

Democratic Services

Riverside, Temple Street, Keynsham, Bristol BS31 1LA

Telephone: (01225) 477000 *main switchboard*

Direct Line - Tel: 01225 395090

Web-site - <http://www.bathnes.gov.uk>

Date: 10 June 2013

E-mail: Democratic_Services@bathnes.gov.uk

To: All Members of the Corporate Audit Committee

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

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

Dear Member

Corporate Audit Committee: Tuesday, 25th June, 2013

You are invited to attend a meeting of the **Corporate Audit Committee**, to be held on **Tuesday, 25th June, 2013 at 5.30 pm** in the. **Kaposvar 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 Riverside Offices Keynsham (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 - Riverside - 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. Attendance Register:** Members should sign the Register which will be circulated at the meeting.
- 5. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.**
- 6. 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.

This Agenda and all accompanying reports are printed on recycled paper

Corporate Audit Committee - Tuesday, 25th June, 2013

at 5.30 pm in the Kaposvar 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 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: 20 MAY 2013 (Pages 7 - 28)

9. INTERNAL AUDIT - FUTURE DELIVERY OPTIONS (Pages 29 - 38)

10. EXTERNAL AUDIT UPDATE (Pages 39 - 52)

11. ANNUAL REPORT (Pages 53 - 58)

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

Monday, 20th May, 2013, 5.30 pm

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

Independent Member: John Barker

Officers in attendance: Tim Richens (Divisional Director, Finance), Jeff Wring (Divisional Director, Risk and Assurance Services), Steve Harman (Strategic Performance Manager) and Andy Cox (Group Manager (Audit/Risk))

Guests in attendance:

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 ELECTION OF VICE-CHAIR, IF REQUIRED

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: 5 FEBRUARY 2013

John Barker pointed out that though his apologies were recorded, his name appeared in the attendance list. The minutes were approved subject to the deletion of John Barker from the attendance list.

9 PRESENTATION ON PERFORMANCE AND RISK MANAGEMENT

The Divisional Director and Strategic Performance Manager made presentations to the Committee. A copy of their PowerPoint slides is attached as Appendix 1 to these minutes.

The Strategic Performance Manager made a presentation on performance management. He said that he worked closely with the Audit and Risk Team; he believed that risk management and performance management were inseparably connected. He circulated copies of the Performance Pack that is presented to the Strategic Directors Group to Members and said that it was perceived that too much information was circulated at present; it was planned to streamline it so that key facts and trends could be identified more quickly.

A Member commented on the fact that information was not being circulated until a few months after the period to which it referred. The Strategic Performance Manager replied that compiling the pack took a lot of time and staff resources; in future by producing more streamlined reports it should be possible to circulate information more quickly. He also agreed with the Member that it would be helpful to provide more commentary with the information.

The Chair noted that the Committee did not receive corporate performance information. The Divisional Director noted that the role of the Committee was to look at the framework and systems in place and that detailed member scrutiny was a role for Cabinet and Scrutiny Panels.

A Member said that the information seemed retrospective and there did not appear to be a great deal of involvement by elected members. The Strategic Performance Manager replied that performance was being reviewed against internal targets and benchmarks. As for elected member involvement, the Divisional Director again emphasised the roles of Cabinet and Scrutiny and that relevant portfolio holders were given regular briefings. In response to questions from other Members, he said:

- a great deal of work was being done to improve co-ordination between different services
- the ultimate aim was to give all elected members access to the quarterly performance report through the intranet

The Chair commented on the Council's new strapline which states that B&NES is the best place to live, work and visit, whereas the previous strapline was aspirational: "making B&NES an even better place to live, work and visit". A question was raised as to whether this could be judged, assessed or even benchmarked. The Strategic Performance Manager detailed how the strapline had been consulted with Cabinet and stated that it was now more difficult to make comparisons between local authorities since the Comprehensive Area and Performance Assessment process had been abolished, however benchmarking 'families' still existed.

The Divisional Director continued the presentation on the theme of Risk Management. He referred members to the Organisational Dashboard of Corporate Risk for Q4 and explained its structure. A Member asked why the financial challenge was coded in red and assessed at level 5. The Divisional Director – Finance explained that that it was because there was no doubt that there was a financial challenge and that its impact was very high. The Dashboard stated that a plan was in

place to meet the challenge, which included a 3-year budget. The budget is monitored monthly. There was a blip in Q3 when the possibility of an in-year overspend was foreseen, so remedial action was taken.

The Chair thanked the Strategic Performance Manager and the Divisional Director for a useful presentation.

10 INTERNAL AUDIT ANNUAL REPORT

The Divisional Director and Group Manager (Audit & Risk) presented the report. The report was in three sections:

- Audit and Risk outturn 2012/13
- Internal Audit Plan 2013/14
- a recommendation for an update report on progress to a partnership model of service delivery

He asked Members to note the performance indicators as given in paragraph 4.6 and Appendix 2. 80% of planned work had been completed; the remaining 20% had been rescheduled or cancelled because of unplanned work or the reduction in audit days available because of the redeployment of staff. 65% of audits had been completed on time, compared with 84% in the previous year; this year a new reporting process was being implemented, so that progress on audits would be reported every two weeks. The percentage of audit recommendations implemented was 65% in 2012/13. Follow ups had revealed that some managers had not implemented recommendations on the agreed timescale, so rescheduling had been agreed. The reduction in the percentage of recommendations implemented could be linked to the financial challenge and the reduction in the number of managers and staff.

A Member said that he was disappointed with current level of response to Internal Audit recommendations; the expectation should be that if Internal Audit made a recommendation, it should be implanted quickly.

A Member suggested that if an audit was completed on time, the client was likely to be more satisfied and more likely to accept the recommendations. The Risk Manager replied that he did not think there was evidence for that correlation.

The Chair asked what percentage of recommendations made in relation to risks where the assurance level was only 1 or 2 had not been accepted. The Group Manager replied that he did not have data for this with him, but it was available.

In reply to a question from Mr Morris, the Group Manager said that every issue with a poor assurance level would be picked up in the Annual Governance Review. The Divisional Director clarified that not all of them would be included in the Annual Governance Statement; a judgment would be made about their significance.

