

Democratic Services

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Date: 23 November 2016

E-mail: Democratic_Services@bathnes.gov.uk

To: All Members of the Corporate Audit Committee

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

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

Dear Member

Corporate Audit Committee: Thursday, 8th December, 2016

You are invited to attend a meeting of the **Corporate Audit Committee**, to be held on **Thursday, 8th December, 2016 at 2.00 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 Guildhall Bath (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 - Reception: Civic Centre - 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. Recording at Meetings:-

The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control.

Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators.

To comply with the Data Protection Act 1998, we require the consent of parents or guardians before filming children or young people. For more information, please speak to the camera operator

The Council will broadcast the images and sound live via the internet www.bathnes.gov.uk/webcast An archived recording of the proceedings will also be available for viewing after the meeting. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

5. **Attendance Register:** Members should sign the Register which will be circulated at the meeting.
6. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.
7. **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.

<i>This Agenda and all accompanying reports are printed on recycled paper</i>

Protocol for Decision-making

Guidance for Members when making decisions

When making decisions, the Cabinet/Committee must ensure it has regard only to relevant considerations and disregards those that are not material.

The Cabinet/Committee must ensure that it bears in mind the following legal duties when making its decisions:

- Equalities considerations
- Risk Management considerations
- Crime and Disorder considerations
- Sustainability considerations
- Natural Environment considerations
- Planning Act 2008 considerations
- Human Rights Act 1998 considerations
- Children Act 2004 considerations
- Public Health & Inequalities considerations

Whilst it is the responsibility of the report author and the Council's Monitoring Officer and Chief Financial Officer to assess the applicability of the legal requirements, decision makers should ensure they are satisfied that the information presented to them is consistent with and takes due regard of them.

Corporate Audit Committee - Thursday, 8th December, 2016

at 2.00 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 or a member of his staff 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: 27 SEPTEMBER 2016 (Pages 7 - 14)

9. EXTERNAL AUDIT UPDATE (Pages 15 - 56)

10. TREASURY MANAGEMENT 6 MONTH PERFORMANCE UPDATE (Pages 57 - 72)

11. INTERNAL AUDIT 6 MONTH PERFORMANCE UPDATE (Pages 73 - 80)
12. COUNTER FRAUD ANNUAL REPORT (Pages 81 - 116)

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

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 were 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 said 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

CORPORATE AUDIT COMMITTEE

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The meeting ended at 3.00 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	8th December 2016	AGENDA ITEM NUMBER
TITLE:	External Audit Update	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Annual Audit Letter Appendix 2 – External Audit Update Report		

1 THE ISSUE

- 1.1 The External Auditor will provide a general update to the Committee on their work, including the Annual Audit Letter.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to note the report and updates provided by the External Auditor.

3 FINANCIAL IMPLICATIONS

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

4 THE REPORT

- 4.1 Appendix 1 details the Annual Audit Letter for the Council which summarises all the work undertaken by Grant Thornton over the period.
- 4.2 Appendix 2 provides an update on the External Auditors work for Bath & North East Somerset Council along with references to a number of national initiatives, announcements and publications which may be of use to the Council.
- 4.3 The External Auditor will provide a fuller verbal briefing on all 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	
Please contact the report author if you need to access this report in an alternative format	

The Annual Audit Letter for Bath and North East Somerset Council

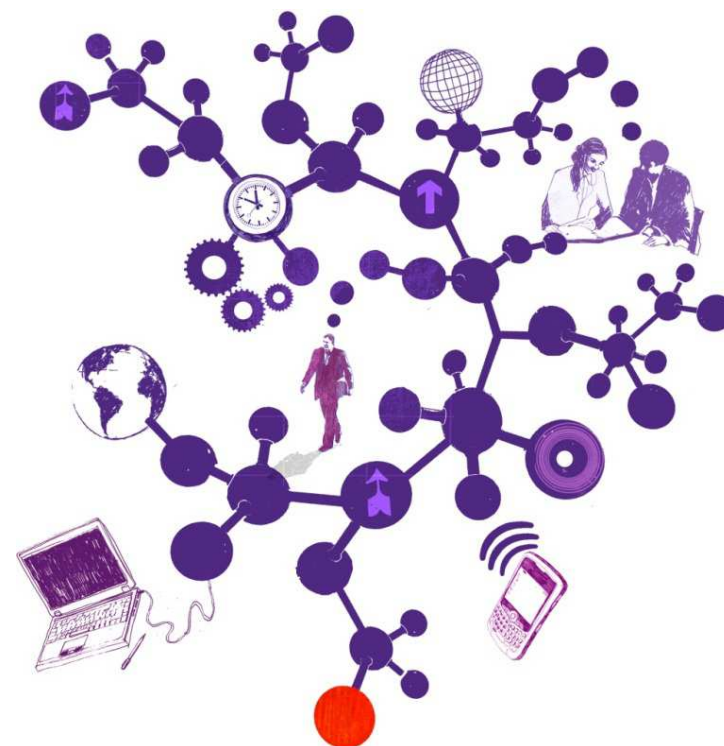
Year ended 31 March 2016

20 October 2016

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Bath and North East Somerset Council for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Corporate Audit Committee as those charged with governance in our Audit Findings Report on 27 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 27 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 21 September 2016.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 19 October 2016.

Certificate

We are currently unable to certify that we have completed the audit of the accounts of Bath and North East Somerset Council as we have not given an audit opinion on the pension fund annual report.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is complete, but hasn't been reported yet. We expect to certify the return by mid-November (deadline 30 November 2016). We will report the results of this work to the Corporate Audit Committee in our Annual Certification Letter.

Other work completed

We have provided two reporting accountant's reports on Regional Growth Fund expenditure. We have also completed the required work on the Teachers' Pension return.

Working with the Council

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £7,300,000, which is 1.8% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as officers' remuneration, auditor remuneration and pooled budgets.

We set a lower threshold of £364,000, above which we reported errors to the Corporate Audit Committee in our Audit Findings Report.

Pension Fund

For the audit of the Avon Pension Fund accounts, we determined materiality to be £38,400,000, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a threshold of £1,900,000 above which we reported errors to the Corporate Audit Committee and Avon Pension Fund Committee.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts – Bath and North East Somerset Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of long term (non-current) assets</p> <p><i>Valuation of property plant and equipment</i></p> <p>The Council's property, plant and equipment, including its housing stock, represents 45% of its total assets. Their value is estimated by property valuation experts.</p> <p>The Council revalues these assets on a rolling basis.</p> <p><i>Valuation of surplus assets and investment property</i></p> <p>The Council changed the basis on which it valued surplus assets and investment property in 2015/16 because of the introduction of a new international financial reporting standard (IFRS 13). These assets represent 37% of the Council's total assets and their value is estimated by property valuation experts.</p> <p>The Council also needed to make changes to the disclosures for items valued at fair value under the new financial reporting standard.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work • Discussed with the Council's valuer the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. • Reviewed the disclosures made by the Council in its financial statements to ensure they were in accordance with the requirements of the CIPFA Code of Practice and, in relation to surplus assets and investment properties, IFRS 13. <p>We identified that as part of the valuation of land and buildings, the valuer undertakes a review of various indices to ascertain if there has been any significant change in value that would result in the current value at the year end being significantly different to the carrying value in the accounts. The valuer concluded that the movements were not material, based on the valuer's materiality of +/-10%, which is considerably higher than the materiality used in the accounts audit.</p> <p>Our review of indices suggested that other land and buildings were understated by around £8m and investment property by £13m. Given this, the Council also reviewed the available indices and has used them to amend the accounts, to reflect the increased values.</p> <p>The valuation on which the figures in the accounts are based was undertaken in accordance with RICS requirements. The use of indices in the financial statements, however, means that the Council has adopted a valuation method which is not consistent with the Code on Local Authority Accounting.</p> <p>It was also noted there were a number of disclosure notes that needed to be added to the financial statements in order to comply with the requirements of the CIPFA Code of Practice.</p> <p>We will continue to work with the Council's finance and valuation teams to identify a sustainable solution to the issue of valuation of its assets at fair value.</p>

Audit of the accounts – Bath and North East Somerset Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts and comprises 64% of its total liabilities.</p> <p>The value of the pension fund net liability is estimated by specialist actuaries.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none">• Documented and walked through the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated.• Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.• Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.• Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the actuary. <p>We did not identify any issues to report.</p>

Audit of the accounts – Avon Pension Fund

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the audit of the pension fund.

Risks identified in our audit plan	How we responded to the risk
Valuation of level 3 investments Level 3 investments are those where there is no existing market and the valuation depends on matters that are more subjective. These represent 21% of the Pension Fund's total assets and their value is estimated by specialist valuers.	<p>As part of our audit work we:</p> <ul style="list-style-type: none">• Documented and walked through the key controls that were put in place by management to ensure that investments were not materially misstated.• Performed a triangulation exercise to confirm amounts reported in the financial statements to the custodian and fund manager confirmations.• Tested valuations by obtaining and reviewing the audited accounts at latest date for individual Level 3 investments and agreed these to the valuations used in the financial statements and used by the custodian. Where audited accounts were for a period ending before 31 March 2016 we reconciled those values to the values at 31 March with reference to known movements in the intervening period. Where audited accounts were unavailable we confirmed valuations to an independent external price source.• Reviewed the service auditor reports for Fund Managers and the custodian to provide assurance over the control environment at the service organisation. <p>We did not identify any issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a satisfactory set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Corporate Audit Committee on 27 September 2016.

Other than the valuation issues referred to on page 6, we did not identify any significant adjustments to report to the Corporate Audit Committee. We did, however, report unadjusted misstatements in relation to unrecorded liabilities i.e. payments in 2016/17 that related to goods/services received in 2015/16 and creditors, where the available evidence did not fully support the figure in the accounts.

Pension fund accounts

We also reported the key issues from our audit of accounts of the Pension Fund hosted by the Council to the Council's Corporate Audit Committee on 27 September 2016. No significant issues were identified during our audit.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risk we identified and the work we performed is set out overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Medium term financial plan The Council has undertaken a detailed strategic review, from which the medium term financial plan was developed. However, as a result of the financial settlement announced in November 2015, the Council now has to identify a further £10m of savings or additional income over the period covered by the medium term financial plan i.e. four years.</p>	<p>We reviewed the Council's arrangements for compiling and agreeing its budget and medium term financial plan. We considered the assumptions made and the extent to which scenario analysis was employed. We also reviewed the actions being taken to address the shortfall arising from the financial settlement announced in November 2015.</p>	<p>The Council has a good record of delivering its financial plans. For 2015/16, the Council reported an underspend of £659,000.</p> <p>In setting the 2016/17 budget, a number of assumptions were made for both income and expenditure. We have assessed the reasonableness of these assumptions, such as inflation, interest rates and grant funding, and consider that they are appropriate given the underlying information.</p> <p>Savings plans have been developed for 2016/17 and beyond. These plans are regularly monitored and updated. We reviewed a number of the savings plans and consider them to be adequately supported by the underlying evidence. However, the report underpinning the increase in commercial property income notes that there is a "<i>high degree of uncertainty attaching</i>" to various elements of the plan including the acquisition of income producing investment properties.</p> <p>It is clear that the Council is considering the alternatives available to it to secure the financial position in the medium to long term. A good example of this is the setting up of the property company, Aqueus. Consideration is also being given to which services may need to be reduced or stopped or where additional income can be derived. In essence, all options are being considered.</p> <p>There are no significant issues arising from the work that we have undertaken to address the risks identified in the risk assessment, although the forecast growth in commercial property income, may need to be revisited to ensure that the assumptions made are still appropriate. It is clear that the Council has undertaken a significant amount of work to prepare a robust medium term financial plan. These plans then had to be revisited, due to the worse than expected financial settlement, but the groundwork completed in developing the initial plans positively supported this subsequent review.</p> <p>As a result of the financial settlement, a further £3m of savings has been identified for 2016/17 financial year, and a further £20m has had to be identified for 2017/18 onwards. Work is already underway to identify the £20m and the Council is also considering the impact of the vote to leave the European Union.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year and we have continued to maintain a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Sharing our insight – we provided regular updates to the Corporate Audit Committee covering best practice. Areas we covered included Innovation in public financial management, Knowing the Ropes – Audit Committee; Effectiveness Review, Making devolution work, Reforging local government. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services

Providing training – we provided training on financial accounts and pooled budgets. The workshops were attended by members of your finance team.

Providing information – We demonstrated CFO insights, our on-line analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

Support outside of the audit – our advisory team supported you in developing a tool to assess developments being considered by the new housing and development company, Aequus.

Working with the Council

Working with you in 2016/17 Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that the finance team will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have issued two Client Briefings which we have shared with Divisional Director: Business Support. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This significant accounting development is likely to be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council to assess the progress it is making in this respect. Our discussions with Council Officers to date has highlighted the following:

- In accordance with LAAP Bulletin 100 "Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17", the valuation model has been completed for 2015/16 and the value disclosed in the 2015/16 financial statements narrative report.
- Valuations for 2016/17 are underway and the accounting entries determined.
- Atkins have been engaged as consultants as specialists in highways modelling and will be retained for future guidance. A cross service working group is in place across Finance and Highways Services to ensure suitable procedures are in place to ensure that asset information is up to date and accurate.
- The Council is working through a programme of improvements, suggested by Atkins, to improve data accuracy.

Working with the Council

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

We will also continue to work with you and support you over the next financial year.

Locally our focus will be on delivering an efficient audit and helping the Council towards early close of the accounts, as a dry run for 2017/18 when the deadline for preparation of the draft accounts is brought forward from 30 June to 31 May.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	123,832	123,832	165,109
Statutory audit of Pension Fund	28,805	28,805	28,805
Housing Benefit Grant Certification	16,760	16,760	18,340
Total fees (excluding VAT)	169,397	169,397	212,254

Fees for other services

Service	Fees £
Audit related services: <ul style="list-style-type: none">Regional growth fund (reporting accountant's report)Teacher's pension return (reporting accountant's report)	6,120 4,200
Non-audit services <ul style="list-style-type: none">Financial modelling for DevCo	42,000

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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Corporate Audit Committee Bath and North East Somerset Council Progress Report and Update Year ended 31 March 2017

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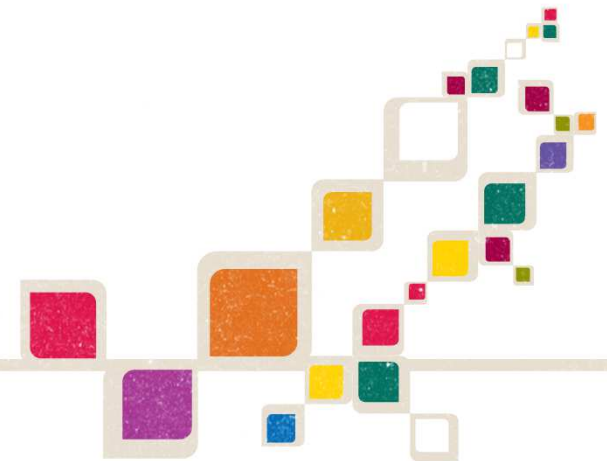
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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.



