

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Tuesday, 12th September, 2017, 2.00 pm

Councillors: Brian Simmons (Chair), Barry Macrae, Christopher Pearce and Richard Samuel (in place of Andrew Furse)

Independent Member: John Barker

Officers in attendance: Donna Parham (Divisional Director - Business Support), Jeff Wring (Head of Audit West) and Andy Cox (Audit Manager (Audit West))

Guests in attendance: Barrie Morris (Grant Thornton) and Kevin Henderson (Grant Thornton)

146 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

147 ELECTION OF VICE-CHAIR

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

148 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Chris Dando and Cllr Andrew Furse. Cllr Richard Samuel substituted for Cllr Furse.

149 DECLARATIONS OF INTEREST

There were none.

150 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair reported that this was the last meeting of the Committee that Mr Henderson would attend. Members thanked him for the work he had done on behalf of the Council and wished him well for the future.

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

There were none.

152 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

153 MINUTES: 13TH APRIL 2017

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

154 HOUSING SUBSIDY BENEFIT UPDATE

The Divisional Director – Customer Services presented the report.

He said that the amount of Housing Benefit paid out was reducing as working age claimants were moved on to Universal Credit. However, it was estimated that £38.8m would still be paid out in Housing Benefit this year. Housing Benefit was a complex area; the Government had already issued seven circulars this year changing the rules. At one point last year it did seem that Bath and North East Somerset would exceed the LA error threshold and lose subsidy. This was because the Council's document management system had been changed, and evidence could not be produced to substantiate a number of original claims. However, subsequent work done with the DWP and the Council was able to show that though some original records were not available, this did not cast doubt on the accuracy of the claims, so the Council remained under the threshold.

He outlined the safeguards implemented to reduce the risk of subsidy loss through errors in future. These are detailed in section 5 of the report. He could not give assurance that the issues had been fully resolved, but measures had been put in place to make errors less likely. The administration of Housing Benefits would remain a risk to the Council: Housing Benefit administration was not a career that most new Council employees would wish to follow, and it was not known when migration to Universal Credit would be completed.

A Member noted the statement in the Divisional Director's letter to DWP (agenda pages 17-18) that only one of the undocumented claims would have resulted in an error. He suggested that it was hardly worth worrying about such a tiny amount. Mr Morris replied that the external auditors had extrapolated a sum for overpayments and underpayments based on sample testing. The Member replied that he remained concerned about the amount of time and effort expended to identify such small errors.

A Member said that he believed at this time of unprecedented financial stringency the Council should take the possible loss of subsidy very seriously. The Divisional Director of Customer Services agreed. A lot of work was being done to identify overpayment of Housing Benefit and underpayment of subsidy. The Council is able to recover overpayments. The Council's Housing Benefit system had been overhauled and staff from other Councils came to see how it had been done. It was recognised that some claimants had difficulties with completing online forms. Some returned paper forms late. A lot of time was spent with claimants at the front end to ensure that the Council had correct information.

A Member asked about staff training and the input of DWP into training. The Divisional Director of Customer Services replied that the service had a dedicated training officer, and there were also a number of experts within the team, so a lot of training was designed in house. Other Councils had been interested in the training provided by B&NES. Mr Henderson had provided training on managing subsidy. Staff attended forums where best practice was shared. A joint training course with DWP staff about the implementation of Universal Credit had been attended by all frontline staff. The Member asked whether sufficient resources were available to develop training. The Divisional Director for Customer Services replied that Government grants to administer Housing Benefits were decreasing year on year, so

resourcing was an issue. Another issue was that it was difficult to recruit people with relevant expertise, because it was not an attractive career choice for people. It was also difficult to find the time for training. The Member asked whether there was a proactive training plan to ensure that staff were equipped with relevant skills to deal with issues that might arise, rather than only historic issues. The Divisional Director for Customer Services said there was. Two members of the team provided briefing to staff on changes to rules. If training was appropriate, this would be done proactively rather than reactively.

A Member asked why there was no documentation for a number of claims. The Divisional Director for Customer Services explained that when the new document management system was introduced, for some reason some records had not been copied across from the old system to the new. This had not been noticed at the time. All those 2,500 cases had been reviewed. A report was now run regularly on all cases, which revealed any cases where information was missing. Replying to a question from a Member he said that the amount of Housing Benefit paid out had reduced by something like 35-36% since May 2016 when the migration to Universal Credit had begun.

