

**Democratic Services**

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Date: 29 March 2017

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**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, 13th April, 2017**

You are invited to attend a meeting of the **Corporate Audit Committee**, to be held on **Thursday, 13th April, 2017 at 2.00 pm** in the. **Brunswick 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](http://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.

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## **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, 13th April, 2017**

**at 2.00 pm in the Brunswick 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 7.

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; 9TH FEBRUARY 2017 (Pages 7 - 12)

9. EXTERNAL AUDIT UPDATE REPORT (Pages 13 - 80)

10. INTERNAL AUDIT ANNUAL REPORT (Pages 81 - 90)

11. INTERNAL AUDIT ANNUAL PLAN (Pages 91 - 112)
12. AUDIT COMMITTEE ANNUAL REPORT (Pages 113 - 122)

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**

Thursday, 9th February, 2017, 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 (Audit West)) and Giles Oliver (Finance & Resources Manager)

**Guests in attendance:** Barrie Morris (Grant Thornton)

**123 EMERGENCY EVACUATION PROCEDURE**

The Democratic Services Officer advised the meeting of the procedure.

**124 ELECTION OF VICE-CHAIR**

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

**125 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Apologies were received from Councillor Andrew Furse.

**126 DECLARATIONS OF INTEREST**

There were none.

**127 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

There was none.

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

There were none.

**129 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were none.

**130 MINUTES OF THE MEETING OF THE 8TH DECEMBER 2016**

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

**131 TREASURY MANAGEMENT STRATEGY**

The Divisional Director – Business Support presented the report.

He set the Strategy in context by referring to recent speculation about the solvency of the Co-operative Bank. Members should be reassured by the fact that the Council had not invested with this bank for some time because of the Strategy. He reminded Members that the Strategy was reviewed annually. It had already been approved by Cabinet and would be submitted for approval to Council on 14<sup>th</sup> February. Any comments made by this Committee would be reported to Council.

He drew attention to the table setting out the scope of the Strategy in paragraph 5.3 of the covering report

He said that the funding of capital investment from cash flow would be maintained in 2017/18 because of the continuing low interest rate environment. This practice had resulted in the Council's actual debt being much lower than its borrowing limits. The borrowing limits seemed high because the Council had a substantial capital programme for the next 3-4 years. A significant proportion of this would be funded by borrowing. The borrowing limit would allow the Council to respond flexibly to fluctuations in cash flow.

A Member asked whether the borrowing limits took account of possible decreases in Government grant to the Council. The Divisional Director – Business Support replied that decreases in Government grant were not treated as a risk. The limits set were considered affordable limits, based on a judgement about the likely level of future interest rates, so the potential need to borrow up to the limit had been factored in. The Council had, in return for submitting an efficiency plan, secured a four-year settlement with the Government, which would be changed only in very exceptional circumstances. The Council also maintained a capital financing reserve, which would provide a small cushion against a shock rise in interest rates, allowing higher interest to be paid while the revenue budget was rebalanced.

The Divisional Director – Business Support drew attention to Arlingclose's interest rate forecasts on agenda page 23. Arlingclose expected Bank Rate to remain at 0.25% up to the end of 2019.

He commented on the Investment Strategy (agenda page 29). He emphasised that only very risk-averse positions were taken; the Council had not invested in Icelandic banks and, as already stated, nothing was invested in the Co-operative Bank. The Council's Treasury Management Team managed the Avon Pension Fund's internal cash. It also managed the West of England Revolving Investment Fund and the Local Growth Fund on behalf the Local Enterprise Partnership (LEP). These would be transferred to the West of England Combined Mayoral Authority (MCA) on 1<sup>st</sup> April. The MCA had actually come into being on the previous day. In reply to a question from a Member, he explained that the MCA could meet and take decisions before the election of a Mayor, which would take place in May this year, and that it was due to meet for the first time in late February or early March when it was expected to appoint statutory officers, including a Chief Executive, Monitoring Officer and Chief Finance Officer (CFO). It was envisaged that he would be seconded to the MCA to act as its part-time CFO, with a permanent appointment being made after the election of the Mayor. It would be surprising, in view of the size of the funds managed by the MCA, if it did not appoint a full-time CFO.

A Member asked whether any discussions were planned or in progress about aligning the procedures of the MCA with those currently applied in the Council and to

the LEP fund. The Divisional Director – Business Support explained that as acting CFO to the MCA he was establishing the basic financial procedures and that B&NES finance officers would provide services to the MCA under a service level agreement. B&NES would be fully reimbursed for these services, which would enable it to retain skills and staff resources in an increasingly challenging environment. The MCA's initial Treasury Management and Investment Strategy will be based on the Council's.

A Member asked him about the impact of his secondment on the Council's Finance Team. He replied that consultations were already taking place about the restructuring of the team, and he was sure that there would be sufficient staff resources to support the Council. There was no threat to the funding of his own post from the fact that 50% of his salary would be paid by the MCA until it appointed its own CFO. In reply to a further question about the risks to the MCA from the spending plans of any of the member authorities, he pointed out that all financial decisions by the MCA had to be agreed unanimously by the member authorities.

A Member asked about the Council's use of Natwest Bank given its low credit rating. The Divisional Director – Business Support replied that Natwest's credit rating was too low for the Council to invest money in them or leave significant sums of money with them overnight, but it was the Council's main bank for ordinary banking transactions.

A Member asked how often the Treasury Management Advisor's appointment was reviewed. The Finance and Resources Manager replied that it was reviewed every three years, with the possibility of an extension period. The Divisional Director – Business Support said that there had been a contraction in the number of firms offering this service. Four or five years ago there were about five, but now only two, Arlingclose and Sector.

A Member asked about the reporting of changes to borrowing during the year. The Divisional Director – Business replied that a report was made to every formal and informal meeting of the Cabinet. Changes to projected borrowing might be caused by construction being delayed because archaeological work had to be carried out, for example, or by the fact that buildings could only be acquired as and when they came onto the market. Borrowing could be transferred between financial years to reflect this. In reply to a question from the Chair he said that the establishment of the Brunel Investment Company would have no impact on the cash management of the Avon Pension Fund.

**RESOLVED** to recommend to Council:

1. The actions proposed within the Treasury Management Strategy Statement (Appendix 1).
2. The Investment Strategy as detailed in Appendix 2.

## **132 EXTERNAL AUDIT UPDATE REPORT**

Mr Morris presented this item. He reminded Members that the deadline for the draft accounts would be brought forward to 31<sup>st</sup> May from 2017/18, and that the finance team had agreed to a dry run this year with a deadline for the 2016/17 draft accounts

of 31<sup>st</sup> May 2017. Grant Thornton planned to complete the audit of the accounts by the end of June 2017.

A Member asked about the impact of the changes taking place from the 1<sup>st</sup> April 2017 in how intermediaries legislation will be applied to off-payroll working in the public sector. He wondered whether it was clear how responsibilities would be divided between the Council, which procured and paid for the service, and the service providers. The Divisional Director – Business Support replied that this change had been in the pipeline for some time, and HR and Procurement had done a great deal of work on it. HR had talked to all Directorates employing agency staff or procuring them through public service procurement companies to ensure that the Council is totally compliant with IR35. This means that, where appropriate, external staff should be brought on payroll. Some staff are provided by NEPRO, who are actually the employers, so IR35 does not apply when the Council uses them. The Head of HR had reported about three weeks ago there were only 8 or 9 cases that might be problematic, and that they were being worked through. If after the 1<sup>st</sup> April there were external staff working for the Council to whom IR35 applied, the Council would become responsible for their tax and National Insurance. Every effort was being made to ensure that this did not happen.

A Member asked whether the finance team had sufficient people and skills to achieve the new mandatory deadline for the completion of the draft accounts. The Divisional Director – Business Support replied that it did. Recruitment had taken place over the past couple of months, though it had to be said that there were fewer applications in response to job advertisements than previously. Lessons had been learnt from the dry run, which would help the team to meet the new deadline. Mr Morris advised that the earlier deadline would require the finance team to use more estimates. An increase in the number of adjustments identified by the audit might result. This would not by itself indicate a decline in the performance of the finance team.

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

### **133 ANNUAL GOVERNANCE REVIEW UPDATE**

The Audit Manager (Audit West) introduced this item. Members noted that the 2016/17 Annual Governance Review had commenced and that by March all Divisional Directors would have had the opportunity to contribute and to highlight any potential issues for inclusion in the Annual Governance Statement (AGS). Members were invited to raise any issues for consideration.

The 2015/16 AGS had identified the financial challenge as the only significant issue. The latest position with regard to the mitigating actions recorded against this issue was detailed in paragraph 4.11 of the covering report. He drew attention to the four issues identified for further consideration for possible inclusion in the 2016/17 AGS listed in paragraph 4.12

A Member thought that the creation of the MCA should not be included as a significant issue for the Council, as it would have its own funding and accounting and audit procedures.

A Member suggested that Brexit and the uncertain international situation should be included as significant risks. Brexit might impact on the workforce, tourism and the tax regime. Another Member disagreed because the Council had no control over these things. The Member who made the proposal suggested that the inclusion of these two risks in a public document would demonstrate that the Council was alert to the potential impact of these issues.

The Divisional Director – Business Support advised that the Cabinet Member for Finance and Efficiency had requested that a report on the potential impact of Brexit should be brought to Council. Strategic Directors had been asked to input. There was as yet no date for the submission of this report because of continuing uncertainties about the timing and consequences of Brexit. The Member who had made the proposal responded that Brexit was a known unknown that could impact on the Council. The Head of Audit West suggested that it was not a governance issue, but agreed to take it on board.

The Chair suggested that the possibility of a tourist tax was risk that might have to be considered next year.

**RESOLVED** to note the progress of the review.

The meeting ended at 3.11 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

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<b>Bath &amp; North East Somerset Council</b>		
<b>MEETING:</b>	<b>Corporate Audit Committee</b>	
<b>MEETING DATE:</b>	<b>13<sup>th</sup> April 2017</b>	<b>AGENDA ITEM NUMBER</b>
<b>TITLE:</b>	<b>External Audit Update</b>	EXECUTIVE FORWARD PLAN REFERENCE:  <b>E</b>
<b>AN OPEN PUBLIC ITEM</b>		
<p><b>List of attachments to this report:</b></p> <p><b>Appendix 1 – External Audit Grant Certification Report</b></p> <p><b>Appendix 2 – External Audit Plan for Council</b></p> <p><b>Appendix 3 – External Audit Plan for Pension Fund</b></p> <p><b>Appendix 4 – External Audit Update Report</b></p>		

## **1 THE ISSUE**

1.1 The External Auditor will present their audit plan for the Council and Pension Fund, Grant Certification report and provide a general update to the Committee on their work against their existing plan along with various updates on national issues and best practice.

## **2 RECOMMENDATION**

2.1 The Corporate Audit Committee is asked to note the report.

## **3 FINANCIAL IMPLICATIONS**

3.1 There are no direct financial implications as a result of this report, audit fees are contained within existing corporate budgets.

## **4 THE REPORT**

4.1 Appendix 1 details the results of the External Audit's work on certifying major grants.

4.2 Appendices 2 and 3 detail the audit plan for the Council and Avon Pension Fund.

4.3 Appendix 4 details External Audit's progress against their planned work along with a series of updates on national issues which are of potential interest to the Audit Committee.

4.4 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.

<b>Contact person</b>	Jeff Wring (01225 47323)
<b>Background papers</b>	
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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7 February 2017

Dear Tim

### **Certification work for Bath and North East Somerset Council for year ended 31 March 2016**

We are required to certify certain claims and returns submitted by Bath and North East Somerset Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified one return, the Housing Benefit return, for the financial year 2015/16 relating to expenditure of £53.1 million. Further details of the claim certified are set out in Appendix A.

Whilst we are satisfied that the Council has appropriate arrangements to compile a complete, accurate and timely return for audit certification, there were issues arising from our certification work which we wish to highlight for your attention and which are set out below.

#### **Issues arising:**

- In previous years we have identified a number of issues in relation to rent rebates for non-HRA properties e.g. bed and breakfast. In accordance with HB Count rules, as the population size was below 100, work was undertaken to test all 44 cases in 2015/16. Of these 44 cases, only one error was identified, which related to an underpayment. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes.
- Cell 102: Rent Allowances – cases excluded from requirement to refer to the rent officer. No errors were identified in our initial sample. However, as reported in the 2014-15 qualification letter, our testing in prior years identified that rental liability in Cell 102 was incorrectly stated, where these are updated manually. Consequently, 40+ testing was again required in 2015-16.

Our testing of a random sample of 40 claims identified one underpayment and one overpayment (value £281). The extrapolated impact arising from this error was £6,293.

- Cell 94 – Rent allowances, with earned income. We reported in the 2014/15 qualification letter that we had identified 12 errors where earned income was incorrectly recorded or miscalculated in relation to rent allowance claims. For 2015/16, our initial testing of the initial identified one underpayment and one case where the associated income was incorrectly recorded or miscalculated, but did not affect the underlying entitlement. However, testing of an additional 40 cases identified six additional errors where the Authority had miscalculated the claimant's income of which four were overpayments (£22).

The extrapolated impact arising from this error was £1,336.

- Cell 94 – Rent allowances, with child care costs. Testing of the initial sample of 20 cases identified one error resulting in an overpayment (£34). Our testing was therefore extended and a further 18 errors were identified, of which six resulted in overpayments (£392).

The extrapolated error arising from these errors was £3,274.

- Cell 94 – Rent allowances, with state pension and/or occupational pension. Testing of the original sample of 20 cases identified two errors resulting in overpayments and one case where there was no evidence to support the claimant's associated income, which for the purpose of housing benefit certification is treated as an error (total overpayments (£716). Testing of a further 40 cases, identified four further 'overpayments' due to lack of evidence, four overpayments due to miscalculations and seven underpayments. The total error was £5,419.

The extrapolated error arising from these errors was £101,862.

A small number of other errors resulting in underpayments or no change in entitlement were also identified.

All of these issues were reported in our qualification letter addressed to the Department for Work and Pensions (DWP). DWP subsequently wrote to the Council seeking its views on the issues raised. The Council responded to the letter, noting that those cases with a lack of evidence of pensions have been followed up and appropriate evidence obtained and requested that we undertake further work so that we could review the newly obtained evidence. DWP agreed to this request.

We have completed our work and, based on the further evidence, the actual error reduced to £2,327 (originally £5,419) and the extrapolated error reduced to £43,008 (originally £101,862).

The indicative fee for 2015/16 for the Council is based on the final 2013/14 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. The indicative scale fee set by Public Sector Audit Appointments for the Council for 2015/16 is £16,760. We are not varying from the indicative fee. This is set out in more detail in Appendix B.

Yours sincerely

**Appendix A - Details of claims and returns certified for 2015/16**

<b>Claim or return</b>	<b>Value</b>	<b>Amended?</b>	<b>Amendment (£)</b>	<b>Qualified?</b>	<b>Comments</b>
Housing benefits subsidy claim	£53,082,062	Yes	+745	Yes	Increase in rent rebates subsidy of £745.