In reply to a question from a Member, the Group Manager said that an allocation was made for sick leave and Bank Holidays in the Internal Audit Plan, but not for unplanned work. Unplanned work could only be accommodated by not doing some scheduled work.

A Member noted that among the high risk items in the Plan, there would be some that were particularly high, involving, for example, revenue protection, the impact of changes to the benefit system, and IT systems. He wondered whether Internal Audit were confident that they would be able to complete audits in all these areas. The Group Manager replied that he was, though some medium risk items might have to be rescheduled.

A Member wondered how far matters of judgment, such as opinions about managerial competence or the possible impact of changes to the benefit system, entered into Internal Audit's planning over and above the objective factors set out in paragraph 4.10 of the covering report. The Risk Manager said that it was essential that Internal Audit had a feel for issues. In reply to another Member, he said that it was Internal Audit's role to consider value for money as well as whether or not services achieved their targets.

The Divisional Director then turned to the comments he had made in the final section of the report beginning at paragraph 4.13. He said that with increasing pressure on Council budgets, choices had to be made about appropriate levels of control and the level of risk considered acceptable. It was important therefore that the independent voice of Internal Audit should remain strong as it had been in the past and that the service was able to respond appropriately to the changing risk framework in the organisation. He advised the Committee that whilst the previous budget reductions had been delivered he needed to be cautious over the medium to long-term in considering its capability, capacity and resilience. For various reasons the plans for a different service delivery model had not progressed as planned and it was therefore prudent therefore to refresh the previous assessment and consider future options and he would like to bring an update paper to a future meeting of the Committee. A brief discussion ensued around partnerships with other local authorities which might result in a pool of 40-50 auditors being available. A Member said that it was important how a partnership was structured, given that other all local authorities had had their budgets cut.

[Councillor Simmons left the meeting at this point]

A Member suggested that the Committee set up a working group to look at future options. The Divisional Director suggested that the Committee receive an update paper first as this would explain the position more clearly and there was no immediate need for any sub-groups.

RESOLVED:

1. To note the summary of audit work during 2012/13;
2. To approve the Internal Audit Plan for 2013/14;
3. To request an update on the progress to a partnership model of delivery of the Internal Audit service.

11 NEW PUBLIC SECTOR INTERNAL AUDIT STANDARDS

The Group Manager (Audit & Risk) presented the report. Appendix 1 set out the Council's current level of conformance with the Standards and paragraph 4.8 an action plan to achieve full compliance. He said that he would update the Committee on progress with the action plan in six months.

RESOLVED:

1. To note that the Council's Internal Audit Service will have to comply with the new Public Sector Internal Audit Standards which came into effect from 1st April 2013;
2. To approve the action plan recorded in the report to ensure compliance with the standards.

12 ANNUAL GOVERNANCE REVIEW

The Group Manager (Audit & Risk) presented the report. A draft list of issues was circulated to Members. The issues were:

1. Member – Conflicts of Interest and Training
 - a. Transparency – Register of Interests
 - b. Conflicts of Interest – Declarations at Meetings
 - c. Training – New Member Code of Conduct
2. Development Control – Costs
 - a. Core Strategy – not yet approved/adopted
 - b. Compliance with Planning Conditions – Newbridge Park and Ride
 - c. Planning – Member Decision Making

He invited Members to comment on the list.

Members agreed that the first issue was extremely important, because of its impact on the reputation of the Council and should be considered significant. One suggested that if in doubt, a Member should always make a declaration. Another Member suggested that training on the Code of Conduct should be improved.

A Member felt that the issue of Development Control costs was often presented in a very one-sided way. The Council could not charge applicants for unreasonable behaviour or for wasting a great deal of officers' and members' time. Once permission had been given, it could not be withdrawn and the future of a parcel of land would be determined for a very long time. In these circumstances a refusal might be worth the risk, and would be justified if taken with full knowledge of the risk.

Another Member said that sometimes external legal advice had to be sought on planning applications, which was very expensive. The in-house lawyers sometimes had to assess whether the risk of not taking advice was that the Council would incur even higher legal costs at some future date. He added that the Development Control Committee did not exist just to rubber stamp officer recommendations.

A Member felt that the Newbridge Park and Ride scheme was complicated by a number of local factors and that it did not really merit inclusion in the list.

RESOLVED:

The Committee noted the report and commented that only the first item regarding Members should be considered as significant in relation to the Annual Governance Review.

13 EXTERNAL AUDIT PLANS

Mr Morris commented on the External Audit Plans. There were two, one for the Council and one for the Avon Pension Fund. He said the plans identified the key issues that the External Auditor needed to take into account of in coming to its financial and value-for-money opinion. Government guidance on the treatment of academy schools was still lacking. The plans explained the audit methodology, the significant risks identified and what balances would be considered material.

RESOLVED:

1. To approve the External Audit Plan for the Council for the year ended 2012/13.
2. To approve the External Audit Plan for the Avon Pension Fund for the year ended 2012/13.

14 EXTERNAL AUDIT UPDATE REPORT

Mr Morris presented the update report. As well as providing an update on the audit, the report identified a number of emerging issues and developments of which Members should be aware.

He reminded Members that the key dates for the production of the accounts were 30th June and 30th September. He said that it was likely that pressure would be put on local authorities to produce their accounts earlier; the NHS produced accounts within 4 weeks of the end of the financial year.

RESOLVED to note the update from the External Auditor and their findings in Appendix 1.

