BATH AND NORTH EAST SOMERSET COUNCIL

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Tuesday, 4th December, 2012, 5.30 pm

Councillors: Andrew Furse (Chair), Gerry Curran, Dave Laming, Barry Macrae, Douglas Nicol (In place of Will Sandry), Brian Simmons and Geoff Ward
Independent Member: John Barker
Officers in attendance: Tim Richens (Divisional Director, Finance), Jeff Wring (Divisional Director, Risk and Assurance Services) and Andy Cox (Group Manager (Audit/Risk))
Guests in attendance: Chris Hackett (Grant Thornton) and Barrie Morris (Grant Thornton)

26 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

27 ELECTION OF VICE-CHAIR

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

28 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Will Sandry, for whom Councillor Douglas Nicol substituted.

29 DECLARATIONS OF INTEREST

There were none.

30 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There were none.

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

There were none.

32 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

33 MINUTES: 27 SEPTEMBER 2012

These were approved as a correct record, subject to the addition of the following note of clarification in relation to the last paragraph of minute 22:

"The outcome of the discussion was that the Curo Board has full responsibility for management and governance, and that any Councillor appointed to the Curo Board would not be representing B&NES Council."

34 EXTERNAL AUDIT UPDATE REPORT

The Divisional Director, Risk and Assurance, introduced Barrie Morris of Grant Thornton, the newly-appointed external auditors, and invited him to address the Committee.

Mr Morris said that Grant Thornton had been performing external audits on behalf of the Audit Commission since 1982. Grant Thornton had now gained more critical mass, having had 300 staff from the Audit Commission join them and there were now only 61 staff at the Audit Commission's central headquarters, reducing central overheads. These two factors allowed Grant Thornton to offer a very competitive fee. Members would find that the style of audit would be very similar to that provided by the Audit Commission, with whom many Grant Thornton staff had trained. Mr Hackett would remain the main contact with the Council. A specific partner of Grant Thornton would provide a dedicated service to the Avon Pension Fund, which had particular risks.

The Chair asked Mr Morris what he expected of the Committee, which had many members who were not financial professionals, so that it could play its part in the audit process. Mr Morris replied that it was good to have a challenging committee; training and briefings could be provided if members desired. Grant Thornton would involve the Committee in the audit process to ensure that it was satisfied with the framework in place.

Councillor Macrae said that he thought Grant Thornton would bring greater commercial acumen.

The Chair asked about the possibility of conflicts of interest in Grant Thornton. Mr Morris replied said that a circular had been sent to all Grant Thornton staff asking them to declare interests, including personal relationships with members of Council staff. APB Standard 5 would be strictly applied. There was a higher test for working with the public sector, where not only conflicts of interest but even the appearance of conflicts had to be avoided.

Mr Barker said that the public sector was changing rapidly and cross-fertilisation from the private sector would be good.

The Chair noted that the covering paper referred to a 30% reduction in the audit fee, whereas the appendix stated that the reduction was 40%. The Divisional Director, Risk and Assurance confirmed that the reduction was 40%. Councillor Ward asked whether, given this huge reduction in fee, the Council would receive the same quality of service as previously. Mr Morris replied that they would be monitored by the Audit Commission to ensure that their standards were met and by the Financial Reporting Council. There was also a commercial imperative: if Grant Thornton produced bad audits, they would not be employed.

In response to questions from Members, Mr Hackett said that the claim that the uncertified claim given in the table in paragraph 2.2 of the Grant Certification Report

report related to the Combe Down stone mines. In response to a question from Councillor Macrae, he confirmed that the claim was uncertified because records prior to 2003 had been lost and that no malfeasance was involved. In response to the Chair, he confirmed that the sum was non-material.

RESOLVED to note the update from the External Auditor including the planned fees for 2012/13 and the findings from the Grant Certification Report.

35 TREASURY MANAGEMENT UPDATE REPORT

The Divisional Director – Finance presented the Treasury Management Monitoring Report to 30th September 2012. He said that it was a real challenge that interest rates were at an all-time low and that the credit ratings of financial institutions continued to fall. A summary guide to credit ratings was given in Appendix 7. Under the Treasury Management Strategy, it was not possible to invest in any institution whose rating was below A-. In any case, anything lower than that was not investment grade. Money could not be invested for more than 1 year in any institution with a rating of A-. The advice of the Council's treasury management consultant, Sterling, would be taken before any amendments to the Treasury Management Strategy were proposed. On a positive note, there had been no new borrowing in 2012/13 and the Council's total borrowings remained £120M, as had been the case for many years. Projects continued to be funded from cash flow. The Capital Financing Requirement was £136.1M at 31st March 2012 and was projected to be £170 by the end of 201/2013. Cash flow was being managed as well as possible to help fund this. In addition the Government was very keen to advance payments for the Bath Transport Package. It was proposed to take £900,000 to pay debt. A key aim was to invest in growth, given that in future the Council would retain 50% of business rates and there would be no increase in contributions from Government. Interest-free loans were available from the Regional Growth Fund.

