

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Thursday, 29th September, 2011, 5.30 pm

Councillors: Andrew Furse (Chair), Barry Macrae, Brian Simmons, Kate Simmons, Will Sandry and Geoff Ward

Independent Member: John Barker

Officers in attendance: Tim Richens (Divisional Director - Finance), Jeff Wring (Head of Risk and Assurance) and Irene Draper (Principal Accountant)

Guests in attendance: Chris Hackett (Audit Commission) and Wayne Rickard (Audit Commission)

17 EMERGENCY EVACUATION PROCEDURE

The Chair read out the procedure

[At this point, the Chair welcomed to the meeting Wayne Rickard and Chris Hackett, both of the Audit Commission]

18 ELECTION OF VICE-CHAIR

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

19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies had been received from Councillor Gerry Curran.

Andrew Pate (Strategic Director of Resources and Support Services) had sent apologies for his absence.

The Chair announced that the Committee's longstanding Democratic Services Officer, Sean O'Neill, was attending a family funeral so was unable to be at the meeting. The Committee expressed their condolences to Sean and his family and asked for this to be recorded in the minutes.

20 DECLARATIONS OF INTEREST

There were none

21 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none

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

There were none

23 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none

24 MINUTES: 28 JUNE 2011

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

25 PRESENTATION - UNDERSTANDING THE ACCOUNTS

The Chair welcomed Irene Draper (Principal Accountant) who had served the Committee for a number of years. He announced that Irene would be leaving the Council at the end of September. The Committee expressed its thanks to Irene and best wishes for her future.

Irene gave a presentation entitled "Understanding the Accounts" [*a copy of which is attached to these Minutes as Appendix 1 and on the Council's website*]. She explained the new layout of the accounts, which were now required to follow the International Finance Reporting Standards. There was a brief question and answer session. The Chair thanked Irene for her contribution.

26 B&NES AUDITED FINANCIAL STATEMENTS 2010/11

Tim Richens, Divisional Director (Finance) introduced the report and drew the Committee's attention to the report in a number of places. He reminded the Committee that the Budget vs. Actual figures (page 7) were the same figures which had been reported to Cabinet in July. The report also included the Summary of Capital Expenditure, split by service department, the General Fund Balances and Reserves, and the Property Plant and Equipment (excluding commercial estate).

Councillor Barry Macrae congratulated officers for their very clear presentation of the complex accounts. He expressed disappointment that there was not a single page summary, as an aid to the public.

Irene Draper said that as in previous years, there would soon be available a 6-sheet summary.

Councillor Will Sandry referred to the Cash Flow Statement (page 13) and observed that the available cash had increased by £7M in the year. He asked if there was a reason for this, given that the Council had borrowed several million pounds.

The Divisional Director (Finance) explained that the available cash included borrowings held in cash equivalents, and assured the Committee that the Council always sought to minimise and delay borrowings by prudent use of available cash.

Councillor Andy Furse referred to the "step change" in the Children's Services area of the Income and Expenditure Account (page 11) and asked why this had happened.

Irene Draper explained that this had been brought about because of a different way of recording notional depreciation of school buildings, so the two years were not directly comparable.

Councillor Geoff Ward asked for an explanation for the improvement in Short Term Creditors (page 12).

Irene Draper explained that this was mainly as a result of better debt collecting.

Councillor Ward was concerned that the Bank Overdraft (page 12) was reported as £14M.

Irene Draper assured the Committee that there was always cash to balance the overdraft, and that the overdrafts did not cost the Council any interest.

Councillor Ward asked about the “surplus assets” of £26M (page 12), which he felt seemed very high.

Irene explained that to a large extent these were assets no longer being used by services but which had not yet been sold off.

Councillor Andy Furse asked whether the Council should look at this with a view to selling or bringing back into use.

The Divisional Director (Finance) said that the situation was considered on a monthly basis by the Capital Strategy Group. He observed that the proceeds from the sale of educational assets could only be reapplied to educational use, and there was often a delay before assets could be sold.

Chris Hackett (Audit Commission) observed that the disclosure of assets was a new requirement, but was successful in ensuring more openness in accounts.

[At this point, the Chair pointed out to the Committee that before considering the officer's recommendations to this report, it would be necessary to consider the two Governance Reports (items 12 and 13 on the agenda), and then to return to the debate and vote on this current item. The Committee agreed to this approach.]