RESOLVED to note the report and to note with pleasure the progress made.

155 ACCOUNTS AND AUDIT FINDINGS REPORT

The Head of Corporate Finance gave a presentation on the structure of the 2016/17 accounts and future changes. A copy of his PowerPoint slides is attached as an appendix to these minutes.

The Head of Audit West presented the Annual Governance Statement 2016/17 (agenda pages 192-201), which forms part of the Annual Statement of Accounts. The financial challenge (pages 200-201) would remain the significant governance issue for the Council.

Mr Morris and Mr Henderson presented the audit findings report for the Council. There were no significant issues arising from the audit and an unqualified opinion had been given. All papers were up to a reasonable standard. He commended officers for achieving this on the new accelerated timetable for producing the accounts. The audit could not be formally concluded and an audit certificate issued until work necessary to issue the Whole of Government Accounts Component Assurance statement for the Authority for the year ended 31 March 2017 had been completed and until the final version of the Pension Fund Annual Report had been reviewed, as mentioned below.

In reply to a question from a Member about continuing financial pressures, the Divisional Director – Business Support replied that a budget monitoring report and a new medium-term financial strategy looking five years ahead would be presented to the Cabinet in October. It was certain that the financial challenge would not lessen any time soon.

The Chair asked whether it was normal for third parties not to respond to requests from the external auditors (issue 5 on agenda page 37 “confirmation requests from third parties”). Mr Morris replied that difficulties with some third parties had year. Responses had been chased up, but some had still not responded in time, so

alternative procedures had been undertaken to achieve assurance as stated in commentary to that item. Mr Henderson said that the third parties who had been slow to respond included other local authorities.

The Chair asked whether the forthcoming changes to data protection regulations would affect the external auditor's access to information. Mr Morris said they would be compliant, as they had robust confidentiality protection in place on all their systems and he did not envisage that there would be any impact on their audits.

The Chair asked about progress with action 2 on agenda page 52 (review of number of administrative staff and maintenance of separation of duty principles). The Divisional Director – Business Support said this action required consultation with the relevant managers. She noted that implementation of this was not required until November. She said she would check the position and report back.

Mr Morris presented the audit findings for the Avon Pension Fund. He drew attention to the finding that employee contribution banding rates were being incorrectly applied in one organisation. The Pension Fund Annual Report is not required to be published until 1st December. The external auditors had been provided with the draft report and had found no material inconsistencies between it and the audited financial statements. However, the external auditors were unable to certify completion of the audit until a review of the final version of the Annual Report has been completed. One instance had been found of an employee of a small organisation in the Fund whose contribution rate had remained unchanged since 2012, despite new bands and rates being introduced from April 2014. Additional testing of contributions calculations had been carried out across the larger employers in the Fund, and no further occurrences had been identified.

The Chair asked about the difference between Level 1, 2 and 3 investments. Mr Morris replied that Level 1 investments were those traded in an open market, Level 2 investments were those that could be traded but were not publicly quoted, including property and Level 3 investments were those not readily tradable in a market, such as shares in a private company. Some funds were mixed, so it was necessary to examine the separate baskets of investment in the fund and value it by combing the prices of the separate baskets.

Mr Morris drew attention to the Letters of Representation for the Council and the Avon Pension Fund (agenda pages 207-13) and invited the Committee to approve them.

A Member proposed that the Committee should thank officers for their hard work in producing a set of accounts in which the auditors had found only a few inaccuracies. This was agreed unanimously.

RESOLVED:

1. to note the issues contained within the Audit Findings Reports for the Council and the Avon Pension Fund;
2. to approve the audited Statement of Accounts, including the Annual Governance Statement and Letter of Representations for Bath and North East Somerset Council and the Avon Pension Fund for 2016/17.

156 TREASURY MANAGEMENT OUTTURN 2016/17

The Head of Corporate Finance presented the report. He reminded Members that this report had already been considered by Full Council on 13th July 2017 and was being brought to the Committee because of its scrutiny function.

Members asked questions and commented on the report.

