

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Tuesday, 7th December, 2010, 5.00 pm

Councillors: Tim Ball, Armand Edwards, Bryan Organ, Brian Simmons and Brian Webber

Independent Member: John Barker

Also in attendance: Andrew Pate (Strategic Director - Resources), Tim Richens (Divisional Director - Finance), Jeff Wring (Head of Audit, Risk and Information) and Andy Cox (Risk Manager)

15 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

16 ELECTION OF VICE-CHAIR

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

17 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Colin Barrett.

18 DECLARATIONS OF INTEREST

There were none.

19 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

21 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

A Member asked about the future of Business Link West following the abolition of the Regional Development Agency and the replacement of the West of England Partnership by a Local Enterprise Partnership. The Chair said that he would seek information from the Divisional Director – Development and Regeneration and report back.

22 MINUTES: 30 SEPTEMBER 2010

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

23 TREASURY MANAGEMENT SIX MONTHLY UPDATE REPORT

The Divisional Director – Finance presented the report. He said that as part of the Comprehensive Spending Review the Government had increased the interest rate charged by the Public Works Loans Board (PWLB) by 1% above UK Government Gilts. The Council had been fortunate in the timing of borrowing that had antedated this increase, but there would be an impact on future borrowing costs. Consideration was being given to the issue of corporate bonds by the Council, because this could be the cheapest form of borrowing.

A Member asked whether all borrowing had been risk-assessed and expressed concern about the risk of the Council being unable to repay the long-term loans of 30-50 years listed on page 19 of the Appendix. The Divisional Director – Finance said that borrowing only took place when interest rates were satisfactory, otherwise cash was used to finance the capital programme. The financing of the capital programme would be reviewed by the whole Council in February 2011 as part of the budget setting process. The length of loans depended on the life of the asset; buildings would have an expected life of 50-60 years.

A Member asked about the interest rates on long-term loans. The Divisional Director – Finance said that they were actually short-term rates. 4.75% was an extremely good rate – the lowest that could now be obtained following the PWLB change was 5.4%.

A Member asked about the impact of schools becoming Academies on the Council's budget. The Divisional Director – Finance explained that the Council would merely pass the funds provided by the Government to the Academies.

RESOLVED to note the Treasury Management Monitoring Report to 30th September 2010.

24 RISK MANAGEMENT ANNUAL UPDATE REPORT

The Head of Audit, Risk and Information drew attention to the information in paragraph 4.3 of the report that, following the Government's announcement about the future of the PCTs, it was no longer the intention to integrate the Council and PCT risk management strategies but to align them. The Council's risk management had had to be rewritten to reflect this and would be submitted for the decision of the Cabinet Member for Resources.

The Risk Manager summarised the progress report on the Risk Management Strategy attached as Appendix 1 to the main report. He then distributed copies of the Corporate Risk Register and commented on it, using several examples to explain how risk ratings could be changed or how it could be decided to remove particular risks from the Register altogether.

A Member asked about the success in engaging team leaders with the risk management strategy. The Risk Manager replied that there was a core staff competency relating to risk management and that it was an item on all staff induction courses, where emphasis was laid on the "golden thread" linking high-level Council objectives with individual staff objectives.

A Member asked about the risk management implications of Academies. Another Member noted that Academies acquired the ownership of the school's assets. The Divisional Director – Finance said that the Director of Children's Services would ensure that there was no major expenditure on schools that were likely to become Academies in the near future.

RESOLVED to note the report.

25 INTERNAL AUDIT SIX MONTHLY UPDATE REPORT

The Head of Audit, Risk and Information presented the report. He acknowledged that the performance of 80% of planned work completed was disappointing, but underlined there were several mitigating factors. He drew attention to the information given in paragraphs 4.11-4.15 about the Financial Management Standard in Schools following the Government's decision to abolish it.

A Member referred to the statement about the flexible working of the Internal Audit team and the reduced accommodation need arising from this. He wondered what assessments had been undertaken to ensure that the Council did not make wrong decisions about accommodation. The Head of Audit, Risk and Information replied that all services were seeking to reduce their accommodation. One of the reasons the new auditing software had been chosen was that it facilitated flexible working and so reduced accommodation requirements.

Mr Hackett asked about the prospects of completing the work plan by March. The Head of Audit, Risk and Information replied that in January and February priority had to be given to the Corporate Plan. The work plan was under review, and the need for follow-up action from previous audit work would be looked at very carefully. There were resources available for temporary staff.

A Member said that he had heard that a Council was considering discontinuing its anti fraud and corruption service because it did not recover its costs and asked about the future of the service in B&NES. The Head of Audit, Risk and Information said that consideration was being given to which functions were core and which could be outsourced, but that there was no chance of anti-fraud and corruption work being discontinued.

RESOLVED to note progress on the Internal Audit Plan 2010/11 and Internal Audit's performance within the CIPFA Benchmarking exercise.

