commission regime

Claim or return	Value	Amended?	Amendment (£)	Revised value	Qualified?	Comments
Bath Transport package	£3,078,945	Yes	Nil overall	Not applicable	No	Although the claim was amended, the changes only related to the analysis of the expenditure, not the total expenditure.

## Appendix A: Details of claims and returns certified for 2013/14

### Other claims and returns

Claim or return	Value	Amended?	Amendment (£)	Revised value	Qualified?	Comments
Teachers' pensions	£6,721,233	No	Not applicable	Not applicable	Yes	
Regional Growth Fund 2	£1,845,000	No	Not applicable	Not applicable	No	Return related to year ending 31/12/2013
Regional Growth Fund 3	£4,129,152	No	Not applicable	Not applicable	No	Return related to period ending 31/1/2014

## Appendix B: Action plan (Housing Benefit)

### Priority

**High** - Significant effect on arrangements

**Medium** – Some effect on arrangements

**Low** - Best practice

Rec No.	Finding and recommendation	Priority	Management response	Implementation date & responsibility
1	<p>A number of standard reconciliation reports (known as BENCHK 85, 87 &amp; 88) were run but not used in the final claim.</p> <p>All standard reconciliation procedures suggested by the software company (Northgate) should be run and used in compiling future claims.</p>	Medium	<p>We made a decision not to use the NNO script (BENCHK 85) as we did not have the time to do this. As a result, the Council is under-claiming subsidy . The BENCHK087 was run, but not worked on. However, the Northgate subsidy guide states that this is not compulsory. The BENCHK088 was not run. However it only included four claims. This will be done in future.</p>	<p>30 April 2015</p> <p>Systems Team Leader – Customer Services</p>
2	<p>Training in areas where errors had been found in relation to the 2012/13 claim was undertaken in 2014/15 and therefore it did not have had an impact on the 2013/14 claim. The issues mainly related to the calculation of income and evidence of rent.</p> <p>All benefit assessors should be trained in the areas that have been identified as issues. For evidence purposes, a full register of those who attended the training and the training material should be provided to support the 2014/15 claim.</p>	Medium	<p>Training needs were not identified until November 2013 and we were unable to fit in until May 14.</p> <p>We are already collating evidence to support the extra training we have been doing this year</p>	<p>30 April 2015</p> <p>Systems Team Leader – Customer Services</p>



## Appendix B: Action plan (Housing Benefit)

### Priority

**High** - Significant effect on arrangements

**Medium** – Some effect on arrangements

**Low** - Best practice

Rec No.	Finding and recommendation	Priority	Management response	Implementation date & responsibility
3	<p>A number of similar errors are being repeated within the non-HRA cell year on year. The issues identified relate to incorrect deductions, incorrect cell allocation and incorrect application of the cap associated with this type of claim. This has resulted in 100% testing in line with the guidance issued by DWP.</p> <p>Further training in this area should be provided to all benefit assessors. In addition, the Council should ensure that all non-HRA cases are checked for accuracy before submission to audit.</p>	High	<p>We have changed the way the properties are set up for Non-HRA subsidy in the 13/14 year so the wrong cell errors should not occur. We have also identified issues with the deductions especially around the start of the year.</p> <p>Non-HRA claims will be checked prior to submission.</p>	<p>30 April 2015</p> <p>Systems Team Leader – Customer Services</p>
4	<p>Our testing identified that a property that did not belong to a registered social landlord had been assigned to a cell that was specifically for registered social landlords. This resulted in additional testing.</p> <p>We recommend that, if possible, a report is run from Northgate to check landlord and property allocation prior to submission to audit.</p>	Medium	<p>Two claims were found that were incorrectly allocated to the cell specifically for registered social landlords, only one of which was within this subsidy year the other was for prior year.</p> <p>This is not a good use of time as one claim out of a total caseload 10,440 is not a high risk.</p>	Not applicable

## Appendix B: Action plan (Housing Benefit)

### Priority

**High** - Significant effect on arrangements

**Medium** – Some effect on arrangements

**Low** - Best practice

Rec No.	Finding and recommendation	Priority	Management response	Implementation date & responsibility
5	<p>We found that a rental amount for a landlord had been incorrectly applied to a housing benefit case, resulting in further testing.</p> <p>Benefit assessors should be provided with further training on the application of rental amounts from landlords to ensure that the correct amount is applied in all cases.</p>	Medium	<p>This was one case and was assessed by a very experienced benefit officer. Therefore, I would presume this to be human error rather than lack of training. I do not think further training is necessary based on one incorrect rental amount.</p>	Not applicable
6	<p>We identified a bug in the Northgate system relating to prior year overpayments, which would not have been identified by the standard reconciliation reports. We understand that Northgate have not released a fix for this at the present time.</p> <p>If by the end of the financial year 2014-15 Northgate have not issued a fix for the bug, the Council should request a report to identify all affected cases and review and amend the affected claims prior to submission of the claim for audit.</p>	Medium	<p>I have requested Northgate look at this further with support from my user group. The request included a script to show affected cases.</p>	<p>30 April 2015</p> <p>Systems Team Leader – Customer Services (in liaison with Northgate)</p>

## Appendix C: Fees

Claim or return	2012/13 fee (£)	2013/14 indicative fee (£)	2013/14 actual fee (£)	Variance year on year (£)	Explanation for significant variances
Housing benefits subsidy claim	£20,845	£16,306	£22,349 (subject to approval by Audit Commission)	£1,504	Additional testing had to be undertaken in a number of areas.
Bath Transport package	£5,235	Not applicable	£2,199 (subject to approval by Audit Commission)	-£3,036	Last year (2012/13) was the first year of the claim. A number of issues were identified in relation to the 2012/13 return.
<b>Total</b>	£26,080	£16,036	£24,448	-£1,532	



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Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	26 <sup>th</sup> March 2015	
TITLE:	Treasury Management Strategy Statement and Investment Strategy 2015/16	
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 - Treasury Management Strategy 2015/16 Appendix 2 - Investment Strategy 2015/16 Appendix 3 - Authorised Lending List		

## 1 THE ISSUE

- 1.1 In February 2012, the Council adopted the revised CIPFA Treasury Management in Public services Code of Practice 2011 Edition, which requires the Council to approve a Treasury Management Strategy before the start of each financial year and for this to be scrutinised by an individual / group of individuals or committee.
- 1.2 In addition, the Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.
- 1.3 This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.
- 1.4 This report was on the agenda at February 2015 Cabinet and Council, and any recommended amendments to this strategy will be reported back to Cabinet.

## 2 RECOMMENDATION

The Corporate Audit Committee agree that:

- 2.1 the actions proposed within the Treasury Management Strategy Statement (Appendix 1) are approved.
- 2.2 the Investment Strategy as detailed in Appendix 2 is approved.
- 2.3 the changes to the authorised lending lists detailed in Appendix 2 and highlighted in Appendix 3 are approved.

### **3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

3.1 The resource implications are included in the report and appendices.

### **4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL**

4.1 These are detailed in paragraphs 1.1 – 1.3 above.

### **5 THE REPORT**

#### **Background**

5.1 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

5.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

5.3 The suggested strategy for 2015/16 in respect of the following aspects of the treasury management function is based on the Treasury Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor.

The strategy covers:

•	Treasury limits in force which will limit the treasury risk and activities of the Council;
•	Treasury Management Indicators;
•	The current treasury position;
•	The borrowing requirement;
•	Prospects for interest rates;
•	The borrowing strategy;
•	The investment strategy.

5.4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby the impact on the revenue budget from: -

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. any increases in running costs from new capital projects, and
3. increases in the Minimum Revenue Provision for capital expenditure

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

- 5.5 The revised CIPFA Treasury Management in Public services Code of Practice 2011 Edition, adopted by Council in February 2012, requires the Treasury Management Strategy and policies to be scrutinised by an individual / group of individuals or committee, and the Corporate Audit Committee have been nominated by Council to carry out this function

### **2015/16 Treasury Management & Investment Strategy**

- 5.6 The Strategy Statement for 2014/15 set Treasury Indicators for 2014/15 – 2016/17, which included a total borrowing requirement at the end of 2014/15 of £179 million. At the end of December 2014, external borrowing was at £98 million, which may increase before the end of the 2014/15 financial year should a review of the daily cashflow highlight additional liquidity funding is required.
- 5.7 The proposed Treasury Management Strategy is attached as Appendix 1 and includes the Treasury Management Indicators required by the Treasury Management Code.
- 5.8 Although the indicators provide for a maximum level of total borrowing, this should by no means be taken as a recommended level of borrowing as each year affordability needs to be taken into account together with other changes in circumstances, for example revenue pressures, levels and timing of capital receipts, changes to capital projects spend profiles, and levels of internal cash balances.
- 5.9 The budget report, which is also on the agenda, includes appropriate provision for the revenue costs of the capital programme in accordance with this Treasury Management Strategy.
- 5.10 Appendix 1 also details the Council's current portfolio position as at 31<sup>st</sup> December 2014, which shows after the netting off of the £22.1 million investments, the Council's net debt position was £75.9 million.
- 5.11 The 2015/16 Investment Strategy is attached at Appendix 2. This sets 'outer limits' for treasury management operations. While the strategy uses credit ratings in a "mechanistic" way to rule out counterparties, in operating within the policy Officers complement this with the use of other financial information when making investment decisions, for example Credit Default Swap (CDS) prices, Individual Ratings, and the financial press. This has been the case in recent years, which protected the Council against losses of investment in Icelandic banks.
- 5.12 The Counterparty listing in Appendix 3 includes credit ratings from three agencies, as well as a sovereign rating for each country. Counterparties who now meet the minimum criteria as recommended in Appendix 2 as at 31<sup>st</sup> December 2014 are included in the listing in Appendix 3.
- 5.13 Interest rate forecasts from the Council's Treasury advisors are included in Appendix 1.