**Appendix B: Fees for 2015/16 certification work**

<b>Claim or return</b>	<b>2013/14 fee (£)</b>	<b>2014/15 fee (£)</b>	<b>2015/16 indicative fee (£)</b>	<b>2015/16 actual fee (£)</b>	<b>Variance (£)</b>	<b>Explanation for variances</b>
Housing benefits subsidy claim (BEN01)	22,349	18,340	16,760	16,760	Nil	Not applicable

# The Audit Plan for Bath and North East Somerset Council

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**Year ended 31 March 2017**

March 2017

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**Barrie Morris**

Engagement Lead

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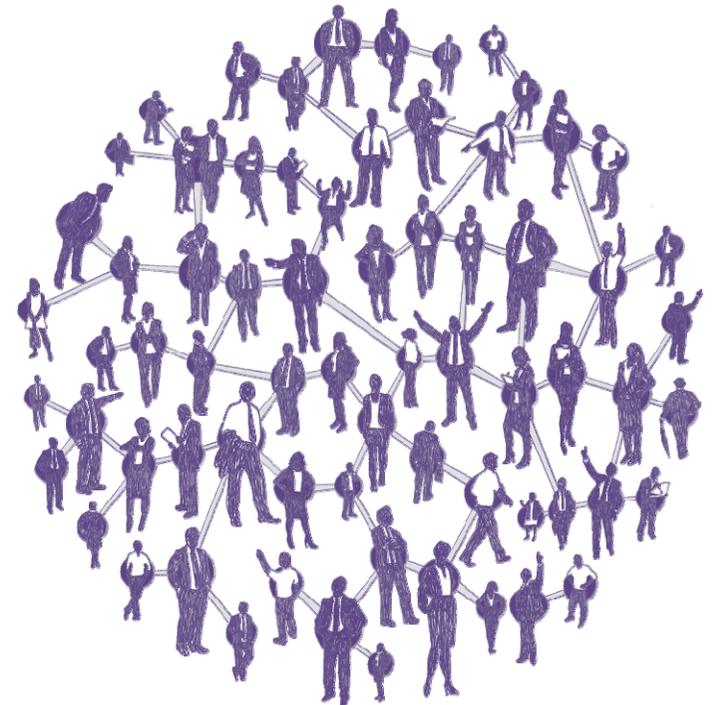
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Dear Members of the Corporate Audit Committee

### **Audit Plan for Bath and North East Somerset for the year ending 31 March 2017**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Bath and North East Somerset Council, the Corporate Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Barrie Morris

Engagement Lead

#### **Chartered Accountants**

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# Understanding your business and key developments

## Developments

### Highways network asset (HNA)

On the 14 November, 2016 CIPFA/LASAAC announced a deferral of measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements for 2016/17. This deferral is due to delays in obtaining updated central rates for valuations.

CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18. It currently anticipates that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

### Requus

The Council formed Requus Developments Ltd on 14 March 2016, so 2016/17 is the first year of operation. From our discussions with the Divisional Director: Business Support it is unlikely that group accounts will be required for 2016/17 due to the low level of activity in year.

### Virgin Care

In 2016 B&NES contracted with Virgin Care to deliver community health and care services from 1<sup>st</sup> April 2017. The services are currently being delivered by Sirona.

We identified the awarding of the contract as an area of focus for our Value for Money work. However, our review of relevant reports suggests that this is not a significant risk area.

## Key challenges

### Local challenges

In 2016 Bristol, Bath & North East Somerset, and South Gloucestershire councils endorsed the West of England devolution deal. The devolution deal represents a significant change in the decision-making process for the West of England and we will maintain awareness of any developments.

An interim management team for the combined authority is currently in place. We understand that a mayoral election will be held in May 2017, after which, permanent appointments will be made.

### Autumn Statement

The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and further extend devolved powers to Local Authorities. No plans were announced to increase funding for adult social care.

## Key performance indicators

Measure	Value	Trend
Outturn revenue	£121.833m	↑
Outturn capital	£94.147m	↓

## Financial reporting changes

### CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

### Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

In anticipation of this requirement, the Council plans to have the draft 2016/17 accounts completed by 31<sup>st</sup> May. Our intention is to complete our audit by the end of June, although the accounts won't be formally approved until September.

## Our response

- We will discuss with you your progress in implementing the HNA requirements, highlighting any areas of good practice or concern which we have identified.
- We aim to complete all our substantive audit work of your financial statements by 30 June 2017.
- We will review the processes put in place to deliver a balanced budget and medium term financial plan.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £8.207 million (being 1.9% of gross revenue expenditure). In the previous year, we determined materiality to be £7.284 million (being 1.8% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £410,000.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of senior officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£2,500
Members' allowances	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1,000
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

# Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
<p><b>The revenue cycle includes fraudulent transactions</b></p>	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p> <p>For Bath and North East Somerset Council, we have concluded that the greatest risk of material misstatement relates to the occurrence of other fees and charges and the existence of the associated receivables.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Documenting our understanding of management's controls over revenue recognition</li> <li>Review and testing of revenue recognition policies</li> <li>Testing of material revenue streams</li> </ul>
<p><b>Management over-ride of controls</b></p>	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work undertaken</b></p> <ul style="list-style-type: none"> <li>Detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Review of accounting estimates, judgments and decisions made by management</li> <li>Review of journal entry process and selection of unusual journal entries (for months 10 -12) for testing back to supporting documentation</li> <li>Review of unusual significant transactions</li> </ul>

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"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

## Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
<p><b>Valuation of property, plant and equipment</b></p>	<p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate</li> <li>• Review of the competence, expertise and objectivity of any management experts used</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions</li> <li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>• Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value</li> </ul>
<p><b>Valuation of investment property</b></p>	<p>The Code requires that the investment property owned by the Council are revalued annually and are measured at their highest and best use. This represents a significant estimate by management in the financial statements.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate</li> <li>• Review of the competence, expertise and objectivity of any management experts used</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions</li> <li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>• Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register</li> </ul>

## Significant risks identified (continued)

Significant risk	Description	Audit procedures
<b>Valuation of pension fund net liability</b>	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Identification of the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• Review of the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out.</li> <li>• Undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>



## Other risks identified (continued)

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
<p>Welfare benefit expenditure</p>	<p>Welfare benefit expenditure has been improperly computed</p>	<p><b>Work completed at interim audit</b></p> <ul style="list-style-type: none"> <li>We documented our understanding of processes and key controls over the transaction cycle</li> <li>We undertook a walkthrough of the key controls to assess whether those controls are designed effectively</li> </ul> <p><b>Work planned at final audit:</b></p> <ul style="list-style-type: none"> <li>Reconciliation of the expenditure recorded in the accounts to the benefits system</li> <li>Reconciliation of the expenditure recorded in the accounts to the housing benefit claim</li> <li>Testing a sample of payments to individual claimants</li> </ul>
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim is to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements.</li> <li>We will reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure.</li> <li>We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).</li> <li>We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES.</li> <li>We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.</li> <li>We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.</li> <li>We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>

## Other risks identified (continued)

Other risks	Description of risk	Audit procedures
<p>Changes to the presentation of local authority financial statements</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 29</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim is to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements.</li> <li>• We will reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure.</li> <li>• We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).</li> <li>• We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES.</li> <li>• We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.</li> <li>• We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.</li> <li>• We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>

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# Other risks identified (continued)

## Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Page 30
- Intangible assets
  - Heritage assets
  - Assets held for sale
  - Cash and cash equivalents
  - Trade and other receivables
  - Borrowings and other liabilities (long and short term)
  - Provisions
  - Useable and unusable reserves
  - Movement in Reserves Statement and associated notes
  - Statement of cash flows and associated notes
  - Financing and investment income and expenditure
  - Taxation and non-specific grants
  - Schools balances and transactions
  - New note disclosures
  - Officers' remuneration note
  - Leases note
  - Related party transactions note
  - Capital expenditure and capital financing note
  - Financial instruments note
  - Collection Fund and associated notes
  - Funds held on trust note

# Value for Money

## Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single 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.*

This is supported by three sub-criteria as set out opposite:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</li> <li>Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>Managing risks effectively and maintaining a sound system of internal control</li> </ul>
Sustainable resource deployment	<ul style="list-style-type: none"> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>Managing and utilising assets effectively to support the delivery of strategic priorities</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>
Working with partners and other third parties	<ul style="list-style-type: none"> <li>Working with third parties effectively to deliver strategic priorities</li> <li>Commissioning services effectively to support the delivery of strategic priorities</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>

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# Value for Money (continued)

## **Risk assessment**

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including the Care Quality Commission and Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified one significant risk which we are required to communicate to you. This is set out overleaf.

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## **Reporting**

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give by 30 September 2017.

# Value for money (continued)

We set out below the significant risk that we have identified as a result of our initial risk assessment and the work we propose to address this risk.

Significant risk	Link to sub-criteria	Work proposed to address
<p><b>Medium term financial plan</b>            Following the publication of the three directorate plans, there is a gap of £47m for the three years from 2017/18. The strategic review identified £29m of savings, but further review has identified that around £2m of these savings won't be delivered.</p> <p>EY have helped the Council to identify a further £7m - £9m and following portfolio challenge meetings the total now identified is around £40m.</p> <p>The financial year 2017/18 is now balanced. For 2018/19 there is a shortfall of around £5m and for 2019/20 £2m. Both of these figures are before any council tax increases.</p>	<p>This links to the Councils arrangements for planning finances effectively to support the sustainable delivery of strategic priorities</p>	<p>We will review the actions taken to identify savings and how these have been challenged and consider the plans to identify further savings.</p> <p>We will review monitoring arrangements and the action taken when plans are not being delivered.</p>

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# Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
  - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State

We certify completion of our audit.

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

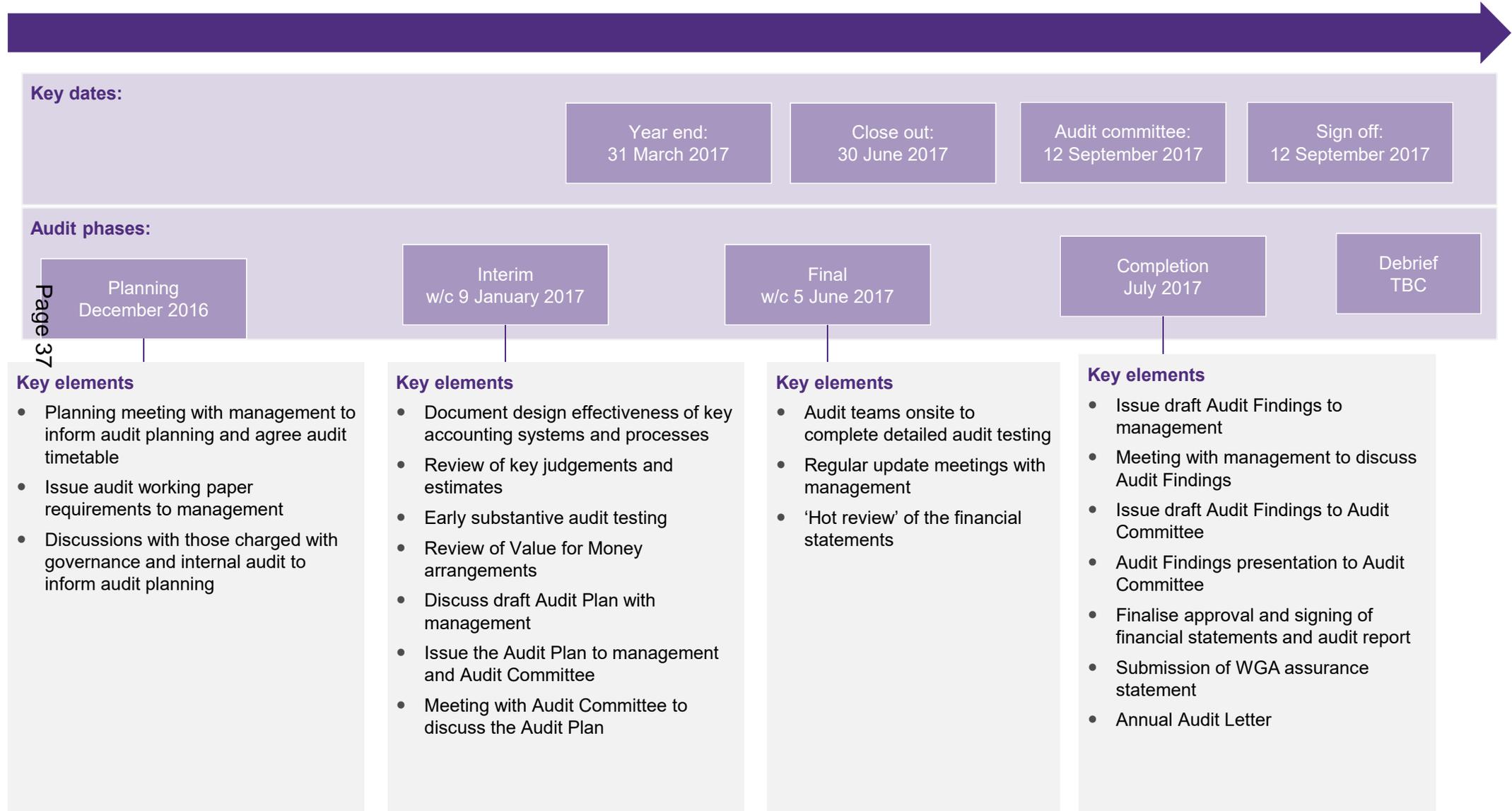
	Work performed	Conclusion
<b>Internal audit</b>	We have reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
<b>Entity level controls</b>  Page 35	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
<b>Review of information technology controls</b>	We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.  IT (information technology) controls were observed to have been implemented in accordance with our documented understanding. However, none of the recommendations that we made in 2016 have been implemented and therefore they have been reiterated in the action plan (Appendix 1)

## Results of interim audit work (continued)

	Work performed	Conclusion
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements, namely operating expenditure, employee remuneration, property, plant and equipment, and housing benefit expenditure.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>As noted on page 6, we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>At the final audit we will review journal transactions recorded in the final three months of the year, with a particular focus on year end adjusting journal entries.</p>
<b>Early substantive testing</b>	<p>We have undertaken early substantive testing on operating expenditure, grant revenue, and other revenue. Our testing has focussed on transactions recorded in the first nine months of the financial year.</p> <p>Our work has not identified any issues which we wish to bring to your attention.</p>	<p>Our work has not identified any errors or which impact on our audit approach.</p> <p>At the final audit we will perform detailed testing over operating expenditure, grant and other revenue transactions recorded in the final three months of the year.</p>

# The audit cycle

## The audit timeline



# Audit Fees

## Fees

	£
Council audit	123,832
Grant Certification (indicative fee)	13,755
<b>Total audit fees (excluding VAT)</b>	<b>137,565</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

### What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes, and identifying potential risks, opportunities and savings
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

# Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Client Name. The following audit related and non-audit services were identified for the Council for 2016/17:

## Fees for other services

Service	Fees £	Planned outputs
<b>Non-audit related</b>		
CFO Insights	10,000	None
<b>Audit related</b>		
Reporting Accountant's report on Regional Growth Fund	5,000	Reporting Accountant's report

The above services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

# Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

As Auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

# Appendix 1: Action plan update

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response from the 2015/16 Audit Findings Report	Update
1 Page 41	<p><b>iTrent system controls</b></p> <ul style="list-style-type: none"> <li>review the number of administrative staff and ensure that segregation of duties principles are maintained</li> <li>continue to review password settings to improve password security in-line with the Council's own password policy of a nine character, complex password</li> <li>ensure that security logs are subject to periodic review .</li> </ul>	Medium	<p>Agreed</p> <ul style="list-style-type: none"> <li>all profiles including system administrators will be reviewed and amended</li> <li>we are currently working with North Somerset Council to improve password security</li> <li>processes are currently being reviewed and this will be captured as part of that review.</li> </ul> <p>Implementation date: 31 October 2016 Responsibility: Systems Control Team Leader</p>	<p>At the time of the interim audit the recommendations made in the 2015/16 Audit Findings Report had not been implemented.</p> <p>We will review the progress against the recommendations during the final audit in June 2017.</p>

# Appendix 1: Action plan update

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response from the 2015/16 Audit Findings Report	Update
2  Page 42	<p><b>Valuations of other land and buildings and investment properties</b></p> <p>Ensure that the carrying values adequately reflect movements since formal valuations were last undertaken.</p>	High	<p>Agreed - The proposed mitigations for 2016/17 valuations are :-</p> <ul style="list-style-type: none"> <li>• A valuation date of 29th September 2016</li> <li>• In the quinquennial cycle, high value assets have more impact on the indexation and can move overall values beyond material tolerances. These assets will therefore be subject to more frequent valuations. For example, Roman Baths will require annual valuation.</li> <li>• We will revisit indices used to ensure these reflect prevailing local conditions.</li> <li>• An additional requirement for the Head of Property to advise the value of the overall property stock balance sheet date of 31st March 2017.</li> </ul> <p>Implementation date: May 2017 Responsibility: Head of Property Service and Corporate Finance Manager</p>	<p>We have held discussions with the Head of Property Service who has confirmed that the proposed mitigations on track to be delivered.</p> <p>We will review the progress made in advance of our final audit.</p>



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# The Audit Plan for Avon Pension Fund