After discussion it was **RESOLVED**:

1. to note the 2016/17 Treasury Management Report to 31st March 2017, prepared in accordance with the CIPFA Treasury Code of Practice;
2. to note the 2016/17 Treasury Management Indicators.

157 LOCAL CODE OF CORPORATE GOVERNANCE

The Head of Audit West presented the report.

A Member said that it would have been helpful if the revised code could have shown the differences from the previous version.

A Member noted that recently a complex arrangement had been proposed to create a holding company between the Council and its trading companies. This structure would place all power in holding company into the hands of Executive Members and Officers. There would be absolutely no involvement of opposition parties. The proposal had not come to the Corporate Audit Committee, even though the holding company would control a large part of the Council's expenditure. He could not see how this could be reconciled with the aim in the third bullet point on agenda page 234 that there should be "clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities". The Head of Audit West replied that the holding company proposal did not fall directly within the terms of reference of the Corporate Audit Committee. As he understood the proposal, it was not about creating companies, but about exercising control over the activities of the Council's trading companies. The Local Code of Corporate Governance was about the principles the Council and its contractors should be applying in their activities. Another Member pointed out that the Local Code of Corporate Governance would apply to the holding company, which would be part of the Council.

RESOLVED to recommend the revised Local Code of Corporate Governance for adoption by full Council at its next formal review of the Constitution.

158 PROCUREMENT UPDATE - EXTERNAL AUDIT

The Head of Audit West presented the report. He reminded Members that the Council, like the vast majority of Councils, had opted into the Public Sector Audits Appointments Limited auditor appointment arrangements. PSAA had recently written to the Council that following a procurement process it proposed to appoint the existing Council's existing auditor, Grant Thornton, as the Council's auditor for a period of five years from

April 2018. The Council's S151 Officer had been asked to confirm the appointment by 22 September 2017. The Committee was invited to support the proposal.

RESOLVED to support the recommended option for the future procurement of External Auditors to the Council by PSAA Ltd.

The meeting ended at 4.03 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

Audit Committee Briefing

Overview of the Accounts

September 2017

- » **2016/17 Areas of Change**
- » **Future Changes**
- » **The Main Statements**
- » **Annual Governance Statement**
- » **Audit Findings**

2016/17 Changes

» “Telling The Story” Review changes

- » Removal of link to “Service Reporting Code of Practice” (SeRCOP) on face of Comprehensive Income & Expenditure Statement (CIES)
- » CIES Cost of Service now reported under same categories as used for decision making process (i.e. Cabinet Portfolios)
- » Support Services no longer required to be recharged / absorbed across service headings in the CIES.
- » Introduction of Expenditure & Funding Analysis (EFA) – reconciles annual expenditure & funding relating to actual Council resources from the expenditure & funding derived from accounting practices.

Future Changes

» **Transport Infrastructure Assets**

- » CIPFA has announced the postponement of implementing Depreciated Replacement Cost (DRC) measurement rather than historic cost. (Previously required for 2016/17 accounts). Future requirement uncertain at present.

» **Faster Closing Requirements**

- » Accounts & Audit Regulations for 2017/18
 - » Certification of Draft Accounts – 31 May.
 - » Approval and Publication of Audited accounts - 31st July.
- » Practise run for 2016/17 – Draft Accounts certified on 30th May!

The Main Statements

» **Comprehensive Income & Expenditure Statement (CIES) – (Pg15 / 99)**

- » Summarises the resources that have been generated and consumed in providing services and managing the Council during the year
- » **Expenditure on Services** - Variances across service net expenditure mainly due to changes in asset valuation and other capital accounting charges which are made to services;
- » **Other Operating Expenditure** - increase due to loss on disposal of fixed assets in 2016/17, mainly due to Academy conversions;
- » **Financing & Investment I&E** – change compared to 2015/16 reflects higher valuation gains on Commercial Estate in 2015/16, mainly due to indexation;

The Main Statements

- » **Comprehensive Income & Expenditure Statement (CIES) – (continued)**
 - » **Surplus on Upward Revaluations of Non-current Assets** – mainly due to uplift of Other Land & Buildings & Heritage Asset valuations;
 - » **Re-measurement of the net defined benefit liability** – reflects increase in Pensions Liability arising from changes in the actuary's assumptions used in the latest revaluation;