Councillor Macrae thanked the Treasury Management team for an excellent report. He said that he had serious concerns about the 11,000 homes that the Council was told it must provide, when the Council's own strategy was to facilitate only an additional 8,500 jobs. He was not happy that the Council was being directed to do things that would cost it money.

Councillor Curran said that the Council was required to have a 5-year housing strategy. He said that the Council would benefit from new homes, because the occupiers would pay Council Tax.

Councillor Nicol asked about the availability of European funding. The Divisional Director – Finance replied that the Council did receive some European funding for transport projects, but none for development. The possibility of further European funding was being investigated. In reply to a question from Councillor Ward, he said that the this year's budget for income from interest was £800,000, which was being achieved, though the amount earned was significantly less than in the previous year. Replying to a question from Councillor Simmons, he said that there would be no need to borrow to fund the Keynsham regeneration project.

Members congratulated officers for their skilful management of the Council's investments and borrowings.

RESOLVED
(i) to note the Treasury Management Report to 30th September 2012;
(ii) to note the Treasury Management Indicators to 30th September 2012.

36 INTERNAL AUDIT PLAN UPDATE REPORT

The Risk Manager presented the report. He reminded Members that the Internal Audit plan had been presented to the Committee in May. 43% of the plan was either completed or in progress. The shortfall arose from unplanned work, which had increased to 20% from 14% in the previous year. Also a member of the Audit & Risk Team had been seconded to the Procurement Team, resulting in a reduction of the Audit & Risk Team from just of 10 FTE posts to just over 9. 37.5% of reviews had been completed in the assigned days. The explanation of this was that the scope of a number of reviews had been widened. Customer satisfaction had been 91% and 73% of critical/high recommendations had been implemented by follow-up. He drew attention to the table of the position of Audit Reviews at the end of the second quarter on page 49. Councillor Macrae suggested that the clarity of this table when copied in black and white might be improved by the addition of a column containing the letter G, O, Y to show whether rows were red, green, orange or yellow in the colour original. He asked whether the Audit and Risk Team could be strengthened by the use of temporary staff. The Risk Manager replied that authority had been given for the recruitment of a temporary member of staff, but it the problem was that it could be time-consuming to train them in the use of specialised software.

In response to a question from Councillor Ward, the Risk Manager said that the methodology for identifying areas for investigation by risk level had been included in the information presented at the May meeting. When unplanned work was received, it was the lower risk items that were deferred. Councillor Ward asked whether it might be more efficient to review a whole service, rather than just individual aspects. The Risk Manager said that he did not rule this out, but at the moment that single issue approach was felt to be better. Councillor Macrae agreed that single-issue audits were preferable, because different activities had different values and different levels of risk. As he saw it, the Committee could either accept that 30% of planned work was dropped every year, or express concern that the same areas were being deferred repeatedly.

Mr Barker said that when lower-risk items were displaced by unplanned, it was not always clear whether or not they were permanently displaced. He suggested that this might be better managed in the context of 2-3 year operational plans, as he had previously suggested. The Risk Manager replied that there used to be 5-year and 3-year service plans for the Audit and Risk Team. At present it was felt that 1-year plans were more flexible, though he acknowledged there was an issue about the management of displaced work.

In reply to a question from Councillor Ward, the Divisional Director, Risk and Assurance said that factors used in assessing risk include the size of a budget, handling of cash, IT and the level of assurance achieved at the latest review.

RESOLVED to note progress made against the Internal Audit Plan for 2012/13.

37 DRAFT FINANCIAL REGULATIONS

The Divisional Director, Risk and Assurance presented the report.

Councillor Macrae said that it would have been helpful to have a had a summary of the changes in the revised Financial Regulations as it was difficult to see what had changed in a 100-page document. The Divisional Director, Risk and Assurance said this was a valid comment. The problem was that they had not been revised since 2002 and had doubled in length. It was an important document, which could only be approved by the full Council after the Corporate Audit Committee had commented on them. He apologised that because of the way meetings fell, the document was not entirely complete, though the core content was. It was not expected that anyone in the Council would read the whole document; a hyperlinked version would be put on the Intranet so that staff could quickly find the parts relevant to them. It had been hoped to give the Committee a demonstration of this, but it had not been possible to complete it in time.

Mr Barker said that he was reassured by what had just been said about the format and accessibility of the document for staff. He now understood that it was not a document intended to be read in its entirety, but was a database that could be drawn on as needed by for particular purposes.

Councillor Laming wondered whether the Regulations might restrict the ability of staff to innovate in a positive way. The Chair thought that this was not the case, since any good manager would allow staff to use appropriate discretion.

Mr Barker said that information about the Regulations should be given in staff inductions.

Members expressed a wish to see the interactive version of the Regulations, before they went to Council for approval. The Divisional Director, Risk and Assurance said that it would probably be possible to get the approval of the Regulations on the Council’s May agenda.

RESOLVED that the Committee has commented on the revised Financial Regulations and expects to see a demonstration of the interactive version before they are submitted to the Council for approval.

The meeting ended at 7.00 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services