27 GOVERNANCE REPORT B&NES COUNCIL 2010/11

Wayne Rickard (Audit Commission) introduced the report. He explained that he would be issuing an unqualified opinion on the accounts, saying that credit was due to the Council's Finance team for their hard work in preparing the accounts. He also referred to page 12 of his report and confirmed that he would be issuing an unqualified Value For Money opinion.

He referred to page 4 of the report, which asked the Committee to take note of the adjustments to the financial statements, as set out in his report, and to approve the letter of representation.

At pages 6-7, he referred to the key audit risks and his findings, and confirmed that in his view the accounts were materially correct and that the requirements of the new International Financial Reporting Standards had been met.

He talked the Committee through the rest of his report, particularly at page 9 the issues he had become aware of and his recommendations to improve the accounts.

Councillor Andy Furse referred to the fact that a number of schools would be transferring to Academy status, and asked whether the maintenance liability would still fall to the Council.

The Divisional Director (Finance) explained that the funding for maintenance came direct from government but that the relevant amount would be clawed back to cover the cost of maintenance. This year it had been £450K and next year it would be likely to be £700K, rising to possibly £2-3M. Some functions such as school admissions, Director of Children's Services and other functions must be retained by local authorities. He acknowledged that large amounts of money were involved, and it would be important to get it right.

On a recommendation from Councillor Geoff Ward, seconded by Councillor Brian Simmons, it was

RESOLVED (unanimously):

1. To NOTE the adjustments to the financial statements which are set out on page 18 of appendix 2 of the report;
2. To APPROVE the letter of representation on behalf of the Council which is set out on page 23 of appendix 4 of the report.

28 GOVERNANCE REPORT AVON PENSION FUND 2010/11

Chris Hackett (Audit Commission) introduced the report. He explained that he had asked for an additional note (note 22) to be added at page 84 of the accounts.

The Chair read out the recommendations from the report. He asked for clarification of the understatement of debtors, reported in appendix 3 (page 19) of the Auditors' report.

Chris Hackett assured the Committee that, although requiring to be reported, both the references being referred to were in fact timing issues and were not material.

Councillor Barry Macrae expressed his thanks to the Auditors for the excellent working relationship they had built up with the Council. This was echoed by other members.

On a recommendation from Councillor Geoff Ward, seconded by Councillor Will Sandry, it was

RESOLVED (unanimously):

1. To NOTE the adjustment to the financial statements which is set out on page 18 of the Governance Report;
2. To APPROVE the letter of representation on behalf of the Avon Pension Fund which is set out on page 9 of the Governance Report.

[At this point, the Chair directed the attention of the Committee to the recommendations from the previous item "Audited Statement of Accounts", and

reminded the Committee that they now needed to make their decision about the accounts.]

On a motion proposed by Councillor Brian Simons, seconded by Councillor Barry Macrae, it was:

RESOLVED (unanimously):

(1) To APPROVE the audited Statement of Accounts for 2010/11 after receiving the Governance Reports from the Audit Commission for the Council and Pension Fund

[The Chair signed the accounts, which were passed to the 151 Officer for signature and safe keeping]

29 PRESENTATION - THE ROLE OF THE AUDIT COMMISSION

Wayne Rickard (District Auditor) gave a presentation *[a copy of which is attached to these Minutes as Appendix 2 and is available on the Council's website]* on the role of the Audit Commission and proposed changes to the governance arrangements of the Commission.

The Chair thanked the District Auditor for his presentation.

30 BRIBERY ACT 2010

Jeff Wring (Head of Risk and Assurance) introduced the report. He explained that the Bribery Act had come into force in July 2011. He referred in particular to paragraph 4.4 (page 2 of the report) which listed as a commercial offence "failure to prevent bribery". He also referred to the arrangements put in place to mitigate the risk of bribery, and these were laid out in paragraph 4.12 (page 4) of the report.

Councillor Will Sandry asked how many times in the last 12 months a member of staff had used the whistleblowing arrangements.

The Head of Risk and Assurance said that the Council received approximately 5 whistleblowing reports in any year, and about 75% of these were anonymous. So it was difficult to give an accurate figure for members of staff.

Councillor Sandry asked what percentage had been found to be proven.

The Head of Risk and Assurance said that in about a third of cases, evidence was found of "something not quite right", although in many cases it was down to poor management rather than deliberate fraud. He also explained that a proportion of whistleblowing incidents are the result of a breakdown in a working relationship.

Councillor Barry Macrae asked if all reports were treated seriously and properly investigated, and logged so that patterns could be spotted.

The Head of Risk and Assurance confirmed that a log was kept so that patterns could be spotted and investigated further.

John Barker observed that it would be very important to keep track of the activities of social enterprises and other partnerships.