Year ended 31 March 2017

February 2017

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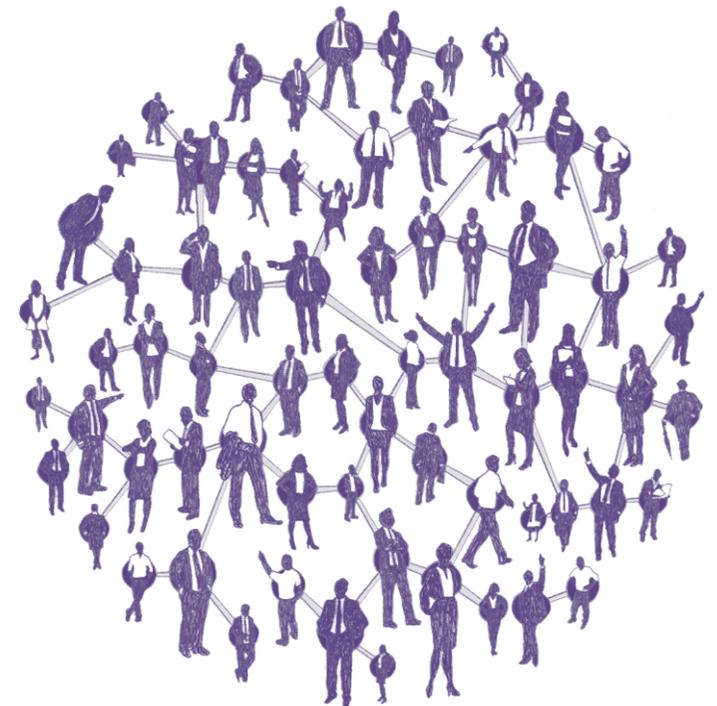
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24 February 2017

Dear Members of the Audit Committee

**Audit Plan for Avon Pension Fund for the year ending 31 March 2017**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Avon Pension Fund, the Corporate Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to give an opinion on the Fund's financial statements.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Julie Masci

Engagement Lead

**Chartered Accountants**

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Communication of audit matters with those charged with governance

# Understanding your business and key developments

## Developments

### Investment Regulations

The new investment regulations came into force on 1 November 2016 and require administering authorities to publish new Investment Strategy Statements by 1 April 2017. The statement must be in accordance with guidance issued by the Secretary of State and include a variety of information. This will include the Authority's assessment of the suitability of particular investments and types of investments, the authority's approach to risk, including the ways in which risks are to be measured and managed and the Authority's approach to pooling investments, including the use of collective investment vehicles and shared services. These regulations also provide the Secretary of State with the power to intervene in the investment function of a fund if he/she is satisfied that the authority is failing to act in accordance with the regulations.

### Triennial actuarial valuation of the fund

The results of the triennial review are expected from the Fund's actuary, Mercers. Members will need to consider the outcome of this review and the impact this will have on the fund in future investment decisions.

## Key challenges

### Pooling Governance

Arrangements for pooling of investments continue to develop, with DCLG expecting administering authorities to be transferring liquid assets from April 2018. The structure and governance of these arrangements will need to be implemented before this date. These arrangements are likely to have a significant impact on how the investments are managed, who makes decisions and how investment activities are actioned and monitored. Although much of this operational responsibility will move to the investment pool operator, it is key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements.

### Cashflow

With an aging population many LGPS Funds experience a negative cashflow position, where benefits payable exceed contributions receivable. The Fund will need to consider the impact of this within its investment strategy.

### Key performance indicators

Measure	Value Sept 16 (as at March 2016)
Funding level	89% (83%)
Net cash outflow forecast	£20,531k (£24,219k)
Number of active employers	246 (230)

## Financial reporting changes

### CIPFA Code of Practice 2016/17 (the Code)

The main change to the Code for Pension Funds is the extension of the fair value disclosures required under the Code from 2016/17.

The greatest impact is expected to be for those funds holding directly owned property and/or shares and Level 3 investments. These are reflected in CIPFA's pension fund example accounts alongside further changes including an analysis of Investment Management expenses in line with CIPFA's Local Government Pension Scheme Management Costs guidance, a realignment of investment classifications, and an additional disclosure note covering remuneration of key management personnel which has been included in related party transactions.

### Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year. This will impact not only upon the production of the Fund accounts but also on earlier requests for information from employers within the Fund.

### Estimation

We have discussed with management the increasing importance around the documentation and use of estimates in order to meet the earlier close deadline. Management have highlighted investment fund manager valuations and fair value disclosures as areas of significant estimation.

## Our response

- We will discuss with you your progress in implementing the requirements of the new investment regulations, highlighting any areas of good practice or concern which we have identified.
- We will discuss your progress in implementing revised governance structures, and share our experiences gained nationally.
- We aim to complete all our substantive audit work of your financial statements by 28 July 2017, with work on the Annual Report to follow.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the changes in the 2016/17 Code

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Fund. In line with previous years, we have calculated financial statements materiality based on a proportion of net assets for the Fund. For purposes of planning the audit we have determined overall materiality to be £37.369m (being 1% of net assets). In the previous year, we determined materiality to be £38.348m (being 1% of net assets). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £1.868m.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following item where a separate materiality level is appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Investment management expenses	Due to public interest in these disclosures.	£2m

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

# Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
<b>The revenue cycle includes fraudulent transactions</b>	Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Avon Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Bath and North East Somerset Council (administering authority), mean that all forms of fraud are seen as unacceptable</li> </ul> Therefore we do not consider this to be a significant risk for Avon Pension Fund.
<b>Management override of controls</b>	Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	<b>Work completed to date:</b> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation (interim M1-M9)</li> </ul> <b>Further work planned:</b> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management (year-end)</li> <li>• Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation (M10-M12)</li> <li>• Review of unusual significant transactions</li> </ul>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

## Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
<p><b>Level 3 Investments Valuation is incorrect</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 51</p>	<p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have performed walkthrough tests of the controls identified in the process.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>We will update our understanding of your process for valuing level 3 investment through discussions with relevant personnel from the Pension Fund.</li> <li>For a sample of investments, test valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31<sup>st</sup> March with reference to known movements in the intervening period.</li> <li>Review the controls in place at the fund managers to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached.</li> <li>To review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.</li> <li>Review the competence, expertise and objectivity of any management experts used (actuary).</li> </ul>

# Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
<b>Investment values – Level 2 investments</b>	Valuation is incorrect. (Valuation net)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have performed walkthrough tests of the controls identified in the process</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances.</li> </ul>
<b>Investments – All levels</b>	Investment activity not valid (Valuation gross)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have performed walkthrough tests of the controls identified in the process</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> </ul>
<b>Contributions</b>	Recorded contributions not correct (Occurrence)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have performed walkthrough tests of the controls identified in the process</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Controls testing over occurrence, completeness and accuracy of contributions</li> <li>Test a sample of contributions to source data to gain assurance over their accuracy and occurrence.</li> <li>Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.</li> </ul>

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## Other risks identified (continued)

Reasonably possible risks	Description of risk	Audit procedures
<b>Benefits payable</b>	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have performed walkthrough tests of the controls identified in the process</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Test a sample of individual pensions in payment by reference to member files.</li> <li>We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.</li> </ul>
<b>Member Data</b>  Page 53	Member data not correct. (Rights and Obligations)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have performed walkthrough tests of the controls identified in the process</li> <li>Sample testing of changes to member data made during the year to source documentation (M1-M9)</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Review of membership movements</li> <li>Sample testing of changes to member data made during the year to source documentation (M10-M12)</li> </ul>

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# Other risks identified (continued)

## Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

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- Cash deposits
- Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits
- Financial Instruments
  - Investment Income
  - Investment purchases and sales

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

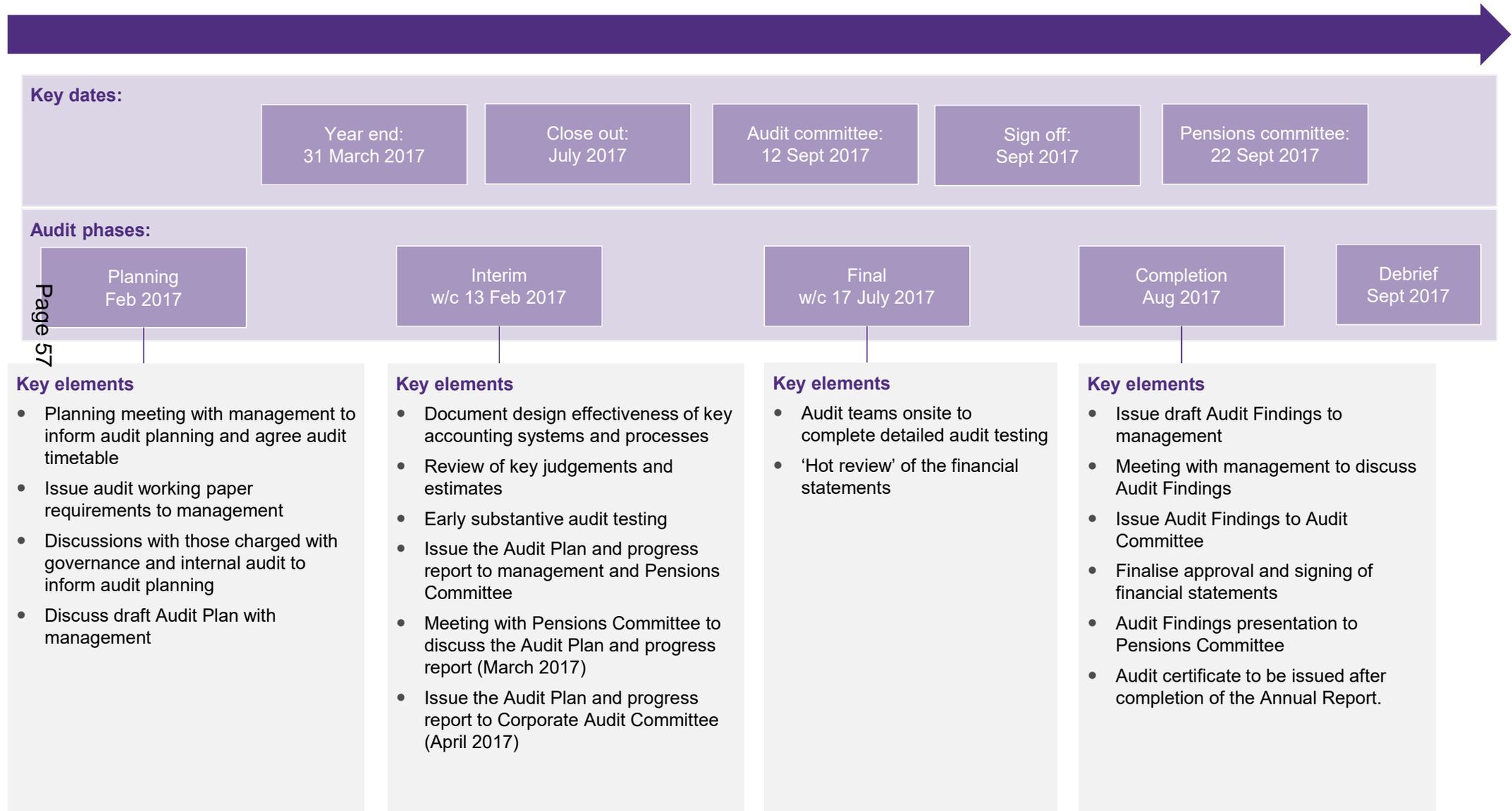
	Work performed	Conclusion
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Fund's governance arrangements and benefits administration to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Fund and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements.</p>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Fund's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Fund in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>

## Results of interim audit work (continued)

	Work performed	Conclusion
<p><b>Journal entry controls</b></p> <p>Page 56</p>	<p>We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>Following our audit recommendations issued in 2014-15 and 2015-16, the Fund has updated its journal processing arrangements in order to separately identify pension fund journals from those of the main council. From our interim review of journals we are satisfied that the pension fund journal type has been appropriately used to post pension fund specific journals. We will update our journals testing for the full year at the final accounts visit.</p> <p>We have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.</p>
<p><b>Early substantive testing</b></p>	<p>We have reviewed a sample of changes to member data made during the first nine months of the year to source documentation.</p>	<p>No issues have been identified where changes to the member data system have been made without appropriate notification from employers/ members.</p> <p>The remaining three months of the year will be completed at the final accounts visit.</p>

# The audit cycle

## The audit timeline



# Audit Fees

## Fees

	£
Pension fund audit	28,805
Proposed fee variation – IAS 19 *	1,311
<b>Total audit fees (excluding VAT)</b>	<b>30,116</b>

\* Fee variation – as per the prior year there will be a proposed variation to the scale fee to reflect the additional work that we are required to undertake on behalf of other employers that contribute into Avon Pension Fund. This fee variation will be subject to approval from PSAA.

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Fund and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Fees for other services

Fees for other services are detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report.

### What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency

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# Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Avon Pension Fund. There were no audit related or non-audit identified for the Fund for 2016/17.

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

# Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Fund.

## Respective responsibilities

As Auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Fund's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

	Audit Plan	Audit Findings
<b>Our communication plan</b>		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓



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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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April 2017

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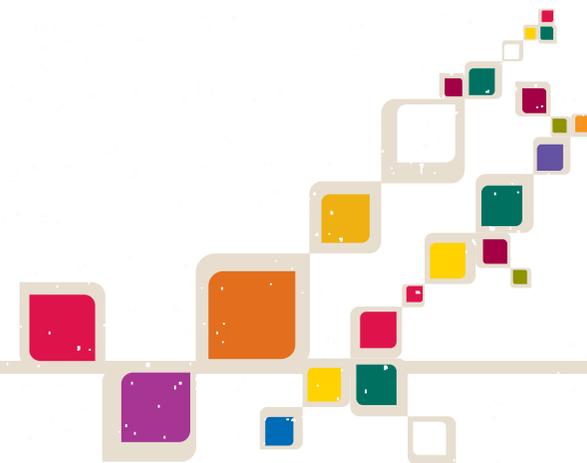
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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

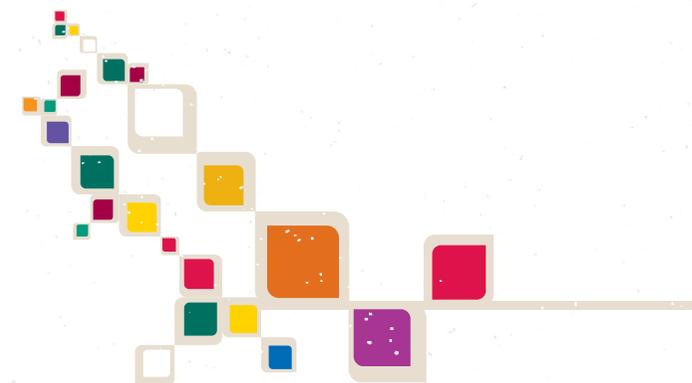
This paper provides the Corporate Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

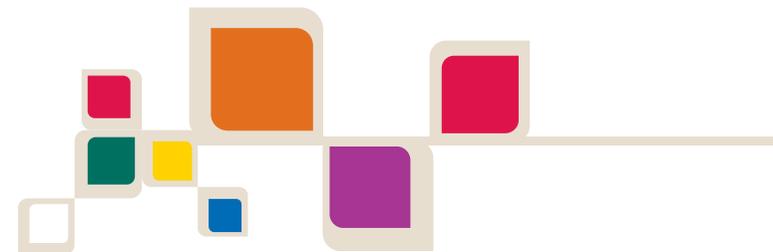
- CFO Insights – reviewing council's 2015/16 spend (December 2016); <http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/>
- Fraud risk, 'adequate procedures', and local authorities (December 2016); <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- New laws to prevent fraud may affect the public sector (November 2016); <http://www.grantthornton.co.uk/en/insights/new-laws-to-prevent-fraud-may-affect-the-public-sector/>
- Brexit: local government – transitioning successfully (December 2016); <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>
- Income generation (February 2017); <http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>

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.

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.