## **6 RATIONALE**

- 6.1 This report is a statutory requirement.

## 7 OTHER OPTIONS CONSIDERED

7.1 None.

## 8 CONSULTATION

8.1 Consultation has been carried out with the Cabinet Member for Community Resources, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

8.2 Consultation was carried out via e-mail.

8.3 This report was also on the agenda at February Cabinet.

## 9 RISK MANAGEMENT

9.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

9.2 The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment & Borrowing advice is provided by our Treasury Management consultants Arlingclose.

9.3 The 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Corporate Audit Committee carry out this scrutiny.

9.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

<b>Contact person</b>	<i>Tim Richens - 01225 477468 ; Jamie Whittard - 01225 477213</i> <a href="mailto:Tim_Richens@bathnes.gov.uk">Tim_Richens@bathnes.gov.uk</a> <a href="mailto:Jamie_Whittard@bathnes.gov.uk">Jamie_Whittard@bathnes.gov.uk</a>
<b>Background papers</b>	<i>2014/15 Treasury Management &amp; Investment Strategy</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	



## **APPENDIX 1**

### **TREASURY MANAGEMENT STRATEGY – 2015/2016**

#### **Introduction**

In February 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice Fully Revised 2011 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

In addition, the Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.

The Authority has substantial amounts of borrowing and lending, and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

#### **Treasury Borrowing Limits for 2015/16 to 2017/18**

It is a statutory duty under s.3 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. This amount is termed the 'Affordable Borrowing Limit'.

The Council must have regard to the Prudential Code when setting the Affordable Borrowing Limit. The Code requires an authority to ensure that its total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is 'acceptable'.

The Affordable Borrowing Limit must include all planned capital investment to be financed by external borrowing and any other forms of liability, such as credit arrangements. The Affordable Borrowing Limit is to be set on a rolling basis for the forthcoming year and two successive financial years.

#### **Treasury Management Indicators for 2015/16 – 2017/18**

The Council measures and manages its exposures to treasury management risks using the following indicators. The council is asked to approve the following indicators:

#### Security: average credit rating

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio.

	2015/16
Minimum Portfolio average credit rating	A-

#### Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed will be:

	2015/16	2016/17	2017/18
Upper limit on fixed interest rate exposures	£182m	£193m	£190m
Upper limit on variable interest rate exposures	£104m	£115m	£112m

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

#### Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	75%	0%
24 months and within five years	75%	0%
Five years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

#### Principal sums invested for periods longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the proportion of total principal sum invested to final maturities over 364 days will be:

	2015/16	2016/17	2017/18
Limit on proportion of principal invested over 364 days	£50m	£50m	£50m

### Borrowing limits

The Authorised limits for external debt include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over and above the operational limit for unusual cash movements.

The Operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements. This level also factors in the proposed approach to use internal cash-flow and future capital receipts as the preferred financing method for the capital programme.

	2015/16	2016/17	2017/18
Operational boundary – borrowing	£182m	£193m	£190m
Operational boundary – other long-term liabilities	<u>£2m</u>	<u>£2m</u>	<u>£2m</u>
Operational boundary – TOTAL	£184m	£195m	£192m
Authorised limit – borrowing	£219m	£227m	£224m
Authorised limit – other long-term liabilities	<u>£2m</u>	<u>£2m</u>	<u>£2m</u>
Authorised limit – TOTAL	£221m	£229m	£226m

### **External Context & Prospects for Interest Rates (Arlingclose Ltd)**

The Council has appointed Arlingclose as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following section gives their commentary on the economic context and views on the prospects for future interest rates.

**Economic background:** There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP. However, inflationary pressure is currently extremely benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak and below inflation.

The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee. Despite two MPC members having voted for an 0.25% increase in rates at each of the meetings between August and December 2014, the minutes of the January 2015 meeting showed unanimity in maintaining the Bank Rate at 0.5% as there was sufficient risk that low inflation could become entrenched and the MPC became more concerned about the economic outlook.

**Credit outlook:** The transposition of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The *Bank Recovery and Resolution Directive* promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast *Deposit Guarantee Schemes Directive* includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015. The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, **the credit risk associated with making unsecured bank deposits will increase** relative to the risk of other investment options available to the Authority.

**Interest rate forecast:** The Authority's treasury management advisor Arlingclose forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. Arlingclose projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 2.7%.

#### Arlingclose Interest Rate Forecasts

*Arlingclose central interest rate forecast – January 2015*

	Bank Rate	3 month LIBID	12 month LIBID	20-year gilt yield*
Q1 2015	0.50	0.55	0.95	2.10
Q2 2015	0.50	0.60	1.00	2.20
Q3 2015	0.75	0.80	1.20	2.30
Q4 2015	0.75	0.90	1.30	2.35
H1 2016	1.00	1.15	1.55	2.50
H2 2016	1.25	1.40	1.80	2.75
H1 2017	1.50	1.65	2.05	3.00
H2 2017	1.75	1.95	2.35	3.20

\* The Council can currently borrow from the PWLB at 0.80% above gilt yields

The Council has budgeted for investment interest rates to remain constant at 0.45% for 2014/15 & beyond, reflecting the planned short-term duration of investments.

## Local Context

### Current Portfolio Position

The Council's treasury portfolio position at 31<sup>st</sup> December 2014 comprised:

	<b>Principal</b>	<b>Ave. rate</b>
	£m	%
<b>External Borrowing</b>		
Fixed rate funding – PWLB	50	4.79
Fixed rate funding – LA's	28	1.28
Variable rate funding – LOBOs	20	4.50*
Other long term liabilities	Nil	N/A
<b>TOTAL GROSS EXTERNAL DEBT</b>	<b>98</b>	<b>3.73</b>
<b>Investments</b>		
Short Term Investments	<b>22.1</b>	<b>0.47</b>
Long Term Investments	Nil	N/A
<b>TOTAL INVESTMENTS**</b>	<b>22.1</b>	<b>0.47</b>
<b>NET DEBT</b>	<b>75.9</b>	

\* The market loans are 'lenders options' or LOBO's. These are fixed at a relatively low rate of interest for an initial period but then revert to a higher rate of 4.5%. When the initial period is over the loans are then classed as variable, as the lender has the option to change the interest rate at 6 monthly intervals, however at this point the borrower has the option to repay the loan without penalty.

\*\* Total Investments includes Schools balances where schools have not opted for an external bank account and cash balances related to B&NES CHC Pooled budgets and West of England Growth Points funding.

## Borrowing Strategy

The Council currently holds £98 million of long-term loans (a increase of £28m on the previous year) as part of its strategy for funding previous years' capital expenditure, and we will continue to monitor appropriate opportunities for borrowing in line with the overall Capital Financing Requirement.

The Council's capital financing requirement (CFR, or underlying need to borrow) as at 31<sup>st</sup> March 2015 is expected to be £187 million, and is forecast to rise to £219 million by March 2016 as capital expenditure is incurred.

The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

The maximum expected long-term borrowing requirement for 2015/16 is:

	£m
Not borrowed in previous years	89
Forecast increase in CFR	32
Loans maturing in 2015/16	10
<b>TOTAL</b>	<b>131</b>

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2015/16 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

#### Sources of borrowing

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board (PWLB) and its successor body
- any institution approved for investments that meets the investment criteria (this includes other local authorities)
- any other bank or building society approved by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds (except the Avon Pension Fund)
- Capital market bond investor
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

**LGA Bond Agency:** The Local Capital Finance Company was established in 2014 by the Local Government Association as an alternative, and in competition to, the PWLB. It plans to issue bonds on the capital markets on behalf of participating local authorities. The Municipal Bonds Agency as it is referred to, is a company set up and owned by Local Government to provide access to Capital Finance at advantageous borrowing rates. The Company will also seek to facilitate inter-local authority lending and access to other financial instruments. Whilst the Municipal Bond Agency will be a more administratively complicated source of finance than the PWLB, it has the potential to directly or indirectly reduce borrowing costs for local authorities. Borrowing authorities will be required to provide a joint and several liability to other participating local authority borrowers at each bond issuance, although the risks associated with this are likely to be very small given the statutory protections relating to local authority defaults. Any decision to borrow from the Municipal Bonds Agency will be subject to specific approval of the Cabinet

The Authority holds £20m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2015/16, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

Short-term and variable rate loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

#### Debt Rescheduling

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.



### Policy on use of Financial Derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

### Derivative counterparties

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.



## **APPENDIX 2**

### **INVESTMENT STRATEGY**

#### **Investment Policy**

Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

The strategy of this policy is to set outer limits for treasury management operations. In times of exceptional market uncertainty, Council Officers will operate in a more restrictive manner than the policy allows, as has been the case during recent years.

#### **Avon Pension Fund Investments**

The Council's Treasury Management team also manage the Avon Pension Fund's internally held cash on behalf of the Fund. The regulations requires that this cash is accounted for separately and needs to be invested separately from the Council's cash, and the split has been managed this way since 1<sup>st</sup> April 2010. The Fund's investment managers are responsible for the investment of cash held within their portfolios and this policy does not relate to their cash investments.

The cash balance held internally is a working balance to cover pension payments at any point in time and as a result the working balance will be c. £10 million. This working balance represents around 0.3% of the overall assets of the Fund. These investments will operate within the framework of this Investment Strategy, but the maximum counterparty limit and investment term with any counterparty are set annually by the Avon Pension Fund Committee. These limits are in addition to the Council's limits for counterparties as set out in Appendix 3.