Introduction

This paper provides the Corporate Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

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 latest publications:

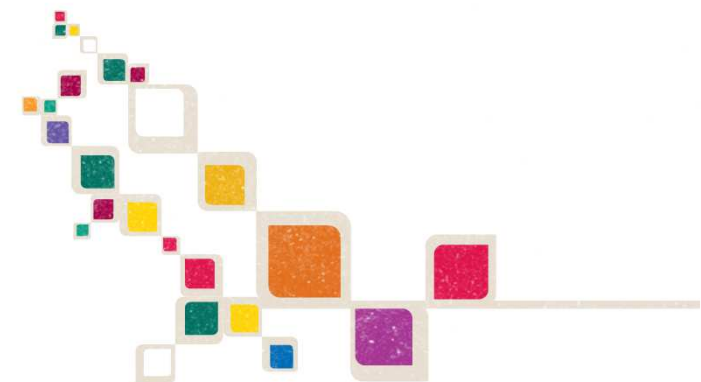
- Advancing closure: Transforming the financial reporting of local authority accounts (August 2016)
<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>

Members and officers may also be interested in our recent webinars:

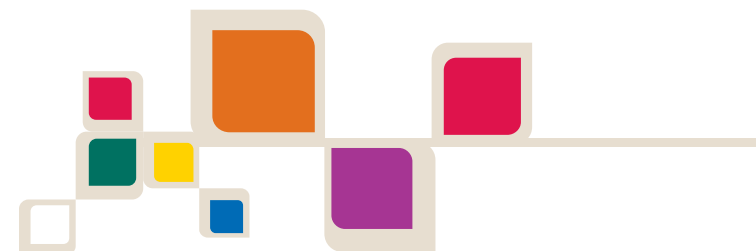
Alternative delivery models: Interview with Helen Randall of Trowers and Hamlins, discussing LATCs and JVs in local government. <http://www.grantthornton.co.uk/en/insights/qa-on-local-authority-alternative-delivery-models/>

Cyber security in the public sector: Our short video outlines questions for public sector organisations to ask in defending against cyber crime <http://www.grantthornton.co.uk/en/insights/cyber-security-in-the-public-sector/>

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 Engagement Manager.

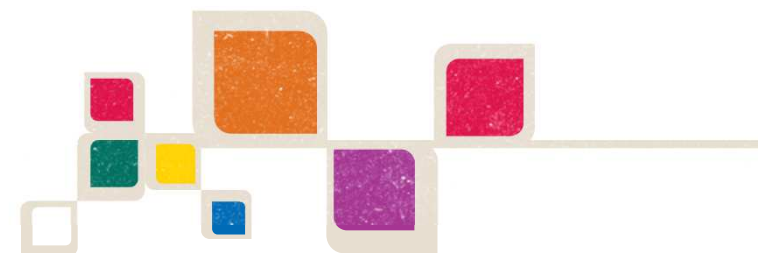


Progress at December 2016



2015/16 work	Planned Date	Complete?	Comments
Annual Audit Letter We are required to issue the Annual Audit Letter by the 30 November	30 October 2016	Yes	The Annual Audit Letter is included on the agenda.
Grant Claims Audit We are required to certify your Housing Benefits Subsidy claim by 30 November.	May – November 2016	Yes	The Housing Benefits Subsidy claim was certified and submitted to the Department for Work and Pensions on 25 November 2016. We have also certified the Teachers Pension return. This was submitted to the Teachers Pensions Agency on 28 November 2016. We will issue a certification letter, confirming the outcome of our work and the fees charged.
2016/17 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016	30 April 2016	Yes	The fee letter was issued on 22 April 2016.
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 2016-17 financial statements.	March 2017	Not yet due	
Interim accounts audit Our interim fieldwork visit plan included: <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment. 	January – March 2017	Not yet due	

Progress at December 2016



2016/17 work	Planned Date	Complete?	Comments
Final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 	June – July 2017	Not yet due	Our audit is planned to commence on 1 June 2016.
Value for Money (VfM) conclusion The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are: <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	January – August 2017	Not yet due	Our risk assessment is in progress, but it is likely that our detailed work will cover the Council's financial position and medium term financial plan.

Sector issues and developments



National Audit Office reports

Below is a selection of recent reports issued which may be of interest to the Corporate Audit Committee members. Please see the website for all reports issued by the NAO.



Overview: Local government

This Overview looks at the local government landscape during the last financial year and summarises both matters of likely interest to Parliament as well as our work with local authorities. The NAO prepares statutory guidance on how local auditors should meet their responsibilities.

Sector(s): Local services

Performance Improvement area(s): Departmental Overviews, Local service delivery

Published:
9 Nov 2016

<https://www.nao.org.uk/report/overview-local-government/>



The Troubled Families programme: update

This report is a factual update to support the Committee of Public Accounts' evidence session on the government's Troubled Families programme on 19 October 2016. It is based primarily on published sources, information supplied by the Department for Communities and Local Government and previous reports published by the National Audit Office.

Sector(s): Community and society, Local services

Published:
18 Oct 2016

<https://www.nao.org.uk/report/the-troubled-families-programme-update/>

Grant Thornton Sector Issues

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Integrated Reporting

Looking beyond the report

The move away from reporting based on historic financial information is beginning to gain momentum and Integrated Reporting is now mandatory in some countries.

In the UK, CIPFA proposed in their consultation document that the narrative report from 2017/18 reflects elements of the International Integrated Reporting Council's framework whilst the Treasury is encouraging public sector organisations to adopt Integrated Reporting.

Integrated reporting: Looking beyond the report was produced by our global Integrated Reporting team, based in the UK, New Zealand and South Africa, to help organisations obtain the benefits of Integrated Reporting.

The International Integrated Reporting Council (IIRC) describes Integrated Reporting as "*enhancing the way organisations think, plan and report the story of their business.*"

At Grant Thornton, we fully agree with this and, in our view, the key word is 'enhancing' because a lot of the elements to support effective Integrated Reporting are likely to be in place already.

But anyone focussing purely on the production of the report itself will not reap the full benefits that effective Integrated Reporting can offer.

Instead, think of Integrated Reporting as demonstrating "integrated thinking" across your entire organisation, with the actual report being an essential element of it.

Our methodology is based on six modules which are designed to be independent of each other.

1. **Secure support** – effective Integrated Reporting needs leadership from the top.
2. **Identify stakeholders** – who are they and how can you engage with them?
3. **Identify the capitals for your organisation** – what resources do you use to create value?
4. **What do you have – and what do you need?** – do you have the data you need and is it accurate?
5. **Set limits and create boundaries** – make sure your report is focussed.
6. **Review and improve** – Integrated Reporting is a continuous learning process.

Our approach to Integrated Reporting is deliberately simple; experience has shown us that this works best. Things are often only complicated because people made them that way.

Our experienced, independent teams can help you keep focused throughout the entire Integrated Reporting process and can support you, no matter what stage you are at. Please speak to your Engagement Lead if you would like to discuss this further.

Grant Thornton publications

Challenge question:

- Have you thought about how the principles of Integrated Reporting can help your organisation become more focussed?

 Grant Thornton
An instinct for growth

Integrated reporting
Looking beyond the report
November 2016



Brexit

Planning can help organisations reduce the impact of Brexit

Several months have passed since the referendum to leave the European Union (EU), during which there has been a flurry of political activity, including the party conference season.

After many years of relative stability, organisations will need to prepare themselves for a period of uncertainty and volatility and will need to keep their risk registers under constant review. The outcome of the US Presidential election in November 2016 has added to this uncertainty.

The High Court ruling that Parliament should have a say before the UK invokes Article 50 of the Lisbon Treaty – which triggers up to two years of formal EU withdrawal talks – will not, in our view, impact on the final outcome. There appears to be a general political consensus that Brexit does mean Brexit, but we feel there could be slippage beyond the original timetable which expected to see the UK leave the EU by March 2019.

2017 elections in The Netherlands (March), France (April/May), and Germany (October/November) will complicate the Brexit negotiation process and timeline at a time when Brexit is more important for the UK than it is for the remaining 27 Member States

The question still remains, what does Brexit look like?

While there may be acceptance among politicians that the UK is leaving the EU, there is far from any agreement on what our future relationship with the continent should be.

So, what do we expect based on what has happened so far?

Existing EU legislation will remain in force

We expect that the Government will introduce a “Repeal Act” (repealing the European Communities Act of 1972 that brought us into the EU) in early 2017.

As well as undoing our EU membership, this will transpose existing EU regulations and legislation into UK law. We welcome this recognition of the fact that so much of UK law is based on EU rules and that trying to unpick these would not only take many years but also create additional uncertainty.

Taking back control is a priority

It appears that the top priority for government is 'taking back control', specifically of the UK's borders. Ministers have set out proposals ranging from reducing our dependence on foreign doctors or cutting overseas student numbers. The theme is clear: net migration must fall.

Grant Thornton update

Challenge questions:

- Have you assessed the potential impact of Brexit on your organisation?
- Does your risk register include Brexit and is this regularly updated and reported?

Leaving the Single Market appears likely

The tone and substance of Government speeches on Brexit, coupled with the wish for tighter controls on immigration and regulation, suggest a future where the UK enjoys a much more detached relationship with the EU.

Potential existing examples for the UK's future relationship, such as the 'Norwegian' or 'Swiss' models, seem out of the question. The UK wants a 'bespoke deal'.

Given the rhetoric coming from Europe, our view is that this would signal an end to the UK's membership of the Single Market. With seemingly no appetite to amend the four key freedoms required for membership, the UK appears headed for a so-called 'Hard Brexit'. It is possible that the UK will seek a transitional arrangement, to give time to negotiate the details of our future trading relationship.

Brexit

This is of course, all subject to change, and, politics, especially at the moment, moves quickly.

Where does this leave the public sector?

After a relatively stable summer, we expect there will be increased volatility as uncertainty grows approaching the formal negotiation period.

Planning can help organisations reduce the impact of Brexit

The chancellor has acknowledged the effect this may have on investment and signalled his intention to support the economy, delaying plans to get the public finances into surplus by 2019/20.

We expect that there will be some additional government investment in 2017, with housing and infrastructure being the most likely candidates.

Clarity is a long way off. However, public sector organisations should be planning now for making a success of a hard Brexit, with a focus on:

Staffing – organisations should begin preparing for possible restrictions on their ability to recruit migrant workers and also recognise that the UK may be a less attractive place for them to live and work. Non-UK employees might benefit from a degree of reassurance as our expectation is that those already here will be allowed to stay. Employees on short term or rolling contracts might find it more difficult to stay over time.

Financial viability – public sector bodies should plan how they will overcome any potential shortfalls in funding (e.g. grants, research funding or reduced student numbers).

Market volatility – for example pension fund and charitable funds investments and future treasury management considerations.

International collaboration – perhaps a joint venture or PPP scheme with an overseas organisation or linked research projects.

Grant Thornton update

Challenge questions:

- Does your risk register include Brexit and is this regularly updated and reported?

For regular updates on Brexit, please see our website:

<http://www.grantthornton.co.uk/en/insights/brexit-planning-the-future-shaping-the-debate/>

Local Audit and Accountability Act (LAAA) 2014

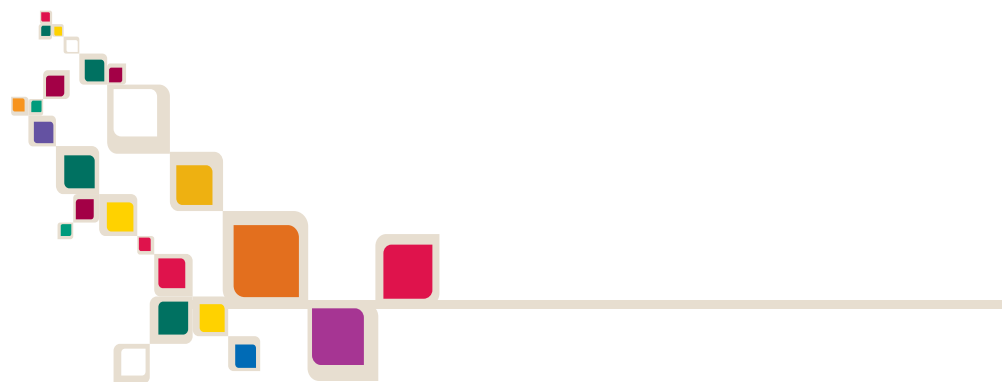
On 31st January 2014 the Local Audit and Accountability Act (LAAA) 2014 came into force. This act abolished the Audit Commission and for the first time allows Local Authorities to appoint their own auditors.

This is a significant change for many organisations. High quality external audit is one of the cornerstones of public accountability and plays an important part in the strategic, operational and financial delivery of Local Government. Done well the role can bring significant benefits.

What does this mean for Bath and North East Somerset Council?

This change means that for the 2018/19 financial year you will take on the authority to appoint your own external auditor. This will be the first time you will have the opportunity to make this appointment.

External auditors need to be in place by 31 December 2017 for the audit of the 2018/19 financial year. We would encourage the Council to begin its planning early, as there are a number of possible options to consider.



Three options are available....

Audit Procurement Options ...

The legislation sets out three possible options for you to consider:

- undertake an individual auditor procurement and appointment exercise;
- undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for instance;
- join a 'sector led body' arrangement where specified appointing person status has been achieved under the regulations.

Setting up an Auditor Panel

Options 1 and 2 above require you to set up an auditor panel to advise on the selection and appointment of an external auditor. Guidance to assist you with this task has been issued by CIPFA at - <http://www.cipfa.org/policy-and-guidance/publications/guide-to-auditor-panels-pdf>.

Using a Sector Led Body

Option 3 - Public Sector Audit Appointments (PSAA) have been specified by the Secretary of State for Communities and Local Government as a person eligible to appoint external auditors in the sector. They are currently gathering support for a sector led body to make the majority of these appointments.

Which option should we choose?

There are possible advantages and disadvantages to each option but these are likely to vary according to the type of authority and your size, geographic location etc.

Can we choose any auditor?

Under the LAAA 2014 audit firms carrying out audits of Local Government bodies have to be licensed and registered to carry out external audit services with the Institute for Chartered Accountants in England and Wales. The list can be found here.

<http://www.icaew.com/en/technical/audit-and-assurance/local-public-audit-in-england/local-auditor-register>

As the largest supplier of external audit services to Local Government bodies Grant Thornton have already completed this process and has 35 registered engagement leads across the country.

Timing and length of appointment

Auditors must be in place by 31 December 2017. The appointment can be for longer than a year but there must be a new appointment process at least once every 5 years.

Preparing for tendering

Procurement Options – What and How

Preparing for tendering

Challenge question:

Have you chosen a procurement route?

What are you procuring?

The work of your external auditors is governed by the National Audit Office's Code of Audit Practice. There is no expected change to the NAO's Code which requires external auditors :

- to be satisfied that the accounts present a true and fair view, and comply with any legislative requirements that apply to them
- to ensure that proper practices have been observed in the preparation of the accounts and
- to ensure that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

Auditors are required to report their work by expressing an opinion on the financial statements and by forming a conclusion on the authority's arrangements for achieving value for money.