26 CHANGES TO VFM OPINION AND OPINION AUDIT

The District Auditor distributed to Members copies of a set of slides on the new methodology for the 2010-2011 Value for Money (VfM) conclusion. A copy is attached to these minutes as an appendix. In future VfM would be assessed against the two criteria described in the slides and there would no longer be Key Lines of Enquiry. The Director of Resources and Support Services said that the Council was already doing a great deal to improve VfM. There was a Change Programme and a great many improvements were noted in the Annual Audit Letter. He was confident that Bath & North East Somerset was in a much stronger position to face the future than many other Councils. A Member asked what risk assessments had been taken

carried out for the Change Programme. The Director of Resources and Support Services responded that there were risks associated with the programme, but he felt, whilst the Corporate Audit Committee did have a role in relation to them, most were service-specific and fell within the jurisdiction of the Overview and Scrutiny Panels. He would consider how the Corporate Audit Committee could be provided with an overview of the risks without duplicating the work of the O&S Panels. A Member suggested that the Chairs of the O&S Panels might make a joint report to the Committee. The District Auditor said that the Change Programme could necessitate changes to controls and that the Committee needed to be sure that an adequate risk management and governance framework was in place.

A Member asked what would be the main differences between the new VfM approach and the previous Comprehensive Performance Review, what form the assessment report would take, and whether the use of resources other than finance, e.g. staff would be taken into account. The District Auditor replied that under the new approach there would be no grading system that would allow direct comparisons between Councils; the aim was to understand how individual Councils operated. The external auditors would not provide full assurance, but would assess corporate arrangements on a pass or fail basis. The form of reports was still under development. Staffing would be assessed only from a financial point of view.

Mr Hackett explained the changes relating to the Opinion Audit. He explained that the professional accountancy bodies had agreed new International Standards on Auditing (ISA). These would affect the way the next audit would have to be carried out. The main changes would occur in Journals, Related Party Transactions, Accounting Entries and Reporting Deficiencies in Internal Control. Accounts inevitably included many estimates and auditors would in future have to more work on the basis for these estimates.

RESOLVED to note the changes proposed in relation to the VfM opinion for Local Authorities and the Opinion Audit in relation to the Annual Accounts.

VFM presentation

27 COMPLIANCE WITH ISA'S - FRAUD AND CORRUPTION

The Head of Audit, Risk and Information presented this item. The Committee was requested to make a formal response to the Audit Commission about compliance with International Auditing Standards (ISA) in relation to fraud and corruption. He provided Members with a copy of a draft response. The Chair summarised and commented on the response.

The Divisional Director – Finance said that he would keep the Committee informed of if any changes were required to the Council's implementation of ISA.

RESOLVED to approve the draft response to the Audit Commission letter.

28 ANNUAL AUDIT LETTER - AUDIT 2009/10

The District Auditor presented the report. He said that overall the letter reflected the improvements the Council had made over the past twelve months. He drew attention to the section on "current and future challenges" on page 3 of the letter and also to

the comments about the implementation International Financial Reporting Standards (IFRS) on pages 4 and 5. He said that the challenge of implementing IFRS should not be underestimated. He noted that the Finance team had a project plan in place for implementation, but he advised Members that they should seek regular assurance that the plan was on target. He said the challenge presented by the abolition of the PCT was for the Council not to lose the benefits of the work already done on Council/PCT integration. The Council had been proactive in its work with the PCT and should strive to keep on top of issues during the transition period. He said that the Council was fortunate in having balances above the minimum level and had been proactive in planning for future funding cuts. However, the Council was also committed to significant structural changes and had to ensure that there was enough capacity to implement these and to work with external stakeholders.

A Member was concerned by the recent Government statement encouraging local authorities to use their reserves to address immediate financial challenges.

A Member asked about future audit fees. The District Auditor replied that 2010/2011 would be the last audit conducted under the old Audit Commission framework. He would be surprised if there were significant reductions in fees, because the Audit Commission was to be wound up and this would give rise to exceptional one-off costs. It was possible that the Commission would become an independent auditor, which, he believed, would result in a significant reduction in costs because of a reduction in overheads.

RESOLVED to note the Annual Audit Letter 2009/10.

29 AUDIT PLAN EXTERNAL 2010/11

The District Auditor presented the 2010/11 External Audit Plan.

RESOLVED to note the Audit Plan 2010/11.

The meeting ended at 7.09 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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2010-11 VFM conclusion

Presentation to Corporate Audit Committee

7 December 2010

Wayne Rickard, Chris Hackett



2010-11 VFM conclusion

- Requirement of the CoAP
- New approach from 2010-11
- Will apply at all types of bodies
- Issue conclusion in September 2011 for arrangements at 31 March



Specified criteria

- **The organisation has proper arrangements in place for securing financial resilience.**
- **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

Specified criteria

- **The organisation has proper arrangements in place for securing financial resilience.**
 - Financial governance
 - Financial planning
 - Financial control

Specified criteria

- **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**
 - **Prioritising resources**
 - **Improving efficiency and productivity**

2010-11 Approach

- Risk based focussed on local risks
 - This will take account of knowledge we have from previous years
 - We will make linkages with other aspects of the audit
- We will have regard to national issues
- VFM profile tool and financial ratios tool
- If a risk identified
 - national study update briefings
 - local savings review guides

Next steps

- Discuss our risk assessment with officers
- Undertake additional work as necessary
- Report findings in the auditor's Annual governance Report

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