#### **West of England Revolving Investment Fund (RIF)**

Bath and North East Somerset Council is the Accountable Body for the West of England Revolving Investment Fund, and acts as an agent holding Government grants until they are ready to be distributed to Local Authorities for infrastructure works over the coming years.

These funds are kept separate from those of the Council, and therefore do not form part of the Council's counterparty limit restrictions. The funds are invested primarily to protect the capital, and in order to achieve this high level of capital security, investments are made solely with UK Central Government and UK Local Authorities. Any interest earned on these investments is reinvested into the fund.

### Approved Investment Counterparties

The Council may invest its surplus funds with any of the counterparties in the flowing table, subject to the cash and time limits shown:

<b>Credit Rating</b>	<b>Banks Unsecured</b>	<b>Banks Secured</b>	<b>Government</b>	<b>Corporates</b>	<b>Registered Providers</b>
<b>UK Central Govt.</b>	N/A	N/A	£unlimited 50 Years	N/A	N/A
<b>AAA</b>	£10m 5 Years	£15m 20 Years	£10m 30 Years	£5m 5 Years	£5m 5 Years
<b>AA+</b>	£10m 5 Years	£15m 10 Years	£10m 30 Years	£5m 5 Years	£5m 5 Years
<b>AA</b>	£10m 4 Years	£15m 5 Years	£10m 30 Years	£5m 5 Years	£5m 5 Years
<b>AA-</b>	£10m 3 Years	£15m 4 Years	£10m 30 Years	£5m 5 Years	£5m 5 Years
<b>A+</b>	£10m 2 Years	£15m 3 Years	£10m 30 Years	£5m 2 Years	£5m 5 Years
<b>A</b>	£10m 1 Year	£10m 2 Years	£10m 30 Years	£5m 2 Years	£5m 5 Years
<b>A-</b>	£10m 6 Months	£10m 1 Year	£10m 30 Years	£5m 2 Years	£5m 5 Years
<b>BBB+</b>	£5m 3 Months	£5m 6 Months	£10m 30 Years	N/A	£2m 2 Years
<b>BBB</b>	£2m Overnight	£5m 3 Months	£10m 30 Years	N/A	£2m 2 Years
<b>BBB-</b>	£2m Overnight	£5m 3 Months	£10m 30 Years	N/A	£2m 2 Years
<b>None</b>	N/A	N/A	£10m 30 Years	£5m 1 Year	£2m 2 Years
<b>Pooled Funds</b>	£10m Per Fund				

The majority of the Council's investments will be made for relatively short periods and in higher credit rated investments, giving priority to security and liquidity ahead of yield. However, where the Council has identified a core cash balance that is not required for any cash outflows in the short term, these funds will be considered suitable for a wider range of investments, with a greater focus on achieving a level of investment income that can support Council services. These may include long-term investments with registered providers of social housing, small businesses or corporate bond funds where an enhanced return is paid to cover the additional risks presented. Standard risk mitigation techniques, such as wide diversification and external credit assessments, will be employed, and no such investment will be made without a specific recommendation from the Council's treasury management adviser.

In addition, the Authority may invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Authority's treasury management adviser.

#### Banks Unsecured

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Current Bank Account: The Council's current accounts are held with National Westminster Bank plc (NatWest), which is close to the bottom of the above credit rating criteria. The Council will treat NatWest as "high credit quality" for the purpose of making investments that can be withdrawn on the next working day, subject to the bank maintaining a credit rating no lower than BBB-.

#### Banks Secured

Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

#### Government

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

### Corporates

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely. They will however only be made following a favourable external credit assessment and on the specific advice of the Council's treasury management adviser.

### Registered Providers

Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

### Pooled Funds

Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

### Other Organisations

The Council may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Council's treasury management adviser.

## **Risk Assessments & Credit Ratings**

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality, unless an investment-specific rating is available.

Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Council's credit rating criteria are set to ensure that it is unlikely that the Council will hold speculative grade investments, despite the possibility of repeated downgrades.

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that an BBB+ rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

If further counterparties are identified during the year that meet the minimum credit rating criteria and conform to the other criteria set out in the Treasury Management Practice Schedules, they can be added to the lending list following the agreement of the Chief Financial Officer.

The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will

cause a reduction in the level of investment income earned, but will protect the principal sum invested.

## **Foreign countries**

Investments in foreign countries will be limited to those that hold a AAA or AA+ sovereign credit rating from all three major credit rating agencies, and to a maximum of £15m per country for those rated AAA and £10 million per country for those rated AA+. There is no limit on investments in the UK, irrespective of the sovereign credit rating.

Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

## **Specified Investments**

Specified investments are those expected to offer relatively high security and liquidity, and can be entered into with the minimum of formalities. The CLG Guidance defines specified investments as those:

- denominated in pounds sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of “high credit quality”.

The Council defines “high credit quality” organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

## **Non-Specified Investments**

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown below.

	£m
Total long-term investments	50
Total investments without credit ratings or rated below A-	10
<b>TOTAL</b>	<b>60</b>

The time limit for long-term investments in UK Local Authorities & Local Government will be 50 years.

Long-term investments will be limited to 50% of a counterparty's limit where it meets the above credit rating criteria (except the UK Government). The combined value of short-term and long-term investments with any organisation will not exceed the limits for specified investments highlighted above.

### **Liquidity management**

The Council regularly reviews and updates its cash flow forecasts to determine the maximum period for which funds may prudently be committed. Limits on long-term investments are set by reference to the Council's medium term financial plan, levels of reserves and cash flow forecast.

### **Planned investment strategy for 2015/16**

Investments are made in three broad categories:

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Bank deposit accounts and Money Market Funds will be the main methods used to manage short-term cash.

Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. Preference will continue to be given to investments with UK banks with approved credit ratings.



Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local authority services. Decisions on making longer term investments (i.e. over 1 year) will be considered during the year after taking account of the interest rate yield curve, levels of core cash and the amount of temporary internal borrowing related to funding of capital spend. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds may be used to diversify the portfolio. The use of external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments may be considered.

The Council has already reduced its cash position to repay fixed interest debt held at higher rates. The continuing low level of short-term interest rates will mean the on-going use of internal cash resources to minimise the new borrowing. This approach will be regularly reviewed in light of market conditions and the wider economic outlook.

## **Review Reports**

The revised CIPFA Code of Practice requires that both mid year and annual review reports on treasury activities are reported to Full Council.

## **Other Matters**

The CLG Investment Guidance also requires the Council to note the following matters each year as part of the investment strategy:

### Treasury management advisers

The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues, although responsibility for final decision making remains with the Council and its officers. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of this service is monitored by officers on a regular basis, focusing on supply of relevant, accurate and timely information across the headings above.



#### Investment training

The needs of the Council's treasury management staff for training in investment management are assessed every year as part of the staff performance development review process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

#### Investment of money borrowed in advance of need

The Council may, from time to time, borrow in advance of spending need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the 2015/16 authorised borrowing limit of £219 million. The maximum periods between borrowing and expenditure is expected to be two years, although the Council does not link particular loans with particular items of expenditure.

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## Proposed Counterparty List - Unsecured Bank Investments

2015/16											
CRITERIA											
			FITCH RATINGS			Moody's Ratings		S&P Ratings			
			S/Term	L/Term	Support	S/Term	L/Term	S/Term	L/Term		
Duration			Council Limit (£m)								
UK Banks			Sovereign Rating		AA+		Aa1		AAA		
Barclays Bank plc			1 Year	10	F1	A	1	P-1	A2	A-1	A
Goldman Sachs International			1 Year	10	F1	A		P-1	A2	A-1	A
HSBC Bank plc			3 Years	10	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Lloyds Banking Group											
Lloyds Bank plc			1 Year	10	F1	A	1	P-1	A1	A-1	A
Bank of Scotland plc			1 Year	10	F1	A	1	P-1	A1	A-1	A
Royal Bank of Scotland Group											
National Westminster Bank plc			3 Months	5	F1	A	1	P-2	Baa1	A-2	A-
Royal Bank of Scotland plc			3 Months	5	F1	A	1	P-2	Baa1	A-2	A-
Santander UK plc (domiciled in UK)			1 Year	10	F1	A	1	P-1	A2	A-1	A
Standard Chartered Bank			2 Years	10	F1+	AA-	1	P-1	A1	A-1	A+
UK Building Societies											
Nationwide			1 Year	10	F1	A	1	P-1	A2	A-1	A
Yorkshire			3 Months	5	F1	A-	5	P-2	Baa1	-	-
Coventry			6 Months	5	F1	A	5	P-2	A3	-	-
Leeds			6 Months	5	F1	A-	5	P-2	A3	-	-
Foreign Banks											
Australia			Sovereign Rating		AAA		Aaa		AAA		
Australia & New Zealand Banking Group			2 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Commonwealth Bank of Australia			2 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
National Australia Bank Group											
National Australia Bank Ltd			2 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Westpac Banking Corporation			2 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Canada			Sovereign Rating		AAA		Aaa		AAA		
Bank of Montreal			2 Years	10	F1+	AA-	1	P-1	Aa3	A-1	A+
Bank of Nova Scotia			2 Years	10	F1+	AA-	1	P-1	Aa2	A-1	A+
Canadian Imperial Bank of Commerce			2 Years	10	F1+	AA-	1	P-1	Aa3	A-1	A+
Royal Bank of Canada			3 Years	10	F1+	AA	1	P-1	Aa3	A-1+	AA-
Toronto-Dominion Bank			3 Years	10	10	AA-	1	P-1	Aa1	A-1+	AA-
Finland			Sovereign Rating		AAA		Aaa		AA+		
Nordea Bank Finland ABP			3 Years	10	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Pohjola Bank plc			2 Years	10	F1	A+	1	P-1	Aa3	A-1+	AA-
Germany			Sovereign Rating		AAA		Aaa		AAA		
Deutsche Bank AG			6 Months	5	F1+	A+	1	P-2	A3	A-1	A
Landesbank Hessen-Thuringen			1 Year	10	F1+	A+	1	P-1	A2	A-1	A
Netherlands			Sovereign Rating		AAA		Aaa		AA+		
Bank Nederlandse Gemeenten			5 Years	10	F1+	AAA	1	P-1	Aaa	A-1+	AA+
Coöperatieve Centrale Raiffe			2 Years	10	F1+	AA-	1	P-1	Aa2	A-1	A+
ING Bank NV			1 Year	10	F1+	A+	1	P-1	A2	A-1	A
Singapore			Sovereign Rating		AAA		Aaa		AAA		
Development Bank of Singapore Ltd			3 Years	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-
Oversea-Chinese Banking Corp			3 Years	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-
United Overseas Bank Ltd			3 Years	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-
Sweden			Sovereign Rating		AAA		Aaa		AAA		
Svenska Handelsbanken			3 Years	10	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Switzerland			Sovereign Rating		AAA		Aaa		AAA		
Credit Suisse AG			1 Year	10	F1	A	1	P-1	A1	A-1	A
USA			Sovereign Rating		AAA		Aaa		AA+		
J P Morgan Chase Bank NA			2 Year	10	F1	A+	1	P-1	Aa3	A-1	A+
Supernational											
Council of Europe Development			5 Years	10	F1+	AA+	-	P-1	Aa1	A-1+	AA+
European Bank for Reconstruction & Dev			5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA
European Investment Bank			5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA
Inter-American Development Bank			5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA
IBRD (World Bank)			5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA
Kreditanstalt Fuer Wiefrauf			5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA
Nordic Investment Bank			5 Years	10	-	-	-	P-1	Aaa	A-1+	AAA