It was **RESOLVED** (unanimously):

1. To NOTE the report;
2. To ACKNOWLEDGE the new legislation together with the Council's current response to this.

[The Committee agreed to note that the next meeting would be held on 6th December 2011, at 5:30pm. The Democratic Services Officer confirmed that matters were in hand to arrange dates for 2012 which would be announced in due course.]

The meeting ended at 7.45 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

Audit Committee Briefing
Understanding the Accounts

29th September 2011

Understanding the Accounts

Outline

- Introduction
- International Financial Reporting Standards
- Financial Statements

Understanding the Accounts

Introduction

Timetable

- The Council publishes its draft Statement of Accounts by the end June each year – certified by S151 Officer
- The draft accounts are audited by our external auditors during June to September
- During this time there is an opportunity for the public to inspect the accounts
- The final audited Statement of Accounts are approved by the Corporate Audit Committee by the end of September

Understanding the Accounts

Introduction

Format of Financial Statements

- Format is prescribed by the CIPFA Code of Practice & Guidance – standardised to allow comparison across

Councils

- Explanatory Foreword
- Statement of Responsibilities
- Movement in Reserves
- Comprehensive income & expenditure account
- Balance Sheet
- Cash Flow Statement
- Notes to the Accounts
- Collection Fund

Understanding the Accounts

Introduction

Purpose of Financial Statements

- **To give Councillors, officers, residents, customers and other interested parties information about the Council's financial position**

Understanding the Accounts

International Financial Reporting Standards

Background

- **Aim of IFRS is to harmonise global financial reporting**
- **The 2007 Budget announced that the UK public sector would adopt IFRS**
- **Central government and NHS implemented in 2009/10**
- **Local government implemented in 2010/11**

Understanding the Accounts

International Financial Reporting Standards

What are the significant changes ?

- **New statements and amended layouts**
- **More disclosures – bigger set of accounts**
- **Component Accounting – separate depreciation of significant components of assets**
- **Segmental reporting note**
- **Leases – major review**
- **Government grants**
- **Short-term accumulating compensation absences (annual and flexi leave untaken at year end)**

Understanding the Accounts

Main Financial Statements

Comprehensive Income and Expenditure Statement (CIES)

- **Equivalent of a private sector company Profit & Loss Account**
- **Shows the cost for the year of providing services in line with required accounting practices**
- **Produces the statutory accounting result which is prepared on a different basis to the Council's regular budget monitoring and outturn reports**

Understanding the Accounts

Main Financial Statements

Balance Sheet

- Shows the value of assets & liabilities recognised by the Council
- Net assets (assets less liabilities) are matched by reserves held
- Reserves are split into two main categories:
 - Usable Reserves: can be used to provide services
 - Unusable Reserves: can't be used to provide services

Understanding the Accounts

Main Financial Statements

Movement in Reserves Statement

- **Shows movement in the year on different reserves held by the Council**
- **Surplus / Deficit on Provision of Services line shows true economic cost of providing the Council's Services – links to CIES**
- **Closing balances of reserves – links to bottom section of the Balance Sheet**

Understanding the Accounts

Main Financial Statements

Cashflow Statement

- Shows how cash held at the bank and in investments has been received and used during the year
- Cashflow statement is broken down into:
 - a) Net cash flows from Operating Activities
 - b) Net cash flows from Investing and Financing Activities
 - c) Total net increase or decrease in cash or equivalents
 - d) Cash and cash equivalents held at the end of the reporting period

Understanding the Accounts

Notes to the Accounts

- **Disclosure Notes – changes**
- **Accounting policies**
- **Assumptions and estimation techniques**
- **Segmental reporting**
- **Leases**
- **Investment properties**

Understanding the Accounts

Notes to the Accounts

Disclosure Notes – segmental reporting

- **New requirements for segmental reporting this year**
- **Aim to provide greater transparency**
- **A matrix report showing type of expenditure by type of service area in the Council’s internal reporting format**
- **Reconciliation to the Net Cost of Services and the surplus/deficit on Provision of Services in the CIES which shows all items required to be included in the statutory accounting surplus or deficit**

Understanding the Accounts

Financial Statements

Collection Fund

Legal requirement to maintain this fund separately from all other funds and accounts of the council. It shows:

- **Transactions arising because B&NES is billing authority:**
 - **collection of council tax on behalf of precepting authorities**
 - **collection of business rates on behalf of central government**
- **Amounts paid out to preceptors and central government**

Understanding the Accounts

Financial Statements

Are there any questions ?

