

Corporate Audit Committee

Date: Tuesday, 5th December, 2017
Time: 2.00 pm
Venue: Kaposvar Room - Guildhall, Bath

Agenda

To: All Members of the Corporate Audit Committee

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

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

Chief Executive and other appropriate officers
Press and Public

The agenda is set out overleaf.



Sean O'Neill

Democratic Services

Lewis House, Manvers Street, Bath, BA1 1JG

Telephone: 01225 39 4435

Web-site - <http://www.bathnes.gov.uk>

E-mail: Democratic_Services@bathnes.gov.uk

NOTES:

1. **Inspection of Papers:** Papers are available for inspection as follows:

Council's website: <https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1>

Paper copies are available for inspection at the **Public Access points:-** Reception: Civic Centre - Keynsham, Guildhall - Bath, The Hollies - Midsomer Norton. Bath Central and Midsomer Norton public libraries.

2. **Details of decisions taken at this meeting** can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting as above.

3. **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 The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. **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. They may also ask a question to which a written answer will be given. **Advance notice is required not less than two full working days before the meeting. This means that for meetings held on Thursdays notice must be received in Democratic Services by 5.00pm the previous Monday.** Further details of the scheme:

<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942>

5. **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 signposted. Arrangements are in place for the safe evacuation of disabled people.

6. **Supplementary information for meetings**

Additional information and Protocols and procedures relating to meetings

<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505>

Cabinet - Tuesday, 5th December, 2017

at 2.00 pm in the Kaposvar Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

The Chair will draw attention to the emergency evacuation procedure as set out under Note 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:12 SEPTEMBER 2017 (Pages 5 - 10)

9. TREASURY MANAGEMENT MID-YEAR PERFORMANCE UPDATE (Pages 11 - 26)

10. EXTERNAL AUDIT UPDATE AND ANNUAL AUDIT LETTER (Pages 27 - 66)

11. INTERNAL AUDIT MID-YEAR PERFORMANCE UPDATE (Pages 67 - 74)
12. INTERNAL AUDIT PROFESSIONAL STANDARDS REVIEW (Pages 75 - 86)

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Tuesday, 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.

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 combining 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

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	5 December 2017	
TITLE:	Treasury Management Monitoring Report to 30 th September 2017	EXECUTIVE FORWARD PLAN REFERENCE: E E2979
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Performance Against Prudential Indicators		
Appendix 2 – The Council’s Investment Position at 30 th September 2017		
Appendix 3 – Average monthly rate of return for 1 st 6 months of 2017/18		
Appendix 4 – The Council’s External Borrowing Position at 30 th September 2017		
Appendix 5 – Arlingclose’s Economic & Market Review Q2 of 2017/18		
Appendix 6 – Interest & Capital Financing Budget Monitoring 2017/18		
Appendix 7 – Summary Guide to Credit Ratings		

1 THE ISSUE

- 1.1 In February 2012 the Council adopted the 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice, which requires the Council to approve a Treasury Management Strategy before the start of each financial year, review performance during the year, and approve an annual report after the end of each financial year.
- 1.2 This report gives details of performance against the Council's Treasury Management Strategy and Annual Investment Plan 2017/18 for the first six months of 2017/18.

2 RECOMMENDATION

The Committee agrees that:

- 2.1 the Treasury Management Report to 30th September 2017, prepared in accordance with the CIPFA Treasury Code of Practice, is noted
- 2.2 the Treasury Management Indicators to 30th September 2017 are noted.

3 RESOURCE IMPLICATIONS

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

4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

4.1 This report is for information only.

5 THE REPORT

Summary

- 5.1 The average rate of investment return for the first six months of 2017/18 is 0.26%, which is 0.10% above the benchmark rate.
- 5.2 The Council's Prudential Indicators for 2017/18 were agreed by Council in February 2017 and performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.

Summary of Returns

- 5.3 The Council's investment position as at 30th September 2017 is given in **Appendix 2**. The balance of deposits as at 30th June 2017 and 30th September 2017 are also set out in the pie charts in this appendix.
- 5.4 The Council was the accountable body for the West of England Revolving Investment Fund (RIF) and Local Growth Fund. This function has now transferred to the West of England Combined Authority (WECA) and all balances also transferred.
- 5.5 Gross interest earned on investments for the first six months totalled £44k. Net interest, after deduction of amounts due to Schools, Local Growth Fund and other internal balances, is £31k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.26%, which was 0.10% above the benchmark rate of average 7 day LIBID +0.05% (0.16%).

Summary of Borrowings

- 5.6 The Council's external borrowing as at 30th September 2017 totalled £167.5million and is detailed in Appendix 4. £9.5m of new borrowing was arranged during the quarter to the fund the acquisition of an investment property, being £7m long term PWLB annuity borrowing and £2.5m at 0.41% for 12 months pending capital receipt.
- 5.7 The Council's Capital Financing Requirement (CFR) as at 31st March 2017 was £200.1 million with a projected total of £338 million by the end of 2017/18 based on the capital programme approved at February 2017 Council. This represents the Council's underlying need to borrow to finance capital expenditure, and demonstrates that the borrowing taken to date relates to funding historical capital spend.
- 5.8 The CFR represents the underlying need to borrow and the difference from the current borrowing of £167.5m, represents re-investment of internal balances of reserves, reducing the in-year borrowing costs in excess of the potential investment returns. Therefore, in-year use of reserves will lead to higher borrowing.
- 5.9 Following Local Government Reorganisation in 1996, Avon County Council's residual debt is administered by Bristol City Council. All successor Unitary Authorities make an annual contribution to principal and interest repayment, for which there is a provision in the Council's revenue budget. The amount of residual

debt outstanding as at 31st March 2017 apportioned to Bath & North East Somerset Council is £12.86m. Since this borrowing is managed by an external body and treated in the Council's Statement of Accounts as a deferred liability, it is not included in the borrowing figures referred to in paragraph 5.6.

5.10 The borrowing portfolio as at 30th September 2017 is shown in **Appendix 4**.

Strategic & Tactical Decisions

5.11 As shown in the charts at **Appendix 2**, the investment portfolio has been mainly diversified across Money Market Funds and Local Authorities. The Council uses AAA rated Money Market funds to maintain very short term liquidity and has £18.3M as at 30th September 2017.

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

5.13 The Council's current average investment return is in broadly line with the budgeted level of 0.30%.

Future Strategic & Tactical Issues

5.14 Our treasury management advisors economic and market review for the second quarter 2017/18 is included in **Appendix 5**.

5.15 The Bank of England base rate was reduced to 0.25% on 4th August 2016. In the opinion of the Council's treasury advisors there is unlikely to be a rate rise until Q3 2020, with the risks to this forecast remain weighted to the downside. In their September "Mid Year Report 2017/18" their view is that, whilst the Bank of England MPC has changed its 'rhetoric' recently, they are not 'convinced the UK outlook justifies' a rate increase 'at this stage'. We are aware the MPC will be meeting on 2nd November and will be monitoring the outcome.

5.16 The benefits of the Council's current policy of internal borrowing are monitored regularly against the likelihood that long term borrowing rates are forecast to rise in future years. The focus remains on the rate of increase and the medium-term peak.

Budget Implications

5.17 A breakdown of the revenue budget for interest and capital financing and the forecast year end position based on the period April to September is included in **Appendix 6** and shows that the forecast is on target

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

6 RATIONALE

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

7 OTHER OPTIONS CONSIDERED

7.1 None.

8 CONSULTATION

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

8.2 Consultation was carried out via e-mail.

9 RISK MANAGEMENT

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

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

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

Contact person	<i>Giles Oliver - 01225 477022; Andrew Stanton - 01225 477209</i> Gary_Adams@bathnes.gov.uk ; Andrew_Stanton@bathnes.gov.uk ;
Background papers	<i>2017/18 Treasury Management & Investment Strategy</i>
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

Performance against Treasury Management Indicators agreed in Treasury Management Strategy Statement

1. Authorised limit for external debt

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

	2017/18 Prudential Indicator	Actual as at 30th September 2017
	£'000	£'000
Borrowing	338,000	167,555
Other long term liabilities	2,000	0
Cumulative Total	340,000	167,555

2. Operational limit for external debt

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

	2017/18 Prudential Indicator	Actual as at 30th September 2017
	£'000	£'000
Borrowing	306,000	167,555
Other long term liabilities	2,000	0
Cumulative Total	308,000	167,555

3. Upper limit for fixed interest rate exposure

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

	2017/18 Prudential Indicator	Actual as at 30th September 2017
	£'000	£'000
Fixed interest rate exposure	306,000	147,555*

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

4. Upper limit for variable interest rate exposure

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

	2017/18 Prudential Indicator	Actual as at 30th September 2017
	£'000	£'000
Variable interest rate exposure	206,000	20,000

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

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

	2017/18 Prudential Indicator	Actual as at 30th September 2017
	£'000	£'000
Investments over 364 days	50,000	0

6. Maturity Structure of borrowing

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

	Upper Limit	Lower Limit	Actual as at 30th September 2017
	%	%	%
Under 12 months	50	Nil	25.4*
12 months and within 24 months	75	Nil	0
24 months and within 5 years	75	Nil	6.0
5 years and within 10 years	100	Nil	0
10 years and above	100	Nil	68.6

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

7. Average Credit Rating

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

	2017/18 Prudential Indicator	Actual as at 30th September 2017
	Rating	Rating
Minimum Portfolio Average Credit Rating	A-	AAA-

APPENDIX 2

The Council's Investment position at 30th September 2017

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

As per Weekly	Balance at 30 th September 2017
	£'000's
Notice (instant access funds)	18,980
1 month to 3 months	10,000
Over 3 months	0
Total	28,980

The investment figure of £28.7 million is made up as follows:

	Balance at 30 th September 2017
	£'000's
B&NES Council	24,147
Schools	4,833
Total	28,980

The Council had a total average net positive balance of £33.902m during the period April 2017 to September 2017.