In addition auditors have additional powers under the Act such as responding to objections from members of the public in relation to the accounts.

Procurement Options

There are a number of procurement options open to you at this time. We have set out the main options below. In considering each option you will need to ensure that you comply with the Public Contracting Regulations (PCR) 2015 and take into account EU Procurement rules.

EU Procurement rules require authorities to advertise in OJEU where the estimated total contract value (over the duration of the contract) exceeds £172,514 for other public bodies.

Option 1

Restricted procedure under the Public Contracts Regulations 2015. This is a two stage tender process : at the first stage, bidders complete a pre-questionnaire (PQQ) which is used to assess an organisation's commercial, technical and financial capabilities and provides a method of shortlisting interested parties who meet the minimum qualification criteria.

For the second stage, bidders are invited to the Invitation to Tender (ITT) which is often a more descriptive and thorough document that consider how the bidders will meet the tender requirements.

The authority will have to comply with strict procurement timescales allowing bidders 30 days to express an interest and another 30 days for submission of tenders.

Procurement options

Option 2 – using an Open Procedure

This is a one-stage procedure, where bidders complete all tender documents (PQQ and tender response) at the same time. The authority evaluate the bids and then evaluates the PQQ part of the submission. The disadvantage of this approach is that the authority may be inundated with large numbers of tenders and will be required to evaluate all bidders.

Existing frameworks

There are a number of well established frameworks across the public sector which cover the procurement of external audit services. Frameworks are valuable in that they are already EU/UK compliant and terms and conditions are pre-agreed, removing much of the burden for you in assessing suppliers and in shortening the process for appointment.

Whilst all frameworks allow for further competition, a number do allow call-off without competition, otherwise frequently referred to as direct award. This reduces administrative costs and the time taken for appointment.

This is applicable to two such frameworks, RM1502/ConsultancyONE as hosted by Crown Commercial Service, and Framework 664/Consultancy Services as hosted by ESPO.

Equally, there is an option for a mini-competition of suppliers under these and other frameworks. If you choose a mini-competition, it is useful to note that not all suppliers are on every framework.

Combined procurement – PSAA

Public Sector Audit Appointments have led the development of a national combined procurement option.

Direct appointment

If the contract is below the PCR 2015 levels (which we believe it would be for Bath and North East Somerset should you opt for a one year appointment) you can make a direct appointment of an auditor. You will need to ensure that you comply with the 'below threshold' contract rules.

Next steps

We recognise that appointing your external auditor is a significant decision. We would be pleased to discuss with you the different options available to you.

Preparing for tendering

Challenge question:

Have you chosen a procurement route?

Grant Thornton Technical update

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Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2016/17. The main changes to the Code include:

- the new measurement requirements at depreciated replacement cost for the Highways Network Asset, which we have previously discussed with the Committee; and
- the requirement for local authorities to report in the Comprehensive Income and Expenditure Statement on the same basis as they are organised and report in the year (ie. no longer following SERCOP). This is accompanied by the introduction of a new Expenditure and Funding Analysis which provides a reconciliation between the way local authorities budget and report during the year and the Comprehensive Income and Expenditure Statement. The 2015/16 figures will have to be restated.

On 14 November CIPFA/LASAAC announced a deferral of the move to measuring the Highways Network Asset (HNA) at depreciated replacement cost in local authority financial statements for 2016/17. CIPFA LASAAC has indicated that it will make a decision on the implementation of HNA in March 2017. As a result of the deferral, we will continue our high level planning discussions with the finance and highways teams regarding implementation, but will hold back on further detailed work on HNA until CIPFA LASAAC has made its final decision on implementation.

Grant Thornton Publications and events



Advancing closure: the benefits to local authorities

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015, regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017-18, authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years. A workshop was held on October 19th in Exeter.

Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
- high quality financial statements as a result of improved quality assurance arrangements;
- greater certainty over in-year monitoring arrangements and financial outturn position for the year, supporting members to make more informed financial decisions for the future;
- improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
- allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.
- While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts, which our report explores in further details:
- Enabling sustainable change requires committed leadership underpinned by a culture for success
- Efficient and effective systems and processes are essential
- Auditors and other external parties need to be on board and kept informed throughout

Grant Thornton reports

Grant Thornton
An instinct for growth

Advancing closure
Transforming the financial reporting of
local authority accounts



<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>

Better Together: Building a successful joint venture company

Local government is evolving as it looks for ways to protect front-line services. These changes are picking up pace as more councils introduce alternative delivery models to generate additional income and savings.

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'Better together' is the next report in our series looking at alternative delivery models and focuses on the key areas to consider when deciding to set up a joint venture (JV), setting it up and making it successful.

JVs have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges.

Key findings from the report:

- JVs continue to be a viable option – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
- There is reason to be cautious – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
- There is a new breed of JVs between public sector bodies – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture.

Our report, Better Together: Building a successful joint venture company, can be downloaded from our website: <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>

Grant Thornton reports



ALTERNATIVE SERVICE DELIVERY MODELS IN LOCAL GOVERNMENT

Better together
Building a successful
joint venture company



Partnership working in mental health

Joining up the dots, not picking up the pieces

Mental ill health costs the economy over £100 billion each year and affects one in four people. However, responding to issues related to an underlying mental illness does not solely sit within the remit of health professionals. With many parts of the public sector needing to respond, and each facing significant financial pressures, collaboration around this issue is essential if savings are to be found and the best care provided.

This paper draws together examples of successful collaboration between public services and feedback from a Midlands round table discussion – where the West Midlands Combined Authority has set up a mental health commission – to look at how different services have overcome some of the traditional barriers and demarcation lines between organisations.

A roundtable event took place in Taunton on 1 December 2016.

There are four key messages:

The unpredictable nature of mental health symptoms can mean that the first point of contact is via emergency services, with ambulance, fire and rescue or police officers being present. The cost of services not being available at the right place at the right time can be huge, in terms of the personal suffering of individuals and costs to the wider system.

Often relatively modest amounts of money targeted at specific initiatives such as street triage or community cafes can make a huge difference in improving the availability of important services.

An impact can be made without the need for expensive structural change. Most importantly, it requires a genuine approach to collaboration and a culture of putting the patient first.

Investing in collaborative initiatives that focus on the needs of mental health patients were undoubtedly resulting in savings elsewhere to the public purse. Examples include:

- 92% reduction in detentions under section 136 of the Mental Health Act in Cheshire and Wirral; 50% reduction in Birmingham and Solihull; 39% in Nottinghamshire; 30% in Kent
- 647 A&E attendances avoided by one street triage team in one year in Birmingham and Solihull
- 80% remission in psychosis through early intervention in Derbyshire
- 25% of unemployed users of the café run by the Manchester Mind Young Adults Services and Projects team have gone on to find employment.

A set of recommendations on how to move this approach forward is also provided.



<http://www.grantthornton.co.uk/en/insights/partnership-working-in-mental-health/>

Events and workshops

Joint Venture seminar on 6th December 2016

Following publication of our 'Better Together' report we are running a workshop in Taunton Deane. The session will include presentations from the practitioners interviewed in preparing our report, including Arthur Hooper, Managing Director of Cormac

The event will provide an invaluable insight into setting up and running joint venture companies.

Mental Health Collaboration Summit on 1st December 2016

Following on from our 'joining the dots, not picking up the pieces' publication on collaborative working in Mental Health we are running our first Mental Health Collaboration summit in the Southwest. This summit provides an opportunity for sharing good practice and innovative partnership approaches that are being developed between health, police, social care and voluntary sectors. This summit offers the opportunity to gain and insight into the Southwest environment.

Sustainability and Transformation Plans – Early learning 13th December 2016

This round table event will consider early progress in delivering this approach to joined up health provision. Our event will consider:

- how best to ensure sufficient capacity and leadership is made available to inform the STP
- methods to ensure full consultation, engagement and buy-in by all partners and stakeholders
- the importance of accurate and consistent information to inform decisions
- early wins in terms of new ways of service provision

Grant Thornton events



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Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	8th December 2016	
TITLE:	Treasury Management Monitoring Report to 30 th September 2016	EXECUTIVE FORWARD PLAN REFERENCE: E 2867
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Performance Against Prudential Indicators		
Appendix 2 – The Council’s Investment Position at 30 th September 2016		
Appendix 3 – Average monthly rate of return for 1 st 6 months of 2016/17		
Appendix 4 – The Council’s External Borrowing Position at 30 th September 2016		
Appendix 5 – Arlingclose’s Economic & Market Review Q2 of 2016/17		
Appendix 6 – Interest & Capital Financing Budget Monitoring 2016/17		
Appendix 7 – Summary Guide to Credit Ratings		

1 THE ISSUE

- 1.1 In February 2012 the Council adopted the 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice, which requires the Council to approve a Treasury Management Strategy before the start of each financial year, review performance during the year, and approve an annual report after the end of each financial year.
- 1.2 This report gives details of performance against the Council's Treasury Management Strategy and Annual Investment Plan 2016/17 for the first six months of 2016/17.

2 RECOMMENDATION

The Committee agrees that:

- 2.1 the Treasury Management Report to 30th September 2016, prepared in accordance with the CIPFA Treasury Code of Practice, is noted
- 2.2 the Treasury Management Indicators to 30th September 2016 are noted.

3 RESOURCE IMPLICATIONS

3.1 The financial implications are contained within the body of the report.

4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

4.1 This report is for information only.

5 THE REPORT

Summary

5.1 The average rate of investment return for the first six months of 2016/17 is 0.50%, which is 0.13% above the benchmark rate.

5.2 The Council's Prudential Indicators for 2016/17 were agreed by Council in February 2016 and performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.

Summary of Returns

5.3 The Council's investment position as at 30th September 2016 is given in **Appendix 2**. The balance of deposits as at 30th June 2016 and 30th September 2016 are also set out in the pie charts in this appendix.

5.4 The Council is the accountable body for the West of England Revolving Investment Fund (RIF) and received grant funding of £57 million at the end of the 2011/12 financial year, the value of the fund as at 30th September 2016 is £30.7 million. The Council acts as an agent and holds these funds until they are allocated in the form of repayable grants to the constituent Local Authorities to meet approved infrastructure costs. These funds are invested separately from the Council's cash balances they are therefore excluded from all figures given in this report.

5.5 The Council also continues to act as Accountable Body for the West of England Local Enterprise Partnership (WoE LEP). In 2016/17 it has received £42.407m of Local Growth Fund (LGF) from Central Government following submission of its Strategic Economic Plan. This sum, prior to distribution, is being invested in line with the Council's overall Treasury Management Strategy, with the interest earmarked to fund support and governance costs. The balances related to the LGF are included in the figures given in this report.

5.6 Gross interest earned on investments for the first six months totalled £223k. Net interest, after deduction of amounts due to Schools, Local Growth Fund and other internal balances, is £107k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.50%, which was 0.11% above the benchmark rate of average 7 day LIBID +0.05% (0.39%).

Summary of Borrowings

5.7 No new borrowing has taken place in the three months to 30th September 2016. The Council repaid £5m during the quarter reducing the current borrowing to £128.3M.

5.8 The Council's Capital Financing Requirement (CFR) as at 31st March 2016 was £182.5 million with a projected total of £266 million by the end of 2016/17 based on the capital programme approved at February 2016 Council. This represents the

Council's underlying need to borrow to finance capital expenditure, and demonstrates that the borrowing taken to date relates to funding historical capital spend.

5.9 Following Local Government Reorganisation in 1996, Avon County Council's residual debt is administered by Bristol City Council. All successor Unitary Authorities make an annual contribution to principal and interest repayment, for which there is a provision in the Council's revenue budget. The amount of residual debt outstanding as at 31st March 2016 apportioned to Bath & North East Somerset Council is £13.40m. Since this borrowing is managed by an external body and treated in the Council's Statement of Accounts as a deferred liability, it is not included in the borrowing figures referred to in paragraph 5.7.

5.10 The borrowing portfolio as at 30th September 2016 is shown in **Appendix 4**.

Strategic & Tactical Decisions

5.11 As shown in the charts at **Appendix 2**, the investment portfolio has been diversified across UK Banks and Building Societies, Local Authorities and very highly rated Foreign Banks. The Council also uses AAA rated Money Market funds to maintain very short term liquidity. The Council has £18.7M invested in Money Market Funds as at 30th September 2016.

5.12 The Council does not hold any direct investments with banks in countries within the Eurozone reflecting both on the underlying debt issues in some Eurozone countries and the low levels of interest rates. The Council's investment counterparty list does not currently include any banks from Portugal, Ireland, Greece, Spain and Italy.

5.13 The Council's current average investment return is in broadly line with the budgeted level of 0.45%.

Future Strategic & Tactical Issues

5.14 Our treasury management advisors economic and market review for the second quarter 2016/17 is included in **Appendix 5**.

5.15 The Bank of England base rate was reduced to 0.25% on 4th August 2016. In the opinion of the Council's treasury advisors there is unlikely to be a rate rise until Q2 2018.

5.16 These lower rates reinforce the benefits of the Council's current policy of internal borrowing (although could adverse impact elsewhere including pension liabilities), and this continues to be monitored regularly against the likelihood that long term borrowing rates are forecast to rise in future years. The focus is now on the rate of increase and the medium-term peak and, in this respect, the current forecast remains that rates will rise slowly and to a lower level than in the past.

Budget Implications

5.17 A breakdown of the revenue budget for interest and capital financing and the forecast year end position based on the period April to September is included in **Appendix 6** and shows a forecast underspend of 560,000 reflecting savings from capital programme slippage delaying the need to borrow and a lower Minimum Revenue Provision (MRP) requirement

5.18 This position will be kept under review during the remainder of the year, taking into account the Council's cash-flow position and the timing of any new borrowing required.

6 RATIONALE

6.1 The Prudential Code and CIPFA's Code of Practice on Treasury Management requires regular monitoring and reporting of Treasury Management activities.

7 OTHER OPTIONS CONSIDERED

7.1 None.

8 CONSULTATION

8.1 Consultation has been carried out with the Cabinet Member for Community Resources, Section 151 Finance Officer and Monitoring Officer.

8.2 Consultation was carried out via e-mail.

9 RISK MANAGEMENT

9.1 The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment and Borrowing advice is provided by our Treasury Management consultants Arlingclose.

9.2 The CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Corporate Audit Committee carries out this scrutiny.

9.3 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

Contact person	<i>Tim Richens - 01225 477468 ; Andrew Stanton - 01225 477209 Tim_Richens@bathnes.gov.uk ; Andrew_Stanton@bathnes.gov.uk</i>
Background papers	<i>2016/17 Treasury Management & Investment Strategy</i>
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

Performance against Treasury Management Indicators agreed in Treasury Management Strategy Statement

1. Authorised limit for external debt

These limits include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over & above the operational limit for unusual cash movements.

	2016/17 Prudential Indicator	Actual as at 30th September 2016
	£'000	£'000
Borrowing	266,000	128,300
Other long term liabilities	2,000	0
Cumulative Total	268,000	128,300

2. Operational limit for external debt

The operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements.