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Bath and North East Somerset Council Audit Committee Briefing

**Wayne Rickard
Chris Hackett
September 2011**



Introduction

What is the role of the Audit Commission auditor?

How do we work with you?

What is the role of the audit committee ?



Role of the Audit Commission auditor

Our work is prescribed in a number of sources

Work done is prescribed by the *Code of Audit Practice*

Audit Commission Standing Guidance

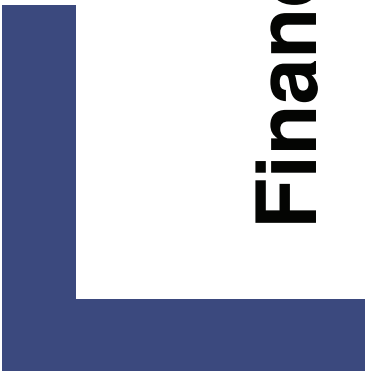
International standards of Audit

Accounts and Audit Regulations



Audit work focussed mainly on two areas

- 1. Financial Statements**
- 2. Value for Money Conclusion**

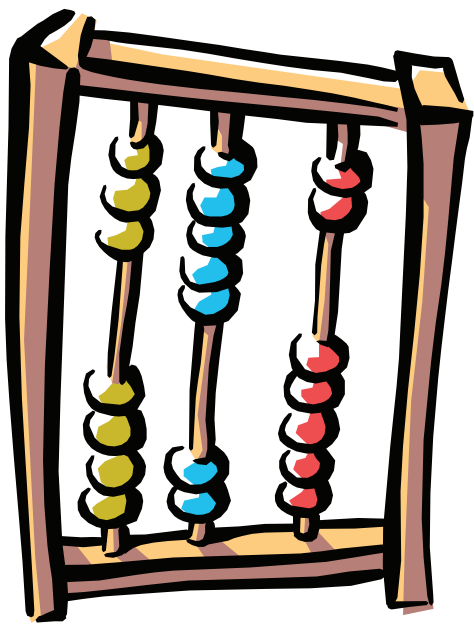


Financial Statements

We provide an opinion on your financial statements

Key issues for 2010/11:

- Implementation of Internal Financial Reporting Standards





Our approach financial statements

Understand the entity and assess risks (ISA 315)

Determine materiality

Issue an audit plan

Undertake an interim audit

Undertake a post statements audit



Interim Audit

- Document all financial systems that support material headings in the accounts
- Undertake testing of controls on a cyclical basis
- Review your governance arrangements

Post statements audit

- Reassess materiality and risks ISA 320
- Review qualitative issues in the accounts, explanatory foreword, accounting policies
- Review the annual governance statement
- Assess disclosure in line with the CIPFA accounts Code
- Substantively test all material account headings in the statement of accounts
- Assertions



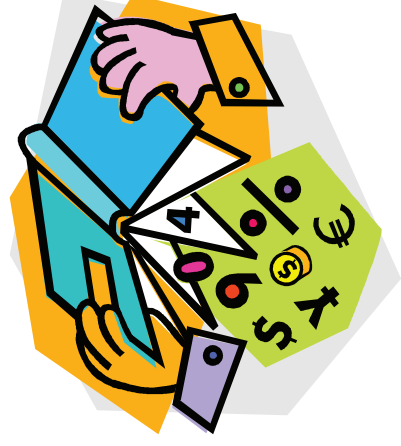
How we work with you

- **Internal Audit**
 - Rely on IA work where possible to maximise use of audit resource recognising different responsibilities
- **Working papers**
 - Agreed at an early stage
- **Technical issues**
 - Chief accountants workshops

The role of the audit committee

Accounts

- Review and approve the Statement of Accounts
- Receive the auditors report (ISA 260) on the annual audit by 30 September



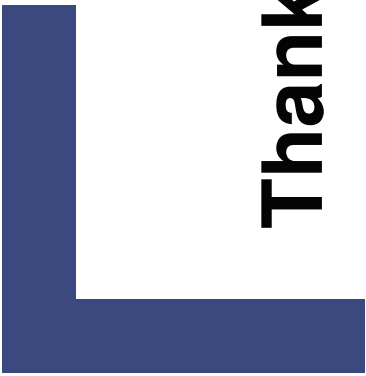
The role of the audit committee

What should the review of the Statement of Accounts focus on?

Suitability and treatment of accounting policies

Major areas of judgement made by officers

Significant adjustments and weaknesses in internal control reported by the external auditor in the ISA 260 report.



Thank You For Your Time

Any further questions?

