

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Thursday, 30th September, 2010, 5.00 pm

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

Also in attendance: Andrew Pate (Strategic Director - Resources), Tim Richens (Divisional Director - Finance), Jeff Wring (Head of Audit, Risk and Information) and Irene Draper (Principal Accountant)

1 EMERGENCY EVACUATION PROCEDURE

The Clerk read out the procedure

2 ELECTION OF VICE-CHAIR

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

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

4 DECLARATIONS OF INTEREST

There were none.

5 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

7 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

8 MINUTES: 29 JUNE 2010

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

A Member referred to the slide headed "*The Council has a strong Ethical Framework to Support Members*" in the presentation on Corporate Governance and Ethical Standards attached as an Appendix to the minutes, and commented that the Ethical Framework would need to be revised because of the Government's announcement that Standards for England and the standards regime for local authorities would be

abolished. He wondered when the process of revision would begin. The Head of Risk and Assurance replied that the existing Ethical Framework would remain in place for a while, as the Government's proposals had not yet been implemented. The Director of Resources and Support Services replied that the Monitoring Officer would need to advise on the future framework. The Chair suggested that it would be sensible to start work on this now.

9 TREASURY MANAGEMENT OUTTURN 2009/10

The Divisional Director – Finance presented the report.

He said that all cash was invested in strict accordance with the Treasury Management Strategy. The average rate of interest on investments during the period was 1.46%, which was 0.99% above the benchmark rate of average 7-day London Interbank Bid Rate (LIBID) + 0.05%. This was a very good rate of return, given the Council's strict policy, and represented an additional £843k of net interest income earned above the benchmark rate.

All borrowings were made for the capital investment programme. There had been no additional borrowings in 2009/10. Instead the cash balances had been drawn on; the cost of borrowing would be 4+%, whereas the interest lost on cash deposits would only be 1+%.

Appendix 1 showed that all the prudential indicators had been complied with.

In response to questions from Members he explained

- the interest rates indicated by investments were the annual rates applicable for the duration of the loans
- the Treasury Management Strategy permitted up to 100% of borrowings to be at fixed rate and up to 50% at variable rate; the current proportions were 65% and 25% respectively
- Lloyds and Barclays were on the approved counterparties list contained within the Treasury Management Strategy; no investments were made with HSBC as they appeared not to be seeking funds at the moment and were offering very low rates of interest

RESOLVED

1. To agree the 2009/10 Treasury Management Annual Report to 31st March 2010.
2. To note the 2009/10 actual Treasury Management Indicators.

10 GOVERNANCE REPORT FOR THE AVON PENSION FUND

The Divisional Director – Finance presented the report. He reminded Members that the draft Statement of Accounts, which included the accounts for the Avon Pension Fund, had been approved by the Committee on 29 June 2010. The most significant change in the Pension Fund accounts related to the Government's announcement in the Budget that future pension increases would be based on the Consumer Price

Index rather than the Retail Price Index.; this had the effect of reducing the Fund's pension obligation by 5-8%. The external auditors had identified two non-trivial misstatements, which had not been amended, because they were presentational errors which did not affect the bottom line and would not mislead users of the accounts. There was also a disclosure issue affecting an investments note, which had also not been amended.

The auditors had commented the previous year on the need to improve working papers, but this year they had noted that electronic working papers had been available at the start of the audit trail. Subject to the clearance of outstanding matters, the auditors planned to give an unqualified opinion on the accounts.

RESOLVED

1. To note the issues raised in the Governance Report, specifically the matters raised in pages 7-9 (Financial Statements), Appendix 2 (adjustment of financial statements) and Appendix 3 (letter of representation).

2. To approve the letter of representation.

11 GOVERNANCE REPORT FOR BATH AND NORTH EAST SOMERSET COUNCIL

The Divisional Director – Finance presented the report. Changes made as a result of comments by the auditors were:

(a) The Council's Balance Sheet had decreased by £10.6m. This was due to a change in asset values following the interpretation of new rules introduced in the 2009/10 Statement of Recommended Practice (SoRP). The issue was the treatment of long leases, which officers had originally believed should be included in the statement of the Council's assets. However according to the new SoRP only operating leases, not finance leases should be included. The change was only presentational and did not impact on the bottom line and, in the view of officers, would not mislead users of the accounts.

2. There had been some presentational and technical changes to the accounts, but no change to the General Fund Balances and Reserves.

The auditors had noted an improvement in the quality of financial statements and associated working papers since last year. Further changes to the accounts would be required to comply with the new International Financial Reporting Standards. Subject to the clearance of outstanding matters, the auditors planned to give an unqualified opinion on the accounts.

He tabled a revised action plan to replace the one included as Appendix 6 in the Annual Governance Report and invited Members to approve it. A copy of the revised action plan is attached as an appendix to these Minutes.

The District Auditor said that he was at present unable to complete the audit, because an objection to the accounts had been received from an elector. This would need to be investigated.