## Summary Guide to Credit Ratings

Rating Details	
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicate an issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

Bath & North East Somerset Council			
MEETING:	Corporate Audit Committee		
MEETING DATE:	26th March 2015	AGENDA ITEM NUMBER	
TITLE:	Internal Audit Annual Report – 2014/15		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Appendix 1 – Internal Audit Dashboard Quarter 4 2014/15			
Appendix 2 – Internal Audit Outturn 2014/15			

## 1 THE ISSUE

1.1 This is an annual report produced to detail the work undertaken by Internal Audit during 2014/15.

## 2 RECOMMENDATIONS

2.1 The Corporate Audit Committee is asked to:

a) Note the summary of audit work completed during 2014/15 and performance of the Internal Audit Team (Appendices 1 & 2).

## 3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications relevant to this report.

## **4 THE REPORT**

### **4.1 Internal Audit Work Carried out in 2014/15 (Appendix 1 & 2)**

#### **4.2 Plan Performance**

4.3 The Committee received an update report on the first six months Internal Audit performance at its December meeting. At that time it was reported that during the first half of the financial year 39% of the plan had been completed or was work in progress.

4.4 It is forecast that as at the 31<sup>st</sup> March 2015, this figure will have increased to 81%. Key reasons for not reaching a higher level are as follows –

- Resources – The Audit Plan included 200 days to be sourced from the South West Audit Partnership (SWAP). It is forecast that by end of March, 8 audits totalling 128 days will have been completed by SWAP. A 9th audit will be completed by the end of April. In addition, a member of the audit team of retirement age has decided to reduce their hours. This has resulted in the loss of another 35 productive days. The loss of 107 available productive days equates to 8%.

- Level of unplanned work – Although the amount of time investigating financial irregularities is much reduced on previous years the Audit Team has had to allocate resources to this and other types of unplanned work. We have had to allocate additional time to School Financial Value Standards and had three grant claims which required 'independent' review prior to Chief Executive 'sign-off';

- As previously reported, a number of audit reviews from 2013/14 which were not recorded in the 2014/15 Audit Plan had to have time allocated from the 2014/15 available audit days to complete the audit review work.

- Exceeding Audit Days allocated – The Audit Dashboard (Appendix 1) records that 82% of audits had been completed within the number of days assigned (i.e. planned audit days). Therefore 18% of audits completed (Final Report stage) had exceeded the planned days allocated. The vast majority of this figure was based on the scope of the audit having to be reviewed and adjusted during the audit process.

#### 4.5 Wider Performance

4.6 Appendix 1 provides a 'dashboard' view of adopted high level performance indicators for quarter 4. For comparison reasons the results of the last two years are recorded below:

High Level Performance Indicator	As at 31 <sup>st</sup> March 2014	As at 31 <sup>st</sup> March 2015 (Forecast)
% of Audits completed within time allocated	87%	82%
% of Services which rate Internal Audit as Excellent / Good	100%	96%
% of recommendations agreed (based on management response recorded in Final version of Audit Reports issued).	99%	98%
% of high / critical risk recommendations implemented (based on findings of 'Follow-Up' Reviews completed and reported to management).	83%	69%*
% of days sickness as percentage of total days	3%	1.2%

\*- It should be noted that the shortfall of 31% only relates to 3 recommendations (x2 Council Tax Enforcement; and x1 Heritage Collections). Please note the recommendations have now been implemented in full (Council Tax – Bailiff Agreements) or partial implementation with on-going actions being taken (Heritage – valid loan agreements).

#### 4.7 Internal Control Framework Analysis

In addition to the above an analysis of the results of audit work - i.e. the state of the internal control environment - was as follows:

- 92% of audit reviews assessed the control framework at Assurance Level 3 to 5 ('Satisfactory', 'Good' or 'Excellent');
- 8% of audit reviews were assessed at Assurance Level 2 ('Weak'). This represented four audit reviews and management have agreed to implement all the audit recommendations.

4.8 Appendix 2 records those reviews finalised, drafted or 'Work-In-Progress' at the beginning of March 2015. This records that 50 Audit Reports have been 'finalised' in the 2014/15 Financial Year, 7 were in 'draft' form and another 20 audits were 'Work-In-Progress'.

4.9 As stated above 4 'finalised' audits were assessed at Level 2 'Weak Control Framework'. Three were reported to the Committee in December 2014. These were:

- 1) IT Software Licensing - This audit considered the arrangements to acquire, manage and maintain software assets and that ensure that software was appropriate and legal to use.
- 2) Parks & Green Spaces – The audit reviewed the parks operations including the management of trees; income from internal sales and external trading; safeguarding of assets and consumables; staffing costs; and management of allotment waiting lists.
- 3) Safer Recruitment (Disclosure & Barring Service) – The work of the Criminal Records Bureau and the Independent Safeguarding Authority merged into a single, new Non Departmental Public Body called the Disclosure & Barring Service (DBS) from December 2012. Based on this there have been many changes to the disclosure process including a new definition of regulated activity. A significant change is that the employer relies on the individual to present their disclosure certificate.
- 4) IT Business Continuity & Disaster Recovery - Management have responded to the audit report agreed to implement the four 'High' risk audit recommendations and a 'Follow-Up' review will be carried out in the early part of 2015/16.

4.10 At the December Committee meeting, comments were made about the Assurance Level ratings in comparison to the number of audit recommendations made / agreed to be implemented. The analysis of recommendations in Appendix 2 is recorded to provide Members with assurance that recommendations being made are being agreed by management for implementation. The number of audit recommendations made won't necessarily align to the Assurance Level allocated, i.e. a large number of recommendations does not necessarily mean that overall the control framework is poor/weak. It is important that the Audit Assurance Level takes into account the whole system of internal control. By recommending the inclusion/deletion/amendment of internal controls/checks the framework of internal control can be enhanced.

4.11 Each Audit Report goes through a robust Quality Control process to ensure the Assurance Level matches the framework of controls in place to manage the key risks of the activity under review.



#### **4.12 Resources & Partnership Development**

4.13 As reported to each Committee meeting over the last year, the service has been trialing joint working (since September 2013) with North Somerset Council. Both Councils have committed to work more closely and finally in December both Executive's approved a proposal to integrate both teams into a formal arrangement from April 2015 with Bath & North East Somerset being the host authority employing all staff.

4.14 As previously advised in December, a number of improvements have been made during the year through joint working in delivering higher quality and savings in time, cost and efficiency. These have included –

- Reductions in unproductive time, additional cost reductions and increased Income generation opportunities;
- Use of a single audit management system for both partners and single audit methodology to allow 'real' sharing to occur;
- Development of single templates for key documents, i.e. Audit Brief, Audit Report;
- Skills Analysis and integrated training plan.

4.15 Work is now underway to finalise the contract and arrange for the TUPE of staff from North Somerset Council to B&NES by the 31st March 2015. Discussions also continue with other councils who are interested in our arrangement.

4.16 In addition, we plan to extend our arrangement with the South West Audit Partnership to give the new partnership full flexibility allowing us to source specialist skills at a reasonable cost, i.e. IT Auditors, where it is difficult to recruit and retain.

4.17 A separate Partnership Board will oversee the operation of the new arrangements but the role of Audit Committee's remain unchanged and the same regular reports on the work of Internal Audit will continue to be made as now.

#### **4.18 Formal Opinion on Internal Control Framework –**

##### **Comments of the Head of Partnership (Chief Internal Auditor)**

4.19 Despite a small number of financial irregularity investigations it is pleasing to note that within the year there were no fundamental system failures and it is my opinion that at this current time the Council's Internal Control framework and systems to manage risk are satisfactory.