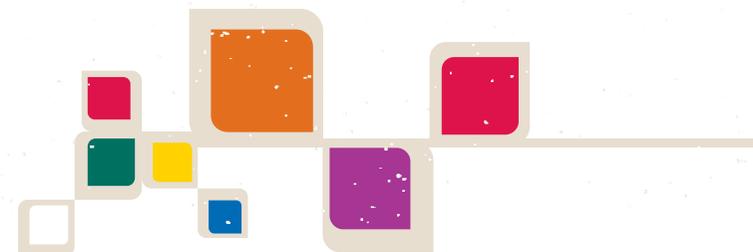


# Progress at April 2017



2016/17 work	Planned Date	Complete?	Comments
<p><b>Fee Letter</b> We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016</p>	April 2016	Yes	
<p><b>Accounts Audit Plan</b> 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.</p>	April 2017	Yes	Our plan is included on the agenda.
<p><b>Interim accounts audit</b> Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> <li>• updated review of the Council's control environment</li> <li>• updated understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• Value for Money conclusion risk assessment.</li> </ul>	January 2017	Yes	There are no significant issues to bring to your attention.

# Progress at April 2017



2016/17 work	Planned Date	Complete?	Comments
<p><b>Final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2016/17 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion</li> <li>• 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</li> </ul>	June 2017	Not yet due	As a dry run for the 2017/18 accounts, when the deadline for the draft accounts is brought forward to 31 <sup>st</sup> May, the finance team plan to complete the 2016/17 draft accounts by 31 <sup>st</sup> May 2017. We are due to start our audit on 5 <sup>th</sup> June and to complete it by end of June. To enable us to complete the work in this short period of time we will need the finance team and others to provide good quality, comprehensive working papers and to promptly respond to queries and requests raised during the audit.
<p><b>Value for Money (VfM) conclusion</b> 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 2016. 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:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul>	January to April 2017	In progress	Our work on the Council's financial performance and medium term financial plan is in progress, but is nearing completion.
<p><b>Other areas of work</b> Meetings with Members, Officers and others</p>			<p>We met with the Divisional Director: Business Support on 22<sup>nd</sup> March. At the meeting we were given an update on issues such as the Council's financial position, the Mayoral Combined Authority and the Council's development company (Aequus). We also met with the Place Strategic Director and the Chief Executive on 22<sup>nd</sup> February 2017.</p> <p>We informed the Committee at its meeting in December 2016 that the requirement to include the highways network asset (HNA) in the accounts had been deferred. However, CIPFA/LASAAC have since issued a statement on HNA implementation in which they confirm that they have decided not to implement the HNA Code.</p>

# Sector issues and developments

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# Local Government Finance Settlement

The final local government settlement for 2017/18 was published on 20 February. The settlement reflects the Government's aim that all councils will become self funding, with central government grants being phased out. This is year two of the four year offer, which has been accepted by 97% of councils.

There is an expectation that councils will continue to improve efficiencies with measures including further developments in digital technology, new delivery models and innovative partnership arrangements.

## 100% business rates retention

The announcement has an increased focus on business rates, with the expectation that by the end of the current Parliament, local government will keep 100% of the income raised through business rates. The exact details of the reforms are yet to be determined. This includes confirming which additional responsibilities will be devolved to local government and funded through these retained rates. Pilots of the reforms are taking place across the country from April 2017.

The results of a recent Municipal Journal survey *2017 State of Local Government Finance* have recently been published.

[http://downloads2.dodsmonitoring.com/downloads/Misc\\_Files/LocalGovFinance.pdf](http://downloads2.dodsmonitoring.com/downloads/Misc_Files/LocalGovFinance.pdf)

Respondents expressed concern about the lack of detail in the proposals, uncertainty around equalisation measures and the scale of appeals.

Nearly 50% of Councils responding believe they will lose from the transition to 100% retention of business rates. Views were evenly split as to whether the proposals would incentivise local economic growth.

## Social Care Funding

Funding allocations reflect increased funding of social care with a stated £3.5 billion of funding for social care by 2019/2020.

In this year's settlement £240 million of new homes bonus has been redirected into the adult social care grant. In addition councils are once again be able to raise the precept by up to 3% for funding of social care.

Recognising that funding is not the only answer, further reforms are to be brought forward to support the provision of a sustainable market for social care. There is an expectation that all areas of the country move towards the integration of health and social care services by 2020.

**Paul Dossett Head of Local Government in Grant Thornton LLP** has commented on the Government proposals for social care funding (see link for full article).

"The government's changes to council tax and the social care precept, announced by the Secretary of State for DCLG as part of the latest local government finance settlement, will seem to many as nothing more than a temporary fix. There is real concern about the postcode lottery nature of these tax-raising powers that are intended to fund our ailing social care system."

"Our analysis on social care shows that the most deprived areas in the UK derive the lowest proportion of their income from council tax."

"Conversely, more affluent areas collecting more council tax will potentially receive a bigger financial benefit from these measures."

"Our analysis shows that the impact and effectiveness of the existing social care precept is not equal across authorities. So any further changes to tax raising powers for local government will

## National developments

*"Social care precept changes will not help those living in more deprived areas"*

*"The UK has a long tradition of providing care to those who need it most. If that is to continue, the government must invest in a robust social care system that can cater for all based on needs and not on geography. From a taxpayer's perspective this is a zero sum game. For every £1 not invested in social care, the cost to the NHS is considerably more"*

not tackle the crisis of social care in our most disadvantaged communities and arguably make only make a small dent in the cost demands in our more affluent communities."

Links:

<https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2017-to-2018>

<http://www.grantthornton.co.uk/en/news-centre/local-government-financial-settlement-comment-social-care-precept-changes-will-not-help-those-living-in-more-deprived-areas/>

<http://www.grantthornton.co.uk/en/insights/council-tax-alone-wont-solve-the-social-care-crisis/>

# Pooling of LGPS

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment, costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

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Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/ committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

The funds themselves will retain responsibility for:

- investment strategy
- asset allocation

- having a responsible investment strategy
- reporting to employers and members

### Governance arrangements

There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

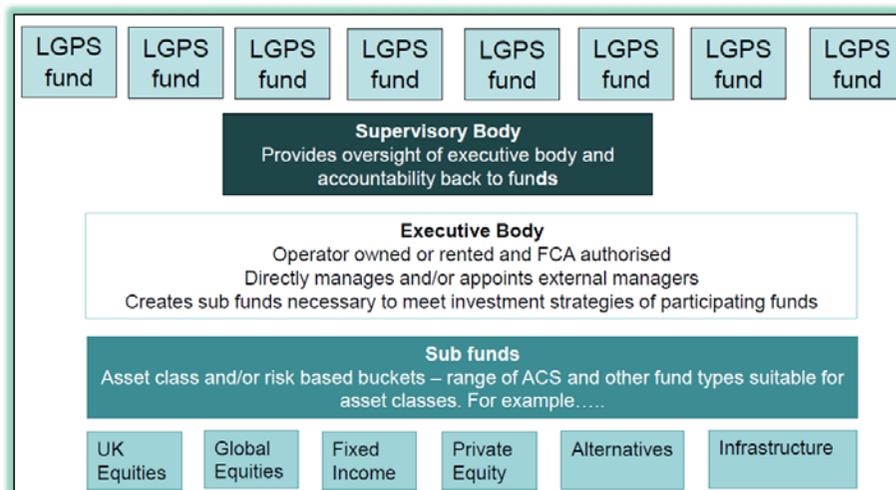
CIPFA in the recent article *Clear pools: the future of the LGPS* highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds

## National developments

### Issue for consideration:

- Is the CFO keeping you up to date on developing arrangements in your area?

Link:  
[http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps?](http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps)



typical structure of LGPS Pool

# Fixing our broken housing market

DCLG published its housing White Paper on 7 February 2017. It opens with the statement:

“The housing market in this country is broken, and the cause is very simple: for too long, we haven’t built enough homes.”

It goes on to summarise three key challenges in the housing market.

1. Over 40 per cent of local planning authorities do not have a plan that meets the projected growth in households in their area.
2. The pace of development is too slow. There is a large gap between permissions granted and new homes built. More than a third of new homes that were granted planning permission between 2010/11 and 2015/16 have yet to be built.
3. The structure of the housing market makes it harder to increase supply. Housing associations have been doing well – they’re behind around a third of all new housing completed over the past five years – but the commercial developers still dominate the market.

The proposals in the White Paper set out how the Government intends to boost housing supply and, over the long term, create a more efficient housing market whose outcomes more closely match the needs and aspirations of all households and which supports wider economic prosperity.

It states that the challenge of increasing housing supply cannot be met by the government acting alone and summarises how the government will work with local authorities, private developers, local communities, housing associations and not for profit developers, lenders, and utility companies and infrastructure providers.

For local authorities, the government is:

- offering higher fees and new capacity funding to develop planning departments, simplified plan-making, and more funding for infrastructure;
- will make it easier for local authorities to take action against those who do not build out once permissions have been granted; and
- is interested in the scope for bespoke housing deals to make the most of local innovation.

The government is looking to local authorities to be as ambitious and innovative as possible to get homes built in their area. It is asking all local authorities to:

- develop an up-to-date plan with their communities that meets their housing requirement (or, if that is not possible, to work with neighbouring authorities to ensure it is met);
- decide applications for development promptly; and
- ensure the homes they have planned for are built out on time.

The White Paper states that it is crucial that local authorities hold up their end of the bargain. It goes on to say that where local authorities are not making sufficient progress on producing or reviewing their plans, the Government will intervene. It also notes that where the number of homes being built is below expectations, the new housing delivery test will ensure that action is taken.

The White Paper goes on to consider in more detail:

- Planning for the right homes in the right places
- Building homes faster
- Diversifying the market
- Helping people now

## National developments

### Issues for consideration:

- Have you been briefed on the White Paper and the implications for your statutory housing function?
- Is the Council planning to respond to the consultation?

Consultation on the White Paper will begin on 7 February 2017. The consultation will run for 12 weeks and will close on 2 May 2017.

The White Paper is available at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/590464/Fixing\\_our\\_broken\\_housing\\_market\\_-\\_print\\_ready\\_version.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf)

# Integrated Thinking and Reporting

## Focusing on value creation in the public sector

Grant Thornton has seconded staff to the International Integrated Reporting Council on a pro bono basis for a number of years.

They have been working on making the principles of Integrated Reporting <IR> relevant to the public sector and co-authored a recent report by CIPFA and the World Bank: *Integrated thinking and reporting: focusing on value creation in the public sector - an introduction for leaders*.

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is effective infrastructure, good educational opportunities and reliable health care. In many ways, it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations.

Traditional reporting frameworks, focussed only on historic financial information, are not fit-for-purpose for modern, multi-dimensional public sector organisations.

Integrated Reporting supports sustainable development and financial stability and enables public sector organisations to broaden the conversation about the services they provide and the value they create.

The public sector faces multiple challenges, including:

- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

The <IR> Framework is principle based and enables organisations to tailor their reporting to reflect their own thinking and strategies and to demonstrate they are delivering the outcomes they were aiming for.

Integrated Reporting can help public sector organisations deal with the above challenges by:

- Addressing diverse and often conflicting public accountability requirements;
- Focussing on the internal and external consequences of an organisation's activities;
- Looking beyond the 'now' to the 'near' and then the 'far';
- Considering the resources used other than just the financial.

The report includes examples of how organisations have benefitted from Integrated Reporting.

## CIPFA Publications

### Issue for consideration:

- Have you reviewed the CIPFA guide to Integrated Reporting in the public sector?



# Grant Thornton



# Apprentice Levy-Are you prepared?

Grant Thornton update

## What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

## What is the levy?

From April 2017, the way the government funds apprenticeships in England is changing. Some employers will be required to pay a new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors.

Paybill will be calculated based on total employee earnings subject to Class1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

## What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill:  $250 \times £20,000 = £5,000,000$

Levy sum:  $0.5\% \times = £25,000$

Allowance:  $£25,000 - £15,000 = £10,000$  annual levy

## How can I spend my levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider-team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

## What do I need to start thinking about now?

- How much is the levy going to cost and have we budgeted for it?
- How do we ensure compliance with the new system?
- Which parts of my current spend on training are applicable to apprenticeships?
- Are there opportunities to mitigate additional cost presented by the levy?
- How is training in my organisation structured?
- How do we develop and align to our workforce development strategy

# Off-payroll working and salary sacrifice in the public sector

## Off-payroll working

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

**HMRC Digital Tool** – will aid with determining whether or not the intermediary rules apply to ensure of “consistency, certainty and simplicity”.

When the proposals were originally made, the public sector was defined as “those bodies that are subject to the Freedom of Information rules”. It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult however the public sector is defined.

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

This will increase costs, move responsibility to the engager and increase risks for the engager

## Salary sacrifice

The Chancellor's Autumn Statement 2016 speech also introduced changes to salary sacrifice arrangements. In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them.

## Grant Thornton update

### Issues to consider

- Interim and temporary staff engaged through an intermediary or PSC
- Where using agencies ensure they're UK based and operating PAYE
- Update on-boarding / procurement systems, processes and controls
- Additional take on checks and staff training / communications
- Review of existing PSC contractor population before April 2017
- Consider moving long term engagements onto payroll
- Review the benefits you offer - particularly if you have a flex renewal coming up
- Consider your overall Reward and Benefit strategy
- Consider your Employee communications

# Brexit

## Planning can help organisations reduce the impact of Brexit

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.

### 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.

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.

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

Where does this leave the public sector?

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:

## Grant Thornton update

For regular updates on Brexit, please see our website:

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

**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.

# Modern Slavery Act

The UK introduced the Modern Slavery Act (MSA) in 2015 following similar moves in the US, Brazil and Australia.

The MSA increases the level of transparency in UK Businesses and has the potential to reshape global supply chains. Section 54, part 6 of the Act, Transparency in Supply Chains provision, states that commercial organisations must prepare a slavery and human trafficking statement each year outlining steps taken to ensure that slavery and human trafficking are not present in their supply chains, or in the business itself, or in any likely future part of the business.

What is Modern Slavery?

Modern Slavery amounts to a violation of an individual's human rights. Someone is in slavery if they are forced to work through mental or physical threat, owned or controlled by an 'employer', or physically constrained or have restrictions placed on freedom.

Modern Slavery may appear unlikely in most modern UK based supply chains, however, there are more people in slavery today than at height of the original slave trade over 200 years ago.

## Who is impacted by the Act?

A business has to comply if it meets the four criteria below:

- it is a public or private company or partnership, (wherever incorporated or formed)?
- it supplies goods or services
- it carries on a business, or part of a business, in any part of the United Kingdom
- it has global annual turnover of £36m or more?

Some businesses such as domestic work, agriculture, construction, manufacturing and entertainment are thought to be most at risk, however, slavery can be found in most sectors.

Whilst public sector organisations receive the majority of their revenues through public funding, such as government grants, they are likely to be exempt. However, where they have significant revenues from trading activities, including trading companies, this may meet the reporting criteria set out within the Act. In addition, an organisation with revenues below the £36m threshold may still be impacted if it supplies another business that is within this scope.

It may be required to implement policies, and provide a Modern Slavery statement, if it supplies goods or services to a company above the threshold that is required to meet the terms of the Act.

The MSA should be embedded into a contracting authority's procurement strategy, and should be considered at each stage of the procurement process, where relevant and appropriate.

Grant Thornton update

We will discuss implications for the Council with officers.

# IFRS 15 and 16

## IFRS 15 Revenue from Contracts

The new revenue standard IFRS 15 ‘Revenue from Contracts with Customers’ is effective from 1 January 2018. IFRS 15 has the potential to significantly impact the timing and amount of revenue recognised.

The core principle in IFRS 15 is that entities should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

CIPFA is consulting on new Provisions to be implemented in the 2018/19 Code for recognising revenue from contracts with service recipients.

These standards will require substantial preparation, including securing the availability of new information and potentially systems developments before adoption of the anticipated requirements of the Code.

## IFRS 16 Leases

IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases under IAS 17. IFRS 16 will have a substantial effect on the reporting requirements for operating leases.

Leases are ‘capitalised’ by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.

The most significant effect of the new requirements in IFRS 16 will be an increase in lease assets and financial liabilities.

This standard has an effective date of 1 January 2019 and therefore will be effective for the 2019/20 Code.

Grant Thornton update

We will discuss implications for the Council with officers.