Chart 1: Council Investments as at 30th September 2017 (£28.980m)

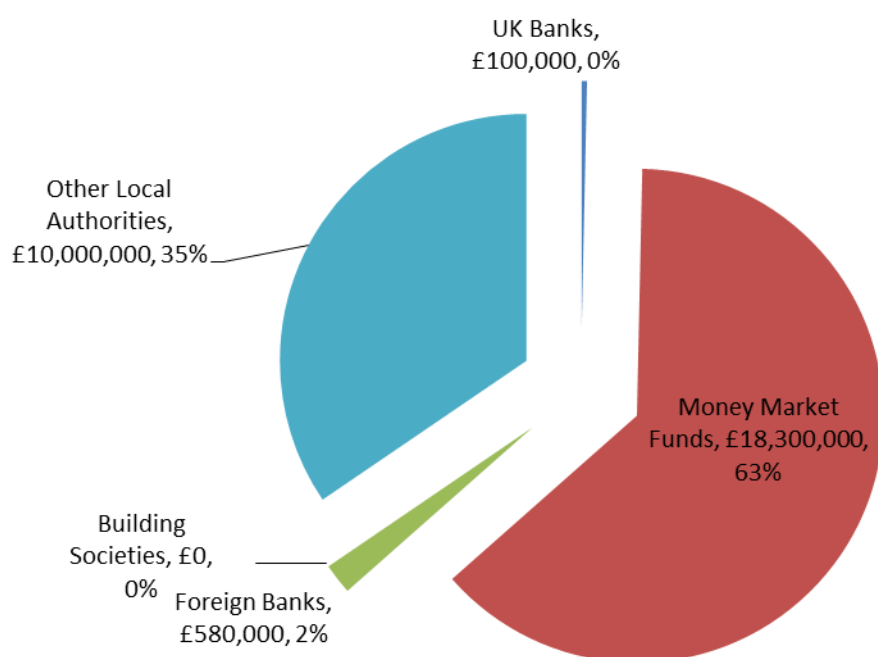


Chart 2: Council Investments as at 30th June 2017 (£28.7m)

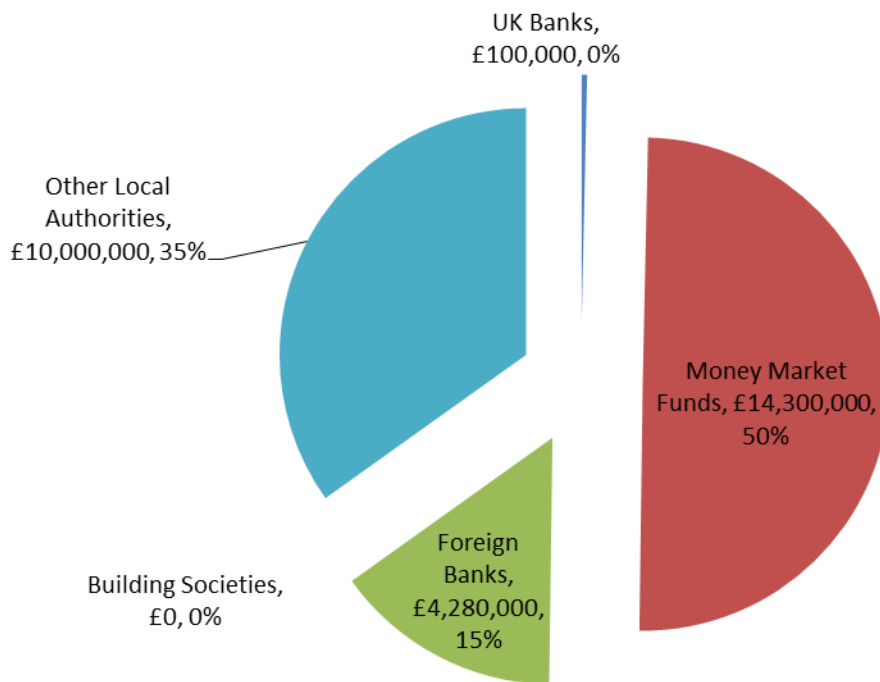


Chart 3: Council Investments per lowest equivalent Long Term credit rating (£28.980m) 30th September

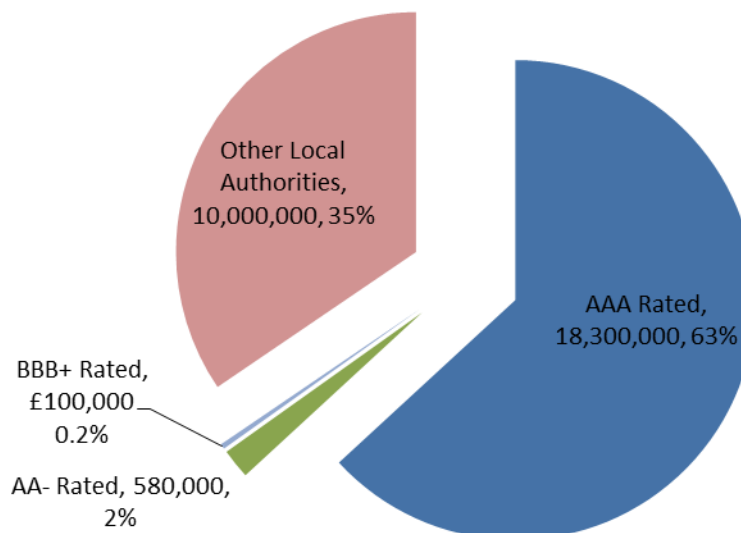
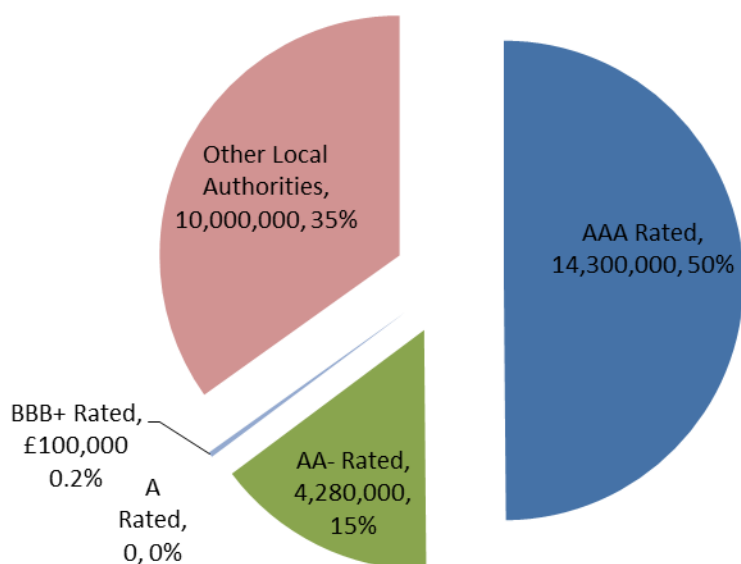


Chart 4: Council Investments per lowest equivalent Long Term credit rating (£28.7m) 30th June 2017



APPENDIX 3

Average rate of return on investments for 2017/18

	April %	May %	June %	July %	Aug %	Sept %	Average for Period
Average rate of interest earned	0.34%	0.24%	0.24%	0.22%	0.24%	0.24%	0.26%
Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%
Difference %	0.18%	0.08%	0.08%	0.06%	0.08%	0.08%	+0.10%

APPENDIX 4

Councils External Borrowing at 30th September 2017

	Amount (£)	Start Date	Maturity Date	Interest Rate
LONG TERM				
PWLB	10,000,000	15/10/04	15/10/34	4.75%
PWLB	5,000,000	12/05/10	15/08/35	4.55%
PWLB	5,000,000	12/05/10	15/02/60	4.53%
PWLB	5,000,000	05/08/11	15/02/31	4.86%
PWLB	10,000,000	05/08/11	15/08/29	4.80%
PWLB	15,000,000	05/08/11	15/02/61	4.96%
PWLB	5,300,000	29/01/15	08/04/34	2.62%
PWLB	5,000,000	29/01/15	08/10/64	2.92%
PWLB	19,704,175	20/06/16	20/06/41	2.36%
PWLB	9,828,688	24/02/17	15/02/41	2.28%
PWLB	9,880,109	04/04/17	15/02/42	2.26%
PWLB	8,372,424	08/05/17	15/02/42	2.25%
PWLB	7,000,000	10/08/17	10/04/67	2.26%
KBC Bank N.V*	5,000,000	08/10/04	08/10/54	4.50%
KBC Bank N.V*	5,000,000	08/10/04	08/10/54	4.50%
Eurohypo Bank*	10,000,000	27/04/05	27/04/55	4.50%
Gloucestershire County Council	5,000,000	25/11/14	19/12/19	2.05%
Gloucestershire County Council	5,000,000	19/12/14	19/12/19	2.05%
Total	145,055,396			
TEMPORARY				
East Dorset DC	2,000,000	20/03/17	19/03/18	0.50%
Christchurch Borough Council	2,000,000	20/03/17	19/03/18	0.50%
Tameside Metropolitan	6,000,000	25/04/17	20/04/18	0.49%
West of England Combined Authority	10,000,000	25/04/17	24/04/18	0.55%
PCC for Hampshire	2,500,000	28/07/17	27/07/18	.41%
TOTAL	167,555,396			

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

APPENDIX 5

Economic and market review for April to September 2017 (provided by Arlingclose)

Economic backdrop: Commodity prices fluctuated over the period with oil falling below \$45 a barrel before inching back up to \$58 a barrel. UK Consumer Price Inflation (CPI) index rose with the data print for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.

