

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Thursday, 24th March, 2016, 2.00 pm

Councillors: Brian Simmons (Chair), Chris Dando, Andrew Furse, Barry Macrae and Christopher Pearce

Independent Member: John Barker

Officers in attendance: Jeff Wring (Head of Audit West), Andy Cox (Audit Manager), Derek Quilter (Divisional Director- Property & Project Management) and Richard Long (Head of Property Services)

Guests in attendance: Kevin Henderson (Grant Thornton)

88 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

89 ELECTION OF VICE-CHAIR

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

90 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

91 DECLARATIONS OF INTEREST

There were none.

92 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Head of Audit West said that after consulting the Chair he was proposing that the meeting of the Committee scheduled for the 10 May 2016 should be cancelled and replaced by a half-day training session towards the end of June. He would contact Members about possible dates.

RESOLVED to cancel the meeting of the Committee scheduled for 10 May 2016.

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

There were none.

94 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

95 MINUTES: 4 FEBRUARY 2016

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

96 INTERNAL AUDIT ANNUAL REPORT

The Audit Manager presented the report. He drew attention to the Audit and Risk dashboard on agenda page 12. He reminded Members that a progress report had been presented at the 8 December 2015 meeting of the Committee. The current report forecasted performance for the year ending 31st March 2016. This report showed the 94% of the plan substantially completed, compared with 40% reported in December. This improvement had been achieved by increasing the resources available and more efficient working, as detailed in paragraph 4.6 of the report. Two new staff had been recruited, who had required minimal training to bring them up to speed. 73% of audits had been completed in the assigned days. Customer satisfaction continued to be very good and excellent feedback continued to be received from accounting colleagues. The percentage of recommendations implemented was detailed in paragraph 4.16. The relevant Divisional Directors had been notified of critical/high risk recommendations not implemented, and they would assume responsibility for ensuring implementation. He reminded Members that two police investigation cases had been reported in in December. It was disappointing that the Police had decided not to prosecute after investigation. One further investigation case had arisen since December and was ongoing. The Property Compliance audit had been assigned an assurance rating of 1 'Poor Overall Control Framework'. This would be the subject of a presentation by the Property team. Three other audits had been allocated an assurance rating of 2 'Weak Control Framework', as reported in paragraph 4.25.

A Member said he did not think that the use of percentages in the report very helpful, or give him the assurance he would like to have. The Head of Audit West said that presentation of this information would be reviewed.

The Head of Audit West commented on the joint working arrangements. He said that the whole team was now integrated in the new structure. Audit West had been awarded a 5-year contract. Total savings of £200,000 had been achieved and yet the audit plans for both Councils had been achieved. Externally-offered services had been enhanced to generate new income, as detailed in paragraphs 4.40-4.41. He drew attention to his formal opinion on the Internal Control Framework given in paragraphs 4.44-4.48. In response to a question from the Chair he clarified that the £200,000 was a permanent reduction in resources; two thirds of the savings could be attributed to North Somerset. The £300,000 increase in recovered business rates (paragraph 4.42) was annual.

A Member asked how the amount of resources devoted to non-core services (paragraph 4.41) could be justified given the other pressures on Internal Audit, e.g. unplanned work. The Head of Audit West replied that a number of services were being offered externally on a trial basis at present. These provided useful additional income. There was a question as to the extent to which they could be commercialised on a long-term basis. A contingency provision for unplanned work was included in the plan, and the new joint working arrangements allowed staff to be deployed more flexibly.

A Member referred to the audit of Heritage services (paragraph 4.26) and asked whether the recommendations had been implemented. The Audit Manager confirmed that this was now the case. Another Member asked whether there were penalty clauses in the contract relating to the provision of the Heritage IT system. The Head of Audit West said that he did not know the specific details of the contract, but he thought that the implication was that the contract was not sufficiently robust to allow the Council to recover anything at this stage.

Officers from Property Services made a presentation on the findings of the audit of Property Compliance and their response. A copy of their PowerPoint slides is attached as an appendix to these minutes.

