

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Tuesday, 8th December, 2015, 2.00 pm

Councillors: Brian Simmons (Chair), Jasper Becker (In place of Christopher Pearce), Andrew Furse, Barry Macrae and Robin Moss (In place of Chris Dando)

Independent Member: John Barker

Officers in attendance: Tim Richens (Divisional Director- Business Support), Jeff Wring (Head of Audit West), Andy Cox (Audit Manager), Peter Cann (Audit & Corporate Governance Manager) and Tammy Weeks (Senior Auditor (Fraud))

Guests in attendance: Kevin Henderson (Grant Thornton)

64 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

65 ELECTION OF VICE-CHAIR

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

66 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillors Chris Dando and Chris Pearce. Councillor Robin Moss substituted for Councillor Dando and Councillor Becker for Councillor Pearce.

67 DECLARATIONS OF INTEREST

There were none.

68 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

70 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

71 MINUTES: 28TH SEPTEMBER 2015

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

72 TREASURY MANAGEMENT SIX-MONTH UPDATE REPORT

The Divisional Director – Business Support presented the report, which gave details of performance against the Council's Treasury Management Strategy and Annual Investment Plan 2015/15 for the first six months of 2015/16.

He reminded Members that it is the present policy to employ cash balances to defer borrowing for as long as possible, because of the current low-interest rate environment, which was likely to persist for some time. Cash invested had earned on average only 0.47% over the period. Gross interest earned on investments had been £153k.

B&NES is the accounting body for the Local Growth Fund, whose purpose is to fund infrastructure projects across the West of England, and the Council currently holds £16.5m of grant on behalf of the Fund.

No new borrowing has taken place in 2015/2016. The Council's Capital Financing Requirement was projected to be £219m by the end of 2015/16, compared with £177m at 31st March 2015, but actual borrowing is £108,300.

B&NES is in discussion with Bristol City Council about whether the Council's allocation of Avon County Council's residual debt can be transferred to the Council so that the Council can manage it in its market portfolio rather than simply making debt repayments.

In reply to questions from Members he explained:

- the projected £219m for the Capital Financing Requirement differs from the prudential indicator of £221m, because the latter figure includes other long-term liabilities, e.g. equipment leasing
- the cash used for financing the capital programme included working cash flow, including receipts from Council Tax and business rates together with underlying revenue from cash-backed reserves
- no investments were held in Eurozone countries

In reply to a question from Member about investment in infrastructure, he explained that it needed to be understood first of all that the Council's finances are entirely separate from those of the Avon Pension Fund, and secondly that the Council's investments are governed by its investment strategy, which is presented for approval to this Committee and the Council every year. Local authority investments are also subject to strict legislation and regulations relating to non-approved investments. If cash was lost, there would be a shortfall in finance for local services, as happened a few years ago in the case of those authorities who had invested in Icelandic banks. The Council took a cautious view and restricted its investment to banks with high credit ratings; officers had to ensure that the Council's cash was as safe as possible. Investment should be distinguished from the funding of a capital programme item, which would require approval by Council.

RESOLVED to note:

1. The Treasury Management Report to 30th September 2015 prepared in accordance with the CIPFA Treasury Code of Practice.
2. The Treasury Management Indicators to 30th September 2015.

73 INTERNAL AUDIT SIX-MONTH PERFORMANCE REPORT

The Audit Manager presented the report. He reminded Members that the Internal Audit plan for 2015/16 had been presented to the Committee on 26 March. The present report summarised performance against the plan for the first six months. 40% of the plan had been substantially completed. Reasons for failure to achieve 50% in the first half-year were set out in paragraph 4.2.3 of the report. New staff would be joining the team in the new year to fill the vacancy mentioned in that paragraph.

He updated Members on the two investigations referred to the police mentioned in paragraph 4.6.1. The Crown Prosecution Service had decided not to pursue one case involving loss of cash at a library. The second case concerning fraud at a waste disposal depot did go to court but was dismissed on a technicality relating to the Police. The outcomes to these cases had been disappointing, given the amount of time and work staff had invested in them.

The joint internal audit working arrangements with North Somerset had formally commenced on 1st August this year under the banner of 'Audit West' with a five-year contract. North Somerset audit staff had transferred to B&NES and in October the transferred staff had been combined into a new structure with the B&NES team. The partnership continued to provide a range of non-core services as set out in section 4.10.2 of the report.

A Member suggested that there was little chance of completing the work programme this year, unless there was money to purchase extra staff resource. The Audit Manager replied that, as reported, a member of staff had left. Recruitment was always a lengthy process, and when new staff joined they had to be integrated in the team, and trained in the use of audit software. No appropriate staff had yet been found through agencies, though efforts were ongoing. The South West Audit Partnership had had a number of staffing issues and all alternatives were being considered.

A Member wondered whether the difficulty in recruiting audit staff was part of a wider problem with local government recruitment and retention because of successive years of caps on pay. He asked whether the expected number of high-calibre applications was being received. The Audit Manager replied that in a fact the applications received were probably above expectations. Current staff had generally been in post for some time, and there was no trend for staff to leave for better paid jobs elsewhere. The Head of Audit West said that both members of staff who had left had gone to highly-paid jobs in financial services, where in general the salary level was 50-60% above that of the public sector. There was no way the Council would ever be able to match that.

A Member asked about how the partnership arrangements were working. The Head of Audit West said that extremely favourable feedback was being received from service managers how audit was now working with them and improving their control

framework. He also believed that recent job applicants might not have wished to apply, if the partnership, which could offer more varied and flexible working, had not existed. The two auditors from North Somerset said the partnership was performing well and offered staff new opportunities.