The unemployment rate fell to 4.3%, its lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of calendar 2017.

The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at September's meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank Rate in "the coming months". The Council's treasury advisor Arlingclose is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.

In contrast, near-term global growth prospects improved. The US Federal Reserve increased its target range of official interest rates in June for the second time in 2017 by 25bps (basis points) to between 1% and 1.25% and, despite US inflation hitting a soft patch with core CPI at 1.7%, a further similar increase is expected in its December 2017 meeting. The Fed also announced confirmed that it would be starting a reversal of its vast Quantitative Easing programme and reduce the \$4.2 trillion of bonds it acquired by initially cutting the amount it reinvests by \$10bn a month.

Geopolitical tensions escalated in August as the US and North Korea exchanged escalating verbal threats over reports about enhancements in North Korea's missile programme. The provocation from both sides helped wipe off nearly \$1 trillion from global equity markets but benefited safe-haven assets such as gold, the US dollar and the Japanese yen. Tensions remained high, with North Korea's threat to fire missiles towards the US naval base in Guam, its recent missile tests over Japan and a further testing of its latent nuclear capabilities.

Prime Minister Theresa May called an unscheduled General Election in June, to resolve uncertainty but the surprise result has led to a minority Conservative government in coalition with the Democratic Unionist Party. This clearly results in an enhanced level of

political uncertainty. Although the potential for a so-called hard Brexit is diminished, lack of clarity over future trading partnerships, in particular future customs agreements with the rest of the EU block, is denting business sentiment and investment. The reaction from the markets on the UK election's outcome was fairly muted, business confidence now hinges on the progress (or not) on Brexit negotiations, the ultimate 'divorce bill' for the exit and whether new trade treaties and customs arrangements are successfully concluded to the UK's benefit.

In the face of a struggling economy and Brexit-related uncertainty, Arlingclose expects the Bank of England to take only a very measured approach to any monetary policy tightening, any increase will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.

Financial markets: Gilt yields displayed significant volatility over the six-month period with the appearing change in sentiment in the Bank of England's outlook for interest rates, the push-pull from expectations of tapering of Quantitative Easing (QE) in the US and Europe and from geopolitical tensions, which also had an impact. The yield on the 5-year gilts fell to 0.35% in mid-June, but then rose to 0.80% by the end of September. The 10-year gilts similarly rose from their lows of 0.93% to 1.38% at the end of the quarter, and those on 20-year gilts from 1.62% to 1.94%.

The FTSE 100 nevertheless powered away reaching a record high of 7548 in May but dropped back to 7377 at the end of September. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.30% and 0.65% over the period from January to 21st September.

Credit background: UK bank credit default swaps continued their downward trend, reaching three-year lows by the end of June. Bank share prices have not moved in any particular pattern.

There were a few credit rating changes during the quarter. The significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1, placed Lloyds Bank's A1 rating on review for upgrade, revised the outlook of Santander UK plc, and Nationwide and Coventry building societies from negative to stable but downgraded the long-term rating of Leeds BS from A2 to A3.

S&P also revised Nordea Bank's outlook to stable from negative, whilst affirming their long-term rating at AA-. The agency also upgraded the long-term rating of ING Bank from A to A+.

Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May, following Arlingclose's advice, the Authority reduced the maximum duration of unsecured investments with Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as until banks' new structures are finally determined and published, the different credit risks of the 'retail' and 'investment' banks cannot be known for certain.

The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

Regulatory Updates : MiFID II: Local authorities are currently treated by regulated financial services firms as professional clients who can "opt down" to be treated as retail clients instead. But from 3rd January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can "opt up" to be professional clients, providing that they meet certain criteria. Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the authority must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the authority must have at least one year's relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The main additional protection for retail clients is a duty on the firm to ensure that the investment is "suitable" for the client. However, local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Authority has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

The Council meets the conditions to opt up to professional status and intends to do so in order to maintain its current MiFID status.

CIPFA Consultation on Prudential and Treasury Management Codes: In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes and after reviewing responses launched a further consultation on changes to the codes in August with a deadline for responses of 30th September 2017.

The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to full council which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in this report but other indicators may be delegated to another committee. There are plans to drop certain prudential indicators, however local indicators are recommended for ring fenced funds (including the HRA) and for group accounts. Other proposed changes include applying the principles of the Code to subsidiaries.

Proposed changes to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties in the definition of “investments” as well as loans made or shares brought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management and addressed within the Treasury Management Strategy. There are also plans to drop or alter some of the current treasury management indicators.

CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year. The Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its MRP guidance) for local authorities in England; however there have been no discussions with the devolved administrations yet.

Outlook for the remainder of 2017/18

The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Both consumer and business confidence remain subdued. Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are at an all-time low and real earnings growth (i.e after inflation) struggles in the face of higher inflation.

The Bank of England's Monetary Policy Committee has changed its rhetoric, implying a rise in Bank Rate in "the coming months". Arlingclose is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.

This decision is still very data dependant and Arlingclose is, for now, maintaining its central case for Bank Rate at 0.25% whilst introducing near-term upside risks to the forecast as shown below. Arlingclose's central case is for gilt yields to remain broadly stable in the across the medium term, but there may be near term volatility due to shifts in interest rate expectations.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2017/18 (Apr to September)

April to September 2017	YEAR END FORECAST			ADV/FAV
	Budgeted Spend or (Income) £'000	Forecast Spend or (Income) £'000	Forecast over or (under) spend £'000	
Interest & Capital Financing				
- Debt Costs	6,194	6194	0	
- Internal Repayment of Loan Charges	-8,391	-8,391	0	
- Ex Avon Debt Costs	1,190	1,190	0	
- Minimum Revenue Provision (MRP)	5,278	5,278	0	
- Interest on Balances	-141	-141	0	
Sub Total - Capital Financing	4,130	4,130	0	

APPENDIX 7

Summary Guide to Credit Ratings

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

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	5th December 2017	AGENDA ITEM NUMBER
TITLE:	External Audit Update	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
<p>List of attachments to this report:</p> <p>Appendix 1 – Annual Audit Letter</p> <p>Appendix 2 – External Audit Update Report</p> <p>Appendix 3 – Fee Letter</p>		

1 THE ISSUE

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

2 RECOMMENDATION

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

3 FINANCIAL IMPLICATIONS

- 3.1 The financial implications of the Audit fee are already known and contained within existing budgets.

4 THE REPORT

- 4.1 Appendix 1 details the Annual Audit Letter for the Council which summarises all the work undertaken by Grant Thornton over the period.
- 4.2 Appendix 2 provides an update on the External Auditors work for Bath & North East Somerset Council along with references to a number of national initiatives, announcements and publications which may be of use to the Council.
- 4.3 Appendix 3 details the Audit Fees due for the 2017/18 audit process.

4.3 The External Auditor will provide a fuller verbal briefing on all these areas at the meeting.

5 RISK MANAGEMENT

5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance. There are no new significant risks or issues to report to the Committee as a result of this report.

6. EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

7 CONSULTATION

7.1 Consultation has been carried out with the Section 151 Finance Officer.

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

The Annual Audit Letter for Bath and North East Somerset Council

Year ended 31 March 2017

September 2017

Barrie Morris

Engagement Lead

T 0117 305 7707

E barrie.morris@uk.gt.com

Kevin Henderson

Manager

T 0117 305 7873

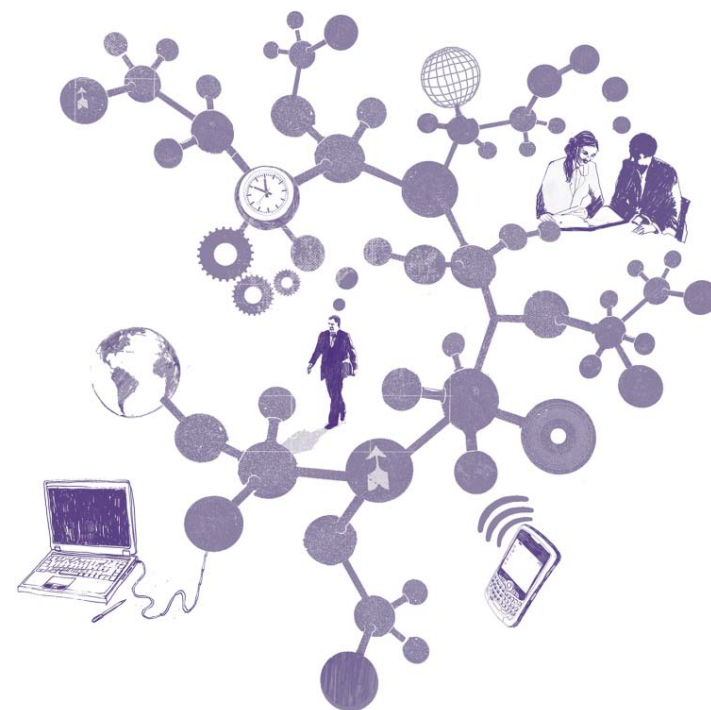
E kevin.j.henderson@uk.gt.com

Scott Corboy

Audit senior

T 0117 305 7616

E scott.f.corboy@uk.gt.com



Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	5
3. Value for Money conclusion	9
Appendices	
A Reports issued and fees	11

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Bath and North East Somerset Council (the Council) for the year ended 31 March 2017.