In reply to questions from Members the Property officers stated:

- The decision had been taken to gather and verify fresh data for input into the property database.
- There was a rolling program of asset surveys; this would prevent data becoming out of date as was the case previously; all assets would be surveyed every five years.
- Schools would be surveyed during the school holidays.
- The implementation of the audit recommendations would be an ongoing process in which Property Services would continue to work with Internal Audit.
- The database would allow management to check whether staff working on a property had checked the database before commencing work.
- Property Services provided help and advice to Academies; it would be possible to charge them for this.

The Divisional Director - Property & Project Management accepted the Chair's invitation to attend the September meeting of the Committee to give an update.

RESOLVED to note the Internal Audit Annual Report 2015-16 and formal opinion on the internal control framework.

97 INTERNAL AUDIT ANNUAL PLAN 2016/17

The Head of Audit West presented the report. He reminded Members about the Reasonable Assurance Model, which was presented to the Committee at the meeting of 8 December 2015. The Plan was a longer document than in previous years, because it was thought it would be helpful to show the Committee in greater detail the new approach to the planning process. Agenda pages 42 and 43 listed the 42 audit plan areas selected for this year.

A Member asked why, on page 42, cash collection was categorised as 'procurement' and placed under the Place Directorate. The Head of Audit West explained that this

was because cash collection had been outsourced under a new contract. The cash concerned was mostly car parking charges and the responsible officer was in the Place Directorate. A lot of these charges were not in fact collected as cash but as online payments.

The Audit Manager explained that two audit areas had not been included in the list on pages 42-43, namely the current contract for Social Care and Council Tax support for those on low incomes.

RESOLVED to approve the Internal Audit Plan for 2016/17.

98 EXTERNAL AUDIT UPDATE REPORT

Mr Henderson presented the report. He said that usually the Interim Audit would be completed before the Audit Plan was issued, so that the results of the Interim Audit could be taken into account in preparing the Plan. However, this had not been possible this time because of the timing of this meeting. An updated version of the Plan would be brought to the next meeting following the completion of the Interim Audit. He reminded Members that in two years' time the Council would be required to publish its accounts by the end of May and the external auditors would be required to give their audit opinion by the end of July, so there would be two months for the preparation of the accounts and a further two months to complete the audit. Though the Council would not be publishing its accounts any earlier this year, the external auditors would endeavour to complete the audit by the end of August. Discussions were taking place with the Council's finance team about publishing the Council's accounts earlier next year, though not necessarily as early as the end of May.

A Member asked whether there was a danger that the audit would be more superficial because of the pressure of the August deadline. Mr Henderson replied that the external auditors would do the same amount of work and the same standards would apply, but they would have to organise resources to enable the deadline to be achieved. It was possible that councils would use more estimates rather than actual figures. He pointed out that the NHS had only three weeks to prepare accounts, which had to be signed off by the end of May.

Mr Henderson drew attention to the information about the value-for-money conclusion on page 51 of the agenda. The National Audit Office had issued new guidance about VfM in November 2015. An initial risk assessment was taking place at the moment and this would be reported to the Committee in the updated Audit Plan in May 2016. One of the main areas to be looked at would be the Council's resilience action plan. Work in relation to the Regional Growth Fund 2 had been completed. Work on Regional Growth Fund 3 would begin in April. The planned date for completion of work on Housing Benefit certification was September-November 2016, but some work on it would be undertaken in April. The external auditors would be providing training to the Housing Benefit team in April on assessments and, with senior staff, on the Housing Benefit workbook. It was hoped that no fee would be charged for this work, but a fee might be charged if issues were encountered. He drew attention to reports issued by Grant Thornton as detailed on agenda pages 54 and 55.

RESOLVED to note the report.

99 EXTERNAL AUDIT PLAN 2015/16

Mr Henderson presented the report. He said this plan was focused on the Council's 2015/2016 accounts, which are likely to be published at the end of June or July. Agenda pages 63-64 set out some of the issues taken into account in the plan. He drew attention to the need to value the Council's highway assets this year and for them to be entered on the opening balance sheet next year. This was a difficult area and a good deal of estimation would be involved in assessing the value of individual roads.