## The income spectrum

Helping local authorities to achieve revenue and strategic objectives to create a vibrant economies

### Grant Thornton market insight

Income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency. Our report gives local authorities the tools needed to maximise their ability to do so.

Our new research on income generation which includes our CFO Insights too suggests that:

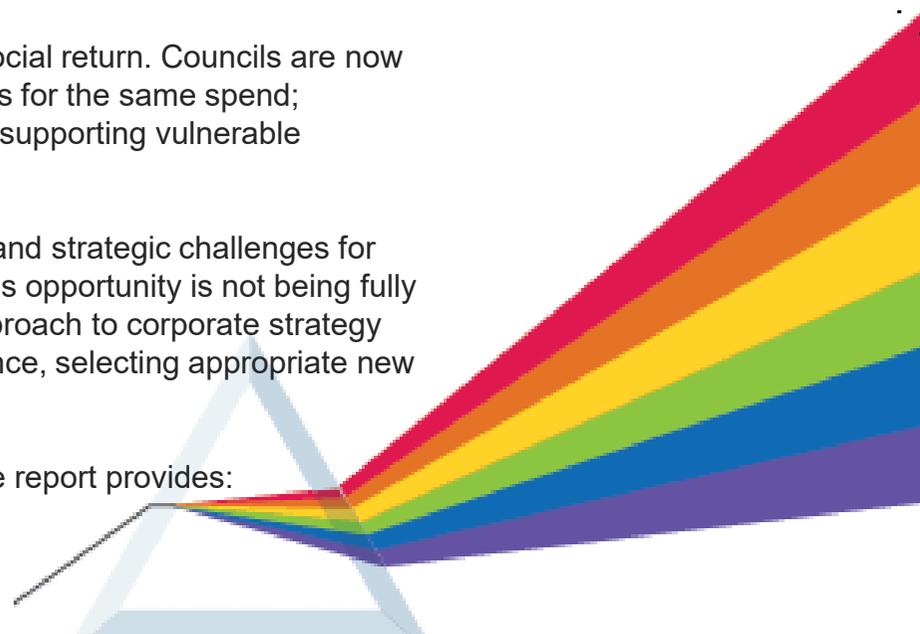
- councils are increasingly using income generation to diversify their funding base, and are commercialising in a variety of ways. This ranges from fees and charges (household garden waste, car parking, private use of public spaces), asset management (utilities, personnel, advertising, wifi concession license) and company spin-offs (housing, energy, local challenger banks), through to treasury investments (real estate development, solar farms, equity investment).

the ideal scenario to commercialise is investing to earn with a financial and social return. Councils are now striving to generate income in way which achieves multiple strategic outcomes for the same spend; examining options to balance budgets while simultaneously boosting growth, supporting vulnerable communities and protecting the environment.

- stronger commercialisation offers real potential for councils to meet revenue and strategic challenges for 2020 onwards. Whilst there are examples of good practice and innovation, this opportunity is not being fully exploited across the sector due to an absence of a holistic and integrated approach to corporate strategy development (a common vision for success, understanding current performance, selecting appropriate new opportunities, the capacity and culture to deliver change).

To support local authorities as they develop income generation strategies, the report provides:

- case study examples
- local authority spend analysis
- examples of innovative financial mechanisms
- critical success factors to consider





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<b>Bath &amp; North East Somerset Council</b>		
MEETING:	Corporate Audit Committee	
MEETING DATE:	13th April 2017	<b>AGENDA ITEM NUMBER</b>
TITLE:	Audit & Assurance Annual Report 2016/17	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
Appendix 1 - Audit Plan Position Statement		

## **1 THE ISSUE**

- 1.1 This is the Annual Report of the Internal Audit function detailing progress against the Plan, a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

## **2 RECOMMENDATION**

- 2.1 The Corporate Audit Committee notes the Internal Audit Annual Report 2016/17 and formal opinion on the internal control framework.

## **3 FINANCIAL IMPLICATIONS**

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

## **4 THE REPORT**

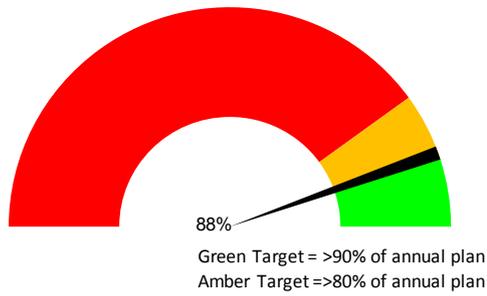
- 4.1 The Annual Internal Audit Plan for 2016/17 was presented to the Corporate Audit Committee on the 24th March 2016. The Plan forms the principal work of the Internal Audit Service and is a significant source of assurance of the effectiveness of the Council's internal control environment.
- 4.2 The Committee receives verbal updates at each meeting and a formal update on delivery against the plan on the 8th December 2016. This report builds upon that update and the chart overleaf records the position as at 31st March 2017.

# PERFORMANCE DASHBOARD - INTERNAL AUDIT

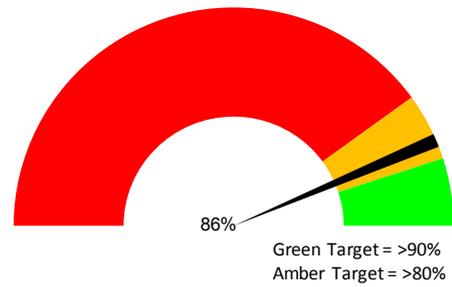
Client - Bath & North East Somerset

Period - April 2016 - March 2017

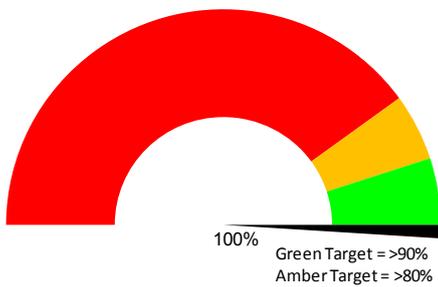
## 1. AUDIT PLAN COMPLETED



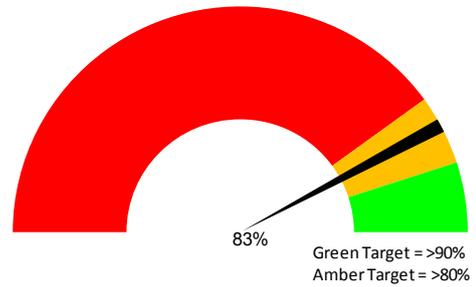
## 2. AUDITS COMPLETED IN PLANNED TIME



## 3. CUSTOMER SATISFACTION

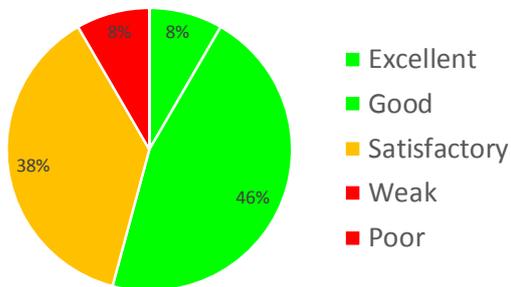


## 4. IMPLEMENTATION OF RECOMMENDATIONS

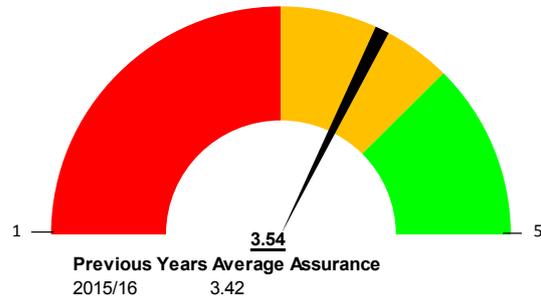


## 5. AUDIT OPINION - ASSURANCE LEVEL PROVIDED

### Current Position



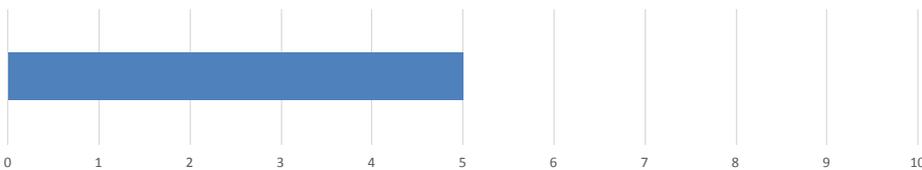
### Current Average Assurance Level



## 6. WHISTLEBLOWING CASES IN CURRENT FINANCIAL YEAR

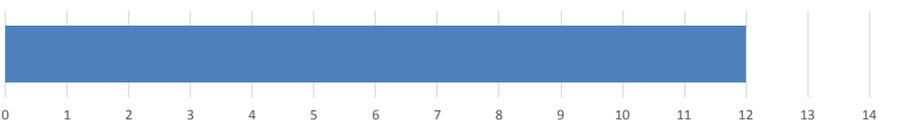


## 7. INVESTIGATIONS - CASES UNDER INVESTIGATION DURING REPORTING PERIOD



Equating to  
54.1  
Audit Days  
2016/17

## 8. NEW UNPLANNED WORK



Equating to  
115.7  
Audit Days  
2016/17

## **PERFORMANCE SUMMARY**

### **4.3 COMPLETION OF THE INTERNAL AUDIT PLAN**

- 4.3.1 The performance dashboard shows that 88% of the plan is 'substantially completed'. This includes work that is either finalised or at reporting stage.
- 4.3.2 When the half year position was reported in December we recorded that Audit West had 'substantially completed' 40% of the Audit Plan.
- 4.3.3 The improved position as at the year-end has been achieved through amongst other things effective joint working and being able to utilise a newly recruited (November 2016) experienced Associate Auditor to carry out a number of planned audits. This resource replaced the previous contract with the South West Audit Partnership which had not been as effective as originally planned.
- 4.3.4 Appendix 1 records the status of each audit review within the 2016/17 Audit Plan at the end of March 2017.
- 4.3.6 This records that 24 Audits have been finalised / completed; 13 reviews are in 'draft' report format or 'substantially completed'; three reviews (ICT Change Management, ICT Third Party Access & Home to School Transport) had commenced but will be completed in 2017/18; and two reviews (Adult Care Contract Re-provision and Destination Management) were replaced by other 'unplanned' audit reviews.
- 4.3.6 The two audits which were replaced will be subject to internal audit review in 2017/18 (these are recorded in the 2017/18 Audit Plan – 'Your Care Your Way' reviews and 'Council Companies – Governance' audit).

### **4.4 AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS**

- 4.4.1 The percentage of audits completed within the initial allocated days is recorded at 86%. This figure was calculated at the end of March and was based on audits recorded at that time as being at 'Final / Draft' Report stage.
- 4.4.2 For the four audits exceeding the allocated time, the reasons for going over time was considered reasonable by Audit Management. The importance of completing work within assigned number of days is monitored closely by the management team and discussed with clients based on the risks relevant in each audit review.

### **4.5 CUSTOMER SERVICE**

- 4.5.1 Customer service and providing value to clients remains at the heart of the Partnership. We are pleased to report that all questionnaires receive record good / excellent responses and this matches feedback received about individual auditors work when speaking with clients. Positive feedback is communicated to the auditor(s) involved and is also raised at appraisal sessions. A number of comments received from clients are recorded below:

“He’s able to ask the right questions and has a keen eye for gaps in process”.  
*Independent Living Scheme Audit*

“Thank you for a very professional audit”. *Heritage Audit*

“A very positive experience, with some good learning for our service and constructive ideas about moving forward.” *Safeguarding Children - LADO*

“Auditor was professional during our visits to the care homes and clear instructions were given to the home managers of what information was required.”  
*Independent Living Scheme*

“This is the first time that street works have been audited and it was good to identify Strengths and weakness to that we can improve and knowing that the team provides a good service.” *Street Works*

“I was happy with the overall service and value of the audit process.” *Liquid Logic – Children Services*

“Very thorough and realistic expectations and recommendations.” *Council Tax – Support, Exemptions & Discounts*

“This report was very helpful as we were in the process of changing/ improving the TRO process, so it acted as an independent endorsement of the proposal. Overall, I was very happy with this audit and the way it was conducted.” *Traffic Regulation Orders*

## **4.6 IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS**

4.6.1 The dashboard records the implementation of critical / high risk rated recommendations at the time the audit was ‘Followed-Up’ at 83%. Of the 16 audits ‘Followed-Up’ during the financial year, 15 had critical / high risk rated weaknesses / recommendations. For 9 of the 15 audits all critical / high recommendations were implemented.

4.6.2 A summary of the six audit reviews where high risk recommendations were not implemented is as follows –

4.6.3 Pension – IT Systems – At the date of the follow up two recommendations had been ‘partially’ implemented and management agreed revised implementation dates for the full implementation of these recommendations.

4.6.4 Deprivation of Liberty Safeguards – Although the February 2016 recommendation to recruit assessors had not been implemented, management had responded positively by scheduling the training of 4 more staff to enable the backlog of DOLs applications to be reduced. The Head of Safeguarding & Quality Assurance in the People Directorate received a copy of the ‘Follow-Up’ findings and was formally asked to monitor the action proposed and the effectiveness of action taken to reduce the backlog.

4.6.5 CCTV – Two recommendations were still to be implemented at the time of the Follow-Up exercise which was completed in March 2017. The first was in respect of the CCTV maintenance programme and monitoring and reporting on the

performance of the contractor (ADT). The second recommendation was related to a record being maintained of management checks being completed to ensure the accurate completion of the Disclosure of Images Logs as per agreed procedures. These two outstanding recommended actions were formally reported to the Head of Customer Services (Resources) for him to monitor action being taken.

4.6.6 Contract Budget Management (Children with Complex Needs) – At the time of the ‘follow-up’ two recommendations had not been implemented. The recommendations were related to the frequency and high level budgetary reporting to the LSCB. The Section 10 Partnership Agreement stated the timing of budget preparation and the need to report quarterly. The need to comply with these requirements was highlighted through the audit recommendations. The Divisional Director of Specialist Services was informed of the failure to comply with these requirements (as highlighted by the follow-up) and his response was immediate – a report was to be submitted to the LSCB Sub Group and the Section 10 requirements were to be discussed at a meeting of the Joint Advisory Panel.

4.6.7 Member Allowances – The 2016/17 Audit had identified a number of under and overpayments. Action was taken to reimburse underpayments and recover overpayment sums, and to carry out periodic verification of amounts paid to members. However, the ‘Follow-Up’ identified that although the Head of Legal & Democratic Services had understood that action had been taken to amend the electronic payroll input form to avoid similar errors being repeated, the action had not been taken prior to a member of staff retiring. I am pleased to report that following the ‘Follow-Up’ exercise the recommended action has been implemented.

4.6.8 Purchase Card Key Controls – A single recommendation related to manager’s use of the Barclaycard Spend Management system to verify card expenditure had not been implemented by the time of the ‘Follow-Up’. The intended action was to liaise with Barclaycard and agree / implement a revised system authorisation process. The Head of Business Support was informed of the outstanding action. Audit West will be carrying further planned work in relation to the use of Council purchasing cards during 2017/18.

#### **4.7 INVESTIGATIONS/ WHISTLEBLOWING**

4.7.1 During the year 2016/17 the service has been involved in four formal investigations. Three of these were reported to Corporate Audit Committee on the 8<sup>th</sup> December 2016 within the Fraud & Corruption Update paper.

4.7.1 In terms of these, two investigations had been completed at the time of reporting. The third investigation - inappropriate deputyship payment to a 3rd party - a letter was despatched to the Office of the Public Guardian (Court of Protection) on the 16<sup>th</sup> December 2016. An acknowledgement was received on the 23<sup>rd</sup> December 2016. No further contact has been received or made.

4.7.2. The fourth investigation was in relation to an allegation related to the receipt of Council Tax single person discount.

## 4.8 ASSURANCE LEVEL PROVIDED

4.8.1 Of those audit reports carried out in 2016/17 (planned and unplanned) 92% of 'Final' and 'Draft' Audit Reports issued have recorded an audit opinion of satisfactory to excellent (between Assurance Levels 3 and 5). Two audits recorded an Assurance Level 2 'Weak Control Framework' - one planned audit ('Use of Council Vehicles') and one unplanned audit (Independent Living Scheme).