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

We reported the detailed findings from our audit work to the Council's Corporate Audit Committee (as those charged with governance) in our Audit Findings Report on 12 September 2017.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 15 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 15 September 2017.

Certificate

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

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Corporate Audit Committee in our Annual Certification Letter.

Other work completed

During 2016/17 we also provided Reporting Accountant's reports in relation to Regional Growth Fund expenditure and Teacher's Pensions contributions.

In addition, we provided training to the Housing Benefit team in relation to the year-end Housing Benefit grant claim and completion of workbooks relating to testing of claims.

Finally, the Council also signed up to CFO Insights, which is a Grant Thornton tool which provides the Council with instant access to insight on the financial performance, socio-economic context and service outcomes of every council in England, Scotland and Wales.

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

Grant Thornton UK LLP
September 2017

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £8.207 million, which is 1.9% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for senior manager remuneration, members' allowances and auditor remuneration.

We set a lower threshold of £389,200, above which we reported errors to the Corporate Audit Committee in our Audit Findings Report.

Avon Pension Fund

For the audit of the Avon Pension Fund accounts, we determined materiality to be £38.348 million, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Avon Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower level of specific materiality for certain areas such as investment management expenses. We set a threshold of £2 million above which we reported errors to the Corporate Audit Committee Committee.

The scope of our audit

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

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

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

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

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

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

Audit of the accounts – Bath and North East Somerset Council

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusion
<p>Valuation of property, plant and equipment 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 the current value. This represents a significant estimate by management in the financial statements.</p> <p>Valuation of investment property 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>	<ul style="list-style-type: none"> Reviewed management's processes and assumptions for the calculation of the estimate Reviewed the competence, expertise and objectivity of management experts used Reviewed the instructions issued to valuation experts and the scope of their work Reviewed the information used by the valuer to ensure it is robust and consistent with our understanding Tested revaluations made during the year to ensure they were input correctly into the Council's asset register Evaluated the assumptions made by management for those assets not revalued during the year and how management had satisfied themselves that these were not materially different to current value. 	<p>We are satisfied that the Council's property, plant and equipment and investment property are reasonably stated.</p> <p>In previous years, as the valuation of land and buildings and investment property had an effective date of 1 April, values were indexed so that the carrying values were reasonably stated. This year, the valuation had an effective date of 29th September 2016. This, together with a review of movement in indices for the second half of the year, ensured that the values stated in the accounts as at 31 March 2017 were materially correct.</p>
<p>Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. Reviewed of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. Reviewed of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work did not identify any issues in relation to the risk identified.</p>

Audit of the accounts – Avon Pension Fund

This is the risk which had the greatest impact on our overall strategy and where we focused more of our work on the audit of the Avon Pension Fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Level 3 Investments (Valuation is incorrect) 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.	<ul style="list-style-type: none">• Updated our understanding of your process for valuing Level 3 investments through discussions with relevant personnel from the Pension Fund during the interim audit.• Performed walkthrough tests of the controls identified in the process.• On a sample basis we tested valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agree these to the fund manager reports at that date. In addition reconciling those values to the values at 31st March with reference to known movements in the intervening period.• Reviewed the qualification of the fund managers as experts to value the level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached.• Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments.• Reviewed the competence, expertise and objectivity of management experts used.• Reviewed the service auditors reports for Fund Managers and the custodian to provide assurance over the control environment at the service organisation.	Our audit work did not identify any issues in relation to the risk identified.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 15 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable i.e. 31 May 2017, and provided a good set of supporting working papers. In general, the finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Corporate Audit Committee on 12 September 2017. There were no adjusted misstatements, one unadjusted misstatement and a small number of disclosure and misclassification issues.

Avon Pension Fund accounts

We also reported the key issues from our audit of accounts of the Avon Pension Fund hosted by the Council to the Council's Corporate Audit Committee on 12 September 2017. There were no adjusted or unadjusted misstatements and just a small number of disclosure and misclassification issues.

Annual Governance Statement and Narrative Report

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

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

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO . We issued a group assurance certificate which did not identify any issues for the group auditor to consider on 15 September 2017.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

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

Key findings

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

The key risks we identified and the work we performed are set out overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Value for money risks

Significant risk	Work to address	Findings and conclusions
<p>Medium term financial plan 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>£29m 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>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>	<p>The Council has a good record of delivering its financial plans, although for 2016/17 the Council reported an overspend of £2 million. This in part due to savings plans not fully delivering with 90% of the planned £12.6 million savings being delivered. The other key issue was the pressure on children's and adult social care budgets, the latter being affected by the impact having to re-provide placements for 130 people as a result of care homes closing down.</p> <p>In setting the 2017/18 budget, a number of assumptions were made for both income and expenditure. We have assessed the reasonableness of these assumptions, such as inflation, interest rates and grant funding, and consider that they are appropriate given the underlying information.</p> <p>Savings plans have been developed for 2017/18 and beyond. These plans have been subject to robust challenge and are regularly monitored and updated. We reviewed a number of the savings plans and consider them to be adequately supported by the underlying evidence. A new medium term financial strategy is being produced to update the assumptions and look further ahead. This is intended to be reported to Cabinet in October.</p> <p>Since setting the budget for 2017/18 significant pressures have been emerging and a revised predicted outturn will be reported in October. The 16/17 outturn report indicated an ongoing pressure of at least £4M and this is on top of the £14.8m of planned savings still to be delivered in 2017/18 and 2018/19. In the short term the Council has one off reserves that can be used to mitigate these pressures but the longer term implications are challenging.</p> <p>It is clear that the Council is considering the alternatives available to it to secure the financial position in the medium to long term. If the demand pressures continue to develop as they did in 2016/17 the Council will need significant corrective action.</p> <p>There are no other significant issues arising from the work that we have undertaken to address the risks identified in the risk assessment. It is clear that the Council has undertaken a significant amount of work to prepare a robust medium term financial plan but that this now needs to be updated.</p> <p>As noted in the Council's budget paper "Whilst the Council does face an increasing challenge to deliver the financial plans set out in the Budget Proposal, the Council has a prudent level of reserves and can use these to support and smooth the effects of policy changes and delivery of the financial savings particularly recognising the ongoing reductions in Council funding to 2019/2020 and beyond".</p> <p>We concluded that the risk was sufficiently mitigated and that the Council has proper arrangements in place.</p>

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

Fees

	Proposed fee £	Final fee £
Council audit	123,832	123,832
Grant certification (indicative fee)	13,755	To be confirmed
Total audit fees (excluding VAT)	137,565	To be confirmed

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

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'.

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	September 2017
Annual Audit Letter	September 2017

Fees for other services

Service	Fees £
Audit related services:	
• Reporting Accountant's report on Regional Growth Fund	3,390
• Certification of Teachers' Pension return	4,200
Non-audit services	
• Housing benefit training	1,895
• CFO Insights	10,000

Independence and ethics

- 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 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 the Council.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.

Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

	Service provided to	Fees	Threat?	Safeguard
Regional Growth Fund	Bath and North East Somerset Council (Note 1)	£3,390	Self-interest	This is a recurring fee and therefore represents a self-interest threat. However, the level of this recurring fee, taken on its own, is not considered a significant threat to independence as the fee for this work is insignificant in comparison to the fee for the audit of £111,975 and, in particular, Grant Thornton UK's turnover overall. Further, the work is on audit related services, the fee is fixed and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Teachers' Pension	Bath and North East Somerset Council	£4,200	Self-interest	As above
Housing Benefit training	Bath and North East Somerset Council	£1,895	Self-interest	As above
CFO insights	Bath and North East Somerset Council	£10,000	Self-interest	As above, and, in addition, a separate engagement team provide the support for this service.
	TOTAL	£19,495		

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

Note 1 – the fee for our work on the Regional Growth Fund is not included as part of the Council's expenditure as the cost is charged to the Regional Growth Fund.



© 2017 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk

This page is intentionally left blank

Corporate Audit Committee Bath and North East Somerset Council Progress Report and Update Year ended 31 March 2018

Page 43

November 2017

Barrie Morris

Director

T 0117 305 7708

E barrie.morris@uk.gt.com

Sophie Morgan

Manager

T 0117 305 7757

E sophie.j.morgan@uk.gt.com

Scott Corboy

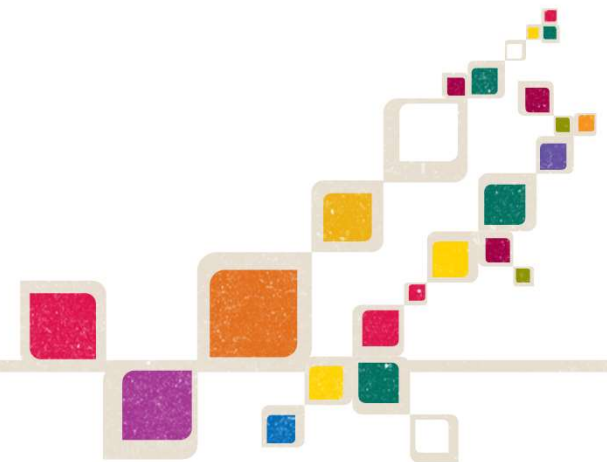
Assistant Manager

T 0117 305 7616

E scott.f.corboy@uk.gt.com



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.