	2016/17 Prudential Indicator	Actual as at 30th September 2016
	£'000	£'000
Borrowing	229,000	128,300
Other long term liabilities	2,000	0
Cumulative Total	231,000	128,300

3. Upper limit for fixed interest rate exposure

This is the maximum amount of total borrowing which can be at fixed interest rate, less any investments for a period greater than 12 months which has a fixed interest rate.

	2016/17 Prudential Indicator	Actual as at 30th September 2016
	£'000	£'000
Fixed interest rate exposure	229,000	108,300*

* The £20m of LOBO's are quoted as variable rate in this analysis as the Lender has the option to change the rate at 6 monthly intervals (the Council has the option to repay the loan should the Lender exercise this option to increase the rate).

4. Upper limit for variable interest rate exposure

While fixed rate borrowing contributes significantly to reducing uncertainty surrounding interest rate changes, the pursuit of optimum performance levels may justify keeping flexibility through the use of variable interest rates. This is the maximum amount of total borrowing which can be at variable interest rates.

	2016/17 Prudential Indicator	Actual as at 30th September 2016
	£'000	£'000
Variable interest rate exposure	141,000	20,000

5. Upper limit for total principal sums invested for over 364 days

This is the maximum amount of total investments which can be over 364 days. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

	2016/17 Prudential Indicator	Actual as at 30th September 2016
	£'000	£'000
Investments over 364 days	50,000	0

6. Maturity Structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk.

	Upper Limit	Lower Limit	Actual as at 30th September 2016
	%	%	%
Under 12 months	50	Nil	30*
12 months and within 24 months	75	Nil	0
24 months and within 5 years	75	Nil	8
5 years and within 10 years	100	Nil	0
10 years and above	100	Nil	62

* The CIPFA Treasury management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date (which are at 6 monthly intervals for the £20m of LOBO's). However, the Council would only consider repaying these loans if the Lenders exercised their options to alter the interest rate.

7. Average Credit Rating

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio. A summary guide to credit ratings is set out at **Appendix 7**.

	2016/17 Prudential Indicator	Actual as at 30th September 2016
	Rating	Rating
Minimum Portfolio Average Credit Rating	A-	AA+

APPENDIX 2

The Council's Investment position at 30th September 2016

The term of investments, from the original date of the deal, are as follows:

As per Weekly	Balance at 30 th September 2016
	£'000's
Notice (instant access funds)	26,744
1 month to 3 months	23,000
Over 3 months	37,000
Total	86,744

The investment figure of £96.7 million is made up as follows:

	Balance at 30 th September 2016
	£'000's
B&NES Council	41,239
West Of England Growth Points	134
Local Growth Fund	39,004
Schools	6,367
Total	86,744

The Council had a total average net positive balance of £89.235m during the period April 2016 to September 2016.

Chart 1: Council Investments as at 30th September 2016 (£86.7m)

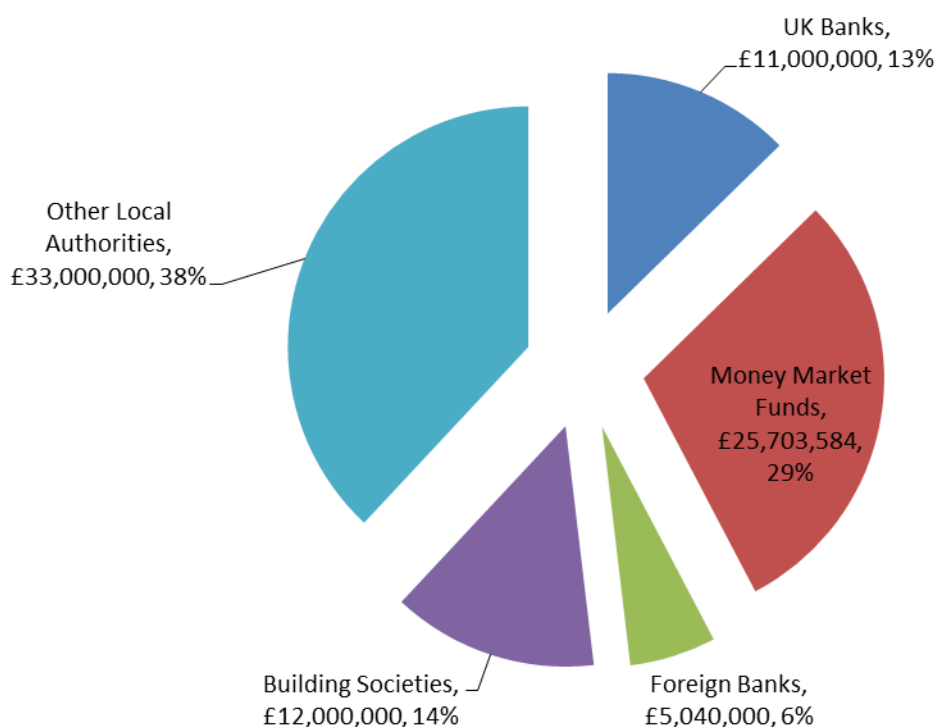


Chart 2: Council Investments as at 30th June 2016 (£93.4m)

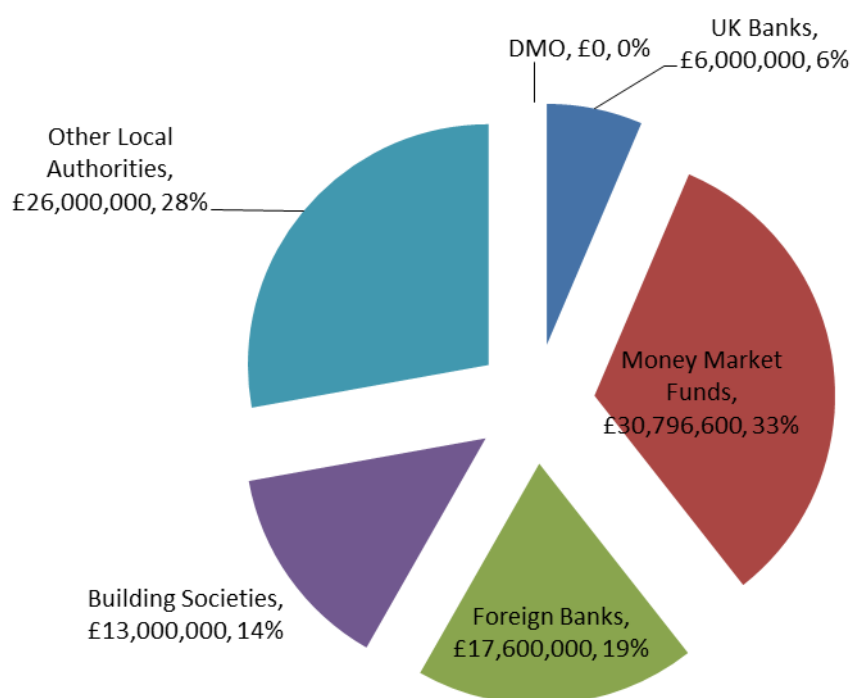


Chart 3: Council Investments per lowest equivalent Long Term credit rating (£86.7m) 30th September 2016

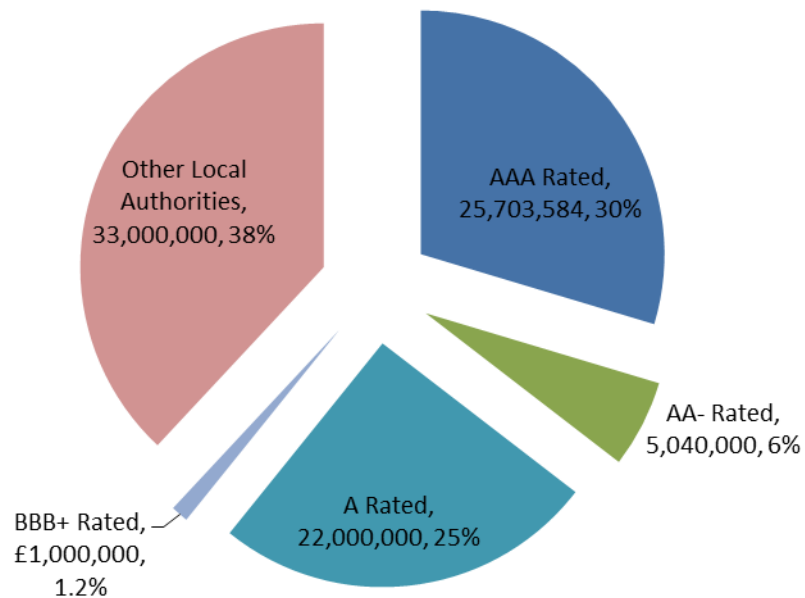
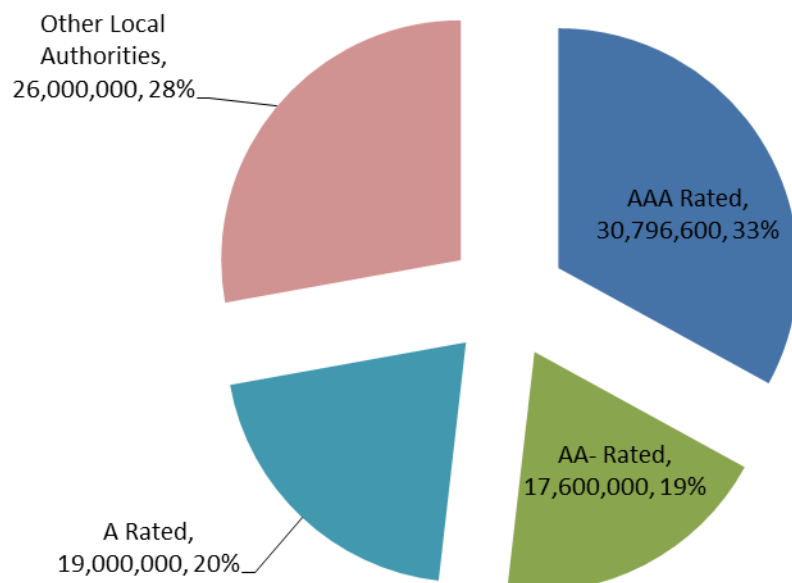


Chart 4: Council Investments per lowest equivalent Long Term credit rating (£93.4m) 30th June 2016



APPENDIX 3

Average rate of return on investments for 2016/17

	April %	May %	June %	July %	Aug %	Sept %	Average for Period
Average rate of interest earned	0.45	0.52	0.52	0.52	0.51	0.48	0.50%
Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	0.41	0.42	0.41	0.41	0.36	0.33	0.39%
Performance against Benchmark %	+0.04	+0.10	+0.11	+0.11	+0.15	+0.15	+0.11%

APPENDIX 4

Councils External Borrowing at 30th September 2016

LONG TERM	Amount	Start Date	Maturity Date	Interest Rate
PWLB	10,000,000	15/10/04	15/10/35	4.75%
PWLB	5,000,000	12/05/10	15/08/35	4.55%
PWLB	5,000,000	12/05/10	15/08/60	4.53%
PWLB	5,000,000	05/08/11	15/02/31	4.86%
PWLB	10,000,000	05/08/11	15/08/29	4.80%
PWLB	15,000,000	05/08/11	15/02/61	4.96%
PWLB	5,300,000	29/01/15	15/08/29	2.62%
PWLB	5,000,000	29/01/15	15/02/61	2.92%
PWLB	20,000,000	20/06/16	200641	2.36%
KBC Bank N.V*	5,000,000	08/10/04	08/10/54	4.50%
KBC Bank N.V*	5,000,000	08/10/04	08/10/54	4.50%
Eurohypo Bank*	10,000,000	27/04/05	27/04/55	4.50%
West Midland Police Authority	5,000,000	08/10/14	10/10/16	1.10%
Portsmouth City Council	3,000,000	15/10/14	17/10/16	1.08%
Gloucestershire County Council	5,000,000	25/11/14	25/11/19	2.05%
Gloucestershire County Council	5,000,000	19/12/14	19/12/19	2.05%
London Borough of Ealing	5,000,000	21/10/15	19/10/16	0.60%
West Midland Police Authority	5,000,000	27/11/15	25/11/16	0.62%
TOTAL	128,300,000			
TEMPORARY	Nil			
TOTAL	128,300,000			3.43%

*All LOBO's (Lender Option / Borrower Option) have reached the end of their fixed interest period and have reverted to the variable rate of 4.50%. The lender has the option to change the interest rate at 6 monthly intervals. Should the lender use the option to change the rate, then at this point the borrower has the option to repay the loan without penalty.

APPENDIX 5

Economic and market review for July to September 2016 (provided by Arlingclose)

The preliminary estimate of Q2 2016 GDP showed reasonably strong growth as the economy grew 0.7% quarter-on-quarter, as compared to 0.4% in Q1 and year/year growth running at a healthy pace of 2.2%. However the UK economic outlook changed significantly on 23rd June 2016. The surprise result of the referendum on EU membership prompted forecasters to rip up previous projections and dust off worst-case scenarios. Growth forecasts had already been downgraded as 2016 progressed, as the very existence of the referendum dampened business investment, but the crystallisation of the risks and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment.

The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. The minutes of the August meeting also suggested that many members of the Committee supported a further cut in Bank Rate to near-zero levels (the Bank, however, does not appear keen to follow peers into negative rate territory) and more QE should the economic outlook worsen.

In response to the Bank of England's policy announcement, money market rates and bond yields declined to new record lows. Since the onset of the financial crisis over eight years ago, Arlingclose's rate outlook has progressed from 'lower for longer' to 'even lower for even longer' to, now, 'even lower for the indeterminable future'.

The new members of the UK government, particularly the Prime Minister and Chancellor, are likely to follow the example set by the Bank of England. After six years of fiscal consolidation, the Autumn Statement on 23rd November is likely to witness fiscal initiatives to support economic activity and confidence, most likely infrastructure investment. Tax cuts or something similar cannot be ruled out.

Whilst the economic growth consequences of BREXIT remain speculative, there is uniformity in expectations that uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.

Meanwhile, inflation is expected to pick up due to a rise in import prices, dampening real wage growth and real investment returns. The August Quarterly *Inflation Report* from the

Bank of England forecasts a rise in CPI to 0.9% by the end of calendar 2016 and thereafter a rise closer to the Bank's 2% target over the coming year, as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.

The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes, concentrating instead on the negative effects of Brexit on economic activity and, ultimately, inflation.

Market reaction: Following the referendum result gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. The yield on the 10-year gilt fell from 1.37% on 23rd June to a low of 0.52% in August, a quarter of what it was at the start of 2016. The 10-year gilt yield has since risen to 0.69% at the end of September. The yield on 2- and 3-year gilts briefly dipped into negative territory intra-day on 10th August to -0.1% as prices were driven higher by the Bank of England's bond repurchase programme. However both yields have since recovered to 0.07% and 0.08% respectively. The fall in gilt yields was reflected in the fall in PWLB borrowing rates.

On the other hand, after an initial sharp drop, equity markets appeared to have shrugged off the result of the referendum and bounced back despite warnings from the IMF on the impact on growth from 'Brexit' as investors counted on QE-generated liquidity to drive risk assets.