4.8.2 'Use of Council Vehicles' was discussed at the December meeting of the Committee. Internal Audit have continued to liaise with management to ensure that the Fleet Management Vehicle Use Policy is updated and formally adopted and that an annual report on compliance with the Policy is submitted to senior management. Internal Audit will continue to monitor implementation of the recommendations.

4.8.3 A request was received from management to carry out a review of the administration of the Independent Living Scheme. This is a contracted out service with Curo providing a range of support services for older people. The scope of the review was to verify that a robust internal control framework was in place to ensure payments were accurate.

Weaknesses identified by the review included:

- a) Lack of a formal process for checking that all charges were legitimate, i.e. the service was being received by the client. Evidence was held that the contractor had claimed service payments for deceased clients.
- b) Limited checks carried out on contractor client records by contract / commissioning staff.
- c) Failing to monitor the receipt of timely (quarterly) and accurate Curo returns.

Management agreed to implement all of the audit recommendations and this audit will be followed-up in the 2<sup>nd</sup> quarter of 2017/18.

## 4.9 UNPLANNED AUDITS / WORK

4.9.1 Fourteen pieces of unplanned work have required Internal Audit time over the year to date. This included the four investigations, referred to in para 4.7.1, and two 'unplanned' audits which replaced two 2016/17 planned audits (Destination Management and Adult Social Care Contract Re-provision). Independent Living Scheme (see para 4.8.3 above) and Contract Management – Extra Care Housing were the replacement audits.

4.9.2 One of the 'consultancy' pieces of work carried out by Audit West resulted from the audit of 'Public Protection'. This audit identified specific weaknesses in terms of Pest Control Service income budgeting & monitoring and fees and charges decision making. Based on the skills and expertise of Audit West staff it was agreed that we would provide assistance to help the Service introduce robust systems and processes. This is an example of where Audit West can assist clients and provide 'added value'.

4.9.3 The total amount of time spent on unplanned work was 169 days. The partnership recognises the importance and value to management of being able to respond to these types of requests and therefore we ensure that contingency is built into our planned use of resources.

#### **4.10 JOINT WORKING WITH NORTH SOMERSET COUNCIL**

4.10.1 The Committee has been regularly updated on the joint working arrangements between Bath and North East Somerset Council and North Somerset Council Internal Audit Services.

4.10.2 The partnership is now badged as 'Audit West' and has been highly successfully in delivering over £300,000 of savings to both councils since the start of the arrangements in September 2013 and plans to deliver a further £100,000 savings in the next three years. Many of these savings have been achieved positively through new Income growth with several highly successful new strands of business being developed and sold into the public sector marketplace

4.10.2 As described previously in this report, partnership working has also proved to be very successful from a delivery perspective and the two Audit Managers have produced and distributed to team members a Combined Audit Plan for 2017/18. In addition to planned reviews joint working has also extended into investigations and non-core services.

4.10.3 Partnership meetings continue to take place on a regular basis to share best practice and opportunities for new income growth.

#### **4.11 FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK**

4.11.1 As part of their statutory requirements the Head of Audit & Assurance is required to give an opinion on the internal control framework. In forming this view I have considered the work of the Audit & Assurance function as well as consideration of the wider governance framework and performance of the council.

It is my opinion that at the current time the council's internal control framework and systems to manage risk are reasonable.

- Reasonable assurance can be provided over the council's systems of internal control, helping to ensure corporate priorities can be achieved;
- Agreed policies, Financial Regulations and Contract Standing Orders are broadly being complied with;
- Managers throughout the council are aware of the importance of maintaining adequate and effective governance arrangements;
- Appropriate arrangements are operated to deter and detect fraud and investigations did not identify any systemic failures;
- There were no fundamental system failures or control breakdowns to business critical functions;

The continued reduction on council budgets places further pressure on all services to respond and manage risk in a proportionate way as identified within the Annual Governance Statement.

The Audit Committee's support in ensuring this balance and maintaining effective corporate governance is appreciated and I would like to thank all members of the committee for their input and guidance over the past year.

## 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.

<b>Contact person</b>	<i>Andy Cox (01225 477316) Jeff Wring (01225 477323)</i>
<b>Background papers</b>	<i>Reports to Corporate Audit Committee – 24<sup>th</sup> March 2016 Internal Audit Plan - 2016/17 &amp; 8<sup>th</sup> December 2016 Internal Audit Annual Plan (2016/17) – Six Month Performance Update</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

**Audit Reviews Position Statement (as at 31st March 2017)**
**Appendix 1**

Ref	Topic	Status	Assurance Level	Recommendations	
				Made	Agreed
16-001B	Highways - Project Governance	Substantially Completed			
16-002B	ICT - Network Management	Draft Report	4	6	Awaited
16-003B	Better Care Fund - Reablement	Final Report	3	4	4
16-004B	Domicillary Care - Contract Management & Performance	Final Report	3	4	4
16-005B	Pensions Governance	Final Report	4	2	2
16-006B	Accountable Body - West of England LEP - One Front Door and Expenditure Scheduling	Final Report	4	2	2
16-007B	Accountable Body - West of England LEP – Funding Claims and Achievement of Deliverables	Final Report	4	1	1
16-008B	iTrent - System Administration & Information Security	Final Report	3	15	15
16-009B	ICT - Data Back Up	Draft Report	4	7	Awaited
16-010B	Recycling	Substantially Completed			
16-011B	Traffic Regulation Orders	Final Report	4	6	6
16-012B	Creditor Payments - Late Payment of Invoices	Substantially Completed			
16-013B	Pro-Contract	Final Report	3	9	9
16-014B	Procurement Governance	Substantially Completed			
16-015B	Liquidlogic - Children's	Final Report	3	2	2
16-016B	Economic Growth	Final Report	3	4	4
16-017B	Street Works	Final Report	4	4	4
16-018B	ICT Change Management	Started			
16-019B	ICT Third Party Access	Started			
16-020B	Pensions Admin	Final Report	5	1	1
16-021B	Heritage Contract Management	Final Report	4	4	4
16-022B	Destination Management	Postponed	N/A	N/A	N/A
16-023B	Personalised Budgets	Final Report	3	7	7
16-024B	School Theme Review - Personnel & Payroll	Final Report	4	0	0
16-025B	Home to School Transport	Started			
16-026B	Revenue Estate - Rent Reviews & Lease Renewals	Final Report	4	0	0
16-027B	Digital B&NES - Connecting Devon & Somerset Programme	Final Report	3	2	2
16-028B	Public Protection Service Overview	Final Report	3	7	7
16-029B	Creditor / Debtor - Data Analytics Review	Substantially Completed			Awaited
16-030B	Cash Collection Contracted Service	Briefing Paper	N/A	N/A	N/A
16-031B	Passenger Transport	Substantially Completed			
16-032B	School Theme Review - Payments	Final Report	4	0	0
16-033B	Safeguarding - L A Designated Officer	Final Report	4	4	4
16-034B	Revenue Estate - Income collection, Debt Recovery & Write Offs	Draft Report	4	2	Awaited
16-035B	Revenue Estate - Void Properties	Draft Report	4	1	Awaited
16-036B	Employment Procedures - Redundancies	Draft Report	4	4	Awaited
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	Final Report	4	1	1
16-040B	Debt Management - NNDR & CT	Substantially Completed			
16-041B	Catering Trading Account	Substantially Completed			
16-042B	Adult Social Care Contract Re-provision	Postponed	N/A	N/A	N/A
16-204B	Independent Living Scheme	Final Report	2	5	5
16-208B	Contract Management - Extra Care Housing	Draft Report	3	5	Awaited

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<b>Bath &amp; North East Somerset Council</b>			
<b>MEETING:</b>	Corporate Audit Committee		
<b>MEETING DATE:</b>	13th April 2017	<b>AGENDA ITEM NUMBER</b>	
<b>TITLE:</b>	<b>Internal Audit Plan - 2017/18</b>		
<b>WARD:</b>	ALL		
<b>AN OPEN PUBLIC ITEM</b>			
<b>List of attachments to this report:</b>			
Appendix 1 – Internal Audit Annual Plan 2017/18			

## **1 THE ISSUE**

1.1 This is a report detailing the proposed Internal Audit Plan for 2017/18.

## **2 RECOMMENDATIONS**

2.1 The Corporate Audit Committee is asked to:

- Approve the Internal Audit Plan for 2017/18

## **3 FINANCIAL IMPLICATIONS**

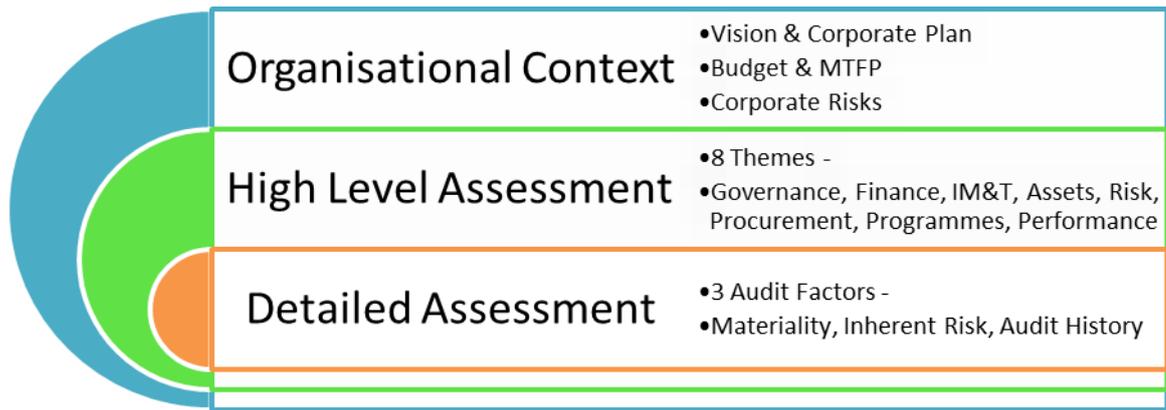
3.1 There are no direct financial implications relevant to this report.

## **4 THE REPORT**

### **4.1 Internal Audit Annual Plan 2017/18 (Appendix 1)**

4.2 The Public Sector Internal Audit Standards require Internal Audit to prepare a risk-based plan and this is attached at Appendix A.

4.3 The Plan has gone through a wide series of consultation including with Statutory Officers, Strategic and Divisional Directors and as detailed to the Committee previously we use the reasonable assurance model to compile the plan of which the essential elements are as follows –



- 4.4 Notwithstanding the assessment, specific circumstances (such as a significant reputational issue or request of S151 Officer or Senior Management Team) may on occasion mean that a low scoring topic is nevertheless included in the Plan.
- 4.5 Resources available to deliver the Plan will also inform the quantum of the Plan and as previously detailed the budget reductions during recent years obviously impact on the number of audit days and areas to be reviewed.
- 4.6 Some of these reductions have been however mitigated by our new partnership arrangements which have given us new efficiency opportunities to reduce the amount of time spent on reviews. In addition there is the potential to work jointly on single reviews and likely areas for this approach are being assessed.
- 4.7 In addition to completing the Internal Audit Reviews, Audit West will -
- Provide support to the corporate governance framework within the Council including completing the Annual Governance review work required to publish the Council's Annual Governance Statement;
  - Complete 'Follow-up' reviews to verify the implementation of Internal Audit Review recommendations.
  - Provide support to the Council's risk management framework including maintaining the Corporate Risk Register;
  - Carry out the Co-ordination and Investigation roles to complete the work required through the CIPFA Data Matching 'National Fraud Initiative';
  - Complete Anti-Fraud Data Analytics using Computer Assisted Audit Techniques (CAATs);
  - Provide advice on systems of internal control including Council policies and procedures. This is particularly important when systems and processes are being developed or changed;
  - Provide support to Services on carrying out investigations in relation to financial irregularities. This may require Audit & Risk staff to take on the

Investigating Officer role in compliance with the Council's disciplinary procedures;

- Provide a service to verify the accuracy of specific grant claims and when required provide assurance to the Council's Chief Executive or other officers who are required to 'sign-off' Claim Certificates.

4.8 The Plan will remain fluid during the year to enable the service to respond to the council's changing risk environment and the Committee will receive an update on performance during the year.

## **5 RISK MANAGEMENT**

5.1 The preparation of the audit plan is carried out following a risk assessment using a number of factors. Commentary and opinion in relation to past performance has used the outcome of audit and other inspection work to inform the risk assessment and there is nothing significant to report.

## **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.

## **7 CONSULTATION**

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

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

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# Audit Plan 2017/18

Delivering Independent Assurance to Local Government

Page 95



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# 1. Our Strategy

## Introduction

Bath & North East Somerset Council strives to deliver excellent services to local people and make our area internationally renowned as a beautifully inventive and entrepreneurial 21<sup>st</sup> century place with a strong social purpose and a spirit of wellbeing. The Council has recognised through its Corporate Plan the importance of excellence in resource management and sound governance as fundamental to achieving its priorities. This will require significant transformation to be a modern, innovative and accessible organisation.

The Audit & Assurance function fully recognizes its need to be flexible and agile in the face of the significant changes affecting the whole of the public sector and meet the needs of its stakeholders. Independent assurance which is strong but supportive can provide a helpful and positive role not just to services but to elected Members and the Community at large by demonstrating that the Council is operating effectively and protecting its assets and resources for the benefit of all its stakeholders.

In seeking innovation and effectiveness, Bath & North East Somerset Council has partnered with North Somerset Council to provide a more resilient and better skilled audit and assurance function. This service – Audit West – is a fully integrated function able to serve not just its core partners but also provide a wider range of assurance based services to other clients such as Academies and the wider public sector.

This is not without challenges as resources have reduced significantly and this therefore necessitates a different approach to the way we work, approach and view risk and how we deliver i

independent assurance. This strategy is an example of this new approach as we have now replaced our traditional and often outdated methodologies with new risk based approaches to our planning and review of Council Services.

Our strategy to deliver this is based on the following key priorities –

- **Providing Reasonable Assurance**
- **Providing Value for Money**
- **Maximising Technology**
- **Investment in Skills**
- **Commercial Growth**

We will continue to work with all our stakeholders - especially the Audit Committee, Statutory Officers and Senior Management – to improve the service we offer but also to provide an independent voice in supporting service change and transformation

The remainder of this document outlines our approach and also the indicative areas for our audit and assurance plan for 2017/18.



# Life in Bath and North East Somerset

## Key facts and figures

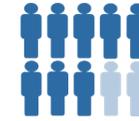
Between 2014 and 2024 our area will grow both in population and in housing terms...



Our communities are happy



..and want to get involved



Just under 8/10 residents would like to be **more involved** in local decision making

1 in 5 residents want to transact with us online

Less than 1 in 100 do now



♂=81 ♀=85

Life expectancy is high compared to national and regional rates

But...

Life expectancy gaps of over 8 years (and increasing) exist for men living in different parts of B&NES

Just 5 stops on a local bus route

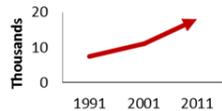


*"Beautifully Inventive"*

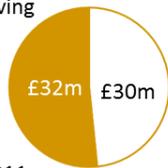
**9,000** more jobs in the Bath City enterprise area by 2030

**1,238** Technical & scientific professional businesses. Largest sector in the area

**10,000** more users of local railway stations between 1991 and 2011



We are already efficient, already saving



but we need to find a further **£30m** by 2017

since 2011....