The Main Statements

» **Movement in Reserves Statement (MiRS) – (Pg16 / 100)**

- » Shows the movement in the year on different reserves held by the Council. (Usable / Unusable Reserves)
- » Net £13.4m Transferred from Earmarked Reserves, to fund relevant areas of 2016/17 expenditure and increase Unearmarked Reserve level. Examples include Financial Planning Reserve, DSG Reserve, Restructuring & Severance Reserve, and Social Care & Health Reserve.
- » Unusable Reserve decrease of £96.5m reflects increases in future Pension Liabilities, owing to changes in the actuary's assumptions in valuing the liability and Statutory Capital accounting movements.

The Main Statements

» **Balance Sheet – (Pg 17 / 101)**

- » Shows the assets and liabilities of the Council as a whole as at 31st March
- » **Land & Buildings** – net £11m reduction mainly to disposals, largely related to academy school transfers.
- » **Assets Under Construction** – £6m increase due to capital work in progress, examples include Ensleigh School and the Bath Quays project including flood mitigation works.
- » **Heritage Assets** – £7m increase due to valuation gains, particularly the Pump Rooms & the Minerva's Head sculpture.
- » **Short Term Investments / Cash & Cash Equivalents** – transfer between them due to some very short term investments being classed as Cash Equivalents in 2015/16.
- » **Short Term & Long Term Borrowing** – change reflects profile of new borrowing taken in year.

The Main Statements

- » **Balance Sheet – (Pg 17 / 100) - continued**
 - » **Other Long Term Liabilities** – increase due to higher Pension liability arising from changes in the Actuary’s assumptions.
 - » **Unusable Reserves** – decrease to reflect the higher long term Pension liability charged against the Pensions Reserve and statutory capital accounting charges taken to the Revaluation Reserve & Capital Adjustment Account.

The Main Statements

» Cash Flow Statement (Pg 18 / 102)

- » Summarises the inflows and outflows of cash arising from external transactions for both capital and revenue transactions.
- » Operating Activities – various movements including higher amount of receipts from asset disposals than in the previous year.
- » Investing & Financing Activities – reflects higher capital spend compared to previous year and increase in ST investments .
- » Cash & Cash Equivalents – change reflects maturity profile of investments held at 31st March – reduction of £15m to £23m.

The Main Statements

» **Collection Fund (Pg 80 / 164)**

- » Shows the transactions of the billing authority in relation to collection from taxpayers of Council Tax and Business Rates and its distribution to preceptors and Central Government.

- » Collection Fund Deficit on Business Rates is due to impact of backdated appeals settled by the VOA and having to increase the provision in respect of outstanding supermarket and other retail appeals.

- » The Council holds a Business Rate Reserve to help manage these risks.

Annual Governance Statement

- » **Background (Page 108 of Accounts)**
- » Paper to March Audit Committee setting out process and timetable - It is a Management Statement – but Audit Committee oversee process and it is included in Accounts.
- » Statement is signed by Chief Executive and Leader of Council
- » **What would a Significant Issue look like?**
- » Significant failures in decision making at Council or Executive
- » Significant unexpected use of Resources
- » Significant performance failings or failures in service delivery
- » Significant issues from inspections, audits, complaints etc
- » Significant issues failures in respect of statutory duties
- » Significant issues from operational issues and third parties

Annual Governance Statement

- » **Outcome of Review for 2016/17** –
- » No **significant** governance or other failings that satisfy criteria
- » There is significant risk however and there were issues which affected the council (**not failures**). Such as
- » Scale of Financial Challenge & no end to Grant reductions
- » Continued spend pressures on Adults & Children’s Services
- » Impacts of WOE Devolution & WECA
- » Major developments such as East of Bath Park & Ride
- » Your Care Your Way Contract
- » Increase in Cyber-Security, phishing and scam Attacks
- » **SMT Recommendation** –
- » **Include one issue around the Scale of Financial Challenge**

Audit Findings

- » **Unqualified opinion given on the Accounts**
- » **Some adjustments were required to disclosure notes**
- » **Grant Thornton will cover full audit findings**

Questions ?

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