The meeting ended at 8.32 pm

Chair(person)

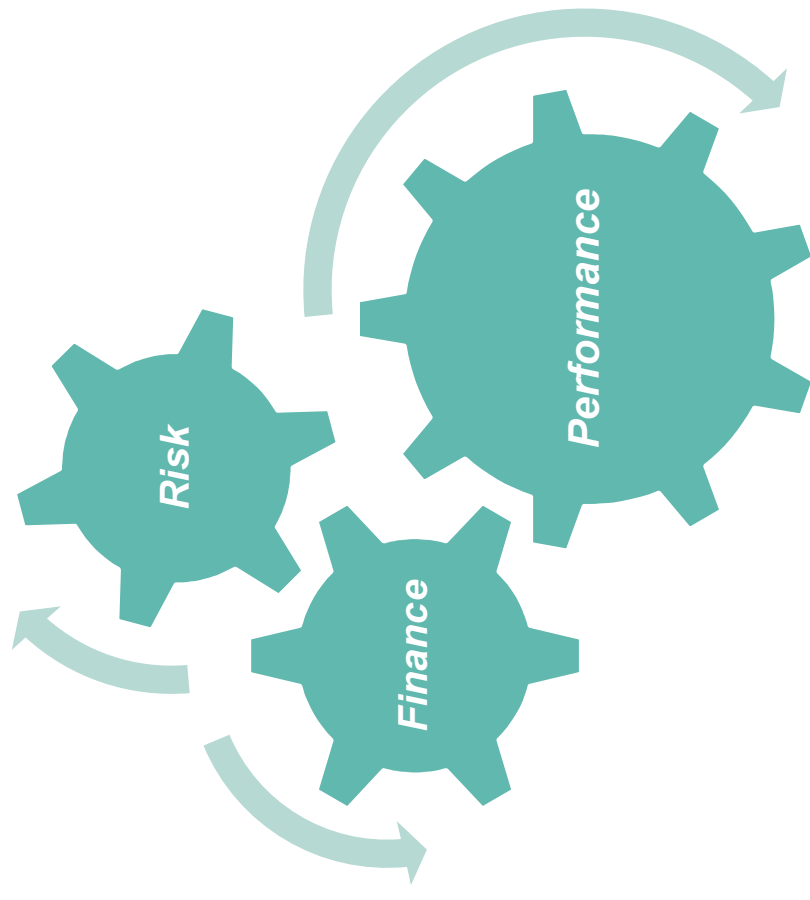
Date Confirmed and Signed

Prepared by Democratic Services

This page is intentionally left blank

Risk and Performance Audit Committee 20th May 2013

Integrated Performance Management – One Council



Bath & North East Somerset the place to live, work & visit

Linking Risk & Performance Management

Incorporating risk management into established performance management processes is essential to facilitate well-informed decision making (PWC)

Risk Management is increasingly important in the public sector and should be an integral part of any system of organisational performance management.
(Audit Scotland)

What should we use? Both !!

Performance Management Risk Management

- Is usually based on what has happened in the past
- Allows us to effectively plan for the future
- Delivering services to stakeholders
- Probability of an event and its consequences
- Threats or benefits
- Protecting the risks of stakeholders



**Its all about effective
decision making !!**

Current Performance Reporting Arrangements

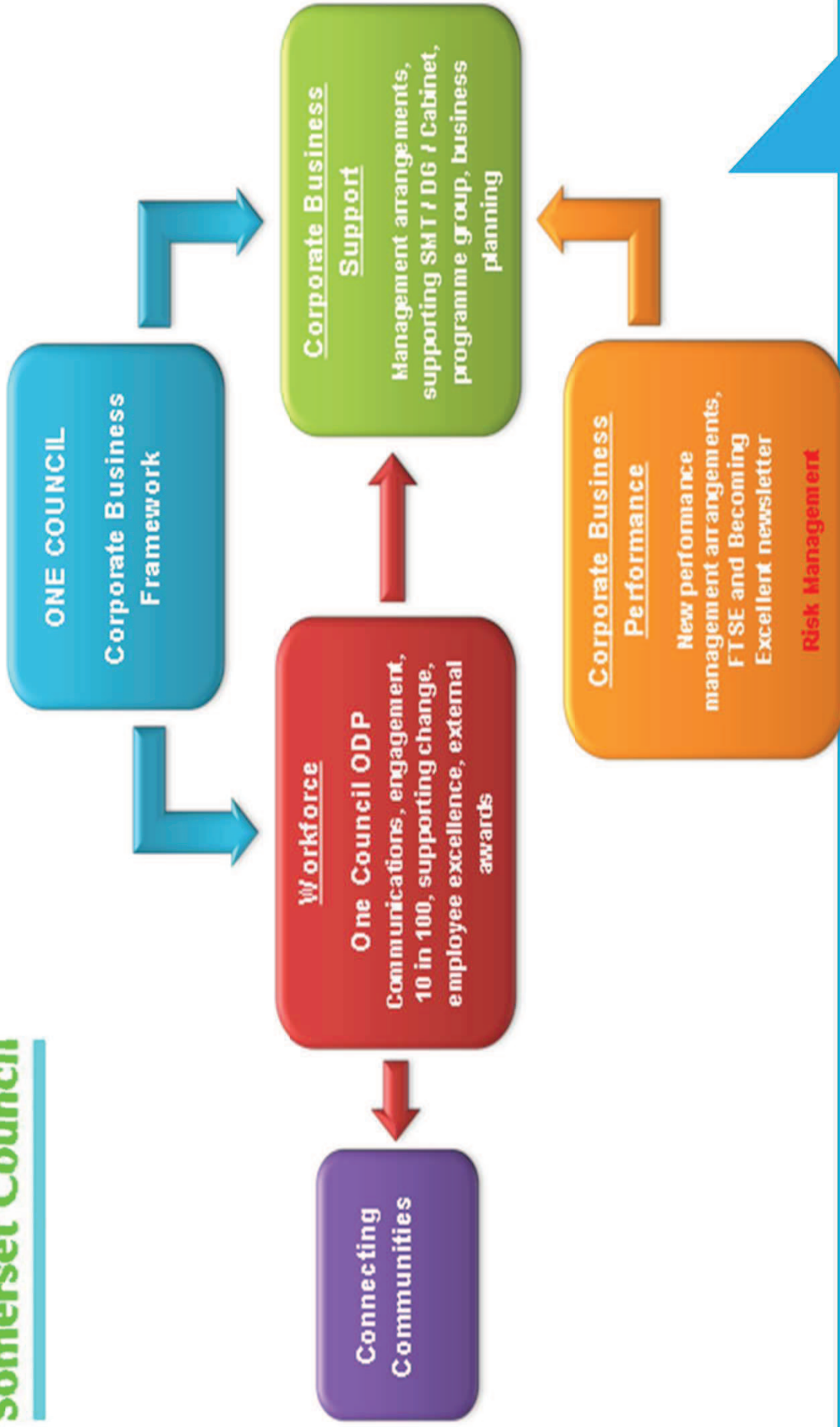
Corporate Performance Pack	Quarterly	Comprehensive pack of performance, financial, risk and organisational health information sent to senior managers at the end of every quarter:
		<ul style="list-style-type: none"> ↑ Separate Performance, Risk & Assurance and Organisational Health Dashboard Summaries ↑ Financial Dashboards ↑ Performance Summary Report ↑ Supplementary Performance Update Report ↑ Key Performance Indicators (KPIs) ↑ Exception Report ↑ Risk Dashboard with Corporate Risk Register and Action Plan ↑ Complaints Report ↑ Health & Safety Report ↑ Staffing Report (turnover, sickness, performance review) ↑ Equalities Breakdown ↑ Economic Report