By 2020, summers could be 25% drier and winters 16% wetter

We have already seen three major landslips in three years



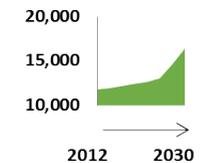
Amongst our most vulnerable children, 7 out of 10 have families which experience:

- domestic abuse,
- mental-ill health, or
- substance misuse

Or a combination of the three

By 2030 **5,000**

more people aged 65+ will be unable to manage at least one self-care activity on their own



**A strong economy and growth** **Customers and Communities**  
**An efficient business** **A focus on prevention**

Find out more...  
[www.bathnes.gov.uk/jsna](http://www.bathnes.gov.uk/jsna)

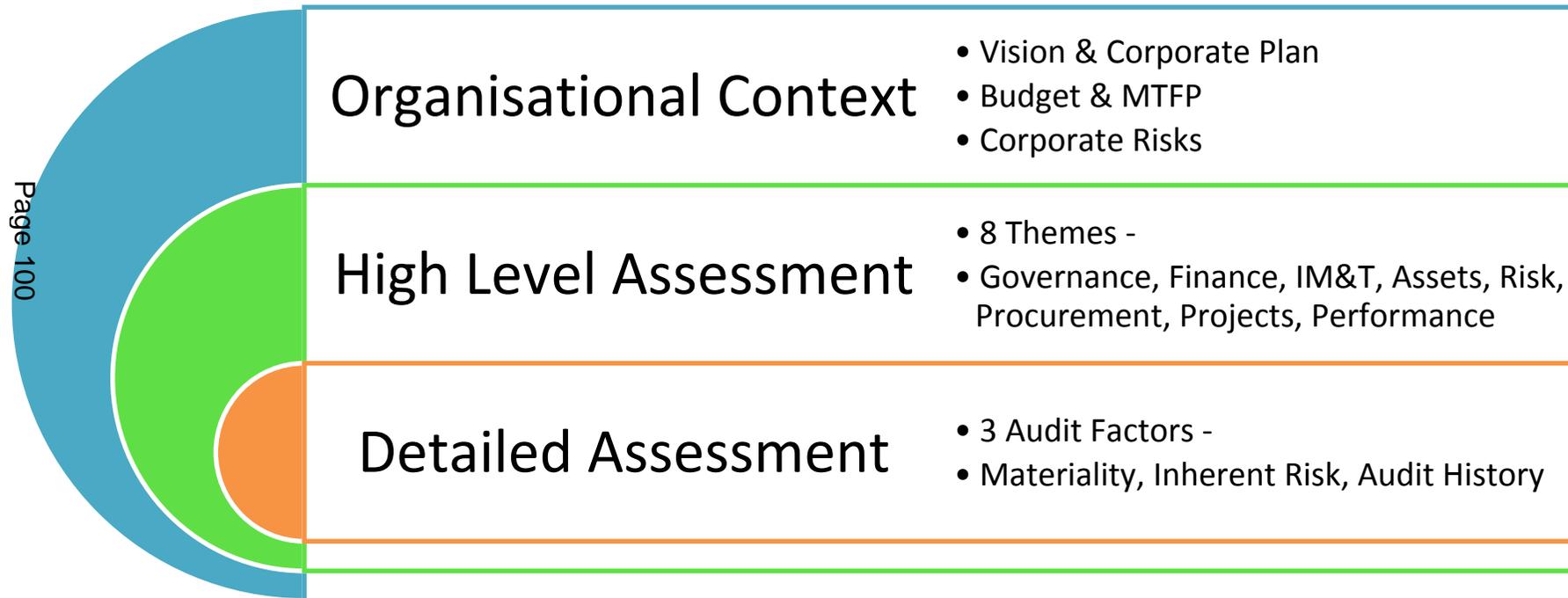
### 3. Key Priorities for Bath & North East Somerset

Corporate Strategy priorities	'Putting Residents First' manifesto commitments
A strong economy and growth	Improve transport New homes and jobs Cleaner, greener and healthier communities
A focus on prevention	Invest in our young people Greater choice and independence for older people Cleaner, greener and healthier communities
A new relationship with customers and communities	Cleaner, greener and healthier communities
An efficient business	Tackling wasteful spending

## 4. Reasonable Assurance Model – Producing the Audit Plan

The model is based on the fundamental requirement that the audit plan proposed will deliver sufficient work to enable the Head of Audit to independently assess the internal control framework and give a reasonable assurance opinion at the end of each year.

This involves considering current context of the Council, what a 'healthy organisation' requires to operate effectively and then assessing independently against this in a staged process as follows –

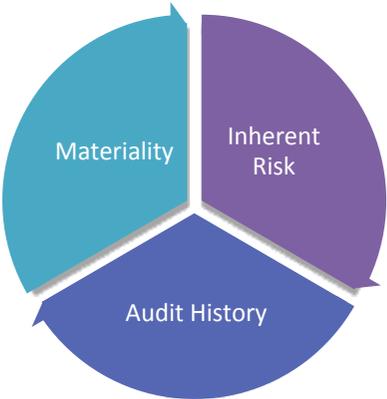


**HIGH LEVEL ASSESSMENT AREAS – REASONABLE ASSURANCE**

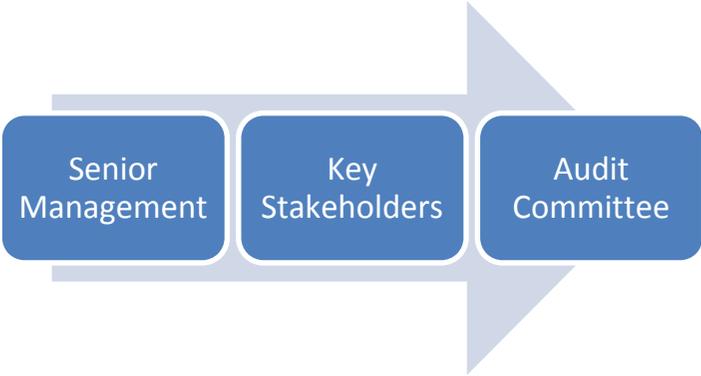


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**DETAILED CRITERIA – AUDIT PLAN LISTING**



**CONSULTATION & APPROVAL**



## 5. Methodology, Approach & Standards

### **Introduction:**

Internal Audit is an assurance function that provides an independent and objective opinion to the Council on its control environment. Scope of Internal Audit activity is not limited to the Council's financial systems and records, but extends to all functions of the Council.

Internal Audit is required to compile each year a Plan of its intended activity for approval by the Council's Audit Committee.

Internal Audit is required to be compliant with the Public Sector Internal Audit Standards and designs its methodologies to ensure it meets these standards and considers all available best practice.

### **Independence:**

A critical element of the performance of Internal Audit is independence from the activities audited. This enables the function to form impartial and effective judgment for the opinions and recommendations made.

To help ensure independence, Internal Audit is part of a partnership arrangement with North Somerset Council and so is not fettered by any management reporting line restrictions. It also has unrestricted access to Senior Management & Members, particularly, the Leader of the Council, Chair of the Audit Committee, the Chief Executive, Strategic Directors, the Council's s151 Officer and the Council's Monitoring Officer. Additionally, the Head of Audit West (responsible for the partnership arrangements) reports in his own name and acts as Chief Internal Auditor for each Council.

Internal Audit forms part of the core governance structure of the organisation and its input is required as part of the Council's Annual Governance review which results in the publication of the Council's Annual Governance Statement.

### **Relationship with the Council's External Auditor:**

As part of their audit of the Council's financial statements, the Council's external auditor has a dedicated plan from which they carry out specific reviews of the Council's activities. To facilitate this work they have issued a plan for the audit of the 2015/16 accounts.

The External Auditors carry out their own risk assessment methodology to assist in agreeing their workplan.

The working relationship between Internal Audit and the External Auditors carrying out their respective functions is important and must take account of their differing roles. The External Auditor has a statutory responsibility to express an opinion on the Council's financial statements, whilst the Internal Audit function is responsible for assessing the adequacy and effectiveness of the internal controls and advising Management accordingly.

The External Auditors whilst not formally required to seek reliance on the work of Internal Audit take into account the outcomes of all audit activity and consider their approach and plans to maximise their effectiveness and there is regular contact between the two parties.

## **Performance Management**

The function recognises the importance of regular and effective performance management to ensure an effective service is being operated. A quarterly dashboard is produced and reported to each key stakeholders, including the Audit Committee.

Performance Indicators and Measures are set in the following areas –

Completion of the Plan  
Audit Recommendations Implemented  
Assurance Levels Provided  
Productivity  
Customer Satisfaction  
Numbers of Investigations  
Unplanned Work

Page  
03

## **Preparation of the Annual Plan: Reasonable Assurance Model**

Internal Audit has adopted a risk based approach in determining its Annual Plan using the reasonable assurance model.

### **Stage 1 - Assess levels of Assurance & Risk over 8 key themes**

- Corporate Governance
- Financial Management
- Performance Management
- Risk Management
- Asset Management
- Procurement (& Commissioning)
- Programme & Project Management
- Information Management & Technology

## **Stage 2 – Risk Assessment using 3 key factors**

- Materiality
- Inherent Risk
- Audit History

## **Stage 3 – Consult & Approve the Plan**

- Senior Management
- Audit Committee

## **Unplanned Work**

The plan also allows for a contingency for any unplanned work. Unplanned work consists of the investigation of irregularities and prioritised 'consultancy' work. If this contingency number of days is fully utilised and further unplanned work is required it is the intention that planned audit reviews, with the lowest risk rating, will be replaced by the unplanned work activity.

In view of the ever changing environment in which Local Government exists the Plan will be reconsidered at regular intervals to confirm that the remaining work planned is still appropriate. This process will be carried out in consultation with Senior Management and in particular the S151 Officer who acts as the principal client for the function.

## **Methodology:**

### **Individual Audit Reviews:**

At the commencement of each Audit Review, an Audit Brief (**Annex A**) will be prepared and issued to the relevant Head of Service/Director and responsible Manager. This Brief will identify the objectives of the review and areas to be covered. This Brief will be subject to agreement between the client (Council Service) and the auditor.

At the conclusion of each review, an end of review meeting will be held with the client (usually Service Manager) to discuss the matters arising. The Head of Service/Director may be involved at this stage. Wherever possible this meeting will occur before a 'draft' audit report is produced.

Following the conclusion of the audit review work a 'draft' audit report will be issued to Management. The report will provide a graded 'Assurance Level' (see ANNEX B); a summary of identified strengths & weaknesses; and a detailed action plan recording weaknesses and recommendations.

The nominated responsible Manager is required to respond to the audit findings and recommendations and prepare an action implementation plan recording responsible officers and timescale for implementation.

The management comments and implementation plan are compiled into a 'final' version of the report. This is issued to the recipients of the 'draft' version and the Head of Service/Director. It should be noted that the relevant Strategic Director and Audit Committee will be informed of the outcome of any work which falls into a level 1 rating.

### **Audit Review 'Follow-Ups':**

Internal Audit reports / recommendations are subject to "follow-up". The objective of this process is to ensure actions are implemented within the agreed timescales.

All recommendations are subject to 'follow-up'. The process is dependent on the risk classification of the weaknesses / recommendations. For all 'Low' and 'Medium' risk recommendations, management are required to confirm implementation of actions. For all 'Critical' and 'High' risk recommendations Internal Audit will carry out testing to confirm implementation.

The findings of Audit Review 'Follow-Up' will be reported to the relevant manager(s) and Head of Service/Director. As stated above the relevant Strategic Director will be informed of the outcome of this work where there is a level 1 rating.

### **Investigation of Fraud & Corruption:**

Senior Management have the primary responsibility for the prevention and detection of fraud and other financial irregularities. Internal Audit will however ensure it provides a lead in supporting management in this area, including design of appropriate strategies, policies and levels of control and will be alert in all their work to the possibility of theft, fraud, corruption and bribery.

Members of staff working within the Council are required to report any possible wrongdoing. Internal Audit will provide a professional response to any such reports received. In this respect, attention is drawn to the Council's own Anti-fraud & Corruption and Whistle blowing policies.

Internal Audit will conduct all investigations relating to fraud and corruption and do so according to professional standards, all applicable legislation and internal policies and procedures relating to staff conduct and the disciplinary process.

## ANNEX A - AUDIT BRIEF

• <b>Title</b>	{Title}	
• <b>Purpose of Review</b>	To review the risks and internal controls related to the scope of the audit (detailed below) and provide management with an opinion on the adequacy of the framework of internal control.	
• <b>Scope of Review</b>	The audit will review the following key risks/control objectives: <ul style="list-style-type: none"> <li>• Ensure.....</li> <li>• Ensure.....</li> <li>• Ensure.....</li> </ul>	
• <b>Key Stages of Review Process</b>		
• <b>Timeframe</b>	<b>Fieldwork Starts:</b> {Date}	<b>Draft Report:</b> {Date}
• <b>Key Contacts</b>	<b>Lead Auditor:</b> {Name}	<b>Lead Client:</b> {Name}
• <b>Service Charter &amp; Professional Standards</b>	Our customer service charter outlines what you can expect from us and what in turn we need from you to complete this audit. All audit work is reported to and monitored by the Audit Committee. All audit work complies with Public Sector Internal Audit Standards.	

## Audit Opinions

### ***Assurance Level 5 (Excellent)***

The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary.

### • ***Assurance Level 4 (Good)***

The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary.

### • ***Assurance Level 3 – (Satisfactory)***

The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.

### • ***Assurance Level 2 – (Weak)***

The systems of internal control are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce risk exposure.

### • ***Assurance Level 1 – (Poor)***

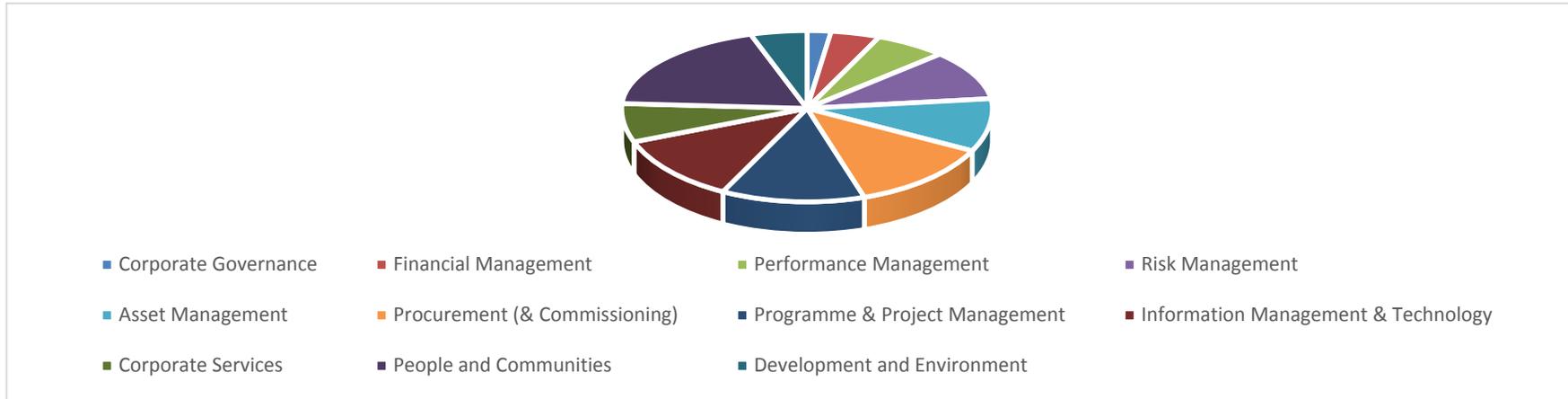
The systems of internal control are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee.