The most noticeable fall in money market rates was for very short-dated periods (overnight to 1 month) where rates fell to between 0.1% and 0.2%

Counterparty Update : Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK. S&P took similar actions on rail company bonds guaranteed by the UK Government. S&P also downgraded the long-term ratings of the local authorities to which it assigns ratings as well as the long-term rating of the EU from AA+ to AA, the latter on the agency's view that it lowers the union's fiscal flexibility and weakens its political cohesion.

Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.

There was no immediate change to Arlingclose's credit advice on UK banks and building societies as a result of the referendum result. Our advisor believes there is a risk that the

uncertainty over the UK's future trading prospects will bring forward the timing of the next UK recession.

The European Banking Authority released the results of its 2016 round of stress tests on the single market's 51 largest banks after markets closed on Friday 29th July. The stress tests gave a rather limited insight into how large banks might fare under a particular economic scenario. When the tests were designed earlier this year, a 1.7% fall in GDP over three years must have seemed like an outside risk. Their base case of 5.4% growth now looks exceptionally optimistic and the stressed case could be closer to reality. No bank was said to have failed the tests. The Royal Bank of Scotland made headline news as one of the worst performers as its ratios fell by some of the largest amounts, but from a relatively high base. Barclays Bank and Deutsche Bank ended the test with Common Equity Tier 1 (CET1) ratios below the 8% threshold, and would be required to raise more capital should the stressed scenario be realised. The tests support our cautious approach on these banks.

Fitch also upgraded Svenska Handelsbanken's long-term rating from AA- to AA reflecting the agency's view that the bank's earnings and profitability will remain strong, driven by robust income generation, good cost efficiency and low loan impairments.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2016/17 (July to September)

April to June 2016	YEAR END FORECAST			ADV/FAV
	Budgeted Spend or (Income) £'000	Forecast Spend or (Income) £'000	Forecast over or (under) spend £'000	
Interest & Capital Financing				
- Debt Costs	5,403	5103	(300)	FAV
- Internal Repayment of Loan Charges	-10,671	-10,671	0	
- Ex Avon Debt Costs	1,240	1,240	0	
- Minimum Revenue Provision (MRP)	7,115	6865	(260)	FAV
- Interest on Balances	-79	-79	0	
Sub Total - Capital Financing	3,008	2,488	(560)	FAV

APPENDIX 7

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicate an issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

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Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	8th December 2016	AGENDA ITEM NUMBER
TITLE:	Internal Audit Annual Plan – Six Month Performance Update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1- Audit Reviews Position Statement (as at 30th September 2016)		

1 THE ISSUE

- 1.1 The Annual Internal Audit Plan for 2016/17 was presented to the Corporate Audit Committee on the 24th March 2016. This report has been compiled to provide an update to the Committee on progress against the Plan and the results of Internal Audit work completed.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to note progress made against the Internal Audit Plan for 2016/17.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications relevant to this report.

4 THE REPORT

- 4.1 The chart overleaf shows that as at halfway through the year:

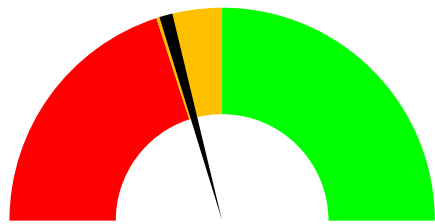
- Overall delivery of the plan is on the lower end of the target for Q2;
- Audit Reviews are broadly being completed within their allocated days;
- Customers have rated the service as either 'good' or 'excellent';
- The majority of Critical and High level recommendations have been implemented within the timescale agreed by management;
- State of the Internal Control framework is positive based on our audit opinions;
- Unplanned work is currently over the planned contingency.

PERFORMANCE DASHBOARD - INTERNAL AUDIT

Client - Bath & North East Somerset

Period - April 2016 - September 2016

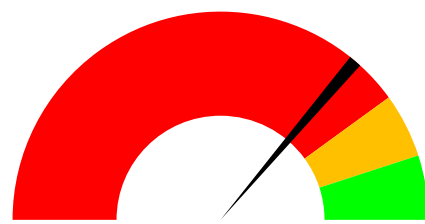
1. AUDIT PLAN COMPLETED



40%

Green Target = >50% of annual plan
Amber Target = >40% of annual plan

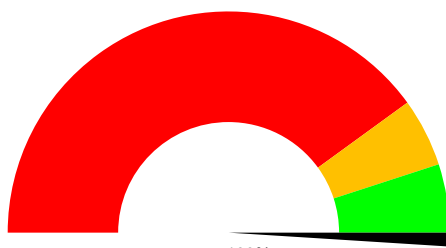
2. AUDITS COMPLETED IN PLANNED TIME



71%

Green Target = >90%
Amber Target = >80%

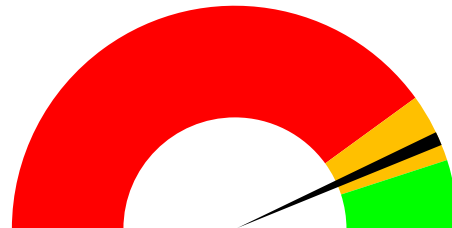
3. CUSTOMER SATISFACTION



100%

Green Target = >90%
Amber Target = >80%

4. IMPLEMENTATION OF RECOMMENDATIONS

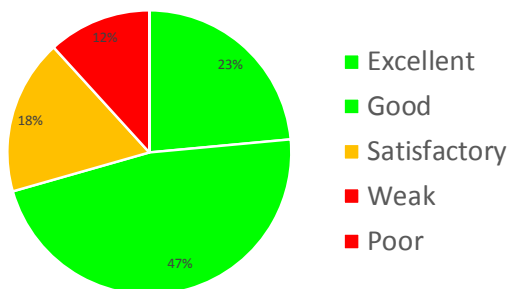


86%

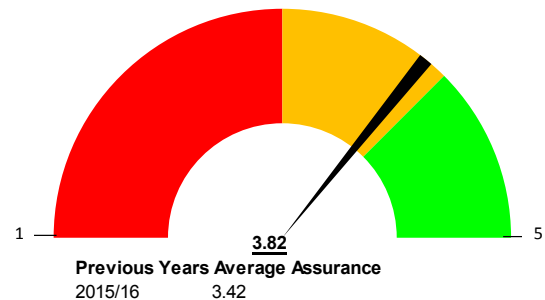
Green Target = >90%
Amber Target = >80%

5. AUDIT OPINION - ASSURANCE LEVEL PROVIDED

Current Position



Current Average Assurance Level



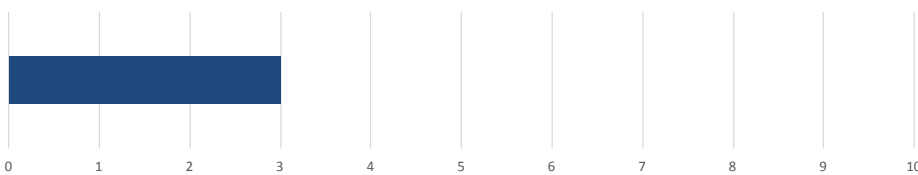
Previous Years Average Assurance
2015/16 3.42

6. WHISTLEBLOWING CASES IN CURRENT FINANCIAL YEAR



Number of New Cases

7. INVESTIGATIONS - CASES UNDER INVESTIGATION DURING REPORTING PERIOD



Equating to
29.7
Audit Days
2016/17

8. NEW UNPLANNED WORK



Equating to
47.5
Audit Days
2016/17

4.2 COMPLETION OF THE INTERNAL AUDIT PLAN

4.2.1 The performance dashboard shows that at the half-way point of the year, 40% of the plan is substantially completed. This includes work that is either finalised, at reporting stage, or at the end of fieldwork (see Appendix 1).

4.2.2 The reason for not achieving 50% of the plan at the financial year half way point:

Level of Unplanned Work. The Performance Dashboard records that a total of 77.2 days has been used on 'Unplanned Work / Investigations'. This is already in excess of the contingency allocated for 2016/17. Audit West in B&NES have been required to carry out 3 investigations and 9 pieces of unplanned work:

4 - Grant Claim Certifications;

3 – in response to Senior Management requests;

1 – agreed by Audit Management to ensure audit report recommended actions were implemented (Public Protection).

1 – audit of 'Contract Management - Extra Care Housing' replacing 'Adult Social Care Contract Re-provision' audit recorded in the Audit Plan 2016/17.

4.2.3 Work to complete the Annual Audit Plan is continuing and we have recruited an Audit Associate to carry out income generating work and a number of planned audits.

4.3 AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS

4.3.1 The percentage of audits (included in 2016/17 Plan) completed within the initial allocated days is recorded at 71%. The 2 audits which exceeded days assigned required more time to complete the agreed scope and Audit Management agreed the additional days required to complete the necessary work.

4.4 CUSTOMER SERVICE

4.4.1 Providing quality and adding value is particularly important to Audit West. Receiving customer feedback is useful in being able to improve the service provided. We have encountered continuing problems with obtaining feedback through the use of Quality Assurance Feedback Forms and we have successfully moved to a fully electronic version using our Internal Audit Software. This has significantly improved the feedback received. It's important to note that the on-going dialogue with clients through the audit process helps to ensure that our feedback results continue to be very good.

A number of comments made are recorded below:

"This Audit was carried out with very little disruption to our Service and in a professional manner."

"Timescales were adhered to which was appreciated. Feedback to initial recommendations was taken on-board. The auditor worked hard to grasp and understand a complex but also unique process"

4.5 IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS

4.5.1 The dashboard records the implementation of critical / high risk rated recommendations at the time the audit was 'Followed-Up' at 86%. Of the 7 audits 'Followed-Up' during the first half of the financial year, 3 had critical / high risk rated weaknesses / recommendations. For 2 of the 3 audits all critical / high recommendations were implemented.

4.5.2 There was therefore a single audit (Purchasing Card Key Controls Review) where the 'Follow-Up' identified that only 1 of the 7 high risk recommendations had not been implemented. The outstanding recommendation was in relation to developing an improved system to ensure that managers adequately monitored purchase card transactions issued to their staff.

4.5.3 Based on the finding of the Audit Follow-Up the matter was flagged to the Divisional Director Business Support and the Head of Strategic Procurement & Commissioning agreed to keep Internal Audit updated on progress.

4.6 INVESTIGATIONS/ WHISTLEBLOWING

4.6.1 As stated in 4.2.2 during the first half of 2016/17 the service has been involved in three investigations. The subject matter will be covered in the Fraud Review Agenda Item of this meeting.

4.7 ASSURANCE LEVEL PROVIDED

4.7.1 In 2016/17 (to the end of September) 88% of 'Final' Audit Reports issued have an audit opinion of satisfactory to excellent (between Assurance Levels 3 and 5). Two audits, 'Member Allowances' and 'Use of Council Vehicles', accounted for the balancing 12%, and these were allocated assessments of Assurance Level 2 'Weak Control Framework'.

4.7.2 The Members Allowances audit had three key control objectives which were assessed as part of the audit review:

1. The Council has in place an approved and established scheme for the payment of Members Allowances as required by legislation. (Assessed as 'Good').
2. Claims for expenses (including travel and subsistence) are in accordance with the approved scheme and are properly authorised. (Assessed as 'Good').
3. Allowances paid to B&NES Members are in accordance with the Council approved scheme. (Assessed as 'Weak').

Weaknesses identified included:

- Payroll Input errors (Mis-interpretation of forms submitted)
- Lack of adequate reconciliation processes
- Overpayments of £7K and underpayments of £3K affecting seven members

The Head of Legal and Democratic Services took immediate action to correct the periodic payments and commence recovery action.

Additional work was then undertaken by Internal Audit to confirm the accuracy of all payments processed following the changes requested post May 2015.

In addition to recommending improved reconciliation procedures changes to the payroll variation input forms were recommended.

All recommendations were agreed to be implemented and the audit follow-up should be completed before the end of 2016.

4.7.3 The Use of Council Vehicles audit had two key control objectives within the scope of the audit review and both were assessed as 'Weak':

1. Driver standards are maintained to provide good service and to protect staff, the public and property.
2. Use of vehicles is monitored to ensure effective, efficient and safe use of resources.

Weaknesses identified, included:

- The Fleet Management Vehicle Use Policy document not been reviewed and formally adopted by a Cabinet Member and / or senior management.
- Failure to monitor and report on compliance with the Policy.
- Record of approved drivers not being provided to service management.
- Almost 50% of drivers had not been recorded as having completed the driving assessment.
- No requirement to declare outcomes of age related health checks.
- Inconsistent approach by management to checks on driver licence's.
- Driver declaration forms not signed to show understanding and acceptance of responsibilities.
- Daily vehicle roadworthiness checks not always carried out or recorded.
- Up-to-date register of approved Council drivers is not maintained.
- Drivers not always being re-assessed within the specified time intervals.
- A number of Agency drivers had not been assessed.
- Council's Operator Licence holder does not have sufficient authority to require actions to be taken by other council officers to ensure compliance.

The Group Manager (Neighbourhood Environmental Services) and the Fleet Operations Manager agreed to implement the audit recommendations by 31/10/2016. The audit follow-up is scheduled for early in the New Year.

4.8 JOINT WORKING – AUDIT WEST PARTNERSHIP

4.8.1 The Committee has been regularly updated on the joint working arrangements between Bath & North East Somerset Council and North Somerset Council now badged as 'Audit West'.

4.8.2 As described previously in this report, partnership working has proved to be very successful and now over 25% of the audit plan involves joint reviews with North Somerset on common areas. This has improved productivity and value, and to further capitalise on these opportunities joint working has also extended into investigations and non-core services.

4.8.3 In financial terms the new arrangements have also delivered significant financial savings with over £200K delivered to date for both Councils with a further £80K planned over the next three years from delivering on new income opportunities. However budget pressures persist with both partners and a fuller update on the implications on Audit West will be given in our annual report once the long-term position becomes clearer.

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.

6 EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out in relation to this report. There are no significant issues to report to the Committee.