Bath & North East Somerset the place to live, work & visit

New Approach

The perceived benefits are manifold and will:

- Reduce the quantity of data reported in the current quarterly Performance Pack
- Reduce the amount of data senior managers and Members are expected to assimilate at any one time
- Increase engagement by moving away from the traditional approach of reporting performance to one that produces performance information that is both contextual, interesting and joined up !
- Increase engagement with SMT and Members by reporting remedial actions against negative performance updates with a quarter on quarter feedback loop to demonstrate performance improvement
- Provide a more holistic and informed view of Council performance and its risks
- Contribute to improved overall transparency in our reporting



Bath & North East Somerset the place to live, work & visit

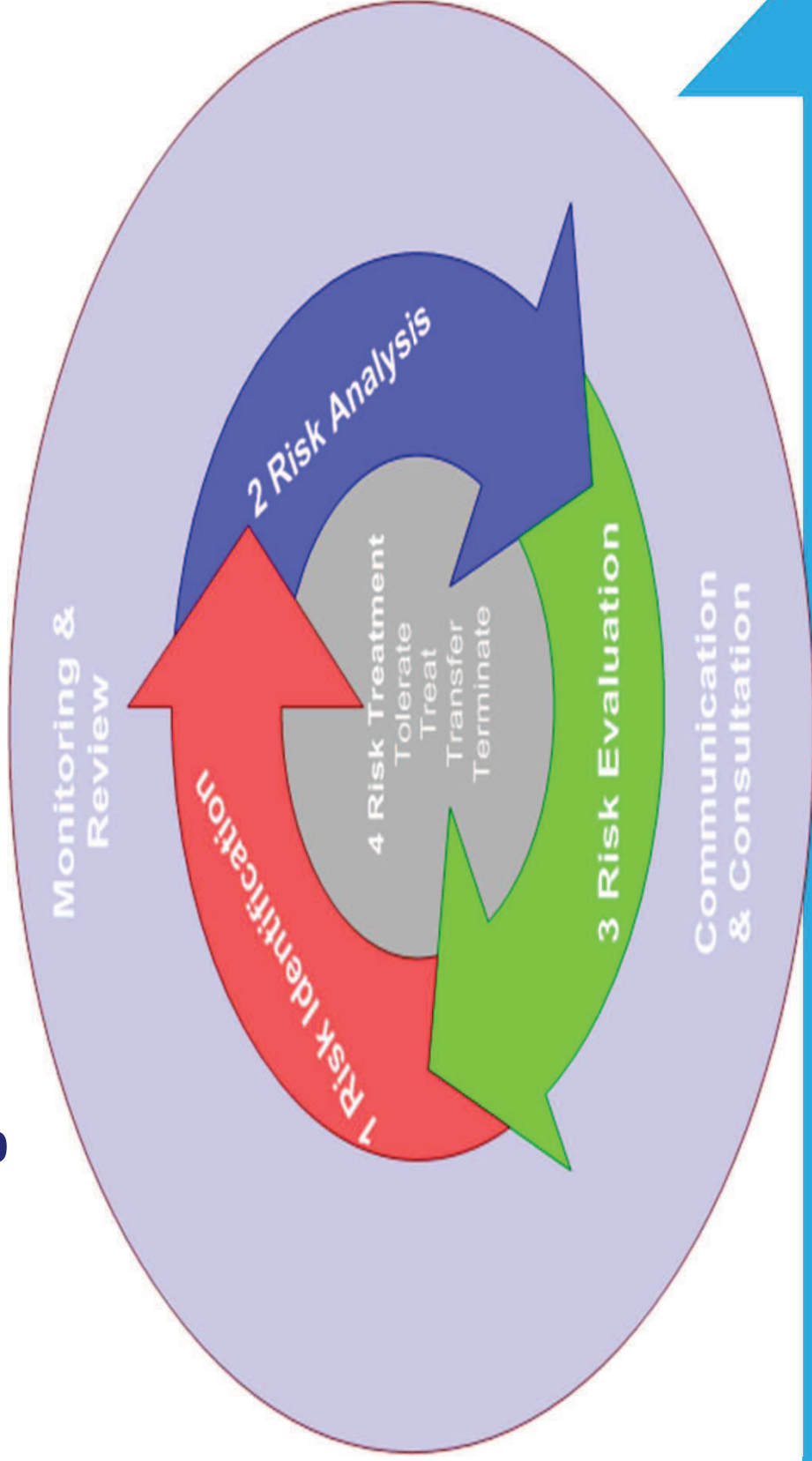
Summary of Planned Risk Management Developments -

- Risk Management to remain a key part of the Organisational Performance Management Framework
- Corporate Risk issues will continue to be reported at least 4 times a year to SMT and DG
- Individual Corporate & Service risks will be continue to be discussed with both Strategic and Divisional Directors
- More work is planned to ensure that key risks are reflected in the Councils approach to strategic planning and its performance, i.e. MTSRP & Corporate Plan.