Introducing your 2017-18 audit team



Peter Barber

Associate Director

T 0117 3057 897

E peter.a.barber@uk.gt.com

- Proactive engagement with the Audit Committee
- Easy to understand, plain English, reporting
- Relationship with external stakeholders, policy makers and regulators
- Shared learning and best practice



Sophie Morgan

Audit Manager

T 0117 3057 757

E sophie.j.morgan@uk.gt.com

- A 'no surprises' approach – communication throughout the audit
- Bespoke approach to Local Government audits
- Early engagement and use of technology
- Working in partnership with you – face to face discussions



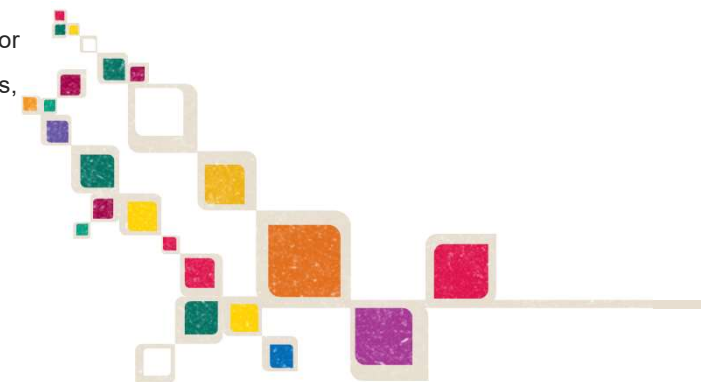
Scott Corboy

Assistant Audit Manager

T 0117 305 7616

E scott.f.corboy@uk.gt.com

- Grant Thornton has 30 years experience in the sector
- Programme of activity includes workshops, seminars, roundtables, think pieces and benchmarking



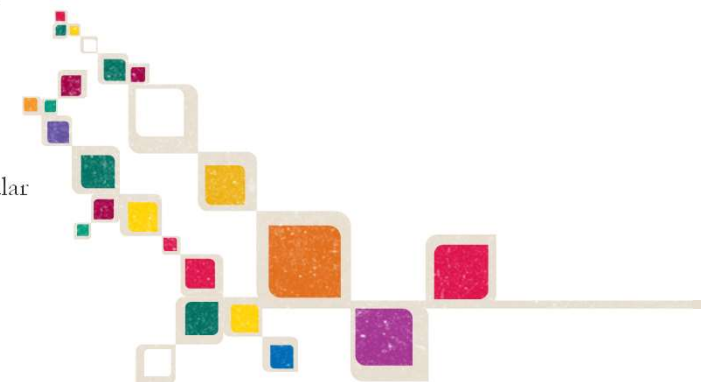
Introduction

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

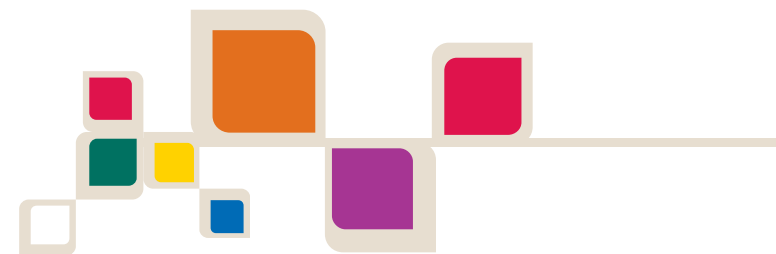
Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications and articles, including the reports mentioned in this update along with other items:

- Income generation is an increasingly essential part of providing sustainable local services ; <http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>
- Social enterprises are becoming increasingly common vehicles for delivering services that are not an ‘essential’ service for an authority but still important to the local community; <http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>
- Fraud risk, 'adequate procedures', and local authorities; <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- Brexit and local government; <http://www.grantthornton.co.uk/en/insights/a-global-britain-needs-more-local-government-not-less/> and <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>
- Combined Authorities - Our new report, commissioned with Bond Dickinson, looks at Combined Authorities in detail. The report identifies early signs of innovation and success, and benchmarks existing combined authorities against key metrics;; <http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



Progress at November 2017



2016/17

Audit Findings report

The Audit Findings report was presented to the 12 September committee. The Annual Audit Letter is presented to the Committee on 5 December 2017.

The work on the Housing Benefits work was completed before the deadline of 30 November and we will report our findings in the certification report in February 2018.

September 2017

Yes

The 2016/17 Audit Findings Report was issued in September 2017 and was considered by the September committee.

The Annual Audit Letter was issued in October 2017 and is presented to the December committee.

2017/18

Fee Letter

We were required to issue a 'Planned fee letter for 2017/18' by the end of April 2017. This is the final audit year under the current contract. PSAA has awarded contracts to audit suppliers and is currently consulting on local appointments. Your audit supplier from 2018/19 will be formally confirmed by the end of December 2017.

April 2017

Yes

The 2017/18 Fee Letter was issued in April 2017 and is presented to the December committee.

Accounts Audit Plan

We will issue a detailed accounts audit plan to the Council setting out our proposed approach the audit of the Council's 2017/18 financial statements. This will be issued upon completion of our audit planning.

March 2018

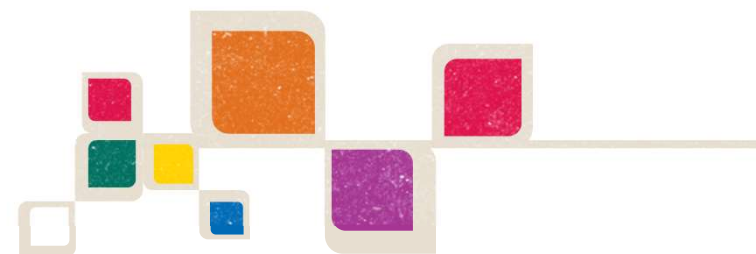
No

The Audit plan will be presented to the April 2018 Audit Committee

The statutory deadline for the issued of the 2017/18 opinion is brought forward by two months to 31 July 2018. We are discussing with your officers our plan and timetable to ensure that we complete our work by this earlier deadline.

We may also need to discuss and agree with you arrangements for the issue of the draft Audit Findings Report, in view of the time available to complete our work and your committee report deadlines.

Progress at November 2017



2017/18	Planned Date	Complete?	Comments
Interim accounts audit Our interim fieldwork visit plan will reflect the need to complete as much as possible earlier in the audit cycle. Our work will include: <ul style="list-style-type: none"> • review of the Council's control environment • Updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment. 			
	March – April 2018	No	Issues arising from our interim visit will be set out in our Audit Findings Report.
Final accounts audit <ul style="list-style-type: none"> • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 			
	June – July 2018	No	We will report our findings in our Audit Findings Report.
Value for Money (VfM) conclusion The scope of our work is unchanged to last year and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are: <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 			
	July 2018	No	We will report our findings in our Audit Findings Report.

Technical Matters

Page 49



Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and forthcoming provisions for IFRS 9 and IFRS 15

Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2017/18. The main changes to the Code include:

- amendments to section 2.2 (Business Improvement District Schemes (England, Wales and Scotland), Business Rate Supplements (England), and Community Infrastructure Levy (England and Wales)) for the Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date
- amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the Narrative Report
- updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting policies and going concern reporting
- changes to section 3.5 (Housing Revenue Account) to reflect the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities
- following the amendments in the Update to the 2016/17 Code, changes to sections 4.2 (Lease and Lease Type Arrangements), 4.3 (Service Concession Arrangements: Local Authority as Grantor), 7.4 (Financial Instruments – Disclosure and Presentation Requirements)

- amendments to section 6.5 (Accounting and Reporting by Pension Funds) to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.

Forthcoming provisions for IFRS 9 and IFRS 15

CIPFA/LASAAC has issued 'Forthcoming provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018'. It sets out the changes to the 2018/19 Code in respect of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. It has been issued in advance of the 2018/19 Code to provide local authorities with time to prepare for the changes required under these new standards.

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a single classification approach for financial assets, a forward looking 'expected loss' model for impairment (rather than the 'incurred loss' model under IAS 39) and some fundamental changes to requirements around hedge accounting.

Technical Matters

Questions:

- Is your Head of Finance aware of the changes to the Code of Practice in 2017/18 and the forthcoming changes to lease accounting and revenue recognition?

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 changes the basis for deciding whether revenue is recognised at a point in time or over a period of time and introduces five steps for revenue recognition.

It should be noted that the publication does not have the authority of the Code and early adoption of the two standards is not permitted by the 2017/18 Code.

Sector issues

Page 51



Independent Review of Building Regulations and Fire Safety

Sector Issues

The Government has published the terms of reference for the independent Review of Building Regulations and Fire Safety, commissioned following the Grenfell Tower fire tragedy.

The DCLG press release states:

“This Review will urgently assess the effectiveness of current building and fire safety regulations and related compliance and enforcement issues, with a focus on multi occupancy high rise residential buildings. This will include addressing whether the government’s large-scale cladding system testing programme identified any potential systemic failures.

The Review’s 2 key priorities are to develop a more robust regulatory system for the future and provide further assurance to residents that the buildings they live in are safe and remain safe. While the Review will cover the regulatory system for all buildings, it will have a specific focus on multi occupancy high rise residential buildings.

Dame Judith Hackitt, a qualified engineer with strong regulatory background, is leading the Review and will draw on the experience of local government, industry, the fire sector, international experts and MPs. She will also engage with residents of multi occupancy residential buildings.

The Review will report jointly to Communities Secretary Sajid Javid and Home Secretary Amber Rudd. An interim report will be submitted in autumn 2017 and a final report submitted in spring 2018. The Review will co-operate fully with the Public Inquiry, and Dame Judith Hackitt will review her recommendations in the light of the findings of the Inquiry.”

The terms of reference state that the review will:

- map the current regulatory system (i.e. the regulations, guidance and processes) as it applies to new and existing buildings through planning, design, construction, maintenance, refurbishment and change management;
- consider the competencies, duties and balance of responsibilities of key individuals within the system in ensuring that fire safety standards are adhered to;
- assess the theoretical coherence of the current regulatory system and how it operates in practice
- compare this with other international regulatory systems for buildings and regulatory systems in other sectors with similar safety risks;
- make recommendations that ensure the regulatory system is fit for purpose with a particular focus on multi-occupancy high-rise residential buildings.