7 CONSULTATION

7.1 The report was distributed to the S151 Officer for Consultation.

Contact person	<i>Andy Cox (01225 477316) Jeff Wring (01225 477323)</i>
Background papers	<i>Report to Corporate Audit Committee – 26th March 2015 – Internal Audit - Annual Report</i>
Please contact the report author if you need to access this report in an alternative format	

Audit Reviews Position Statement (as at 30th September 2016)
Appendix 1

Ref	Topic	Status	Assurance Level	Recommendations	
				Made	Agreed
16-001B	Highways - Project Governance	Not yet Started			
16-002B	ICT - Network Management	Fieldwork<50%			
16-003B	Better Care Fund	Fieldwork>50%			
16-004B	Domicillary Care - Contract Management & Performance	Not yet Started			
16-005B	Pensions Governance	Not yet Started			
16-006B	Accountable Body - West of England LEP - One Front Door and Expenditure Scheduling	Fieldwork>50%			
16-007B	Accountable Body - West of England LEP – Funding Claims and Achievement of Deliverables	Fieldwork>50%			
16-008B	iTrent	Draft Report			
16-009B	ICT - Data Back Up	Fieldwork<50%			
16-010B	Recycling	Not yet Started			
16-011B	Traffic Regulation Orders	Final Report	4	6	6
16-012B	Creditor Payments - Late Payment of Invoices	Not yet Started			
16-013B	Pro-Contract	Final Report	3	9	9
16-014B	Procurement Governance	Not yet Started			
16-015B	Liquidlogic - Children's	Fieldwork>50%			
16-016B	Economic Growth	Fieldwork>50%			
16-017B	Street Works	Not yet Started			
16-018B	ICT Change Management	Not yet Started			
16-019B	ICT Third Party Access	Not yet Started			
16-020B	Pensions Admin	Not yet Started			
16-021B	Heritage Contract Management	Fieldwork>50%			
16-022B	Destination Management	Fieldwork>50%			
16-023B	Personalised Budgets	Fieldwork>50%			
16-024B	School Theme Review - Personnel & Payroll	Final Report	4	0	0
16-025B	Home to School Transport	Not yet Started			
16-026B	Revenue Estate - Rent Reviews & Lease Renewals	Fieldwork<50%			
16-027B	Digital B&NES - Connecting Devon & Somerset Programme	Fieldwork<50%			
16-028B	Public Protection Service Overview	Final Report	3	7	7
16-029B	Pensions Admin	Not yet Started			
16-030B	Cash Collection Contracted Service	Fieldwork>50%			
16-031B	Passenger Transport	Not yet Started			
16-032B	School Theme Review - Payments	Fieldwork>50%			
16-033B	Safeguarding	Not yet Started			
16-034B	Revenue Estate - Income collection, Debt Recovery & Write Offs	Not yet Started			
16-035B	Revenue Estate - Void Properties	Not yet Started			
16-036B	Employment Procedures - Redundancies	Not yet Started			
16-037B	Insurance	Final Report	5	0	0
16-038B	Use of Council Vehicles	Final Report	2	13	13
16-039B	Council Tax - Support, Exemptions & Discounts	Not yet Started			
16-040B	Debt Management	Not yet Started			
16-041B	Catering Trading Account	Not yet Started			
16-042B	Adult Social Care Contract Reprovision	Not yet Started			

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Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	8 th December 2016	AGENDA ITEM NUMBER
TITLE:	Fraud & Corruption Update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Counter Fraud Strategy Appendix 2 – Anti Bribery Policy Appendix 3 – Anti-Money Laundering Policy		

1. THE ISSUE

This report outlines progress and future work in the BaNES Counter Fraud Action Plan 2016-17, to align the policies and procedures for counter fraud at both BaNES and NSC. It also outlines the progress with the National Fraud Initiative 2016-17 and presents to the committee the updated Counter Fraud Strategy, Anti-Bribery Policy and Anti-Money Laundering Policy for comments.

2. RECOMMENDATION

The Corporate Audit Committee is asked to:

- Review and comment on the Counter Fraud Strategy (*App 1*)
- Review and comment on the updated Anti-Bribery Policy (*App 2*)
- Review and comment on the updated Anti-Money Laundering Policy (*App 3*)

3. FINANCIAL IMPLICATIONS

There are no direct financial implications from this report as it is an update report.

4. THE REPORT

4.1. National Picture & Emerging Fraud Risks

The latest edition of the Local Government Fraud Strategy, “Fighting Fraud and Corruption Locally 2016-19” was published in March 2016 by CIPFA. This identified that fraud may be costing £20.6 billion in the Public Sector in the UK. Of this, £2.1 billion is the estimated cost of fraud affecting local government.

The most common types of fraud risks recognised by CIPFA that a local authority are exposed to are many and diverse, they include:

- Council Tax
- National Non Domestic Rates (NNDR)
- Procurement
- Blue Badges
- Schools
- Internal Fraud
- Personal Budgets
- No recourse to public funds
- Identity assurance
- Money laundering
- Insurance Fraud
- Disabled Facilities Grants
- Concessionary travel schemes
- Commissioning of services
- Cyber and e-enabled fraud

It is important for local authorities to be aware of the rapidly changing environment of fraud and should continuously be scanning for new and developing fraud risks. In the last 12 months there has been a substantial increase in cyber related scams and attempted frauds at a national level and this requires a proportionate response from a counter-fraud perspective.

Therefore, we continue to review information both nationally and locally and liaise with regional fraud groups to keep abreast of current fraud risks, with work completed and best practice shared between the group members.

Fraud risks are considered within all audit reviews. Where necessary, recommendations have been made to strengthen controls to help prevent fraud from occurring.

4.2. NFI Position

The outcomes of the 2014/15 National Fraud Initiative (NFI) exercise were reported to the Audit committee last December. Further to the reported figures, the annual NFI Council Tax Single Persons Discount data match (uploaded in December 2015) identified additional billings for £5225 on cases where the Single Persons Discount was removed.

The first full NFI exercise since the move to the Cabinet Office is now underway. Data for the biennial NFI Matches was extracted and uploaded in October and the resulting matches are due to be released January/February 2017. In addition to this, the data for the annual Single Person Discount NFI matches is due to be extracted and uploaded in December, and the matches released by January 2017.

The matches will be assigned to the relevant teams for Blue Badges, Concessionary Fares, Housing Benefit, Council Tax, Personal Budgets, Pensions and Insurance. Payroll matches will be retained within the Internal Audit team for completion.

4.3. IA Targeted Work & Investigations

Within the last twelve months, Internal Audit have been involved in three new investigations. Two of these are still ongoing and the one closed investigation has resulted in disciplinary action. Brief details of the investigations are listed below:

1. Use of a Council Purchasing Card to purchase 3 laptop computers for a service area from PCWorld Online. Swift intervention by Internal Audit following 'whistleblowing' identified that the laptops were still in an unopened condition and that based on the PCWorld Online Terms & Conditions the laptops could be returned for a full refund.

The transaction was in contravention of the Purchasing Card Terms and Conditions which states that IT equipment cannot be purchased using the card without the express permission of the Council's Head of IT. The breach of the Purchasing Card Terms resulted in a breach of the Council's Financial Regulations (Section 21).

The Council's informal disciplinary process was used and the employee received a formal written warning.

2. Inappropriate deputyship payment to a 3rd party. The Council Officer carrying out Adult Client Deputyship role under Court of Protection Order processed two large payments to the step children of a client who had inherited monies based on the death of her husband in March 2014. The processing of the payments only came to light 18 months after the payments had been processed and the client herself had died.

This investigation was complicated further as the Deputyship Officer responsible had left the Council's employment in March 2015. A report is being prepared and will be submitted to the Office of the Public Guardian (Court of Protection) to decide whether any further action should be taken.

3. Potential inappropriate disposal of Council assets to fund a digital imaging project. A 'whistleblower' raised concerns over the sale and disposal of council assets, role of third parties and the associated decision making processes. Following an investigation no specific action was considered necessary against any employee however a number of key recommendations were made in relation to the governance, management and disposal of certain historic assets.

4.4. Policies & Procedures

Policies have been reviewed during the year to ensure that they are still current and where necessary updated versions have been produced. As a result of this work, the Anti-Money Laundering and the Anti-Bribery policies have been revised. These are included at *Appendix 2 and 3*.

Work has also been undertaken to create and implement a Counter Fraud Strategy (*Appendix 1*), which is the 'umbrella strategy' to bring together all the other policies. This strategy is in line with the "Fighting Fraud Locally 2016-19" to ensure that we are working to current best practice.

To further support to the review of policies, work has been undertaken to review and update the counter fraud information available on the intranet, considering any

changes in best practice and current fraud trends. This is an ongoing task and will further be updated with the release of the new policies and strategy.

Ensuring that all staff have sufficient understanding about fraud and corruption, including knowing the tell-tale signs to look for and their responsibility in the prevention of fraud is a key element in taking active steps to prevent, detect, correct, punish and deter fraud.

To provide this, a Fraud Awareness e-learning module has been developed and implemented and was made available to all staff in September 2016.

4.5. Priorities for Next 12 Months

Counter Fraud is an ongoing process and we will continue to identify and assess the fraud risks that BaNES face.

The updated Counter Fraud Action Plan, is included within the *Counter Fraud Strategy 2016 (pages 6-8)* for consideration by the Audit Committee. The work will continue to be focused around aligning policies and procedures at BaNES and NSC and also ensuring that staff receive appropriate training and information to enable them to identify and report any suspicions of irregularity/fraud.

As part of the planned work, we are continuing work to identify areas in which we can undertake innovative data matching, not only to identify fraud and error, but to be informative and add value to the council as a whole.

Test work was completed in August/September in North Somerset Council and we are in the process of replicating this work at BaNES to see whether it identifies the same benefits and issues. This will then be used to inform the audit planning process to identify where data analytics can be used to provide added value. We will also consider how data analytics can be used to perform more regular matching exercises to prevent and detect fraud and/or error.

Another main focus of work for the coming year will be to develop an online reporting system for the public and/or staff of partner/contractors to anonymously report their concerns in regards to potential fraud and irregularities as well as looking at our approach to cyber-fraud and email scams.

5. RISK MANAGEMENT

It is recognised by Government that the current economic climate in the United Kingdom and the Government policy of significantly reduced public spending have the potential to increase the risk of fraud and irregularity as never seen before in the public sector.

As the Council makes significant cuts in its current and future budgets, it is essential that it continues to maintain strong defences against fraud and irregularity, directing its resources most effectively to mitigate the areas of highest risk.

6. EQUALITIES

A proportionate equalities impact assessment has been carried out in relation to this report. There are no significant issues to report to the Committee.

7. CONSULTATION

None.

Contact person	<i>Tammy Weeks (01934 634762) Andy Cox (01225 477316) or Jeff Wring (01225 477323)</i>
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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COUNTER FRAUD STRATEGY 2016

Audit West



**Bath & North East
Somerset Council**

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If you require clarification on any aspect of the Counter Fraud Strategy or require this document in a different format, please contact Internal Audit.

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This policy will be reviewed on an ongoing basis and at least once a year.

Foreword

Counter Fraud Strategy 2016

Welcome to the Council's Counter Fraud Strategy 2016 which has been endorsed by the Audit Committee.

This document supports The Local Government Counter Fraud and Corruption Strategy "*Fighting Fraud & Corruption Locally*".

In the public sector, fraud diverts valuable resources away from those who need them most, our customers.

Counter fraud is integral to the culture and working practices of the Council and historically it has had effective counter fraud arrangements. However, both the Council and the country face unprecedented challenges over the coming years as public spending cuts are introduced to reduce the national deficit and key services are delivered by partners, contractors and volunteers.

Aim of the Counter Fraud Strategy

This Counter Fraud Strategy aims to direct the Council's counter fraud resources on the key areas of fraud risk and bring together the Council's Anti-Fraud and Corruption Policy, the Anti-Money Laundering Policy and the Anti-Bribery Policy under one umbrella strategy.

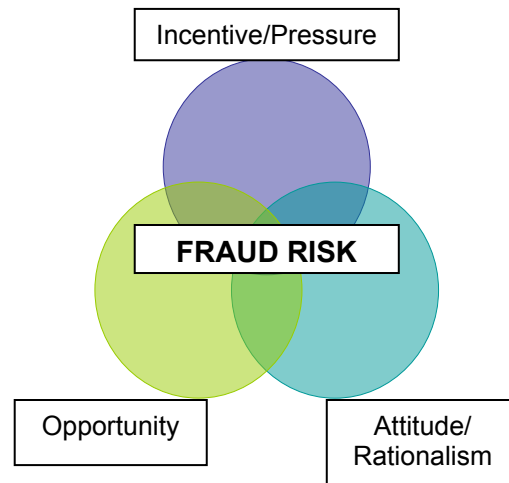
It aims to improve the integration of fraud **prevention** and **detection** into the culture and working practices of the Council, its partnerships, contracts and the civic sector.

The Strategy requires that adequate and effective measures are put in place to **correct** any identified fraud or irregularity and all perpetrators are severely **punished**.

The Strategy continues the Council's stance in maintaining a **zero tolerance** approach towards fraud and irregularity and doing more to **deter** it.

The Heightened Threat of Fraud

There are three conditions that are commonly found when fraud occurs:



The perpetrators experience some **incentive** or **pressure** to engage in misconduct. There must be an **opportunity** to commit fraud and the perpetrators are often able to **rationalise** or justify their actions.

The current economic climate in the United Kingdom and the Government policy of significantly reduced public spending have the potential to **increase the risk of fraud** as never seen before in the public sector, due to:

- Increased **incentives** or **pressures**, primarily as a result of employees' fear of losing their job
- More **opportunities** to commit fraud as internal controls are weakened or in some cases removed
- People's ability to **rationalise**.

As the Council makes significant cuts in its current and future budgets, it is essential that it continues to maintain strong defences against fraud and irregularity, directing its resources most effectively to mitigate the risk of fraud. This will involve working closely with partners, contractors and volunteers to overcome any barriers to effective fraud fighting and making the best use of available information and intelligence.

The Scale of Fraud in the UK

National Fraud Statistics

Figures published by the National Fraud Authority (NFA) in 2013 indicates that fraud maybe costing the United Kingdom **£52 billion** per annum.

This can be broken down as follows:

	£ billion
Public Sector	20.6
Private Sector	21.2
Individual	9.1
Charity Sector / Other	1.1

Fraud in the Public Sector

Fraud costs the Public Sector in the United Kingdom **£20.6 billion** per annum.

This can be broken down as follows:

	£ billion
Tax	14.1
Central Government	2.5
Local Government	2.1
Benefit and Tax Credits	1.9

The Audit Commission's Protecting the Public Purse 2014 identified detected fraud to the value of £188m following a comprehensive survey of local authorities; this was fraud after the event and did not include potential losses.

These figures also do not take into account the indirect costs of responding to and dealing with fraud.

National Fraud Initiative (NFI)

The National Fraud Initiative is a sophisticated data matching exercise to prevent and detect fraud, and is facilitated by the Cabinet Office under statutory powers.

It was established in 1996 by the Audit commission and is now undertaken every two years. Over 1,300 mandatory and voluntary participants provide 8,000 datasets.

The Council undertakes work both internally and with external bodies to investigate the data matches identified.

Detection of Fraudulent Activity

Knowing the potential extent and reach of fraud is crucial in the fight against it. However, there are still many areas where potential fraudulent activity and fraud loss data is not available, is incomplete or does not exist at all.

Even allowing for inaccuracies in the measurement of fraud risk, local government is under attack from fraudsters and the scale of losses to local authorities is significant.

Public Sector Fraud and Emerging Risks

CIPFA Counter Fraud Centre

The CIPFA Counter Fraud Centre was launched in 2014 to lead and coordinate the fight against fraud and corruption across local and central government, the health, education and charity sectors.

The latest edition of the Local Government Fraud Strategy, “Fighting Fraud and Corruption Locally 2016-19” was published in March 2016 by CIPFA). It aims to help councils tackle fraud and prevent losses of over £2bn a year.

It provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities. The report also draws on the best practices of councils already successfully tackling fraud and offers practical anti-fraud advice.

The strategy is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape. It is supported by the Department for Communities and Local Government (DCLG), the Local Government Association (LGA), local government representative organisations and council chief executives.

Every local authority is encouraged to implement the recommendations to help identify and address their own levels of fraud.