- Reasonable assurance can be provided over the Council's systems of internal control, helping to ensure corporate priorities can be achieved;
- Agreed policies, Financial Regulations and Contract Standing Orders are broadly being complied with;
- Managers throughout the Council are aware of the importance of maintaining adequate and effective governance arrangements;
- Appropriate arrangements are operated to deter and detect fraud and investigations did not identify any systemic failures;
- There were no fundamental system failures or control breakdowns to business critical functions.

4.20 Last year I reported that it was clear that with increased pressure on budgets, choices on the degree of internal control were having to be made and the level of risk being accepted by the organisation is imperceptibly rising and this situation continues. This in itself is not a cause of undue concern at this time as the risk appetite level of Local Authorities is still broadly low to medium. Therefore applying a degree of flexibility to what is an acceptable level of risk is a sensible course of action to ensure the organisation's priorities continue to be delivered.

4.21 This does however place increased pressure on the Internal Audit function to adapt to this changing framework and also provide the right balance of scrutiny and support to management. Ensuring value from the function as well as providing a strong independent voice is a critical check in establishing successful organisational governance. This becomes important as structures change and therefore the update I have provided above regarding the progress of the function towards an independent partnership by April 2015 is both timely and welcomed.

4.22 It is my view that this is a necessary step to ensure professional standards can be met, the right level of independence can be adopted and ultimately that the committee can rely on the advice and outcomes from audit work.

4.23 Finally the support of the Audit Committee remains vital to effective corporate governance and I would like to thank all the members of the committee for their input and guidance over the last 12 months.

## 5 RISK MANAGEMENT

- 5.1 Commentary and opinion in relation to past performance has used the outcome of audit and other inspection work to inform the risk assessment and there is nothing significant to report.

## 6 EQUALITIES

- 6.1 A proportionate equalities impact assessment has been carried out in relation to this report. There are no significant issues to report.

## 7 CONSULTATION

- 7.1 The report was distributed to the S151 Officer for consultation.

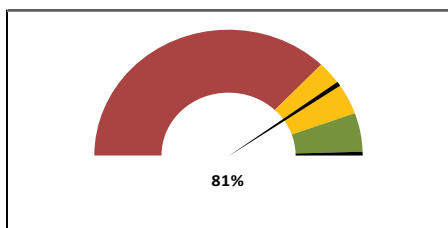
<b>Contact person</b>	Jeff Wring (01225 477323) Andy Cox (01225 477316)
<b>Background papers</b>	
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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## New Audit & Risk Dashboard Quarter 4 2014/15

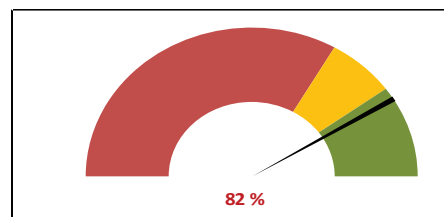
### Internal Audit

#### Annual Audit Plan Completed



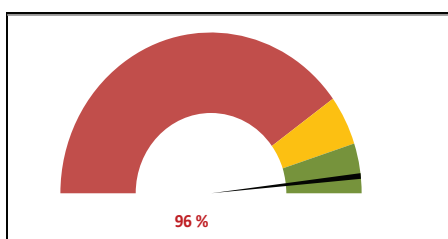
Green Target = >90%  
Amber Target = >75%

#### Audit Reviews Completed in Assigned Days



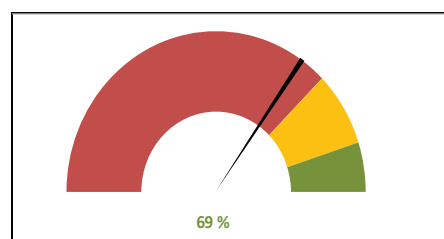
Green Target = >80%  
Amber Target = >66.6%

#### Customer Satisfaction - Good or Excellent



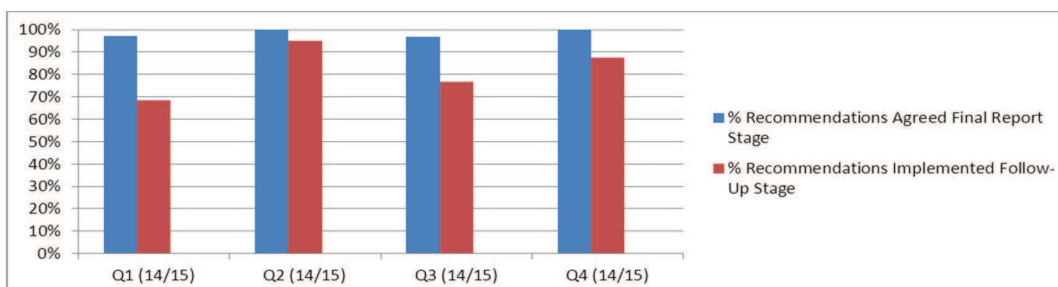
Green Target = >90%  
Amber Target = >80%

#### Recommendations (Critical / High) Implemented by Follow Up

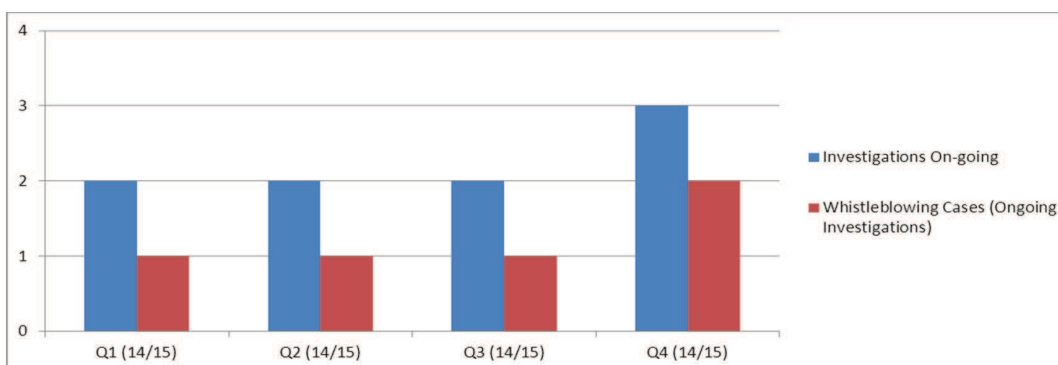


Green Target = >90%  
Amber Target = >80%

#### All Audit Recommendations



#### Investigations/Whistleblowing



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Audit Reviews (Position As At End of Q4 2014/15)			Recommendations	
Audit Review Title	Status	Assurance Level	Made	Agreed
Anti Fraud & Corruption - Bribery & Corruption	Final	3	3	3
Parking Permits	Final	3	13	12
Accounts Payable	Final	3	3	3
I.T. Business Continuity and Disaster Recovery	Final	2	10	10
Public Health & Clinical Commissioning Group - Statutory Responsibilities and Financial Governance	Final	4	5	5
Accounts Receivable - Write Offs	Final	4	1	1
Capital Expenditure	Draft			
Welfare Support	Final	3	9	9
Themed School Review - Procurement	Final	4	4	4
Electronic Commerce (including PCIDSS) Replaced by 'Anti-Fraud Refunds'	Final	3	5	5
PAYE & NICS (Incl new HMRC Monthly Info provision & ResourceLink Application)	Final	3	5	5
IT (Software Licensing)	Final	2	9	9
Themed School Review - Unofficial Funds	Final	4	5	5
Parking Income Collection	Final	3	5	5
IT Physical & Environmental Controls	Final	3	25	23
Parks & Green Spaces	Final	2	13	13
Highway Electrical & Intelligent Transport Systems, UIMC - Traffic Signal System, Mayrise Buchanan Traffic Accident Street Lighting Software	Final	3	11	11
Community Rights (Statutory Obligations )	Final	4	9	9
Info Gov - Data Protection	Final	3	7	7
IT Procurement & Disposals (Hardware / Software)	Final	3	8	7
Safer Recruitment	Final	2	6	6
Payroll - Processing, Payruns & Reconciliations	Final	3	17	11
Contract Management - Registered Residential Care	Final	4	7	7
Fostering Allowances	Final	5	1	1
Safeguarding (Children)	WIP			
Virtual School Governance Arrangements	Final	3	6	6
Art Development	Final	5	1	1
Festivals (As above)	Final	N/A	N/A	N/a
New Homes Bonus	Final	4	3	3
Homelessness & Temp Accom	Final	4	7	7
Tourism Company - Contract Management (Bath Tourism Plus)	Draft			
Waste Enforcement	WIP			
Car Parking Governance	Final	4	3	3
Spring Water Monitoring (Avon Act / Shale Gas Extraction)	Final	4	7	6
Pensions - Iconnect system	Final	4	1	1
Scan Coin Payment Kiosks	Final	4	4	4
Council Tax -Liability, Billing & Refunds (Inc. Northgate Revs & Bens Application)	Final	3	16	16
Cash - Library Services	WIP			
Property Officer Decision Making	Final	3	10	10
Catering	WIP			
Children Missing Education	Final	4	1	1
Commissioning - Safeguarding (School Theme Review - Disclosure Barring Service)	Draft			
Adults - Single Panel Process	Final	3	3	3
Capital & Schools Organisation - Childrens Services Property Estate	WIP			
City Deal	WIP			
Spring Water Supply	Final	4	1	1
Leisure Provision (Aquaterra)	WIP			
Highway Maintenance & Improvement Works – Drainage Systems and Verge, Hedge and Bank Cyclical Maintenance	Final	4	6	6
Food Safety & Health Promotion	Final	3	10	10
Taxis & Private Hire Vehicles	Final	4	2	2
Adult Care - Debt Management	WIP			
Finance Monitoring / Risk management	Final	5	1	1
IT Provision - Firewalls	WIP			
IT Provision - Malware Protection	WIP			
NNDR - Database & Valuation	Draft			
Incident Management	Final	3	16	16
Property - Compliance	WIP			
Out of County Placements		2015/16 Plan		
Joint Safeguarding - Effectiveness of joint case reviews		See Safeguarding Children		
Better Care Fund	WIP			