## Contact Details

<b>Head of Audit West –</b>	Jeff Wring 01225 477323 <a href="mailto:jeff_wring@bathnes.gov.uk">jeff_wring@bathnes.gov.uk</a>  01275 884459 <a href="mailto:jeff.wring@n-somerset.gov.uk">jeff.wring@n-somerset.gov.uk</a>
<b>Audit Manager (B&amp;NES)</b>	Andy Cox 01225 477316 <a href="mailto:andy_cox@bathnes.gov.uk">andy_cox@bathnes.gov.uk</a>
<b>Audit Manager (North Somerset)</b>	Peter Cann 01275 884750 <a href="mailto:Peter.cann@n-somerset.gov.uk">Peter.cann@n-somerset.gov.uk</a>
<b>Business Development Manager</b>	Steve DeBruin 01225 477043 <a href="mailto:Steve.debruin@n-somerset.gov.uk">Steve.debruin@n-somerset.gov.uk</a>
<b>Address</b>	Audit West Resources The Guildhall High Street BATH, BA1 5AW

## 6. Audit Plan – 2017/18

Reasonable Assurance Model Assessment –



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HIGH					
	FINANCIAL MANAGEMENT	ASSET MANAGEMENT	PROGRAMME & PROJECT MANAGEMENT		
	CORPORATE GOVERNANCE	INFORMATION MANAGEMENT & TECHNOLOGY	PROCUREMENT (& Commissioning)		
		RISK MANAGEMENT			
		PERFORMANCE MANAGEMENT			
	<b>LEVEL OF ASSURANCE</b>				
	HIGH				LOW

## AUDIT PLAN AREAS –

Audit Area	Reasonable Assurance Theme	Directorate	Joint Work with NSC
Asset Planning	Asset Management	Resources	Yes
Council Companies - Governance	Corporate Governance	Resources	
Your Care Your Way - Transition of Service Provision - Governance / Systems (Liquid Logic)	Corporate Governance	People	
Pension Investments (Project Brunel)	Corporate Governance	Resources	
IR35 Compliance	Financial Management	Resources	
Bath Quays (North) - Expenditure	Financial Management	Place	
Salary Sacrifice (certification)	Financial Management	Resources	
Heritage - Financial Reporting & Monitoring	Financial Management	Place	
Liquid Logic - Client Charges	Financial Management	Resources	Yes
Liquid Logic - Payments to Providers	Financial Management	Resources	
Pension Administration - Benefit Calculations	Financial Management	Resources	
Libraries - Consortium Contract Management	Financial Management	Resources	
iTrent / Payroll - Casual and overtime claims / mileage and expenses	Financial Management	Resources	
sickness	Financial Management	Resources	
GLL Contract Management	Financial Management	Place	
Data Analytics	Financial Management	Resources	Yes
INDR Debt Recovery	Financial Management	Resources	
iTrent / Payroll - Payroll Reconciliation	Financial Management	Resources	
Allocation of Funding and Expenditure Certification & Reporting	Financial Management	People	
Housing Services - Disabled Facilities Grants	Financial Management	Place	
Registrars - Income Reconciliation	Financial Management	Resources	
Section 106 - Expenditure Records	Financial Management	Place	
Your Care Your Way - Data Management	IM&T	People	
IT - Physical Security	IM&T	Resources	Yes
Business Continuity & Disaster Recovery	IM&T	Resources	Yes
Information Governance - General Data Protection Regulation - Readiness Assessment	IM&T	Resources	
Asset Management - Hardware (Maintenance)	IM&T	Resources	Yes
School Theme - Procurement / Purchasing Arrangements	Procurement	People	
Purchasing Cards - Policy / Data Analytics	Procurement	Resources	Yes
Waste Service	Procurement	Place	
Your Care Your Way - Project Plan Implementation	Programme & Project Management	People	
Bath Quays (South) - Governance	Programme & Project Management	Place	
Project Initiation Document Process	Programme & Project Management	Resources	
Your Care Your Way - Contract Management	Risk & Performance Management	People	

<b>Audit Area</b>	<b>Service or Reasonable Assurance Theme</b>		<b>Joint Work with NSC</b>
School Transport - Special Education Need Disability Pupils	Risk & Performance Management	People	Yes
Bus Gate Enforcement	Risk & Performance Management	Place	
Fleet Management Traded Service	Risk & Performance Management	Place	
Foster Care	Risk & Performance Management	People	
Energy - Governance / Structure of Service Provision	Risk & Performance Management	Resources	
Children Safeguarding - Child Referrals	Risk & Performance Management	People	
Delivery of Council Savings Programme	Risk Management	Resources	
Pensions Payroll (System Upgrade)	Financial Management	Resources	
Pensions - Code of Practice 14	Corporate Governance	Resources	
Pension Administration - Employer Contributions	Financial Management	Resources	
Grant Certification - Connecting Families	Financial Management	People	
Independent Examiner - Alice Park Trust	Financial Management	Place	
Annual Governance Statement Review	Corporate Governance	Resources	
Counter Fraud	Corporate Governance	Resources	Yes
Schools Financial Value Standards Certification	Corporate Governance	Resources	
Follow- Ups, including:			
<i>Community Transport</i>	Financial Management	Place	
<i>Property Repairs &amp; Maintenance</i>	Financial Management	Resources	
<i>Traffic Regulation Orders</i>	Financial Management	Place	
<i>Pro-Contract</i>	Procurement	Resources	
<i>Accountable Body – Funding Claims &amp; Achievement of Deliverables</i>	Financial Management	Resources	
<i>Accountable Body – One Front Door &amp; Expenditure Scheduling</i>	Financial Management	Resources	
<i>Economic Growth</i>	Financial Management	Place	
<i>Heritage - Contract Management</i>	Risk & Performance Management	Place	
<i>Pension Fund - Governance</i>	Corporate Governance	Resources	
<i>Leisure Provision</i>	Financial Management	Place	
<i>Direct Payments</i>	Financial Management	Resources / People	
<i>Digital B&amp;NES</i>	Programme & Project Management	Place	
<i>Street Works</i>	Financial Management	Place	
<i>IT - Remote &amp; Mobile Working</i>	IM&T	Resources	
<i>Care at Home – Contract Management</i>	Risk & Performance Management	People	
<i>Housing Allocations (Home Search)</i>	Risk Management	Place	
<i>Independent Living Scheme</i>	Financial Management	People	
<i>Pension Fund – Administration (Benefits &amp; Lump Sum Payments)</i>	Financial Management	Resources	
<i>S106 / Community Infrastructure Levy</i>	Financial Management	Place	
<i>Bus Gate Enforcement</i>	Financial Management	Place	

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<b>Bath &amp; North East Somerset Council</b>		
MEETING:	Corporate Audit Committee	
MEETING DATE:	13 <sup>th</sup> April 2017	<b>AGENDA ITEM NUMBER</b>
TITLE:	Annual Report – Corporate Audit Committee	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
<b>Appendix 1 – Annual Report 2015/16</b>		
<b>Appendix 2 – Audit Committee Terms of Reference</b>		

## **1 THE ISSUE**

1.1 The Corporate Audit Committee has specific delegated powers given to it from Full Council and as such is required to report back annually to Council under its Terms of Reference.

1.2 This reports details the arrangements for the production of the report for 2016/17.

## **2 RECOMMENDATION**

Corporate Audit Committee is asked to agree that:

2.1 The Annual Report of the Corporate Audit Committee is delegated to the Chair of the Committee for approval subject to comments from Committee Members;

2.2 The current terms of reference of the committee are appropriate and no changes are proposed.

## **3 FINANCIAL IMPLICATIONS**

3.1 There are no direct financial implications relevant to this report

## **4 CORPORATE PRIORITIES**

4.1 Completion of the Corporate Audit Committee’s work assists the organisation in efficiently and effectively contributing to the Council’s priorities.

## 5 THE REPORT

- 5.1 The Audit Committee is required to provide an annual report of its work to full council and Appendix 1 details last year's annual report since it was established by the Council on 12 May 2005. It reviews the work done by the Committee over the past 12 months, its future work plan, membership and support of the Committee.
- 5.2 It is proposed that as with past years a draft annual report is prepared by the Head of Audit West and then shared with the Chair of the Committee for approval. Once this is done it will be shared by email with all members of the committee for final comments prior to its submission at the September Council
- 5.3 As part of the annual review process the committee should also review its terms of reference and key areas of responsibility and agree that they are still considered appropriate and these are attached at Appendix 2.
- 5.4 Whilst the Committee's work in 2017/18 will be broadly similar to the year recently ended it will keep under close review a number of key issues including the financial resilience of the organisation through its framework for managing risk and governance, future contracting arrangements for External Audit and any impact of early closure arrangements for the Accounts.

## 6 RISK MANAGEMENT

- 6.1 A proportionate risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.
- 6.2 The Corporate Audit Committee has specific responsibility for ensuring the Council's Risk Management and Financial Governance framework is robust and effective.

## 7 EQUALITIES

- 7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

## 8 CONSULTATION

- 8.1 The report was distributed to the S151 Officer for consultation.

<b>Contact person</b>	<i>Jeff Wring (01225 477323)</i>
<b>Background papers</b>	<i>None</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	



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## Appendix 1

### CORPORATE AUDIT COMMITTEE

#### ANNUAL REPORT TO COUNCIL 2015/16

##### 1. INTRODUCTION

This is the eleventh annual report of the Committee since it was established by the Council on 12 May 2005. It covers the work done during the year September 2015 to June 2016.

##### 2. REVIEW OF WORK DONE IN 2015/16

###### **a. Financial Governance – Annual Accounts**

- i. The Committee approved on behalf of the Council an unqualified set of accounts for the year ended 31 March 2015 within the statutory deadline. This included the accounts for the Pension Fund.
- ii. The Committee then considered the formal governance reports for the Council and Pension Fund submitted by the external auditors (Grant Thornton) on their audit of the accounts.
- iii. The Council report highlighted some presentational and technical changes to the accounts and recommendations to improve the Asset registers for accounting purposes. However there were no proposed changes to the General Fund Balances and Reserves. The auditors also noted that the accounts were presented promptly and that they were supported by good quality working papers.
- iv. The report on the Pension Fund Accounts highlighted that the financial statements were produced to a good standard, supported by good quality working papers and there were no material adjustments to the accounts.
- v. Both Governance reports were therefore noted and the audit of the accounts formally completed.

###### **b. Financial Governance – Treasury Management**

- i. The Committee considered the Treasury Management Outturn for 2014/15 which concluded that all prudential indicators were in line with projections and that the average rate of investment return was 0.42% which is 0.02% above the benchmark rate.
- ii. In addition the committee received an update report six months into the 2015/16 year which showed an average rate of investment return of 0.47% which is 0.06% above the benchmark rate and all actions on target in line with the strategy..
- iii. Finally the Committee received an extensive briefing from its Treasury Management advisors – Arling Close – on the state of the economy, the

## Appendix 1

Council's role and the various mechanisms we can use to maximise financial returns. Managing the level of risk and return also featured heavily alongside the essential role of Members in scrutinising our strategy.

- iv. Members then reviewed the Treasury Management and Annual Investment Strategy for 2016/17. This set out the treasury limits in force, treasury management indicators, current position, borrowing requirement, prospects for interest rates and the borrowing and investment strategies.
- v. The committee agreed that current performance is good despite this being a very difficult and challenging arena due to the uncertainties within the global financial economy and therefore scrutiny will continue to be important to ensure Council resources are invested wisely

### **c. External Audit -**

- i. Alongside the audit of the accounts for 2014/15 the external auditor also conducted work in relation to concluding a satisfactory VFM opinion for the Council following assessments of our financial resilience, economy, efficiency and effectiveness and a broadly satisfactory review of our four main grant returns.
- ii. The external auditor also presented their new audit fees for the Council and Pension Fund as well as their audit plans for 2015/16. No significant variances were proposed from the previous audit approach and update reports on their work continued to be presented to the Committee alongside references to key national reports and reviews which could impact on the governance framework.

### **d. Corporate Governance –**

- i. The Accounts and Audit Regulations require the Council to carry out an annual review of its governance arrangements, and to produce an annual statement detailing the results of that review. In addition there was a review of progress against actions identified in the 2014/15 statement.
- ii. In relation to the 2015/16 review, two reports were received to introduce the Committee to their role and the overall process of the review.
- iii. It was pleasing to note that no significant issues were identified for 2015/16 which is a positive sign of an effective internal control environment. The formal statement is then to be signed by the Leader of Council and Chief Executive prior to the statutory deadline.
- iv. During the year the Committee also received a report on proposed changes to the Council's Financial Regulations and Contract Standing Orders including those affecting Schools and the Committee recommended them on for formal approval by Council.

## Appendix 1

### **e. Internal Audit –**

- i. The Committee received a report on a new approach to the preparation of the Audit Plan – the reasonable assurance model – which looked at eight core themes of an organisation. It was supportive of this new methodology as well as the new style and presentation of the plan which demonstrated the linkages between the Council's priorities and the different elements of the Council's internal control framework.
- ii. The Committee was satisfied with the balance of the plan in relation to the Council's key corporate risks as well as the mix of its planned projects, unplanned commissions and follow-up of previous reports.
- iii. In relation to performance the Committee commended the service on its performance against the plan with almost 94% of the plan completed as at the end of 2015/16 – a significant increase on the previous year - alongside a number of other key indicators such as customer satisfaction and the level of productivity.
- iv. The committee noted the annual opinion on the internal control framework and that with increased pressure on budgets, choices on the degree of internal control had to be made and there was therefore an imperceptible rise in the level of the risk being accepted.
- v. Updates were also received around the new 'Audit West' partnership arrangements with the new integrated service formally in operation under a five year contract. All staff have now successfully integrated into a single structure and benefits were well in advance of original projections.
- vi. The potential to now build on these arrangements is already being realised with new audit methodologies introduced, significant productivity gains through simplification and use of one single process across partners and increased use of areas such as Data Analytics to maximise the sharing of resources.
- vii. The committee was pleased to see the new arrangements working effectively and remains keen to support further progress so that the partnership continues to deliver value to the Council.

### **f. Counter Fraud -**

- i. The Committee considered the annual plan for pro-active work in reducing and eliminating fraud and corruption within the Council's activities and monitored progress.
- ii. The Committee were pleased to hear of the significant and positive progress in reducing fraud, loss and error in a range of areas including Business Rates and Housing & Council Tax Benefits. The committee commended the officers on their progress and supported further activity.

## Appendix 1

### **g. Awareness & Briefings**

- i. Updates and briefings continue to be a strong part of the Committee's approach to raising awareness of key governance issues with members and several additional briefings were given this year which included -
  - Role of Audit Committee
  - Role of S151 Officer
  - Internal Audit
  - External Audit
  - Treasury Management
  - Risk Management
  - Annual Accounts
- ii. This approach continues to be welcomed and has resulted in constructive and valuable debate of individual topic areas which will continue in 2016/17.

### **h. Review of Terms of Reference**

- i. As part of good practice a high level desktop review was undertaken of the Committee's Terms of Reference against CIPFA's best practice model for Audit Committees. Areas previously highlighted included independent support and training and development.
- ii. In relation to independent support the committee has already tackled this through the adoption of a co-opted independent member and the level of independence to the committee will be kept under review.

## **3. WORK PLAN FOR 2016/17**

- i. Whilst the Committee's work in 2016/17 will be broadly similar to the year recently ended it will keep under close review a number of key issues –
  - a) Financial resilience of the organisation;
  - b) Future contracting arrangements for External Audit;
  - c) Early closure arrangements for the Accounts and its implications;

## **4. MEMBERSHIP AND SUPPORT**

- i. Following the elections in May 2015 a new Chair was selected Councillor Brian Simmons and two new Councillors – Chris Dando and Chris Pearce – were appointed to the Committee.
- ii. The Committee is supported by a number of officers notably the Head of Audit West and the Chief Financial Officer who leads on financial issues through his S151 role.
- iii. The external auditors are currently represented by an Engagement Lead and Audit Manager from Grant Thornton.

## **Appendix 2 – Corporate Audit Committee Terms of Reference**

The Council delegates to the Corporate Audit Committee the following responsibilities:

1. To approve on behalf of the Council its Annual Accounts, as prepared in accordance with the statutory requirements and guidance;
2. To approve the External Auditors' Audit Plan and to monitor its delivery and effectiveness during the year;
3. To approve the Internal Audit Plan within the budget agreed by the Council and to monitor its delivery and effectiveness (including the implementation of audit recommendations);
4. To consider, prior to signature by the Leader of the Council and Chief Executive, the Annual Governance Statement (including the list of significant issues for action in the ensuing year), as prepared in accordance with the statutory requirements and guidance; and to monitor progress on the significant issues and actions identified in the Statement;
5. To review periodically the Council's risk management arrangements, make recommendations and monitor progress on improvements;
6. To review periodically the Council's key financial governance procedures, i.e. Financial Regulations, Contract Standing Orders, Anti-Fraud & Corruption Policy and to recommend any necessary amendments;
7. To consider the annual Audit & Inspection Letter from the External Auditor and to monitor progress on accepted recommendations;
8. To monitor and promote good corporate governance within the Council and in its dealings with partner bodies and contractors, including review of the Council's Code of Corporate Governance and in any such other ways as the Committee may consider expedient (within the budget agreed by the Council);
9. To consider and make recommendations of any other matters relating to corporate governance which are properly referred to the Committee or which come to its attention;
10. To make an annual report to council on the work [and findings] of the Committee, including (if necessary) any measures necessary to improve the effectiveness of the Committee.

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