Risk Management Strategy - Objectives

- Provision of a Flexible & Holistic RM Framework
- Effective Monitoring, Review & Reporting
- Improved Transparency & Decision Making
- Clear process of Identification & Evaluation of Risks with Key Partners
- Improved Training, Skills & Knowledge
- Effective use of Technology & Resources

Risk Management Process



Bath & North East Somerset the place to live, work & visit

Risk Management - Systems

- Risk Registers (i.e. Corporate & Service)
- Decision Making (i.e. Democratic & Officer)
- Service & Resource Plans (i.e. MTSRP & SAP's)
- Financial Contingency Planning (i.e. Corporate & Project Reserves & Robustness Statements)
- Gateways & Governances (i.e. Capital Strategy Group)
- Projects & Programmes (i.e. Workplaces)
- Dashboards (i.e. Performance Management)

Risk Management – Current Reporting

- Corporate Risk Register (SMT - Quarterly)
- Organisational Health Dashboard (SMT - Quarterly)
- Finance Dashboards (SMT - Monthly & Quarterly)
- Performance Dashboards (SMT - Quarterly)
- Annual Governance Review (SMT - Annually)
- Project Reporting (As necessary)

Corporate Risk Register – Top 10

Meeting the Financial Challenge

Achieving Economic Strategy

Achieving New Housing Targets

Impacts of Demographic Pressures

Resilience of Highways Structures

Successful Delivery of Core Strategy

Impacts of Severe Weather

Duty of Care – Children & Adults

Impact of Shale Gas Operations

Bath Recreation Ground Resolution

Bath & North East Somerset the place to live, work & visit

- **Thank You - Questions?**

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	25th June 2013	AGENDA ITEM NUMBER
TITLE:	INTERNAL AUDIT – FUTURE SERVICE DELIVERY OPTIONS	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – High Level Assessment Summary		

1 THE ISSUE

- 1.1 The Committee has previously received reports in 2010 and 2011 regarding a project to review future options for service delivery for Internal Audit.
- 1.2 This report sets out an updated position, including latest assessment of future options with recommendations and asks the committee to endorse these for consideration by the Cabinet.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to comment on the report and specifically the options for future service delivery.

3 FINANCIAL IMPLICATIONS

- 3.1 Financial implications, where they are known, are detailed within the report. Any of the options aside from the in-house one will require some form of one-off funding to implement. However, there are no current plans to make any further reductions to the Internal Audit budget for the period 2013/14 to 2015/16, following delivery of savings of over 25% of the Internal Audit budget in the previous two years.

4 THE REPORT

- 4.1 Appendix 1 details a high level summary of the options appraisal, whilst the remainder of the report provides fuller detail of the options assessment and recommendations.

1. Introduction & Background

- 1.1 Internal Audit is defined by the CIPFA Guideline as;

“.....an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources”.

- 1.2 Auditors in the public sector have a pivotal role to play in ensuring that public funds are administered properly, economically, efficiently and effectively, in the interests of the public and there is an expectation by the community that audit is protecting the public purse.

- 1.3 In Local Government, an internal audit service is a mandatory requirement; and all principal authorities in England and Wales are required by statute (under the Accounts and Audit Regulations and section 151 of the Local Government Act 1972), to have an adequate and effective internal audit function.

- 1.4 Since the last round of local government reorganisation in 1996, the Bath & North East Somerset Council Internal Audit has been delivered by an in-house team. The team currently stands at 9.5 FTE having been reduced from a staffing number of 15 in 1996.

In addition the team also carries out Internal Audit provision for the Avon Pension Fund, all Local Authority controlled Schools (including the responsible officer role for a number of Academy Schools) and works with counter fraud services in the NHS.

- 1.5 In terms of benchmarking, the service has for the last ten years, participated in a national exercise co-ordinated by CIPFA (IPF).

In summary, in terms of cost, the team has consistently demonstrated a cost per day at approximately the median to 5% lower than the Unitary average and in relation to quality, productivity and coverage it is at average levels.

- 1.6 The budget for the service in 2013/14 is £381K, including a number of recharges historically built into the budget since 1996 and is part of the Risk & Assurance service, which is one of the service blocks for the whole of Resources and Support Services.

- 1.7 Some of the key issues affecting medium term future service delivery include:

- a) The continued ability to provide 'reasonable assurance' over the whole of the Internal Control framework with a small in-house service in light of previous budget reductions and the continuing very tough financial outlook increasing risks more broadly;
 - b) Maintaining sufficient skills mix, capacity and resilience in light of unplanned major Investigations, cross-sector requests (i.e. NHS), system implementation or change projects and any sickness;
 - c) Meeting new IIA/CIPFA professional Internal Audit standards from April 2013, notably those involving organisational independence, reporting lines and status;
 - d) Delivering satisfactory productivity and coverage of key risks within the organisation which is currently at average levels with limited ability to innovate;
 - e) Dealing with skills gaps which are evidenced, primarily in IT, Major Projects and Procurement audit;
 - f) Assessing and understanding the risks emanating from the impacts of on-going government initiatives, notably in Health, Welfare, Education and Regeneration;
 - g) Maintaining an overview and understanding of the changes in complexity of Service Delivery across the Council, especially where there is a mixed economy of provision and heavy reliance on complex IT systems as part of the internal control framework.
- 1.8 The medium term plan for Resources & Support Services portfolio was set out at the end of 2012 prioritising its services as those which enabled the Council as a whole to achieve excellence and support the 'one-council' approach. It also specifically mentioned that it would aim to provide excellent, low cost and integrated support services for the Council as a whole and for other partners as appropriate.
- 1.9 As part of delivering these outcomes in the medium to long-term, Resources & Support Services has been assessing solutions to models for service delivery and the outcomes of this work supported the recommendations from the initial project in 2010/11 to move to a partnership model, i.e. sharing services with other local authorities.
- 1.10 It is however prudent to refresh the assessments previously undertaken in light of the many changes affecting the local government sector and the rest of the report focuses on these and the recommended way forward.

2. Original Objectives

2.1 To review a range of options for the delivery of Internal Audit services in the medium to long-term and recommend an option for implementation

2.2 Original Options Assessed (and now refreshed):

- In-House Model
- Outsourced Model
- Co-Sourced Model
- Partnership Model

2.3 Scope:

To cover the whole range of Internal Audit Services for the Council:

- Risk Based Planning
- Core Systems/Risk Based Audit
- Grant Return Audit
- Responsible Officer roles for Schools
- Specialist Audit, i.e. Pensions, IT or Procurement Audit
- Fraud & Investigation Reviews
- Policy & Procedural Guidance
- Joint working with External Auditor & Inspectorates
- Joint working on Annual Governance Review
- Joint working with NHS Internal Audit & Counter-Fraud Services
- Joint working with Audit teams within the South West region
- Reporting to Corporate Audit Committee

3. Original Approach

3.1 A project team was formed and an external Project Manager appointed to manage the process and provide specific independent challenge. The same Project Manager was used to help refresh the assessments of the options detailed below.

3.2 The key stage of options appraisal was based around assessing each of the models against the following key headings (see Appendix 1).

- A) Standards & Quality
- B) Systems, Staff & Management
- C) Costs & VFM
- D) Organisational Fit

4. Summary of Options Appraisal

The scores were originally assessed through a mix of objective and subjective data collected through the different phases of the project including interviews with providers, clients and customers. These were then independently challenged by the Project Manager.

All of these scores were then reviewed and refreshed in the last 3 months based on latest comments from clients and providers and a further two years learning since the original project was completed.

The sections below provide more detail of the alternative options to an in-house model and high level scoring is detailed in Appendix 1.

4.1 Partnership Model

4.1.1 This model scored the highest and was assessed as being the most flexible and sustainable form of service delivery in the long-term.

4.1.2 Key Issues:

- There are a number of options for delivery through this model. These include the South West Audit Partnership, Devon Audit Partnership or creation of a new partnership.
- The Devon Partnership has been established for almost 5 years providing audit services to a number of partners across Devon, including 1 County Council, 2 Unitary Councils, a number of district councils and the Devon & Cornwall Fire Service;
- Devon Partnership is particularly strong in IT Audit, a current recognised weakness of the existing in-house service and has a strong Unitary ethos within its methodology and approach;
- The Devon Partnership is also actively looking to expand, change its name and consider alternatives to its current arrangements;
- The South West Audit partnership (SWAP) was originally hosted from South Somerset District Council in the same way as the Devon model but has now formed into a Limited Company from April 2013;
- It has over 15 partners including 2 Counties (Somerset and Dorset) and a number of District Councils from the Forest of Dean all the way down to Weymouth and Portland. It has however only one Unitary Authority (Wiltshire) which it recently took over responsibility and its ethos emanates from its origins around District Councils;

- Whilst it's not actively looking for partners it will consider additional partners, especially Unitary Authority's. The partnership is now the largest in the South West for Local government and has an extensive set of governance and legal arrangements in place;
- Geographically the partnership is spread over a vast distance so organisationally existing teams primarily stay serving their original authority with some minimal flexibility outside of this, in terms of working for different partners;
- Its key advantage is that it is already in existence and delivering audit services and therefore set-up and implementation is a smoother process and relatively straightforward;
- However its recent move to Ltd Company status will need to be checked to ensure there are no new barriers to joining as entry to a local government partnership model is exempt from any external procurement process, which is a key advantage;
- Providing Internal Audit through an independent Partnership also strengthens both its profile and independence and enables a pooling of skills and resources which cannot be achieved when delivering services to only one organisation;
- Integrating resources through partnership strengthens standards and improves opportunities for staff and career development and ultimately provides greater resilience for the future.

4.2 Co-Sourcing & Outsourcing

4.2.1 Co-Sourcing is effectively downsizing the team by approximately 10% to 50% and then letting out that part of the audit service to external providers, i.e. IT Audit or Core Systems Audit. Outsourcing is transferring the whole function to an external provider.

Key issues:

- In theory both these models should work well, with the ability to replace skills gaps and invest in areas of highest risk;
- Key advantages are an ability to flex costs, seek private sector expertise and enable standards to rise, however both models are relatively rare in the local government market;
- Research identified that the co-sourced model had been generally inconsistent and sometimes ineffective in relatively small audit functions with occasional poor standards, inconsistent management and effectively two different sets of methodologies being employed;

- It would also involve cost and use of management capacity in preparing for, specifying and then letting a contract as well as then having to establish separate client management arrangement to run alongside the in-house service;
- Significantly compulsory redundancies would be required to further reduce the audit function to create the resource to externalise. This reduction would be both costly (and unaffordable) and therefore it was considered costs would significantly outweigh benefits;
- In terms of full outsourcing the market told us their preference would be to use their own resources and not TUPE existing staff into their own organisation and that the relative size of our service was not therefore attractive enough to make it a viable proposition. This would therefore need to be factored into any bids;
- There was therefore unlikely to be any cost advantages based on the current cost of the in-house service, a severe loss of organisational knowledge, little in the way of any track record of positive service delivery and an uncertain future for staff transferred. Indeed there was no history of a sustainable and quality service being delivered by an external firm for a Unitary Authority in the region;
- Implementation, including downsizing the existing resource would take at least six to twelve months and involve a significant amount of management capacity and the value of either exercise was not considered beneficial;

4.3 Recommendations:

A) To endorse in principle the partnership model of service delivery as the appropriate way forward for the Internal Audit Service in the medium to long-term;

B) To recommend the Council enter into a period of due diligence to assess whether a partnership model can be implemented within existing budgets and by or within the 2014/15 financial year subject to the appropriate financial and legal checks and controls;

C) That the Divisional Director reports back to the Audit Committee with regular updates on progress to ensure it is kept up-to-date and comment on any parts of any implementation process as appropriate.

5 RISK MANAGEMENT

- 5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance and the risks to the choice of each option have been laid out in the report above.

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 Cabinet Member for Resources, Strategic Director for Resources and Section 151 Finance Officer.

Contact person	Jeff Wring (01225 47323)
Background papers	Feb 2011 Audit Committee – Internal Audit Options for Future Service Delivery
Please contact the report author if you need to access this report in an alternative format	

Appendix 1 – High Level Assessment

Overall Summary of Options			In House	Partnership Model	Co-Sourced	Fully Outsourced
Standards & Quality	SCORE	30%	55%	85%	80%	90%
Audit Methodology						
Quality Control						
Innovation						
Access to specialist skills						
Systems, Staff & Management	SCORE	20%	60%	80%	80%	73%
Investment in People & Operational Flexibility						
Use of audit automation/software						
Management & Leadership						
Costs & VFM	SCORE	20%	75%	67%	47%	47%
Readiness & Procurement Costs						
Implementation Costs						
Cost of Delivery/Future Flexibility						
Organisational Fit	SCORE	30%	85%	65%	50%	45%
Strategic fit to Target Operating Model						
Track Record in delivery to Unitary Councils						
Organisational/Local Knowledge						
Influence & Control						
SCORING	TOTAL SCORE	100%	70%	75%	65%	65%
RANKING			2	1	3=	3=

This page is intentionally left blank

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	25th June 2013	AGENDA ITEM NUMBER
TITLE:	External Audit Update	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – External Audit Update Report for Audit Committee		

1 THE ISSUE

- 1.1 The External Auditor will update the Committee on a range of issues affecting the Councils audit work (Appendix 1).

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to note the update from the External Auditor and the findings from Appendix 1.

3 FINANCIAL IMPLICATIONS

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

4 THE REPORT

- 4.1 The purpose of the report attached at Appendix 1 is to provide the Corporate Audit Committee with a commentary on progress in delivering the external auditors responsibilities. Additional matters include –
- a) LAAP Bulletin 96: Closure of the 2012/13 accounts and related matters
 - b) Accounting for Schools in Local Authorities
 - c) Local Government Governance Report
 - d) Code of Practice on Local Authority Accounting in the United Kingdom 2013/14
 - e) Internal Audit Practice Case Studies
 - f) Public Health Local Authorities: Changes to Legislation 1st April
 - g) Openness and transparency on personal interests – A guide for councillors

4.2 The External Auditor will provide a verbal briefing on 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.

Contact person	Jeff Wring (01225 47323)
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

Audit Committee Update for Bath & North East Somerset Council

Page 39

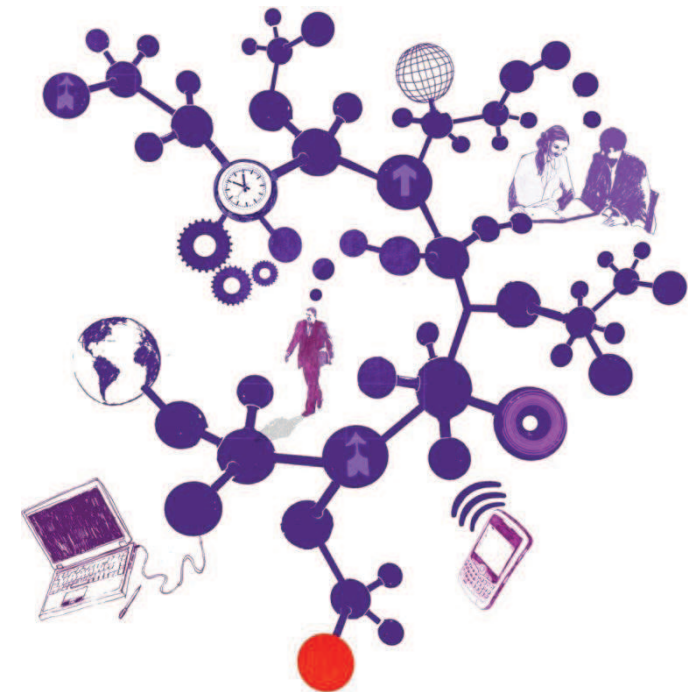
July 2013

Barrie Morris

Director
T +44 (0)117 3057708
E barrie.morris@uk.gt.com

Chris Hackett

Manager
T +44 (0)117 3057876
E chris.i.hackett@uk.gt.com



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.

Contents

Section	Page
Introduction	4
Progress at May 2013	5-6
Emerging issues and developments	7-11

Introduction

This paper provides the Corporate 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 as a unitary council.

Members of the Corporate Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Towards a tipping point?', 'The migration of public services', 'Local Government Governance Review 2013', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

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.

Barrie Morris Engagement Lead T 0117 3057708 M 0777 1976684 barrie.morris@uk.gt.com
Chris Hackett Audit Manager T 0117 3057876 M 0788 0456130 chris.i.hackett@uk.gt.com

Progress at July 2013

Work	Planned date	Complete?	Comments
<p>2012-13 Accounts Audit Plan 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 2012-13 financial statements.</p>	May 2013	Yes	Two plans have been issued, one for the audit of the Council and one for the audit of Avon Pension Fund. Both Plans were Issued to officers in April and to the Corporate Audit Committee in May 2013. The Pension Fund Audit Plan was taken to the Pension Fund Committee in June for information.
<p>Interim accounts audit Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> • updated review of the Council and Pension Fund's control environment • update understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • initial work to support the Value for Money conclusion. 	December to April 2013	Yes	<p>We provided an up-date to the May Committee meeting. Our Plan includes only limited work in May and June as officers are busy preparing the accounts.</p> <p>Certain work of necessity has to be left until our visit in the summer to ensure we obtain assurance covering the whole year of audit. However, since our report in May we have done further work on payroll and there are no issues to report currently.</p>
<p>2012-13 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2012-13 financial statements • proposed opinion on the accounts • proposed Value for Money conclusion. 	September 2013		We have agreed working papers with officers and the timing of our visit.

Progress at May 2013

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2012/13 VfM conclusion comprises:</p> <ul style="list-style-type: none"> - Review of the Council's processes for developing savings and financial plans - Monitoring progress with economic development projects - Review of joint working - Monitoring the impact of schools becoming academies 	September 2013		<p>We have completed approximately half the work in our programme. Certain work links to issues reported in the accounts, specifically our assessment of financial resilience where we consider balances and reserves and levels of debt. We are on track to complete our work in advance of the September deadline.</p>

Emerging issues and developments

Accounting and audit issues

LAAP Bulletin 96: Closure of the 2012/13 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued [LAAP Bulletin 96](#). The bulletin provides further guidance and clarification to complement CIPFA's 2012/13 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- a reminder that authorities should tailor CIPFA's example financial statements to meet their own reporting needs in order to give a true and fair view of their own financial position and performance
- the need for billing and precepting authorities to disclose their share of non-domestic rate appeals liabilities that transferred to them on 1 April 2013
- the revised disclosure format for dedicated schools grant
- accounting for carbon reduction commitment (CRC) energy efficiency scheme assets where material
- accounting for the transfer of public health reform in 2013/14.

Accounting for Schools in Local Authorities

CIPFA/LASAAC has issued a [technical alert](#) on accounting for schools. There are no changes planned for the 2013/14 Code. The alert refers to the issues that were consulted on for the 2013/14 Code and draws attention to the need for CIPFA/LASAAC to consider the impact of IFRS 10: 'Consolidated Financial Statements' on school accounting which is due to be adopted in the 2014/15 Code.

The technical alert recommends 'local authorities set out clearly in their 2012/13 and 2013/14 financial statements, in the summary of significant accounting policies, their approach to accounting for maintained schools' income, expenditure, assets, liabilities and reserves. These accounting policies need to be consistently applied throughout the complete set of financial statements'.

Emerging issues and developments

Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2013/14

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2013/14. The main changes to the Code include:

- amendments for the requirements of the localisation of business rates in England
- amendments to how 'other comprehensive income' is presented in the Comprehensive Income and Expenditure Statement. These changes follow the June 2011 amendments to IAS 1 Presentation of Financial Statements.
- amendments to how authorities should account for the cost of employees. This is as a result of the June 2011 amendments to IAS 19 Employee Benefits and include amendments to the classification, recognition, measurement and disclosure of local authority pension costs. This is accounted for as a prior period adjustment which means that the figures for previous years will need to be restated.
- clarifications and improvements of the Code as a result of the CIPFA/LASAAC post-implementation review of IFRS on issues such as:
 - the recognition and measurement of property, plant and equipment – in particular, paragraph 4.1.2.35 of the Code now requires items within a class of property, plant and equipment to be re-valued simultaneously. The Code does permit a class of assets to be re-valued on a rolling basis provided the revaluation is completed within a short period and provided the revaluations are kept up to date.
 - leases and lease-type arrangements (for example where lease rentals are charged at peppercorn rents)
 - service concession (PFI/PPP) arrangements in relation to assets under construction and intangible assets
 - the recognition of non-current assets held for sale.

The Code also notes that guidance on the adoption of IFRS 13 Fair Value accounting and on accounting for schools has been deferred to the 2014/15 Code.

Issues to consider:

- Have the following been consulted:
 - your actuary to ensure you will have the information you need to restate amounts relating to pensions from previous years
 - your valuer to ensure that your revaluation programme complies with the new requirements for property, plant and equipment

Emerging issues and developments

Accounting and audit issues

Internal audit – practice case studies

The NAO and the Institute of Internal Auditors have released a [set of case studies](#), available on the NAO website, illustrating some of the key principles of effective internal auditing, taken from a range of public and private sector organisations (including British Telecom, Department for Work and Pensions, EDF). These cover the following areas:

- applying internal audit resources
- scope of internal audit
- auditing projects
- the relationship with the audit committee
- risk-based internal audit
- evaluating internal audit

Examples of the practical advice these case studies provide are:

- 'ensure that the internal audit function has the right development practices and the right mix of people'
- 'internal audit must check its own performance'
- 'look at the range and depth of assurance that is being provided to management from other assurance providers within the organisation: this will reduce the duplication and free up resources to provide deeper assurance in other areas'
- 'make sure that internal audit's work is aligned to management's view of risk: the function may be focussing on the wrong issues if it does not understand management's risk priorities'
- 'review whether senior management and the business share the same view of risk – highlight where differences occur to ensure that the right risks and controls are targeted in the audit plan'
- 'consider carrying out a benchmarking review with a similar sized organisation in the same industry sector to compare and contrast approaches to internal audit and resourcing'

Emerging issues and developments

Local government guidance

Public Health Local Authorities: Other changes to secondary legislation in force from 1 April

The Department of Health has published [guidance on changes to secondary legislation](#) from the changes to public health functions affecting local authorities. Some of the changes are:

- local authorities, as commissioners of health services, will now be able to make direct payments under pilot schemes for personal health budgets (National Health Service (Direct Payments) Regulations 2010)
- local authorities must charge overseas visitors for relevant services where no exemption from charge applies (National Health Service (Charges to Overseas Visitors) Regulations 2011)
- Clinical Commissioning Group and the NHS Commissioning Board are to be notified of the death of a child in a children's home (Children's Homes Regulations 2001)
- Clinical Commissioning Group and NHS Commissioning Board are to notified of the death of a child accommodated in a residential family centre (Residential Family Centres Regulations 2002)
- local authorities exercising public health functions are under the same obligation as health service bodies to notify the Care Quality Commission of the death of a service user (the Care Quality Commission (Registration) Regulations 2009)
- the death of a child placed in foster care should be reported now to the Clinical Commissioning Group and NHS Commissioning Board (Fostering Services (England) Regulations 2011)
- a local authority body is to instruct an independent mental capacity advocate in certain circumstances where it proposes to provide, or to secure the provision of, serious medical treatment to a person who lacks capacity to consent to the treatment (Mental Capacity Act 2005 (Independent Mental Capacity Advocates) (General) Regulations)
- regulations specify the sets of depersonalised information that relevant authorities (which include local authorities) have a duty to disclose to each other if held by them (Crime and Disorder (Prescribed Information) Regulations)

Emerging issues and developments

Local government guidance

Openness and transparency on personal interests - A guide for councillors

In March, DCLG published '[Openness and transparency on personal interests - A guide for councillors](#)'.

This guide provides guidance to councillors about how to be open and transparent about their personal interests now that new standards arrangements have been introduced by the Localism Act 2011.



© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	25 th June 2013	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		

THE ISSUE

1. An annual report of the committee's work in 2012/13 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 eighth annual report of the Committee since it was established by the Council on 12th May 2005
- 1.1 The current terms of reference of the committee are attached at Appendix 1.

RECOMMENDATION

2. The Corporate Audit Committee is asked to:
 - a) Delegate responsibility to Councillor Will Sandry as Chairman of the Committee and the Divisional Director for Risk & Assurance 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 2012/13.

FINANCIAL IMPLICATIONS

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

THE REPORT

4. 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.

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

- Approval of the 2011/12 Accounts
- Review of the Treasury Management Strategy and Outturns
- Review of the plans and work of Internal Audit
- Review of new Public Sector Internal Audit Standards
- Review of the Annual Governance Review process for 2012/13
- Appointment of a new External Auditor
- 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 the Local Government Fraud Strategy
- Review of Proposed Governance changes to Somer/Curo
- In addition briefings have been delivered on the following topic areas -
 - a) New External Audit Regime
 - b) Risk Management
 - c) Performance Management
 - d) Treasury Management

4.2 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.

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

This page is intentionally left blank

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.

This page is intentionally left blank