Audit Reviews (Position As At End of Q4 2014/15)				
Audit Review Title	Status	Assurance Level	Recommendations	
			Made	Agreed
The Hub - Governance Arrangements	Final	5	0	0
Theme Schools Review - Energy Management	Final	4	5	5
Economic Enterprise & Business Development		2015/16 Plan		
Retail Shops (Incl. Warehouse)	Draft			
Waste Operations	Final	5	1	1
Land Drainage (LLFA - Flood & Drainage Programme Management)	WIP			
Traffic & Safety (Traffic Signals & Intelligent Transport Systems)	WIP			
Adult Finance - Deputyship	Postponed			
Introduction of new HR & Payroll System	WIP	System	Development Work	
Payroll - Mileage & Business Expenses	Final	4	4	4
School Pensions / Payroll Responsibilities		2015/16 Plan		
Council Tax - Database & Valuation	Final	See C.Tax liability billing		
Project Delivery		2015/16 Plan		
Extended Services	Cancelled			
Theme Schools Review - Information Security	WIP			
LEP		2015/16 Plan		
World Heritage	Final	4	4	4
Roman Baths & Assembly Rooms (Incl. Income, Premises & Contracts)	Final	4	1	1
Tenancy Fraud		2015/16 Plan		
Design & Projects	WIP			
Personal Budgets	Final	3	3	3
Purchase Cards		2015/16 Plan		
Council Website	off 2015/16			
IT - Procurement & Disposal	WIP			
Pro-Contract		2015/16 Plan		
Welfare Reform (Universal Credit)		2015/16 Plan - HB Work		
Sustainability (Energy@Home)	Draft			
Anti-Fraud & Corruption - Purchasing Card	WIP			
Anti-Fraud & Corruption - Expenditure (HB Manual Adjustments)	WIP			
Anti-Fraud & Corruption - Income (Cash Floats)	Draft			



Bath & North East Somerset Council			
MEETING:	Corporate Audit Committee		
MEETING DATE:	26th March 2015	AGENDA ITEM NUMBER	
TITLE:	Internal Audit Plan - 2015/16		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Appendix 1 – Internal Audit Annual Plan 2015/16			

## 1 THE ISSUE

1.1 This is a report detailing the proposed Internal Audit Plan for 2015/16.

## 2 RECOMMENDATIONS

2.1 The Corporate Audit Committee is asked to:

- Approve the Internal Audit Plan for 2015/16

## 3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications relevant to this report.

## 4 THE REPORT

### 4.1 Internal Audit Annual Plan 2015/16 (Appendix 1)

4.2 The plan has been prepared using a number of factors to risk assess identified auditable activities. The factors used are -

- 1) 2013/14 Annual Governance Issue or directly linked to Corporate Risk Register (December 2014).
- 2) Exposure to Financial Irregularity (Control Environment / Corruption).
- 3) Time since last audit review.
- 4) Assurance Level last audit.
- 5) Business Continuity Risk (loss of function impacting on provision of critical services).

- 6) Expenditure (not including employee costs).
- 7) Income
- 8) Inherent risk (a multiplier based on taking into account 'other' risks and compensating controls such as review by external agencies / inspectorates).

- 4.3 Based on productive days available (following a deduction of days for leave, training, admin / management, Academy 'Responsible Officer' / Internal Audit Service visits, and a 10% unplanned work contingency) the plan records a total of 48 discrete Internal Audit Reviews plus allocated time for a minimum of 3 IT audits.
- 4.4 In addition to completing the Internal Audit Reviews the Audit & Risk Team will -
- Provide support to the corporate governance framework within the Council including completing the Annual Governance review work required to publish the Council's Annual Governance Statement;
  - Complete 'Follow-up' reviews to verify the implementation of Internal Audit Review recommendations.
  - Provide support to the Council's risk management framework including maintaining the Corporate Risk Register;
  - Carry out the Co-ordination and Investigation roles to complete the work required through the CIPFA Data Matching 'National Fraud Initiative';
  - Complete Anti-Fraud Data Analytics using Computer Assisted Audit Techniques (CAATs);
  - Provide advice on systems of internal control including Council policies and procedures. This is particularly important when systems and processes are being developed or changed;
  - Provide support to Services on carrying out investigations in relation to financial irregularities. This may require Audit & Risk staff to take on the Investigating Officer role in compliance with the Council's disciplinary procedures;
  - Provide a service to verify the accuracy of specific grant claims and when required provide assurance to the Council's Chief Executive or other officers who are required to 'sign-off' Claim Certificates.
- 4.5 The Plan has gone through a wide series of consultation with Strategic and Divisional Directors in addition to the risk assessment process to understand the views of key stakeholders.

## **5 RISK MANAGEMENT**

5.1 The preparation of the audit plan is carried out following a risk assessment using a number of factors. Commentary and opinion in relation to past performance has used the outcome of audit and other inspection work to inform the risk assessment and there is nothing significant to report.

## **6 EQUALITIES**

6.1 A proportionate equalities impact assessment has been carried out in relation to this report. There are no significant issues to report.

## **7 CONSULTATION**

7.1 The report was distributed to the S151 Officer for consultation.

<b>Contact person</b>	Jeff Wring (01225 477323) Andy Cox (01225 477316)
<b>Background papers</b>	
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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# Bath & North East Somerset Council

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## Internal Audit Annual Plan

**April 2015 - March 2016**

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## Contents:

<b>Section</b>	<b>Page No.</b>
1. Introduction	3
2. The Internal Audit Function within the Council	3
3. Relationship with the Council's External Auditor	4
4. Preparation of the Annual Plan	5
5. Internal Audit Review Methodology	6
6. Investigation of Financial Irregularities	7
<b>ANNEX A:</b> Audit Brief	8
<b>ANNEX B:</b> Opinion on the adequacy of controls	10
<b>ANNEX C:</b> Contact Details	11
<b>APPENDIX 1: Internal Audit Annual Plan 2014 / 2015</b>	

## **1. Introduction:**

- 1.1 The purpose of this document is to explain:
- The role of Internal Audit
  - How the Audit Team carries out its Internal Audit work
  - Relationship with the Council's External Auditor
  - How the annual plan is prepared, and
  - Present the 2015 / 2016 Annual Audit Plan
- 1.2 During the last quarter of 2014/15 members of the Audit Team have liaised and consulted with Strategic Directors, Divisional Directors & key third tier Officers to enable an Annual Internal Audit Plan to be compiled.

## **2. The Internal Audit function within the Council:**

- 2.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on its control environment. Internal Audit is not limited to the Council's financial systems and records, but extends to all activities of the Council.
- 2.2 The function is required to compile each year an Internal Audit Plan for approval by the Council's Corporate Audit Committee.
- 2.3 The Audit Team is compliant with the Public Sector Internal Audit Standards.

### **Internal Audit Independence:**

- 2.4 A critical element of the performance of Internal Audit function is independence from the activities audited. This enables the Audit Team to form impartial and effective judgment for the opinions and recommendations made.
- 2.5 To help ensure independence, the Audit Team is part of a partnership arrangement with North Somerset Council and so is not fettered by any management reporting line restrictions. It also has unrestricted access to Senior Management & Members, particularly, the Leader of the Council, Chair of the Corporate Audit Committee, the Chief Executive, Strategic Directors, the Council's s151 Officer and the Council's Monitoring Officer. Additionally, the Head of Partnership (responsible for the partnership arrangements) reports in his own name.
- 2.6 The Audit Team forms part of the core governance structure of the organisation and its input is required as part of the Council's Annual Governance review which results in the publication of the Council's Annual Governance Statement.

## **3. Relationship with the Council's External Auditor:**

- 3.1 As part of their audit of the Council's financial statements, the Council's external auditor, Grant Thornton, have a dedicated plan from which they carry out specific reviews of the Council's activities and the Avon Pension Fund. To facilitate this work they have issued a plan for the audit of the 2014/15 accounts.
- 3.2 The External Auditors carry out their own risk assessment methodology to assist in agreeing their workplan.

- 3.3 The working relationship between the Audit Team and the External Auditors carrying out the internal audit and external audit functions respectively is important and must take account of their differing roles. The External Auditor has a statutory responsibility to express an opinion on the Council's financial statements, whilst the Internal Audit function is responsible for assessing the adequacy and effectiveness of the internal controls and advising Management accordingly.
- 3.4 The External Auditors seek to place as much reliance as possible on the work of the internal audit function and there is regular contact between the two parties.

#### 4. Preparation of the Annual Plan:

The Audit Team has adopted a risk based approach in determining its Annual Plan.

##### Internal Audit Plan Risk Assessment:

- 4.1 To properly develop and substantiate the overall Annual Audit Plan it is necessary to carry out a full and detailed needs assessment of the whole of the Council's activities.

This is carried out through the use of a Risk Assessment model. This model has been developed over many years of audit experience and external best practice and is being continually updated and refined.

The Risk Assessment model, for which a summary of the criteria can be seen below, was applied to the Council's activities:

#### Internal Audit Risk Assessment Matrix – 2015/16

Criteria
Previous Year Annual Governance Review Issue (Significant or Long List) or Directly linked to a Corporate Risk Register risk.
Exposure to Financial Irregularity (Control Environment / Corruption)
Time since Last Audit Review
Assurance level last Audit
Business Continuity Risk (Loss of function impacting on provision of Critical Services)
Expenditure (not to include employee costs)
Income
Inherent risk (Multiplier) – take into account 'other' risks and compensating controls such as review by external agencies / inspectorates.