The full terms of reference are available at:

<https://www.gov.uk/government/publications/independent-review-of-building-regulations-and-fire-safety-terms-of-reference>

Procurement of external audit services

Public Sector
Audit Appointments

Procurement outcome

As a result of the highly successful procurement of auditor services, opted-in Local government and police bodies throughout England will collectively benefit from reduced fees for audit services in 2018/19 compared to 2016/17. Aggregate savings are expected to exceed £6 million per annum, equivalent to a reduction of approximately 18% in the scale fees payable by local bodies.

The results of the process announced on 20 June 2017 involve the award of the following contracts:

- Lot 1 of approx. £14.6 million per audit year was awarded to Grant Thornton LLP;
- Lot 2 of approx. £10.9 million per audit year was awarded to EY LLP;
- Lot 3 of approx. £6.6 million per audit year to awarded to Mazars LLP;
- Lot 4 of approx. £2.2 million per audit year to awarded to BDO LLP;
- Lot 5 of approx. £2.2 million per audit year to awarded to Deloitte LLP; and
- Lot 6 with no guaranteed value of work to awarded to a consortium of Moore Stephens LLP and Scott-Moncrieff LLP.

Contracts were awarded on the basis of most economically advantageous tender with 50% of the available score awarded to price and 50% awarded to quality.

The procurement strategy, agreed by the PSAA Board in December 2016, sets out the basis on which the procurement of audit services was carried out.

Having concluded the procurement, PSAA will commence the process of appointing auditors to opted-in bodies. For more information on the auditor appointment process [click here](#).

Sector Issues

Finalising and confirming appointments

The PSAA Board will approve all proposed appointments from 2018/19, following consultation with audited bodies, at its meeting in mid-December. The Board's decision on the appointment of auditors is final. Following Board consideration, we will write to each audited body to confirm their appointment. We plan to send all confirmations on 18 December..



Housing Benefit (Subsidy) Assurance Process 2018/19: Module 1 Special Purpose Framework Instruction:

This Circular sets out the arrangements for the audit of the housing benefits subsidy for 2018/19. It is for the LA to appoint a reporting accountant to undertake this work and notify the DWP of this. A standard letter of notification for the LA use is set out in Appendix 1. This letter of notification must be issued to the DWP by the LA no later than the 1st March 2018.

Local Authority 2016/17 Revenue Expenditure and Financing

Sector Issues

DCLG has produced a summary of Local Authorities' 2016/17 provisional revenue spending and financing. It notes that Local government expenditure accounts for almost a quarter of all government spending and the majority of this is through local authority revenue expenditure. The summary is compiled from the Revenue Outturn (RO) returns submitted by all local authorities in England. Coverage is not limited to local councils in England and includes other authority types such as Police and Crime Commissioners and Fire authorities.

The headline messages include:

- Local authority revenue expenditure totalled £93.5 billion for all local authorities in England in 2016-17. This was 1.1% lower than £94.5 billion spent over 2015-16.
- Expenditure on Adult Social Care increased to £14.9 billion in 2016-17. This was £0.5 billion (3.6%) higher than in 2015-16. 2016-17 was first year local authorities were able to raise additional funding for Adult Social Care through the council tax precept.
- The largest decrease in local authority expenditure was on Education services. This was £0.8 billion (2.4%) lower in 2016-17 than in 2015-16. The majority of this decrease is due to local authority funded schools converting to academies.
- Local authorities are financing more of their expenditure from locally retained income. 40.4% of revenue expenditure was funded through council tax and retained business rates and 57.5% from central Government grants. The remaining 2.1% was funded by reserves and collection fund surpluses. These percentages were 38.7%, 60.4% and 0.9% respectively in 2015-16.
- Local authorities used £1.5 billion (6.2%) of the £24.6 billion reserves balance held at the start of the 2016-17.
- Local authorities' use of reserves was £1.1 billion higher in 2016-17 than in 2015-16. Due to changes in their capital programme, £0.5 billion of this increase is due to the Greater London Authority.

The full report is available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/639755/Revenue_Expenditure_and_Financing_2016-17_Provisional_Outturn.pdf

Did you know....

This data set and many others are included in CFO Insights.

CFO Insights is the Grant Thornton and CIPFA online analysis tool. It gives those aspiring to improve the financial position of their organisation instant access to insight on the financial performance, socio-economic context and service outcomes of theirs and every other council in England, Scotland and Wales.

More information is available at:

<http://www.cfoinsights.co.uk/>

Grant Thornton publications

Page 55



Combined Authorities – signs of success

Published jointly with Bond Dickinson in October 2017, our latest research report shines a light on Combined Authorities and asks questions about these new institutions and the areas they serve.

It is still early days for most combined authorities – the political and administrative difficulties of adopting this model are not to be under-estimated - but early signs are emerging of their potential to innovate and drive success.

In the report we benchmark existing combined authorities against key indicators of growth, housing, transport and skills amongst others. We have also used our Vibrant Economy Index, which goes beyond financial returns and takes into account the wellbeing of society, to compare city regions. We believe that these benchmarks can serve as a baseline for assessment of progress over time.

Key findings from the report:

- The potential future impact of Combined Authorities and metro mayors is far greater than their formal powers and responsibilities at this point in time.
- CAs must begin to reduce the institutional blurring with historic local government structures that has occurred with their formation. As greater clarity emerges over their roles, functions, and profiles of individual mayors; their perceived legitimacy will increase.
- CAs stand and fall on the quality of their relationships with other local institutions and their ability to add value through targeted investment, strategic co-ordination, joined-up policy and the leveraging in of additional resources (particularly additional private sector funds).
- There is no single checklist or set of criteria for measuring the success of mayors and combined authorities, each city region must articulate its own challenges and show progress in tackling them.
- A balanced set of benchmarks encompassing both economic and social success will, however, serve as a useful stimulus for the debate around the impact of the combined authority model over time.

Grant Thornton publications

Questions:

- What can other areas learn from emerging innovation?
- How can the success of places be measured over time?
- What are the considerations for place-based leadership?



Combined Authorities: signs of success



Setting up a successful social enterprise

Local government continues to innovate as it reacts to ongoing austerity. An important strand of this response has been the development of alternative delivery models, including local authority trading companies, joint ventures and social enterprises.

This report focuses on social enterprises in local government; those organisations that trade with a social purpose or carry out activities for community benefit rather than private advantage. Social enterprises come in a variety of shapes and sizes as they do not have a single legal structure or ownership rule and can adopt any corporate form as long as it has a social purpose.

In this report we explore what social enterprises look like, the requirements for setting one up, how they should be managed to achieve success and how they can be ended.

We have complemented this with a range of case studies providing inspiring ideas from those that have been successful and some lessons learned to take into consideration.

Key findings from the report:

- Austerity continues to be a key driver for change: social enterprises are a clear choice where there is an opportunity to enhance the culture of community involvement by transferring these services into a standalone entity at its centre
- The social enterprise model tends to lend itself more to community services such as libraries, heritage management and leisure, but not exclusively so
- Social enterprises can open up new routes of funding including the ability to be flexible on pricing and access to pro bono or subsidised advice
- Some local authorities have converted existing models into social enterprises; for example where a greater focus on social outcomes has been identified

Striking a balance between financial and social returns

If you are a local authority looking to transition a public service to a social enterprise model certain factors will be key to your success including: leadership, continuing the culture, branding, staff reward and secure income stream.

Download our guide to explore how to handle these factors to ensure success, the requirements for setting up a social enterprise; and how social enterprise can be ended. The guide also showcases a number of compelling case studies from local authorities around England, featuring inspiring ideas from those social enterprises that have been a success; and lessons learned from those that have encountered challenges.

Grant Thornton publications

Questions:

- Is your Council exploring options for delivery of services?
- Have you read our report?
- Have you downloaded our guide?



<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>

A Manifesto for a Vibrant Economy

Developing infrastructure to enable local growth

Cities and shire areas need the powers and frameworks to collaborate on strategic issues and be able to raise finance to invest in infrastructure priorities. Devolution needs to continue in England across all places, with governance models not being a “one-size-fits all”. Priorities include broadband, airport capacity in the North and east-west transport links.

Addressing the housing shortage, particularly in London and the Southeast, is a vital part of this. There simply is not enough available land on which to build, and green belt legislation, though designed to allow people living in cities space to breath, has become restrictive and is in need of modernisation. Without further provision to free up more land to build on, the young people that we need to protect the future of our economy will not be able to afford housing, and council spending on housing the homeless will continue to rise.

Business rates are also ripe for review – a property-based tax is no longer an accurate basis for taxing the activity and value of local business, in particular as this source of funding becomes increasingly important to the provision of local authority services with the phasing out of the Government’s block grant.

Demographic and funding pressures mean that the NHS no longer remains sustainable, and the integration of health and social care – recognised as critical by all key decision makers – remains more aspiration than reality. .

There is an opportunity for communities to take a more holistic approach to health, for example creating healthier spaces and workplaces and tackling air quality, and to use technology to provide more accessible, cheaper diagnosis and treatment for many routine issues

Finding a better way to measure the vibrancy of places

When applied to a place we can see that traditional indicators of prosperity such as GVA, do not tell the full story. To address this we have developed a [Vibrant Economy Index](#) to measure the current and future vibrancy of places. The Index uses the geography of local authority areas and identifies six broad objectives for society: prosperity, dynamism and opportunity, inclusion and equality, health wellbeing and happiness, resilience and sustainability, and community trust and belonging.