The National Response to Serious and Organised Crime

The National Crime Agency (NCA) was created in October 2013 and published the National Strategic Assessment of Serious and Organised Crime in May 2014.

The NCA leads work against serious and organised crime, coordinating the law enforcement response, ensuring action against criminals and organised criminal groups is prioritised according to the threat they present

Action Fraud is the national reporting point for fraud and cybercrime. This change was made by Government to ensure that one body was responsible for the whole process of recording and analysing reports of all types of fraud.

Fighting Fraud & Corruption Locally

The CIPFA document “*Fighting Fraud & Corruption Locally 2016-19*” identified the main fraud types:

- Council Tax
- National Non Domestic Rates (NNDR)
- Procurement
- Blue badges
- Schools
- Internal
- Personal Budgets
- No recourse to public funds
- Identity assurance

They have also identified the following other fraud risk areas:

- Money Laundering – exposure to suspect transactions
- Insurance fraud – including slips & trips
- Disabled Facility Grants
- Concessionary travel schemes
- Commissioning of services – including third sector partnerships
- Cyber and e-enabled fraud

It is important that local authorities should be aware to the rapidly changing environment of fraud and should continuously be scanning for new and developing fraud risks.

Approach to Counter Fraud

Five Key Elements

The Council has adopted an approach to counter fraud based around five key elements:



Each element is a fundamental component of the Council's **zero tolerance** approach to fraud and irregularity:

Prevent

Stopping frauds and irregularities occurring in the first place.

Detect

Increasing the likelihood of finding frauds and irregularities.

Correct

Promptly stopping frauds and irregularities and recovering any losses incurred by the Council.

Punish

Strengthening sanctions and penalties for those persons committing frauds and irregularities.

Deter

Publicising tough punishments and the increased likelihood of being caught.

Investigation and Sanction

The council will respond to all reports of fraud and/or irregularity and where necessary a full investigation will be carried out. If required, we will work with the police and/or other agencies.

In certain types of investigation, the Council may (where necessary) apply for authorisation to complete covert surveillance under the Regulatory Investigations Powers Act (RIPA).

Where cases of fraud and/or irregularity are proven, appropriate action will be taken against the perpetrators:

For internal fraud, disciplinary action will be taken. In addition to this, where appropriate, the case will be referred to the police for criminal investigation / sanction.

For external fraud, where appropriate the case will be passed to the police for further criminal investigation and sanction.

Recovery of losses will also be pursued where appropriate, using the Proceeds of Crime Act (POCA).

Publicising Proven Cases

Where appropriate, the Council will share and publicise cases where fraud committed against the Council have been proven.

Fraud Risk Assessment

Risk Assessment for the Counter Fraud Action Plan 2016-17

All potential areas of fraud risk were subject to a detailed risk assessment by Internal Audit.

The risk assessment considered existing workstreams from previous years and potential areas of fraud risk identified by the Cabinet Office, CIPFA Counter Fraud Centre and the National Fraud Authority (NFA).

The exercise was carried out in order to focus available counter fraud resources on those workstreams considered to be at the greatest risk of fraud.

Each potential workstream was assessed against the following parameters:

- Any statutory or regulatory requirements
- Budget reduction and/or income generation requirements for 2016-17
- Requirement for provision of assurance
- Existence of anti-fraud culture/awareness
- Reputation management
- Ease of prevention, detection, correction, punishment and deterrent
- Resource requirements (*Anticipated expenditure and staffing costs*)
- Inclusion in the annual internal audit assurance plan for 2016-17.

Equalities & Diversity Assessment for the Counter Fraud Action Plan

The Counter Fraud Strategy has been reviewed to ensure it meets the Council's high standards in its Equalities and Diversity policy. This work continues and will be monitored throughout the life of the Counter Fraud Strategy.

Counter Fraud Action Plan 2016-17

Action	Outcome
Strategy, Policies and Procedures	
<p>Develop a Counter Fraud Strategy as the 'umbrella strategy' to bring together all the policies detailed below.</p> <p>Consider 'current trends' from Fighting Fraud Locally 2015 and the Fraud & Corruption Tracker Survey results.</p>	<p>All documents are "fit for purpose" and incorporate details of new or revised risks of fraud or irregularity and any national changes.</p> <p>All changes to documents approved by the Audit Committee.</p> <p>All updates to policies to be promoted through Staff Matters and the intranet.</p> <p>Relevant policies available on the public website.</p>
<p>Annual review of the following documents:</p> <ul style="list-style-type: none"> • Anti-Fraud and Corruption Policy • Money Laundering Policy. • Anti-Bribery Policy • Whistleblowing Policy <p>Update policies as required and where possible align policies of North Somerset and B&NES Councils.</p>	
<p>Develop an e-form that allows the wider public to report suspicions of fraud and/or irregularity at a time and place convenient to them. Ensure that relevant policies are available to the public.</p>	<p>Increase in good quality internal/external referrals where fraud or irregularity is suspected.</p>
Counter Fraud Awareness	
<p>Use Staff Matters to publicise any potential frauds that may affect the wider council.</p> <p>Targeted fraud alerts to be used for notifying of possible fraud attempts in specific areas.</p>	<p>Staff, Members, and contractors have enhanced knowledge and awareness of the risk of potential fraud or irregularity.</p> <p>Increase in good quality internal/external referrals where fraud or irregularity is suspected.</p>
<p>Review and update the counter fraud information available on the intranet, considering any changes in best practice and current fraud trends.</p> <p>Develop a list of 'possible frauds' and controls that would reduce the risks, to be made available on the intranet.</p>	

Counter Fraud Action Plan 2016-17

Action	Outcome
<p>Training programme:</p> <ul style="list-style-type: none">Implementation of fraud awareness e-learning module for all new staffSpecific counter fraud awareness training provided to those persons working within areas of increased risk of fraud or irregularityPromotion of counter fraud awareness to all staff and contractors of the council. Consider having a promotional stand at all event days.Develop a fraud awareness training programme for delivery to schools and academies.	
<p>Communication of successful fraud or irregularity investigations and outcomes.</p>	
Corporate Investigations (Internal and External):	
<p>Intelligent sift of all referrals to ensure a formal investigation by Internal Audit is the most appropriate course of action.</p> <p>Prompt referral to the Police of any potentially serious fraud or irregularity (<i>in liaison with Service Management and S151 Officer</i>).</p>	<p>Issue of formal Internal Audit reports, incorporating recommendations for disciplinary or management action and/or practice and process changes, to senior management.</p> <p>Appropriate disciplinary or management action taken by senior management in respect of all cases of proven fraud or irregularity.</p> <p>Full recovery (<i>if cost effective</i>) from an individual or insurance policy of all losses suffered by the Council as a result of fraud or irregularity.</p>
<p>Data matching referrals:</p> <ul style="list-style-type: none">National Fraud Initiative (NFI)Intelligent internal data matching to generate fraud or irregularity referrals, e.g. staff names and addresses matched to creditor payments names and addresses. <p>Investigations to be completed by Internal Audit in conjunction with Human Resources and/or relevant managers within Council directorates.</p>	

Counter Fraud Action Plan 2016-17

Action	Outcome
Emerging Risks <i>(reviewed and updated continuously throughout the year, e.g. National Fraud Strategy).</i>	
<p>Continuously review national documentation / press releases and information shared through the West of England Chief Internal Auditors Fraud Sub-Group to keep abreast of all emerging fraud risks. Where necessary;</p> <ul style="list-style-type: none"> Assess the level of risk to B&NES Ensure robust processes are in place to minimise the opportunity of fraud Identify all cases of possible fraud and investigate Action taken if necessary 	<p>Issue of formal Internal Audit reports, incorporating recommendations for management action and/or practice and process changes, to senior management.</p> <p>Appropriate action taken by senior management in respect of all cases of proven fraud or irregularity.</p>
Internal Audit Service	
Internal audit reviews to include testing programme to assess the fraud risks and identify fraud and/or irregularity.	<p>Adequate assurance provided (Annual Assurance Statement).</p> <p>Senior management and the Audit Committee have timely and sufficient information about the Counter Fraud Action Plan 2016-17.</p>
Attendance at meetings of the regional West of England Chief Internal Auditors Fraud Sub-Group.	
Active involvement in regional and national data capture and benchmarking exercises.	
Regular progress reports for senior management, e.g. Statutory Officers, and the Audit Committee.	

Anti-Bribery Policy

2016

Internal Audit

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If you require clarification on any aspect of the Anti-Bribery Policy or require this document in a different format, please contact Internal Audit.

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This policy will be reviewed on an ongoing basis and at least once a year.

Anti-Bribery Policy

What is Bribery?

Bribery is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.

Policy Statement - Anti Bribery

Bribery is a criminal offence. Bath and North East Somerset Council do not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor do we or will we, accept bribes or improper inducements.

To use a third party as a conduit to channel bribes to others is a criminal offence. We do not, and will not, engage indirectly in or otherwise encourage bribery.

We are committed to the prevention, deterrence and detection of bribery. We have zero-tolerance towards bribery.

Objective of this policy

This policy provides a coherent and consistent framework to enable the Council's Officers and Members to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable Members and Officers to identify and effectively report a potential breach.

We require that all personnel, including those permanently employed, temporary agency staff and contractors:

- act honestly and with integrity at all times and to safeguard the organisation's resources for which they are responsible,
- comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which the organisation operates, in respect of the lawful and responsible conduct of activities.

The Bribery Act

The Bribery Act 2010 (http://www.opsi.gov.uk/acts/acts2010/ukpga_20100023_en_1) makes it an offence;

- to offer, promise or give a bribe (Section 1).
- to request, agree to receive, or accept a bribe (Section 2).
- To offer, promise, or give any financial or other advantage to a public foreign official with the intention of obtaining or retaining business or an advantage in the conduct of business (section 6).
- of failure by a commercial organisation to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation. An organisation will have a defence to this corporate offence if it can show that it had in place adequate procedures designed to prevent bribery by or of persons associated with the organisation (section 7).

Bribery is not tolerated

It is unacceptable to:

- give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given,
- give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to "facilitate" or expedite a routine procedure,
- accept payment from a third party that you know or suspect is offered with the expectation that it will obtain a business advantage for them,
- accept a gift or hospitality from a third party if you know or suspect that it is offered or provided with an expectation that a business advantage will be provided by us in return,
- retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy,
- engage in activity in breach of this policy.

Penalties

An individual guilty of an offence under sections 1, 2 or 6 is liable:

- On conviction in a magistrates court, to imprisonment for a maximum term of 12 months (six months in Northern Ireland), or to a fine not exceeding £5,000, or to both,
- On conviction in a crown court, to imprisonment for a maximum term of ten years, or to an unlimited fine, or both.

Organisations are liable for these fines and if guilty of an offence under section 7 are liable to an unlimited fine.

Adequate procedures

Bath and North East Somerset Council has a number of policies and procedures in place to support this policy;

- [Code of Conduct](#)
- [Counter Fraud Strategy 2016](#)

In addition to the policies there is also a counter fraud [e-learning course](#) that is available for all staff.

The code of conduct clearly states;

- *“Employees must declare.... any financial and non-financial interests that they consider could conflict with the council’s interests.....”*
- *“Employees who engage or supervise contractors or have any official relationship with contractors and have previously had or currently have a relationship in a private or domestic capacity with contractors, should declare that relationship...”*
- *“Employees should only accept offers of hospitality if there is a genuine need to impart information or represent the council in the community.....Employees should not gifts from contractors, outside suppliers, customers, etc.....”*

All offers of gifts or hospitality (whether accepted or declined) must be entered onto the Register of Gifts & Hospitality.

[Register of gifts & hospitality](#)

A [Declaration of Interest](#) form must be completed and returned to your Director to register all financial, non-financial and membership interests on an annual basis.

All staff must ensure that they comply with these policies and procedures.

Staff responsibilities

The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the Council or under its control. All staff are required to avoid activity that breaches this policy.

You must:

- ensure that you read, understand and comply with this policy,
- raise concerns as soon as possible if you believe or suspect that a conflict with this policy has occurred, or may occur in the future.

As well as the possibility of civil and criminal prosecution, staff that breach this policy will face disciplinary action, which could result in dismissal for gross misconduct.

We all have a responsibility to help detect, prevent and report instances of bribery. If you have a concern regarding a suspected instance of bribery or corruption, please speak up – your information and assistance will help. The sooner you act, the sooner it can be resolved.

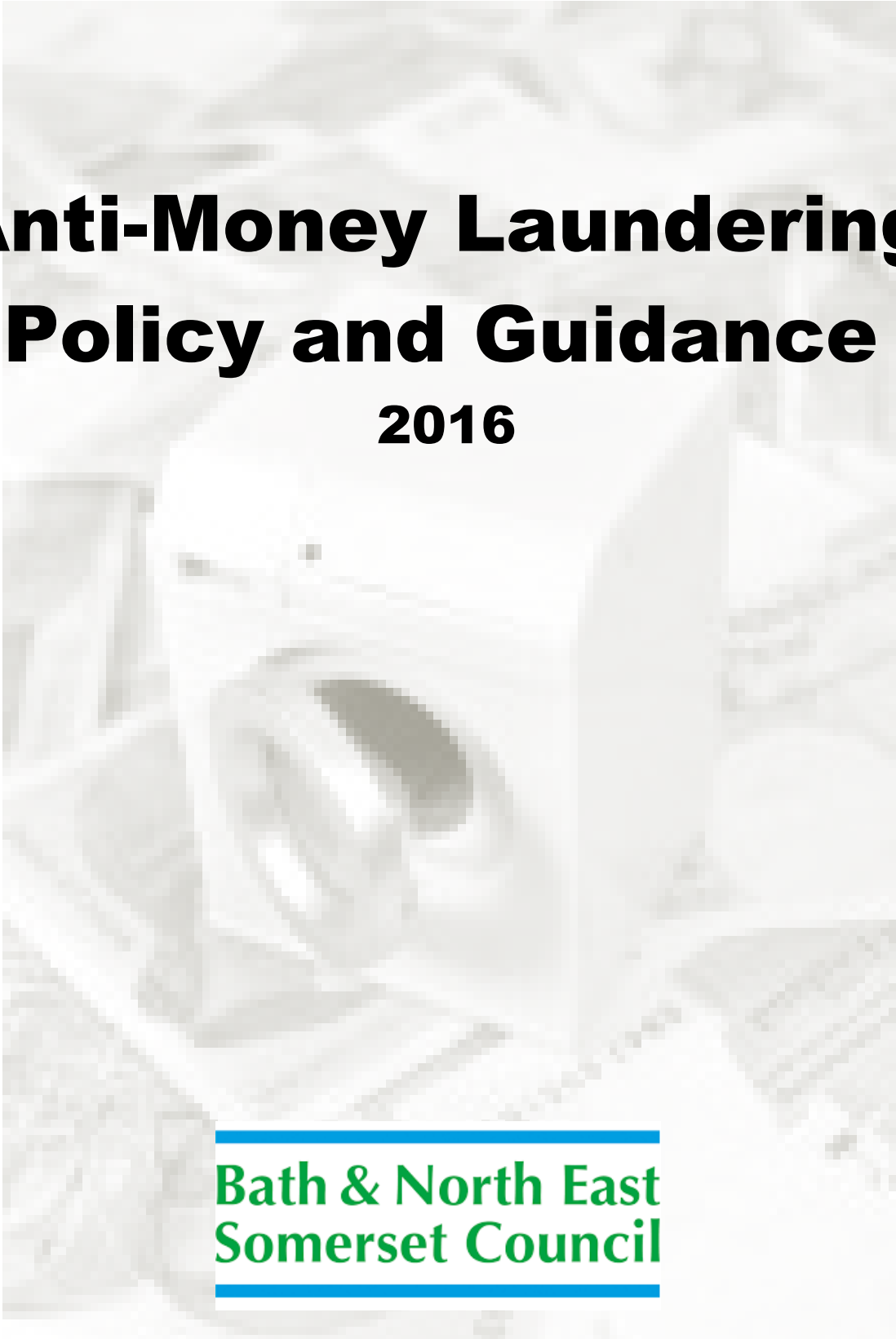
Raising a concern

This Council is committed to ensuring that all of us have a safe, reliable, and confidential way of reporting any suspicious activity.