A Member asked the Audit Manager what had happened to the staff who had been the subject of the two investigations he had referred to. The Audit Manager replied that one had left and that the other had been dismissed.

RESOLVED to note progress made against the Internal Audit Plan for 2015/16.

74 DRAFT AUDIT PLAN METHODOLOGY

The Head of Audit West presented the report.

He said that when B&NES and North Somerset had commenced joint working, it had been decided to review how the two authorities developed their audit plans. They had been using different, but similar processes. An attempt was made to identify best practice; what other authorities in the South West did was examined, and there had been liaison with CIPFA. This work had been going on over the past twelve months. Factors that had to be taken into account in developing a new model were a reduction in resources and changes in organisational models and the way services were delivered. It was clear that an increased rate of change meant that continuing to use the old bottom-up methodology was unsustainable. The new methodology was in essence the one that Audit West had recommended to other councils in the South West. It was called the Reasonable Assurance Model. The eight themes of the model were illustrated on page 35 of the agenda. The model was based on a strategic top-down view of what a good or excellent organisation should look like. It was considered that if all eight themes were managed and delivered effectively, the outcome should be a good council. Examples of the areas to be assessed for each theme were listed on pages 36 and 37 of the agenda. Some things identified had never previously been on the audit plan; the top-down approach had led to a reassessment of priorities, which had revealed that in the past too much time had been spent on areas where assurance was high and performance was strong. The new model should allow more time to be spent on areas where assurance was low and performance weak. Page 38 summarised the risk assessment process.

A Member asked how it could be established that the application of the new methodology had resulted in the development of a better audit plan and better outcomes. The Head of Audit West replied that it was his formal opinion that the current methodology was not sufficiently strategic and that the new methodology was more robust, better fitted the Council's priorities and would deliver a much higher level of assurance. The Chair commented that if it was better, it should result in a reduced external audit fee.

Members debated the identification and management of risk and the role of the Section 151 Officer and the Audit Team. The Independent Member suggested that Councillors could draw on their knowledge of what was happening in the community to assist with this process. The Divisional Director – Business emphasised the statutory framework within which the Council had to work. Mr Henderson said that the external auditors looked at the Council's annual governance report to ensure it adequately reflected the audit findings and those of any other reviewing body. He

believed that the new methodology might help the external auditors obtain a better understanding of the Council.

In reply to a question from a Member the Head of Audit West explained that risk arising from a change in the nature or extent of a service would be classified as inherent risk.

RESOLVED to note the proposed draft audit plan methodology.

75 FRAUD AND CORRUPTION UPDATE

The Audit Team Leader presented the report.

A Member said that the figure of £85,545 for fraud or error in B&NES discovered in the National Fraud Initiative was not meaningful in itself; it needed to be known what proportion this was of the national total. The Audit Team Leader replied that that information was not available at present, as the National Fraud Initiative 2014/15 was ongoing. The Divisional Director – Business Support suggested that a meaningful context would be provided by comparing the £73,668 of Housing Benefit fraud or error with the total B&NES spend on Housing Benefit of about £61m. The Member responded that the context was important, as it would help the Committee to decide whether the priorities set for audit investigations were appropriate.

The Chair asked what percentage of Housing Benefit fraud/error would be recovered. The Audit Team Leader said it would be 100%.

Referring to paragraph 4.4 of the report a Member said that the Electoral Roll was not as complete as it was in the past. Children, who might be wage earners, were often not being registered. The Audit Team Leader said that the Electoral Roll and Council Tax matching data was being looked at again and comparison with the previous year's data might show whether there had been a fall in voter registration. People who were not on the electoral roll were sometimes identified when they contacted the Council for other reasons, e.g. to claim a benefit. The Member responded that the Electoral Roll showed a drop in the number of eighteen-year olds, suggesting that there was an increase in non-registration of those coming up to the age of eighteen.

The Chair asked about the sharing of data between councils. The Audit Team Leader explained that Electoral Roll data was not shared, but Housing Benefit data was.

A Member asked about engagement about anti-fraud policies with external organisations providing services on behalf of the Council. The Audit Team Leader said that she hoped to develop contacts with these organisations. There would also be performance reviews of these organisations, but the main emphasis would be on training Council staff who dealt with them.

RESOLVED to note:

- a) the updated Whistleblowing Policy (Appendix 1);
- b) the Joint Counter Fraud Action Plan (Appendix 2);

c) the B&NES Council Counter Fraud Action Plan.

76 EXTERNAL AUDIT UPDATE

Mr Henderson presented the report.

He drew attention to the fee for Housing Benefit grant certification of £18,340 (agenda page 71). The level of fee indicated that the work on this was of a similar level to that undertaken for financial year 2013/14.

He then commented on the progress report given on pages 77-79. Discussions had taken place with the Council's finance team about bringing the 2016/17 audit forward in order to prepare for the earlier mandatory date in 2017/18.

Referring to the Housing Benefit return (page 78), he said that it was expected that this year's error figure would be higher than last year's, He explained that for the Council's accounts there is a materiality threshold of £6m, but there is no materiality threshold for Housing Benefit, so every error had to be reported and everything reported counted as a qualification.

He drew attention to Grant Thornton's cross-sector review of the effectiveness of audit committees, referred to on agenda page 83.

A Member commented on materiality. Mr Henderson responded that next year transport infrastructure would have to be reported on the balance sheet. This would present a number of challenges. The total, which would have to be based on a number of estimates, was likely to be billions of pounds, and in addition the materiality threshold was changing. In the case of Housing Benefit, the Department of Work and Pensions had considered whether there should be a materiality threshold and had concluded that there should not.

RESOLVED to note the report and updates provided by the External Auditor.

The meeting ended at 3.37 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services