The city of Manchester, for example, is associated with dynamic economic success. While our Index confirms this, it also identifies that the Greater Manchester area overall has exceptionally poor health outcomes, generations of low education attainment and deep-rooted joblessness. These factors threaten future prosperity, as success depends on people’s productive participation in the wider local economy, rather than in concentrated pockets.

Every place has its own challenges and opportunities. Understanding what these are, and the dynamic between them, will help unlock everybody’s ability to thrive. Over the coming months we will continue to develop the Vibrant Economy Index through discussions with businesses, citizens and government at a national and local level.

Guy Clifton – Head of Local Government Advisory

Grant Thornton publications

Question:

- Have you read our manifesto?

Grant Thornton
An activist for growth

VIBRANT
ECONOMY

CREATING A MANIFESTO
FOR A VIBRANT ECONOMY
Draft recommendations
April 2017



<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/documents/creating-manifesto-vibrant-economy-draft-recommendations.pdf>

The Board: creating and protecting value

Grant Thornton publications

In all sectors, boards are increasingly coming under pressure from both the market and regulators to improve their effectiveness and accountability. This makes business sense given a strong governance culture in the boardroom produces better results, promotes good behaviour within the organisation and drives an organisation's purpose.

Grant Thornton's new report 'The Board: creating and protecting value' is a cross- sector review of board effectiveness, based on a survey of executives and non-executives from a range of organisations including charities, housing associations, universities, local government, private companies and publically listed companies.

It considers the challenges faced by boards, ways in which they can operate more effectively; and how to strike the right balance between value protection and value creation.

This report uses the DLMA analysis which categorises skills into four areas: Directorship, Leadership, Management and Assurance. This powerful tool provides a framework (see graph 1) with which to evaluate how well an organisation is performing in balance of skills and understanding of roles; and responsibilities between the executive and Board. It helps align risk (value protection) and opportunity (value creation) with overarching strategy and purpose.

Value creation	
Directorship How well do the non-executives: <ul style="list-style-type: none"> design, debate and decide the organisation's future? inspire and guide the executive to realise the organisation's purpose? provide support to the executives? 	Leadership How well do the executives: <ul style="list-style-type: none"> Make decisions aligned with realising the organisation's purpose? Inspire and motivate employees to realise the organisation's purpose? model the values of the organisation?
Assurance How well do the non-executives: <ul style="list-style-type: none"> monitor financial, compliance and business indicators? ensure appropriate processes are in place to manage risk? have oversight of the executive team? 	Management How well do the executives: <ul style="list-style-type: none"> set goals, creating plans and allocating resources to achieve them? effectively assign roles and responsibilities? Focus on day-to-day tasks and resources needed to deliver strategic aims?
Value protection	

Source: The Board: Creating and protecting value, 2017, Grant Thornton

Question:

- Have you read our report?



<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/board-effectiveness-report-2017.pdf>

International Consortium on Governmental Financial Management

Introduction

Grant Thornton and the International Consortium on Governmental Financial Management (ICGFM) partner every other year to perform an international survey of Public Financial Leaders.

Page 60 In 2015 the theme was innovation in public financial management. This year's survey has been designed to identify and describe emerging issues around transparency and citizen engagement – building on the themes highlighted in the 2015 report.

The insights will be published in a report later in 2017 and we would be delighted if you were able to spend some time completing the brief on-line questionnaire which can be found [here](#). Your Audit Manager will be able to provide you with a link to the survey if required.

Please note that the ICGFM and Grant Thornton will not identify, or attribute thoughts and quotations to, individual survey respondents in the final 2017 report. This preserves your anonymity, so please respond freely, honestly and openly.



We have again partnered with the ICGFM to survey Financial Leaders

Question:

- Have you completed the ICGFM survey on transparency and citizen engagement?



Innovation in public financial management
in an increasingly complex and uncertain global environment

Global financial management leaders survey 2015





© 2017 Grant Thornton UK LLP. All rights reserved | Draft

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grantthornton.co.uk

This page is intentionally left blank



Mr T Richens
Divisional Director: Business Support
Bath and North East Somerset Council
Guildhall
Bath
BA1 5AW

Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street
Bristol BS1 6FT

T +44 (0)117 305 7600
F +44 (0)117 305 7784
grantthornton.co.uk

21 April 2017

Dear Tim

Planned audit fee for 2017/18

The Local Audit and Accountability Act 2014 provides the framework for local public audit. Under these provisions, the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.

PSAA will oversee the Audit Commission's audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements until 2017/18. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

From 2018/19 PSAA has been specified by the Secretary of State as an appointing person for principal local government and police bodies, and will make auditor appointments and set fees for bodies that have opted into the national auditor appointment scheme it is developing.

Scale fee

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timescales'.

There are no changes to the overall work programme for local government audited bodies for 2017/18, following the recent CIPFA/LASAAC announcement that their planned introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities in 2017/18 will no longer proceed. PSAA have therefore set the 2017/18 scale audit fees at the same level as the scale fees applicable for 2016/17. The Council's scale fee for 2017/18 has been set by PSAA at £123,832.

The audit planning process for 2017/18, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2017/18 will be undertaken under this Code, on the basis of the 2017/18 work-programme and scales of fees set out on the PSAA website. Further information on the NAO Code and guidance is available on the NAO website.

The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

Value for Money conclusion

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

The NAO guidance identifies one single criterion for auditors to evaluate:

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.

Certification of grant claims and returns

At the request of the Department for Work and Pensions, auditors appointed by PSAA will continue to certify local authority claims for housing benefit subsidy for 2017/18.

The Council's indicative fee for this certification work has yet to be set by PSAA. We will write to you to confirm the fee when this has been confirmed.

Assurance engagements for other schemes will be subject to separate arrangements and fees agreed between the grant-paying body, the Council and ourselves.

Pension Fund audit

PSAA has also established a scale of fees for pension fund audits. The scale fee for the audit of the pension fund is £28,805. Our work on the pension fund will be undertaken by our specialist pension fund audit team, led by Julie Masci and Megan Gibson.

Billing schedule

Fees will be billed as follows:

Main Audit fee		£
September 2017		30,958
December 2017		30,958
March 2018		30,958
June 2018		30,958
Total		123,832
Housing Benefit Certification		
March 2018	To be confirmed	
Pension Fund audit		
March 2018		28,805

Outline audit timetable

We will undertake our audit planning and interim audit procedures from November 2017 to March 2018. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in July 2018 and work on the whole of government accounts return in August 2018.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	November 2017 – February 2018	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June – July 2018	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	February – April 2018 Concluded in July 2018	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	August 2018	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	September 2018	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	September – November 2018	Grant certification report	A report summarising the findings of our housing benefit certification work

Our team

The key members of the audit team for 2017/18 are:

	Name	Phone Number	E-mail
Engagement Lead	Barrie Morris	0117 305 7708 07771 976684	barrie.morris@uk.gt.com
Engagement Manager	Kevin Henderson	0117 305 7873 07880 456132	kevin.j.henderson@uk.gt.com
In Charge Auditor	Scott Corboy	0117 305 7616	scott.f.corboy@uk.gt.com
Pensions Engagement Lead	Julie Masci	029 2034 7506 07730 677 623	julie.masci@uk.gt.com
Pensions Audit Manager	Megan Gibson	0117 305 7681	megan.gibson@uk.gt.com
Pensions In Charge Auditor	Beth Garner	0117 305 7726	beth.ac.garner@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Jon Roberts, our Public Sector Assurance regional lead partner, via jon.roberts@uk.gt.com.

Yours sincerely



Barrie Morris
Engagement Lead
For Grant Thornton UK LLP

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	5th December 2017	AGENDA ITEM NUMBER
TITLE:	Internal Audit Annual Plan – Six Month Performance Update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1- Audit Reviews Position Statement (as at 30th September 2017)		

1 THE ISSUE

- 1.1 The Annual Internal Audit Plan for 2017/18 was presented to the Corporate Audit Committee on the 13th April 2017. This report has been compiled to provide an update to the Committee on progress against the Plan and the results of Internal Audit work completed.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to note progress made against the Internal Audit Plan for 2017/18.

3 FINANCIAL IMPLICATIONS

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

4 THE REPORT

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

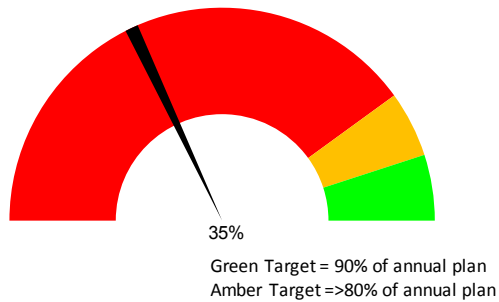
- Delivery of the plan in terms of 'Audit Plan Completed' is below target as at 30th September 2017;
- Audit Reviews are being completed within their allocated days;
- Customers continue to rate the service provided as either 'good' or 'excellent';
- There has been a decline in the percentage of Critical and High level recommendations implemented within the timescale agreed by management;
- Based on reviews completed the Average Assurance Level has reduced;
- Unplanned work is currently over the planned contingency.