A Member asked why the number of teachers earning more than £50,000 had increased from 72 to 85 during the year. The Director of Resources and Support Services replied that this was probably because a group of teachers who had previously been just below the £50,000 threshold had exceeded it after receiving their latest regular pay increment. He said he would investigate and report back.

Members noted the reduction in audit fees, which the District Auditor explained was due to a change in audit requirements and in the Audit Commission's fees structure. He said there might be a small addition to this year's fee because of the need to investigate the complaint from the elector. There would be no increase in next year's fees, though it was too early to say whether there would be a reduction.

The Divisional Director – Finance thanked finance staff for working hard to improve the quality of working papers. The District Auditor also thanked finance staff for the improvement.

RESOLVED

1. To note the issues raised in the Governance Report, specifically the matters raised in pages 7 to 12 (Financial Statements), Appendices 2 and 3 with regard to the adjustment of the Financial Statements, Appendix 4 with regard to approving the letter of representation, and Appendix 6 (response to the proposed Action Plan)
2. To approve the updated Action Plan.
3. To approve the amended accounts (2009/10).

12 INTERNAL AUDIT SERVICE DELIVERY OPTIONS PROJECT - VERBAL UPDATE

The Head of Audit, Risk and Information gave a verbal update. He had presented a report to the 2nd February 2010 meeting of the Committee on four options for future delivery of the Internal Audit service together with the brief for a project to evaluate these options. The planning stage and most of the research stage of the project had now been completed, and options appraisal would start shortly. A report would be made to the Director of Resources and Support Service and the Cabinet in November. He hoped to be able to give the Committee a full report and seek its approval on the way forward in December, or next February at the latest. The Council was already planning to reduce expenditure by 25% over three years; the outcome of the Government's Comprehensive Spending Review could mean an even tougher financial situation. In the future, the Council could be providing fewer services, which would impact on the work of Internal Audit. Discussions were taking place with other local authorities about the possibility of an Internal Audit partnership, though it seem that some of them would not be ready to enter into such a partnership at present.

A Member asked about the impact of national policies, such as changes to local authority boundaries or the status of schools. He suggested that there were so many unknowns that it would not be possible to formulate firm plans within six months. The

Head of Audit, Risk and Information replied that the financial parameters would be known, though there would be other unknowns; the answer might be transitional arrangements until it was possible to decide a more permanent form for the Internal Audit function. The Director of Resources and Support Services commented that many things would become clearer before December: the outcome of the Comprehensive Spending Review would be known and the Local Government Bill would be published. He thought it more likely that the Bill would introduce changes to the role of local authorities rather than to their boundaries. The Chief Executive would make a report to Council in response to these developments.

A Member asked for further information about the discussions about an Internal Audit partnership. The Head of Audit, Risk and Information said that there was already an internal audit partnership in the South West, but it would be more natural for the Council to try to establish a partnership with the other former Avon authorities. However, those authorities had a somewhat different approach and their own priorities.

A Member asked about the impact of the abolition of the Primary Care Trusts. The Head of Audit, Risk and Information responded that Bath PCT had its own outsourced internal audit and counter-fraud functions. B&NES and the PCT had agreed a working protocol on internal audit issues. If Council-PCT integration resulted in the creation of a separate entity, a choice would have to be made as to who would provide its internal audit function. The Director of Resources and Support Services added that this was an area that would also need to be addressed in the November report to Council.

A Member was concerned that much of the work that had gone into Council-PCT integration would be wasted because of the abolition of the PCTs. The Director of Resources and Support Services responded that he hoped that the work done on joined-up working would not be wasted, though it might have to be implemented in a different way.

RESOLVED to note the update.

13 FUTURE OF AUDIT COMMISSION AND WORKPLAN - VERBAL UPDATE

The District Auditor informed Members that the Audit Commission was working on the basis that it would continue in its present form until at least 2011/2012. The Commission would be heavily involved in the development of the new local audit framework on behalf of the Department of Communities and Local Government. He believed that the audit side of the Commission would continue in some form after that, either in a stand-alone privatised entity or through merger with a medium-sized firm of auditors. It was not easy for public sector bodies to find alternative auditors, and there were questions about the procurement of audit services and value-for-money that needed to be addressed. The Secretary of State had praised the work done by the audit side of the Commission.

A Member expressed concern that uncertainty about the Commission's future might lead to the loss of skilled staff.

The District Auditor promised to update Members as further information became available.

RESOLVED to note this update.

14 COMMITTEE WORKPLAN - VERBAL UPDATE

The Head of Audit, Risk and Information circulated a paper to Members listing suggested agenda items for the next few meetings of the Committee. He reminded Members that the Independent Member was always available to provide them with training or briefing.

The Independent Member suggested that briefings could be held before Committee meetings.

The Head of Audit, Riks and Information invited Members to send comments to him or the Independent Member.

RESOLVED to note the update.

The meeting ended at 6.24 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services