A Member asked what criteria there would be for assessing the relative value of different roads. Would the state of repair be taken into account? Mr Henderson replied that valuing roads did appear to be a strange thing to do, but the information was needed to fill a gap in the whole-of-government accounts. Roads obviously had some value, so the issue was the valuation methodology. He expected that guidance would be issued and would be based on standard figures, e.g. an A road should be valued at so much per metre, and that the software the Council would use for road valuations would have these standard rates built in. The difficulty would be that the valuations would be based on a lot of estimates, yet could add billions of pounds to the Council's assets while the materiality figure would remain £8m. The Head of Audit West said that the Council valued all its other assets and was able to compare the costs of maintenance with the value of the assets. In future it would be possible to see for the first time what percentage the Highways Budget was of the value of the assets, which would give a new perspective. A workshop about this was planned for June. In response a question from another Member, Mr Henderson said that he thought that roads valuation would be based essentially on replacement cost and that that depreciation would be applied.

A Member referred to the risk identified on page 67 "the revenue cycle includes fraudulent transactions", and asked how fraud could be quantified. Mr Henderson said that the external auditors were only concerned with misstatements and fraud that appeared in the accounts and not with possible revenue that had never been entered into the accounts.

A Member asked to what extent the external auditors relied on work done by Internal Audit. Mr Henderson said that the external auditors were no longer allowed to rely on work done by Internal Audit, but they did take it into account and used it to inform their own work.

A Member asked how the audit fees were determined. Mr Henderson explained that rates for fees, which were previously determined by the Audit Commission, were now set by Public Sector Audit Appointments Ltd. Fees had been progressively reduced since the decision to abolish the Audit Commission. The Member asked whether the level of fee restricted the work that the external auditors could do. Mr Henderson explained that this was not an issue in Bath and North East Somerset, but fees were lower for small authorities, and in their case it was sometimes a challenge to do the necessary work within the fee set. The external auditors did not receive the full fee, as they had to pay a certain percentage to Public Sector Audit Appointments. Fees might change again when the market for public sector external auditors was deregulated.

RESOLVED to recommend the plan for approval by the S151 Officer.

The meeting ended at 4.05 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

Corporate Audit Committee

24 March 2016

Property Compliance

Context of the Audit

- » Property & Project Delivery were combined in 2014
- » Compliance transferred into Estates on reorganisation
- » Estates request Audit to undertake a formal review of asset compliance during 2015/16 programme

The Internal Audit findings

- » Internal Audit report published in October 2015.
- » No incidences of failure as a result of lack of controls
- » But data inputting processes complicated.
- » ICT systems outdated.
- » Contracts required a refresh and update.
- » General approach not based on a comprehensive risk analysis

Compliance activity

- » Following the restructure, as the approach to compliance had been inherited it was considered appropriate to instigate certain changes to the way in which it had previously been delivered.
- » The majority of the issues within the audit requiring remedial action have either since been addressed in a different way than was originally recommended or completely superseded.

Compliance activity

The following activities have either been completed or are underway:

- » Undertake a gap analysis of the key compliance areas, producing a risk based approach to managing compliance – April/May 2016
- » Property & Project Delivery are reviewing its asset data to ensure any changes to the property portfolio have been addressed.

Compliance activity

- » Undertaking comprehensive
 - Asset condition surveys
 - Fire risk assessments
 - Asbestos management Surveys

For all of the Councils operational, schools and commercial buildings, where liable.

Compliance activity

- » Replacing the key information systems used to store and manage condition, asbestos, other core compliance with fit-for-purpose system
- » Reviewing the number of and renegotiating compliance and service related contracts currently in place.
- » Risk assessed approach

Compliance activity

- » Developing robust links between service reports and work planning to pick up non compliances.
- » Temporarily reverting to a spreadsheet approach to record the programmes of servicing / inspections, until IT in place
- » Temporarily reverting to spreadsheet folders for each property recording service records, until new IT systems in place

Summary

The audit confirmed that the previous approach to compliance required some updating or refreshing and measures are now in place to ensure the Council's compliance arrangements accord with industry standards.

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