Please refer to the [Whistleblowing Policy](#) and “[Fraud Do's & Don't's](#)” on the council's intranet.

Further Questions

If you have any questions about these policies and procedures, please refer to the contacts at the beginning of the document.



Anti-Money Laundering Policy and Guidance 2016

**Bath & North East
Somerset Council**

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If you require clarification on any aspect of the Anti-Money Laundering Policy or require this document in a different format, please contact Internal Audit.

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Introduction

The [Proceeds of Crime Act 2002](#) (The POCA Act), the [Terrorism Act 2000](#) and the [Money Laundering Regulations 2007](#) place obligations on the Council and its employees with respect to suspected money laundering.

Scope of Policy

This Policy applies to all employees of the Council and aims to maintain the high standards of probity which currently exist within the Council by preventing criminal activity through money laundering.

This Policy is closely aligned to the Council's [Counter Fraud Strategy 2016](#) and [Anti-Fraud and Corruption Policy](#).

Failure by a member of staff to comply with the procedures set out in this Policy may lead to disciplinary action under the Council's Disciplinary Procedure and/or prosecution.

What is Money Laundering?

Money laundering is the disguising of the source of money, either in cash, paper or electronic form. This may be in order to conceal that the money has originated from crime, or it may be to conceal the source of money that is to be used in the pursuit of future crime.

Money laundering is highly sophisticated. The conversion of cash in to a non-cash form of money is only the first step. In itself it is not sufficient disguise for the launderer. There will follow a complex series of transactions intended to hide the trail from any investigator. Consequently those on the lookout for money laundering should not restrict themselves to looking for cash transactions.

The following acts constitute money laundering:

- Concealing, disguising, converting, transferring criminal property or removing it from the UK ([Section 327 of the Proceeds of Crime Act 2002](#));
- Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person ([Section 328](#));
- Acquiring, using or possessing criminal property ([Section 329](#)).

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What are the obligations on the Council?

Organisations conducting “relevant business” must:

- Appoint Money Laundering Reporting Officers (MLROs) to receive disclosures from employees, of money laundering activity (their own or anyone else’s);
- Implement a procedure to enable the reporting of suspicions of money laundering;
- Maintain client identification procedures in certain circumstances; and
- Maintain customer due diligence records.

Not all of the Council’s business is “relevant” for the purposes of the legislation: it is mainly the accountancy and audit services carried out by the Corporate Services Directorate and the financial, company and property transactions undertaken by Legal Services. It should also be a consideration for any large cash payments received in connection with Council Tax, Business Rates, rents etc.

While the risk to the Council of contravening the legislation is low, it is important that all employees are familiar with their responsibilities: serious criminal sanctions may be imposed for breaches of the legislation. The key requirement on employees is to promptly report any suspected money laundering activity to the Money Laundering Reporting Officers.

Personal Liability

It is an offence under the Proceeds of Crime Act 2002 if an employee enters into or becomes concerned in an arrangement, which a person knows, or suspects facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person.

These offences are punishable by a maximum term of imprisonment for 14 years at the Crown Court and an unlimited fine. At the Magistrates Court it is a 6 months maximum term of imprisonment and £5,000 fine.

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The Money Laundering Reporting Officers (MLROs)

The officers nominated to receive disclosures about money laundering activity within the Council are:

Jeff Wring, Head of Audit West

Jeff can be contacted at Jeff_Wring@BATHNES.GOV.UK

Reporting to the Money Laundering Reporting Officers

Where you know or suspect that money laundering activity, as described in “What is Money Laundering?” above, is taking/has taken place, or become concerned that your involvement in a matter may amount to a prohibited act under sections 327-329 of the Act, you must disclose this as soon as practicable to the MLROs. The disclosure should be within “hours” of the information coming to your attention, not weeks or months later.

SHOULD YOU NOT DO SO, THEN YOU MAY BE LIABLE TO PROSECUTION

Offence of Tipping Off

If an employee has a concern they should ask questions or seek information/documentation, which would allay any suspicions they may have and negate the need to make a report.

Once a report has been made to the nominated officer or the person the Council is dealing with suspects that a report has been made the potential criminal offence of “tipping off” arises.

“Tipping off” is where someone informs the person who has approached the financial institution, such as the Council, that they are suspected of being involved in money laundering, in such a way as to prejudice any investigation.

How You Might Recognise Money Laundering

The key slogan is “Know Your Customer” or “K.Y.C”.

For any transaction, cash or otherwise you should ask yourself: -

“Given my knowledge of this person, is it plausible that they can pay this amount for this service by this means?”

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If they are paying more than would be reasonable or more than they could afford or by a means that would not normally be used the answer would be No. Then action will be required.

More specific possible indicators of Money Laundering are:

- If the Source or Destination of funds differ from the original details given by the client;
- If the client cancels a transaction without good reason and requests a cheque refund for previously deposited funds;
- Any large cash deposits;
- Large overpayments of fees or money on account;
- If information about the client reveals criminality or association with criminality;
- If there is more than one Solicitor/Conveyancer used in the sale or purchase of a property or land or if there is an unexplained and unusual geographic use of a Solicitor in relation to a property's location;
- If the buyer or seller's financial profile does not fit, particularly in relation to property transactions;
- If there are over complicated financial systems;
- If the client enters into transactions which make little or no financial sense or which go against normal practice;
- If the client is happy to enter into an apparent bad deal for them;
- If the client enters into arrangements beyond their apparent financial means;
- Any odd behaviour by any of the parties involved.

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Procedures – Appendix 1

Cash Payments

The Council will not accept cash payments in excess of £5,000 in order to comply with the Money Laundering Regulations.

Reporting

Any employee who suspects money laundering activity must report their suspicion promptly to the MLROs, using the attached **Disclosure Report** form (Appendix A). If you would prefer, you can discuss your suspicions with the MLROs first.

The employee must follow any subsequent directions of the MLROs, and must not themselves make any further enquiries into the matter. They must not take any further steps in any related transaction without authorisation from the MLROs.

The employee must not disclose or otherwise indicate their suspicions to the person suspected of the money laundering. They must not discuss the matter with others or note on the file that a report has been made to the MLROs in case this results in the suspect becoming aware of the situation.

The MLROs must promptly evaluate any Disclosure Report, to determine whether it should be reported to the National Crime Agency (NCA).

The MLROs must, if they so determine, promptly report the matter to NCA in the prescribed manner by submitting a Suspicious Activity Report (SAR) via the [SAR online system](#).

You will be informed if the MLROs make a SAR report to NCA. Officers should not complete any transactions **until clearance has been given by NCA, or seven days have elapsed since the disclosure was made to NCA.**

The MLROs will commit a criminal offence under POCA if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering and they do not disclose this as soon as practicable to NCA.

Customer Due Diligence

Where the Council is carrying out certain 'regulated activities' then extra care needs to be taken to check the identity of the customer or client; this is known as carrying out Customer Due Diligence.

Regulated activity is defined as the provision 'by way of business' of: advice about tax affairs; accounting services; treasury management, investment or other financial services; audit services; legal services; estate agency; services involving the formation, operation or arrangement of a company or trust or; dealing in goods wherever a

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transaction involves a cash payment of £10,000/€15,000 or more. (The limit is specified by the Money Laundering Regulations 2007).

The Regulations regarding customer due diligence are detailed and complex, but there are some simple questions that will help you decide if it is necessary:

- Is the service a regulated activity?
- Is the Council charging for the service i.e. is it 'by way of business'?
- Is the service being provided to a customer other than a UK public authority?

If the answer to any of these questions is **NO** then you do not need to carry out customer due diligence.

If the answer to all these questions is **YES** then you must carry out customer due diligence **BEFORE** any business is undertaken for that client. If you are unsure whether you need to carry out customer due diligence then you should contact the MLROs.

Where you need to carry out customer due diligence then you must seek evidence of identity, for example:

- Checking with the customer's website to confirm their business address;
- Conducting an on-line search via Companies House to confirm the nature and business of the customer and confirm the identities of any Directors;
- Seeking evidence from the key contacts of their personal identity, for example their passport and position within the organisation.

The requirement for customer due diligence applies immediately for new customers and should be applied on a risk sensitive basis for existing customers. Ongoing customer due diligence must also be carried out during the life of a business relationship but should be proportionate to the risk of money laundering and terrorist funding, based on the officer's knowledge of the customer and a regular scrutiny of the transactions involved.

If, at any time, you suspect that a client or customer for whom you are currently, or are planning to carry out a regulated activity is carrying out money laundering or terrorist financing, or has lied about their identity then you must report this to the MLROs.

In certain circumstances enhanced customer due diligence must be carried out for example where:

- The customer has not been physically present for identification;
- The customer is a politically exposed person. A politically exposed person is an individual who at any time in the preceding year has held a prominent public function outside of the UK, and EU or international institution/body, their immediate family members or close associates;

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- There is a beneficial owner who is not the customer. A beneficial owner is any individual who holds more than 25% of the shares, voting rights or interest in a company, partnership or trust.

Enhanced customer due diligence could include any additional documentation, data or information that will confirm the customer's identity and/or the source of the funds to be used in the business relationship/transaction. If you believe that enhanced customer due diligence is required then you must consult the MLROs prior to carrying it out.

Record Keeping

Where 'relevant business' is carried out then the customer due diligence records and details of the relevant transaction(s) for that client **must be retained for at least five years after the end** of the business relationship.

An electronic copy of every customer due diligence record must be sent to the MLROs to meet the requirements of the Regulations and in case of inspection by the relevant supervising body.

Internal Clients: Appropriate evidence of identity for Council employees will be signed, written instructions on Council headed notepaper or e-mail from an internal email address at the outset of a particular matter. Such correspondence should then be placed in the Council's client file along with a prominent note explaining which correspondence constitutes the evidence and where it is located.

External Clients: For external clients of the Council, appropriate evidence of identity will be written instructions on the organisation's official letterhead at the outset of the matter or an email from the organisation's e-communication system. Such correspondence should then be placed in the Council's client file along with a prominent note explaining which constitutes the evidence and where it is located.

With instructions from new clients, or further instructions from a client not well known to you, you may wish to seek additional evidence of the identity of key individuals in the organisation and of the organisation itself.

In all cases, the evidence should be retained for at least five years from the end of the business relationship or one-off transaction(s).

If satisfactory evidence of identity is not obtained at the outset of the matter then the business relationship or one-off transaction(s) cannot proceed any further.

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Client Identification Procedure - Appendix 2

You need to be satisfied as to the identity of the client before any business is undertaken for that client. The client's identity can be verified on the basis of documents, data or information obtained from a reliable and independent source.

The following checklist should be used for the **identification** of a private individual:

- Name;
- Address;
- Date of Birth;
- National Insurance Number;
- Telephone number;
- E-mail address.

The following checklist should be used for the **verification** of a private individual:

- Passport;
- Driving Licence;
- Birth Certificate;
- Current Council Tax and/or Utility Bill;
- Marriage Certificate.

In the case of a representative of an organisation, this can include measures such as:

- Checking the organisation's website to confirm the business address;
- Attending the client at their business address;
- Asking the key contact officer to provide evidence of their personal identity and position within the organisation.

Where the client is acting on behalf of a third party, reasonable steps should be taken to establish the identity of that other person.

If satisfactory evidence of identity is not obtained at the outset of the matter then the business relationship or one off transactions cannot proceed any further.

Methods to Safeguard Yourself

Obtain sufficient evidence/knowledge to ascertain the true identity of the person(s) you are dealing with.

Ask the key contact officer to provide evidence of their personal identity and position within the organisation; for example signed, written confirmation from their Head of Service or Chair of the relevant organisation.

Surf the web to confirm details supplied.

Visit the client at their business address instead of always contacting them by telephone or e-mail or meeting at the Council Office. (This will help verify the validity of the client).

Retain evidence for a period of 5 years.

CONFIDENTIAL

REPORT TO MONEY LAUNDERING REPORTING OFFICERS

To: Jeff Wring, Corporate Services Directorate

From:

Contact details:

Department:

DETAILS OF SUSPECTED OFFENCE:

Name(s) and address(es) of person(s) involved:
(If a company/public body please include details of nature of business)

Nature, value and timing of activity involved and cause of suspicion:
(Please include full details e.g. what, when, where, how.)

Has any investigation been carried out (as far as you are aware)?

(Please circle appropriate answer) **Yes/No**

If yes, please include details below:

Have you discussed your suspicions with anyone else?

(Please circle appropriate answer) **Yes/No**

If yes, please specify below whom the discussion took place with, when and why such discussion was necessary:

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Please set out below any other information you feel is relevant:

Signed..... Dated.....

Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence, which carries a maximum penalty of 5 years' imprisonment.

When completed, please print off the form and put it in a sealed envelope, marked "**Strictly Private and Confidential**" and **hand deliver to Jeff Wring**.

Your report will be treated in the strictest confidence.

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THE FOLLOWING PART OF THIS FORM IS FOR COMPLETION BY THE MLROs

Date report received:

Date receipt of report acknowledged:

CONSIDERATION OF DISCLOSURE

Action Plan:

OUTCOME OF CONSIDERATION OF DISCLOSURE

Are there reasonable grounds for suspecting money laundering activity?

If there are reasonable grounds for suspicion, will a report be made to the NCA?

(Please circle appropriate answer) **Yes/No**

If yes, please confirm date of SARS report to the NCA: _____ and complete the details below:

Details of liaison with the NCA regarding the report:

Notice Period: _____ to _____

Moratorium Period: _____ to _____

Is consent required from the NCA to any ongoing or imminent transactions which would otherwise be prohibited acts?

(Please circle appropriate answer) **Yes/No**

If yes, please confirm full details below:

Date consent received from the NCA: _____

Date consent given by you to employee: _____

If there are reasonable grounds to suspect money laundering, but you do not intend to report the matter to the NCA, please set out below the reason(s) for non-disclosure:

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Date consent given by you to employee for any prohibited act transactions to proceed:

Other relevant information:

Signed: _____ Date: _____

THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS