

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Tuesday, 27th September, 2016, 2.00 pm

Councillors: Brian Simmons (Chair), Barry Macrae and Christopher Pearce

Independent Member: John Barker

Officers in attendance: Tim Richens (Divisional Director- Business Support), Jeff Wring (Head of Audit West), Andy Cox (Audit Manager), Gary Adams (Finance and Resources Manager), Jamie Whittard (Financial Accounting and Planning Team Leader) and Giles Oliver (Finance & Resources Manager)

Guests in attendance:

100 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

101 ELECTION OF VICE-CHAIR

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

102 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillors Chris Dando and Andrew Furse.

103 DECLARATIONS OF INTEREST

There were none.

104 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

106 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

107 MINUTES: 24TH MARCH 2016

The minutes of the meeting of the 24th March 2016 were approved as a correct record and signed by the Chair.

108 GOVERNANCE REPORTS FOR COUNCIL AND AVON PENSION FUND AND AUDITED STATEMENT OF ACCOUNTS 2015/16

The Divisional Director – Business Support introduced this item.

The Head of Corporate Finance gave a presentation on the Council's financial accounting statements. (A copy of his PowerPoint slides is attached to these minutes as an appendix). He explained that from 2015/16 there are two significant changes to the accounts. A Narrative Report has replaced the previous Explanatory Foreword. This gives an overview of the accounts and highlights the main financial issues, and contains a lot of non-financial information about the area, population and economy and how the Council is performing against its Corporate Strategy. The second change was a technical change relating to the fair value measurement of assets and liabilities. The main effect of this was on the value of property assets and financial instruments. From 2017/18 transport assets will have to be brought into the accounts and will be valued at replacement cost rather than historical cost, so the value of these assets will rise from their current £81m to £2.2bn. Also from 2017/18 the accounts will have to be published earlier; the certified accounts will have to be completed by the end of May and Grant Thornton will have to audit the accounts by the end of July.

A Member expressed concern about the new deadline for publishing the accounts. He felt that need to audit the accounts within two months might lead to superficiality, remembering that school accounts had to be audited as well. He wondered whether the auditors might be able to commence some elements of their work in January. Mr Morris confirmed that this is what they would be doing and this had already been integrated in their process.

In response to a question from a Member the Financial Resources Manager explained that Highways already value their assets and this work could be drawn on for the accounts. The Member suggested that since transport infrastructure could not be sold, its value was irrelevant. The Divisional Director – Business Support responded that valuing transport infrastructure was really just a means of showing what it would cost to replace it, even though it was not all going to be replaced at the same time. The valuation would give an idea of the scale of the replacement costs. A Member said that he did not see how the effort of revaluing transport infrastructure every year was justified by any benefit. The Divisional Director – Business replied that this exercise was entirely separate from the way the Council decided its highways spending. It was an accounting valuation based on the Council's asset plans and on national/regional valuation formulae, so that a national value could be calculated on a consistent base across the country. In future years it would be largely a routine exercise.

The Head of Audit West presented the Annual Governance Statement. He drew attention to the significant governance issue for 2015/16, the financial challenge, and the mitigating actions identified for 2016/17.

A Member asked about the valuation of the Council's property. Mr Morris said this had been a troublesome issue. One problem was that accounting standards in relation to property values were designed with commercial companies in mind. They often raise finance on the basis of their property assets; it was therefore critical that these assets were correctly valued. Local authorities do not raise money in this way. The value of the Council's property is calculated on 1st April each year on the principle that this cannot be done prospectively, only retrospectively. Because of the

nature and location of the Council's property estate, values can fluctuate considerably over a year. Grant Thornton had used the price indices produced by Gerald Eve, independent property valuers, to adjust the property values reported in the accounts. However, the Code of Local Authority Accounting Code does not permit the revaluation of property assets on the basis of indices. It was considered that this was a reporting issue, not one which justified qualifying the accounts. Grant Thornton continued to work with officers to identify a sustainable solution to valuing assets at fair value.

Mr Morris and Mr Henderson presented the external auditor's Audit Findings on B&NES Council. Mr Morris circulated a replacement page for Appendix 1 listing two unadjusted misstatements identified as a result of audit testing. A copy is attached as Appendix 2 to these minutes. Grant Thornton had given an unqualified opinion on the Council's accounts.

A Member suggested the issues of debtors and creditors and reconciliation in relation to school accounts might not be material, but it should be established how they arose and were perpetuated; it might suggest that some schools were in need of help with accountancy. Mr Henderson said that he was not unduly concerned about the issue.

Mr Morris presented the audit findings for the Avon Pension Fund (APF). He drew attention to last year's recommendation of the separation of APF journal entries from those of the Council. This had been implemented from 1st April this year and would therefore not be an issue for this year's accounts. He also referred to the issue relating Level 3 investments.

A Member asked about the calculation of the APF's deficit; did the external auditors did their own work on this?. Mr Morris said that they did not redo the work done by APF's actuary. The Divisional Director – Business Support said that the DCLG had recently commissioned a piece of work comparing all LGPS funds on each aspect of their actuarial valuations and had rated the funds green, amber or red on them. APF had been rated green on all aspects. DCLG would repeat that for each triennial valuation.

A Member asked whether the external auditors only looked at the performance of the APF administrators or were they also concerned about the performance of the member bodies in the Fund. Mr Morris replied that the performance of the member bodies, e.g. whether they were making the right contributions, was a matter for their own auditors. Since Grant Thornton were the external auditors for B&NES, it was for them to check that B&NES contributions to APF were correct.

It was moved by Councillor Barrie Macrae and seconded by Councillor Chris Pearce and **RESOLVED:**

1. to note the issues within the Audit Findings Reports for the Council and the Avon Pension Fund;
2. to note the Audited Statement of Accounts including the Letter of Representation for Bath & North East Somerset Council for 2015/16.

109 TREASURY MANAGEMENT OUTTURN 2015/16

The Divisional Director-Business Support presented the report. He said that the Council was considerably underborrowed, as cash flow was being used instead of borrowing to fund the capital programme. As shown in the report the capital requirement was £182.5, whereas borrowing was only £118m. It was better to use cash flow in this way than to invest it at current historically low interest rates. The Council was likely to remain underborrowed for the foreseeable future. The Council was still not directly investing in institutions in the Eurozone.

It was proposed by Councillor Barrie Macrae and seconded by Councillor Chris Pearce and **RESOLVED**:

1. to note the Treasury Management Report to 31st March 2016, which was prepared in accordance with the CIPFA Treasury Code of Practice.
2. to note the 2015/16 Treasury Management Indicators.

110 PROCUREMENT OPTIONS - EXTERNAL AUDIT

The Head of Audit presented the report. The Local Audit and Accountability Act 2014 allows local authorities to appoint their own external auditors. The report set out a number of options for making an appointment, and identified a preferred option, which was to join a sector-led procurement exercise from Public Sector Audit Appointments Ltd. He would present an update at the next meeting.

It was proposed by Councillor Barrie Macrae and seconded by Councillor Chris Pearce and **RESOLVED** to support recommended option for the future procurement of external auditors by Public Sector Audit Appointments Ltd.

The meeting ended at 3.00 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services