- 4.2 In order to select reviews to be included in the audit plan, the number of available productive audit days based on available resources must be calculated. The number of available productive days is compared directly with the list of audits (recorded in risk score order – high to low) produced through the risk assessment process. When the total number of available days equals the cumulative number of allocated audit days per audit a line is drawn. All those audits 'above the line' are included in the Audit Plan. This year we have allowed a contingency for 'Unplanned' work. Unplanned work consists of the investigation of irregularities and prioritised 'consultancy' work. If this contingency number of days is fully utilised and further unplanned work is required it is the intention that planned audit reviews, with the lowest risk rating, will be replaced by the unplanned work activity.
- 4.3 In view of the ever changing environment in which Local Government exists the Internal Audit Annual Plan will be reconsidered in September / October 2015 to confirm that work planned to be carried out in the second half of the year is still appropriate. This process will be carried out in consultation with Strategic Directors, Divisional Directors and Service Managers.

The Audit Plan is attached at **APPENDIX 1**.

## **5. Internal Audit Function Methodology:**

### **Individual Audit Reviews:**

- 5.1 At the commencement of each Audit Review, an Audit Brief (**Annex A**) will be prepared and issued to the relevant Divisional Director and responsible Manager. This Brief will identify the objectives of the review and areas to be covered. This Brief will be subject to agreement between the client (Council Service) and the auditor.
- 5.2 At the conclusion of each review, an end of review meeting will be held with the client (usually Service Manager) to discuss the matters arising. The Divisional Director may be involved at this stage. Wherever possible this meeting will occur before a 'draft' audit report is produced.
- 5.3 Following the conclusion of the audit review work a 'draft' audit report will be issued to Management. The report will provide a graded 'Assurance Level' (see ANNEX B); a summary of identified strengths & weaknesses; and a detailed action plan recording weaknesses and recommendations.
- 5.4 The nominated responsible Manager is required to respond to the audit findings and recommendations and prepare an action implementation plan recording responsible officers and timescale for implementation.
- 5.5 The management comments and implementation plan are compiled into a 'final' version of the report. This is issued to the recipients of the 'draft' version and the Divisional Director. It should be noted that the relevant Strategic Director will be informed of the outcome of all work carried out by the Audit Team.

### **Audit Review 'Follow-Ups':**

- 5.6 Internal Audit reports / recommendations are subject to "follow-up". The objective of this process is to ensure actions are implemented within the agreed timescales.
- 5.7 All recommendations are subject to 'follow-up'. The process is dependent on the risk classification of the weaknesses / recommendations. For all 'Low' and 'Medium' risk recommendations, management are required to confirm implementation of actions. For all 'Critical' and 'High' risk recommendations the Audit Team will carry out appropriate testing to confirm implementation.
- 5.8 The findings of Audit Review 'Follow-Up' will be reported to the relevant manager(s) and the Divisional Director. As stated in 5.5 above the relevant Strategic Director will be informed of the outcome of this work.

### **6. Investigation of Financial Irregularities:**

- 6.1 The Internal Audit function does not have responsibility for the prevention and detection of fraud and other financial irregularities. The Team will however be alert in all their work to the possibility of theft, fraud, corruption and bribery.
- 6.2 Members of staff working within the Council are required to report any possible wrongdoing. The Audit Team will provide a professional response to any such reports received. In this respect, attention is drawn to the Council's own Anti-fraud & Corruption and Whistle blowing policies. These can be found on the 'Internal Audit' website.

## Bath & North East Somerset Council

### Internal Audit Brief

• <b>Title</b>	{Title}	
• <b>Purpose of Review</b>	To review the risks and internal controls related to the scope of the audit (detailed below) and provide management with an opinion on the adequacy of the framework of internal control.	
• <b>Scope of Review</b>	The audit will review the following key risks/control objectives: • Ensure..... • Ensure..... • Ensure..... • Ensure.....	
• <b>Key Stages of Review Process</b>	<pre> graph LR     A((Agree Brief with Client)) --&gt; B((Compile &amp; Issue Draft Report))     B --&gt; C((Agree Opinion &amp; Final Report with Client))     D((Testing &amp; Field Work)) --&gt; E((Discuss Summary Findings with Client))     E --&gt; F((Implement &amp; Follow-up))     A --&gt; D     B --&gt; E     C --&gt; F       </pre>	
• <b>Timeframe</b>	<b>Fieldwork Starts:</b> {Date}	<b>Draft Report:</b> {Date}
• <b>Key Contacts</b>	<b>Lead Auditor:</b> {Name}	<b>Lead Client:</b> {Name}
• <b>Service Charter &amp; Professional Standards</b>	Our customer service charter outlines what you can expect from us and what in turn we need from you to complete this audit.  All audit work is reported to and monitored by the Audit Committee. All audit work complies with Public Sector Internal Audit Standards.	

## Audit Opinions

### *Assurance Level 5 (Excellent)*

The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary.

- *Assurance Level 4 (Good)*

The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary.

- *Assurance Level 3 – (Satisfactory)*

The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.

- *Assurance Level 2 – (Weak)*

The systems of internal control are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce risk exposure.

- *Assurance Level 1 – (Poor)*

The systems of internal control are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee.

## Contact Details

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Audit Team Leader (Resources and People {Adult Care Health Strategy & Commissioning} )	Dave Mehew 07980998969 <a href="mailto:dave_mehew@bathnes.gov.uk">dave_mehew@bathnes.gov.uk</a>
Audit Team Leader (Place, People {CYP} & Council Solicitor)	Paul Chadwick 07980998925 <a href="mailto:paul_chadwick@bathnes.gov.uk">paul_chadwick@bathnes.gov.uk</a>
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## **APPENDIX 1 - AUDIT PLAN 2015/16 – LIST OF AUDIT REVIEW AREAS**

<b>SERVICE AREA</b>	<b>AUDIT REVIEW</b>
<b>Pension Fund</b>	Pension Fund - IT Systems
<b>Pension Fund</b>	Pensions Administration (Contributions / Membership Records)
<b>Property</b>	Repairs & Maintenance - Identification / Scheduling of Works
<b>Property</b>	Project Delivery Revenue / Small Capital - Miles Barnes. Revenue £1.3m
<b>Property</b>	Repairs & Maintenance - Identification / Scheduling of Works
<b>Customer Services</b>	Project Delivery Revenue / Small Capital - Miles Barnes. Revenue £1.3m
<b>Customer Services</b>	Asset Property Management - Asset Accounting Valuations
<b>Customer Services</b>	HB Processing Claims & Subsidy Claim
<b>Customer Services</b>	HB Overpayments
<b>Business Support</b>	CCTV - compliance with Surveillance Camera / RIPA regulations.
<b>Business Support</b>	Somerset Business Rates Pool
<b>Business Support</b>	Payroll - Itrent - System administration & Information Security
<b>Business Support</b>	PCIDSS
<b>Business Support</b>	Procurement - Pro-Contract
<b>Business Support</b>	Purchasing Card Key Controls Review
<b>Business Support</b>	IT Audit Review(s)
<b>Social Care &amp; Health</b>	Care Packages / Placements – Under the threshold
<b>Social Care &amp; Health</b>	Care – Contract Payments & Performance Monitoring
<b>Social Care &amp; Health</b>	Deprivation of Liberty Safeguards
<b>Social Care &amp; Health</b>	Appointees - Duty of Care Client finances
<b>Social Care &amp; Health</b>	Care Act Implementation (New Liquid Logic IT System – System Development – Deferred Payment Agreements / client expenditure cap; state support asset levels)
<b>Social Care &amp; Health</b>	Better Care Fund
<b>Strategy &amp; Commissioning</b>	Chew Valley Secondary School
<b>Strategy &amp; Commissioning</b>	St.Marks Secondary School
<b>Strategy &amp; Commissioning</b>	St. Gregorys Secondary School
<b>Strategy &amp; Commissioning</b>	<b>School Theme Review</b> - Governance (Oldfield Park Juniors; and Saltford).
<b>Strategy &amp; Commissioning</b>	<b>School Theme Self-Assessment Reviews</b> - Financial Planning
<b>Strategy &amp; Commissioning</b>	<b>School Theme Self-Assessment Reviews</b> - Safeguarding
<b>Strategy &amp; Commissioning</b>	School Financial Value Standards – Assessment of Certificates and Assurance to Chief Finance Officer to sign SFVS Annual Assurance Statement
<b>Strategy &amp; Commissioning</b>	Liquid Logic - System Administration / Information Security
<b>Specialist Services</b>	Specialist Services - Contract Management (processing payments accurately / timely; pooled budgets - accurate / timely receipt of funding)
<b>Public Health</b>	Sexual Health Services Commissioning & Contract Management
<b>Environmental</b>	Bereavement Services
<b>Environmental</b>	Recycling
<b>Environmental</b>	Car Parking Enforcement- Penalty Charge Notices
<b>Environmental</b>	Community Transport
<b>Environmental</b>	Leisure Provision
<b>Community Regeneration</b>	Heritage - Replacement income / ticketing System
<b>Community Regeneration</b>	Heritage - Cash Collection & Banking Operation
<b>Community Regeneration</b>	Housing Allocations
<b>Community Regeneration</b>	Regeneration - Enterprise Area - Process Review
<b>Development</b>	Section 106 / Community Infrastructure Levy

<b>Development</b>	Planning Fees
<b>Electoral Registration</b>	Election Bank Account
<b>Democratic Services</b>	Members Allowances
	NFI
	AGS 2014/15
	AGS 2015/16
	Follow-Ups
	Claims - Connecting Families
	Other Claims contingency
	Anti-Fraud - Data Analytics
<b>Carry Forward 2014/15</b>	Deputyship
<b>Carry Forward 2014/15</b>	School Theme - Info Gov
<b>Carry Forward 2014/15</b>	Safeguarding - Children
<b>Carry Forward 2014/15</b>	Waste Enforcement

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## Agenda Item 13

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	26th March 2015	AGENDA ITEM NUMBER
TITLE:	Annual Governance Statement	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Annual Governance Review – Outline of Framework.		

### **1 THE ISSUE**

- 1.1 The aim of the report is to update the Committee on the Annual Governance Review and allow the Committee to contribute to the process which will result in the publication of the Council's Annual Governance Statement 2014/15.

### **2 RECOMMENDATION**

- 2.1 The Corporate Audit Committee is asked to note progress of the review and raise any issues for consideration as part of the Annual Governance Review.

### **3 FINANCIAL IMPLICATIONS**

- 3.1 A robust review of the Council's internal control and governance framework and the subsequent implementation of action plans form an essential part of the financial management framework.

### **4 THE REPORT**

- 4.1 In 2007/2008 the Council revised its Code of Governance and its methodology for producing an Annual Governance Statement based on the Accounts & Audit Regulations and the CIPFA / SOLACE 'Delivering Good Governance in Local Government'.

#### 4.2 The methodology requires:-

- The involvement of all Divisional Directors
- The use of Service Specialists to review evidence with relation to :-
  - Finance
  - Strategic Performance
  - Corporate Communications
  - Information Governance
  - Human Resources
  - Health & Safety
  - Environmental Impact & Sustainability
  - Equalities & Diversity
  - Safeguarding
  - Procurement

#### 4.3 The review of governance covers all significant corporate systems, processes and controls, spanning the whole range of Council activities, including in particular those designed to ensure:

- Council policies are implemented;
- Quality services are delivered efficiently and effectively;
- Council's values and ethical standards are met;
- Compliance with laws and regulations;
- Financial statements and other published performance information are accurate and reliable;
- Human, financial, environmental and other resources are managed efficiently and effectively.

#### 4.4 The 2013/14 review registered no significant issues and therefore there are no follow-up actions to report upon to the Committee.

#### 4.5 The 2014/15 Annual Governance Review has commenced and all Divisional Directors will have had the opportunity to contribute to the review and highlight any potential issues for consideration as to whether they are reportable in the Annual Governance Statement.

#### 4.6 In addition to consulting 'key' Corporate Officers and Divisional Directors, Strategic Directors (including the Chief Executive) and Cabinet will be asked for their input.

#### 4.7 The Annual Governance Statement is a 'management' statement and as such is signed by the Chief Executive and Leader of the Council.

4.8 In deciding which issues are 'significant' Councils are required to exercise sound judgement and guidance is limited to that provided by the Chartered Institute of Financial Accounts (CIPFA) as follows:

- The issue has seriously prejudiced or prevented achievement of a principal objective;
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in a significant diversion of resources from another aspect of the business;
- The issue has led to a material impact on the accounts;
- The audit committee, or equivalent, has advised that it should be considered significant for this purpose;
- The 'Head of Internal Audit' has reported on it as significant, for this purpose, in the annual opinion on the internal control environment;
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation;
- The issue has resulted in formal action being taken by the Chief Financial Officer and / or the Monitoring Officer.

4.9 Work on the governance review will continue following this Committee meeting. Key milestones in finalising the Annual Governance Statement are:

1) Report to Senior Management Team (July 2015).

2) Chief Executive & Leader of the Council sign the Statement linked to the approval of the Annual Accounts (30th Sept 2015).

4.10 The implementation of Annual Governance Statement actions, if there are any significant issues, will be monitored by the Corporate Audit Committee.

## **5. RISK MANAGEMENT**

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance. No significant issues to report for the Committee.

## **6. EQUALITIES**

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

## **7. CONSULTATION**

7.1 The report was consulted on with the S151 Officer for comment.

<b>Contact person</b>	Andy Cox (01225 477316) Jeff Wring (01225 477323)
<b>Background papers</b>	None
<b>Please contact the report author if you need to access this report in an alternative format</b>	

**Annual Governance Statement**  
(Chief Executive & Leader of the Council)

**Consultation with  
Officers, Cabinet &  
Corporate Audit  
Committee**

**Review Issues and  
Examine Supporting  
Evidence**

**Service Assurance  
Statements  
(Audit & Risk Manager)**

**Consultation with  
Officers & Corporate  
Audit Committee**

**Co-ordinate Draft  
AGS  
(Audit & Risk  
Manager)**

**Risk & Assurance Services  
(Internal Review)**

Internal Audit Reviews  
Fraud & Special Investigations  
Information Governance Work  
Corporate Governance Work  
National Fraud Initiative  
Risk Management Work  
Business Continuity Work  
Procurement Work

**Senior Management  
Assurance  
(2<sup>nd</sup> Tier Officers)**

Financial Management  
HR Management  
Performance Management  
Risk Management  
Procurement Management  
H&S / Equalities  
Sustainability  
Public Interest

**Performance  
Management &  
(Improvement &  
Performance)**

Directorate Business  
Reviews  
National & Local KPI's  
Corporate Performance  
Reporting  
Organisational Health

**External Review  
Assurance  
(e.g. External Audit &  
Other Inspectorates)**

External Audit  
Governance Report  
Peer Review  
Inspection Reports  
Information  
Commissioner  
CQC  
OFSTED

**Other Sources of  
Assurance**

Scrutiny Committees  
Regulatory Council  
Committees  
Ombudsman Reports  
Statutory Officer  
Assurance Statements  
Officer Groups  
Complaints

## Corporate Management - Internal Control Environment

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## Agenda Item 14

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	26 <sup>th</sup> March 2015	AGENDA ITEM NUMBER
TITLE:	Annual Report of the Corporate Audit Committee	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Existing Terms of Reference for the Corporate Audit Committee		

### **1 THE ISSUE**

1.1 An annual report of the committee's work in 2014/15 is required to be submitted to Council at its September meeting and this report asks for Members views on the effectiveness of the committee during this time. This will be the tenth annual report of the Committee since it was established by the Council on 12<sup>th</sup> May 2005

1.2 The current terms of reference of the committee are attached at Appendix 1.

### **2 RECOMMENDATION**

2.1 The Corporate Audit Committee is asked to:

- a) Delegate responsibility to the Chairman of the Committee and the Chief Internal Auditor to prepare an annual report for submission to Council in September;
- b) Comment on the effectiveness of the committee in carrying out its role during 2014/15.

### **3 FINANCIAL IMPLICATIONS**

3.1 There are no direct financial implications relevant to this report.

## **4 THE REPORT**

4.1 The Committee's work is carried out to give assurance to the Council over its governance arrangements and meet its terms of reference which are attached at Appendix 1.

4.2 During the year the following areas have been covered by the committee –

- Approval of the 2013/14 Accounts
- Review of the Treasury Management Strategy and Outturns
- Review of the plans and work of Internal Audit
- Review of options for service delivery for Internal Audit
- Review of the Annual Governance Review process for 2014/15
- Review of the Governance Reports for the Council & Pension Fund
- Review of External Audit Plans for the Council & Pension Fund
- Review of External Audit Update Reports
- Review of Grant Certification work from the External Auditor
- Review of the Council's Fraud & Corruption Arrangements
- Review of the Councils Risk Management Arrangements

4.3 As part of the process for preparing the annual report a desktop review will take place on the current terms of reference against best practice, particularly in light of the recent changes to the public audit regime. However at this time it is not considered that further changes are likely to be recommended, subject of course, to the comments of the members of the Committee.

## **5 RISK MANAGEMENT**

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

5.2 The Corporate Audit Committee has specific responsibility for ensuring the Council's Risk Management and Financial Governance framework is robust and effective.

## **6. EQUALITIES**

6.1 A proportionate equalities impact assessment has been undertaken and there are no significant issues to report.



## 7. CONSULTATION

7.1 The report was distributed to the S151 Officer for consultation.

<b>Contact person</b>	<i>Jeff Wring (01225 477323)</i>
<b>Background papers</b>	
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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## **Appendix 1 – Corporate Audit Committee Terms of Reference**

The Council delegates to the Corporate Audit Committee the following responsibilities:

1. To approve on behalf of the Council its Annual Accounts, as prepared in accordance with the statutory requirements and guidance;
2. To approve the External Auditors' Audit Plan and to monitor its delivery and effectiveness during the year;
3. To approve the Internal Audit Plan within the budget agreed by the Council and to monitor its delivery and effectiveness (including the implementation of audit recommendations);
4. To consider, prior to signature by the Leader of the Council and Chief Executive, the Annual Governance Statement (including the list of significant issues for action in the ensuing year), as prepared in accordance with the statutory requirements and guidance; and to monitor progress on the significant issues and actions identified in the Statement;
5. To review periodically the Council's risk management arrangements, make recommendations and monitor progress on improvements;
6. To review periodically the Council's key financial governance procedures, i.e. Financial Regulations, Contract Standing Orders, Anti-Fraud & Corruption Policy and to recommend any necessary amendments;
7. To consider the annual Audit & Inspection Letter from the External Auditor and to monitor progress on accepted recommendations;
8. To monitor and promote good corporate governance within the Council and in its dealings with partner bodies and contractors, including review of the Council's Code of Corporate Governance and in any such other ways as the Committee may consider expedient (within the budget agreed by the Council);
9. To consider and make recommendations of any other matters relating to corporate governance which are properly referred to the Committee or which come to its attention;
10. To make an annual report to council on the work [and findings] of the Committee, including (if necessary) any measures necessary to improve the effectiveness of the Committee.

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