PERFORMANCE DASHBOARD - INTERNAL AUDIT

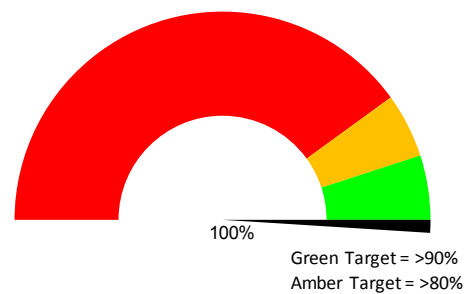
Client - Bath & North East Somerset

Period - April 2017 - September 2017

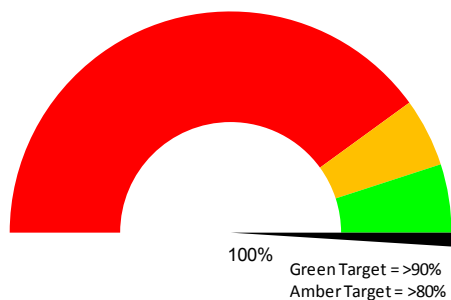
1. AUDIT PLAN COMPLETED



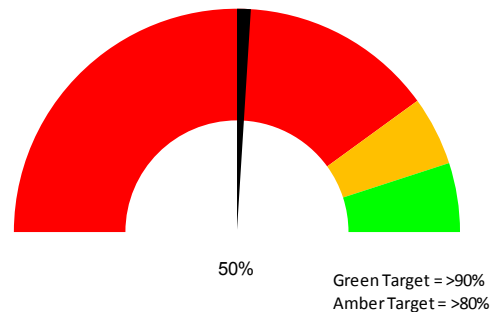
2. AUDITS COMPLETED IN PLANNED TIME



3. CUSTOMER SATISFACTION

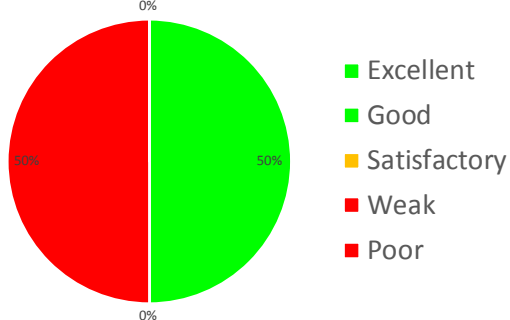


4. IMPLEMENTATION OF RECOMMENDATIONS

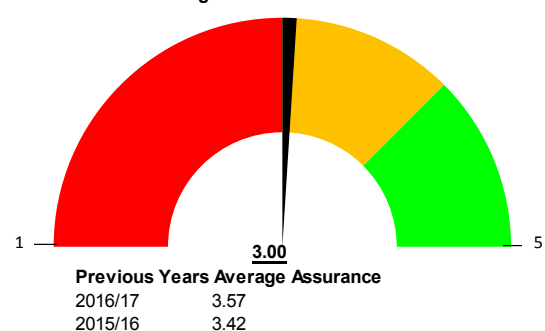


5. AUDIT OPINION - ASSURANCE LEVEL PROVIDED

Current Position



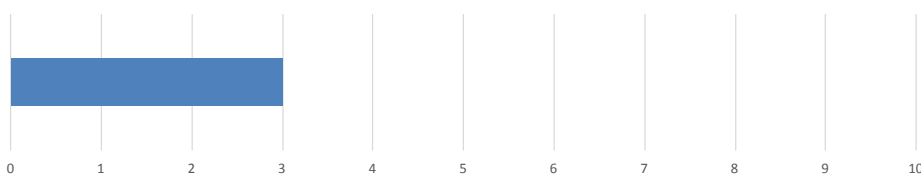
Current Average Assurance Level



6. WHISTLEBLOWING CASES IN CURRENT FINANCIAL YEAR



7. INVESTIGATIONS - CASES UNDER INVESTIGATION DURING REPORTING PERIOD



Equating to
27.0
Audit Days
2016/17

8. NEW UNPLANNED WORK



Equating to
6.9
Audit Days
2016/17

4.2 COMPLETION OF THE INTERNAL AUDIT PLAN

4.2.1 The performance dashboard shows that at the half-way point of the year, 35% of the plan is substantially completed. This includes work that is either finalised, at reporting stage, or at the end of fieldwork (see Appendix 1). Five audits had been completed ('Draft' or 'Final' report issued), and another twelve were 'in progress'.

4.2.2 Reasons for completing less of the plan than expected at the financial year half way point are:

Level of Unplanned Work. The Performance Dashboard records that a total of 34 days has been used on 'Unplanned Work / Investigations'. In addition a further 15 days has been spent on investigations by Senior Management and this is almost in excess of the contingency allocated for the half year. Audit West have been involved in three investigations in the first six months of the year and since September a further two investigations have been commenced.

Level of Sickness / Compassionate / Carers Leave. The total of 65 days was significantly higher than the 16 days for the whole of 2016/17. Two members of staff accounted for 56.5 days.

Vacancy caused by a Senior Auditor leaving the Council during September. This post is currently vacant and due to the Council's vacancy freeze we are not allowed to recruit at this time. If no recruitment takes place this will cause a further loss of approximately 80 days (12.5%) on the B&NES audit plan.

4.2.3 Clearly delivering on external contracted work has to take initial priority or there would be financial consequences for the Council and therefore the impact on the B&NES plan is more severe in the short term.

4.2.4 To counter this position the scope of scheduled audits will be subject to additional review to ensure audit resources are focussed on the key risk areas and we will look to request additional support from our key partner the Devon Audit Partnership. Based on this it is possible that over 80% of the plan will be completed however the committee should be aware that any further depletion of resources or further significant unplanned work will impact on the ability of Audit West to carry out enough work to form an overall opinion on the Council's internal control framework at the year end.

4.3 AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS

4.3.1 The percentage of audits (included in 2016/17 Plan) completed within the initial allocated days is recorded at 100% which is a significant improvement of over 25% on this time last year and is a sign of the rigour attached to the delivery of the plan as a result of the issues detailed in 4.2.

4.4 CUSTOMER SERVICE

4.4.1 As previously reported providing quality and adding value is particularly important to Audit West. Receiving customer feedback is useful in being able to improve the service provided. The move to distributing Quality Assurance Feedback Forms through the Internal Audit Software has had a positive impact in terms of the number of forms completed and the speed of response. However, it has been noted that clients seem to concentrate on recording a score against each of the 5 questions rather than provide additional comments. Performance remains very positive and is a sign of a continued focus on the quality of the service and the value of sound internal audit. Examples of some of the comments received include:

“There were a lot of issues that need addressing which it was good to have brought to my attention.”

“Yes, some sound recommendations given at various stages of the process. These are clear and should help us refine the process even further to ensure accuracy and consistency”

4.5 IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS

4.5.1 The dashboard records the implementation of critical/high risk rated recommendations at the time the audit was ‘Followed-Up’ at 50%. Of the 8 audits ‘Followed-Up’ during the first half of the financial year, 5 of them had critical / high risk rated weaknesses / recommendations. For 3 of these 5 audits all critical / high recommendations were implemented which was positive.

4.5.2 There were therefore 2 audits where the ‘Follow-Up’ work identified that critical / high risk recommendations had not been implemented by the date agreed by management – 1) Direct Payments; and 2) Use of Council Vehicles.

4.5.3 **Direct Payments** - This audit reviewed processes for adult direct payments and focused on two ‘managed’ budget providers - Phoenix and DHI. The recommendation which had not been implemented was related to the weakness that a formal contract with Phoenix was not in place which meant that the Council could not ‘formally’ monitor or enforce conditions as appropriate on any provision that is supplied by Phoenix to Direct Payment clients. The management comment obtained when following up the recommendation in July was:

“There is still no contract with Phoenix, but the contracts for DHI and WECIL are now with Virgin. The plan is for Virgin to procure the new Direct Payment support services model which will be in place from 1st April 2018, and it’s expected that Phoenix will be a part of the new structure”.

So although the recommendation had not been implemented we have been advised that Virgin will be formalising arrangements with the provider of managed budget services and can take some assurance from this position.

4.5.4 **Use of Council Vehicles** – This Audit Report recorded 2 ‘critical’ and 10 ‘high’ risk weaknesses / recommendations. As at the date of the ‘follow-up’ only 3 recommendations were evidenced as being implemented. This prompted a meeting with management at the end of April 2017 and a plan of action was

agreed, to put in place a framework of controls to manage the key weaknesses. A meeting was held on the 6th October 2017 with the Divisional Director Environmental Services and the Group Manager – Neighbourhoods to discuss the current position. It was confirmed that limited action had been taken and it was agreed that the Group Manager would provide a written formal response including a revised action plan.

4.5.5A single audit has therefore skewed the dashboard results related to the 'Implementation of Recommendations'. The Committee should note that since the end of September a further 5 audits have been 'followed-up' and all the 'High' risk recommendations had been evidenced as being implemented.

4.6 INVESTIGATIONS/ WHISTLEBLOWING

4.6.1 As stated in 4.2.2 during the first half of 2017/18 the service has been involved in three investigations.

4.6.2 Two 'whistleblowing' cases in the Place Directorate identified that the internal control framework or compliance with procedures needed to be improved. Internal Audit are satisfied that sufficient action has been taken to resolve the issues highlighted.

4.6.3 In terms of the 3rd investigation this considered a series of contracts in the People and Communities Directorate and the controls around payments made against capacity delivered. A report was submitted to senior management and the agreed actions will be 'followed-up' in January 2018.

4.7 ASSURANCE LEVEL PROVIDED

4.7.1 In terms of 2017/18 planned work, five audits had been completed ('Draft' or 'Final' report issued), and another twelve were 'in progress'. Management have responded to two audit reports which enable the report to be 'finalised'.

4.7.2 It has been agreed that any audits recording a 'Poor' or 'Weak' Assurance Level will be reported to the Committee. During the first six months of 2017/18 only one audit of Libraries West – Consortium Contract Management resulted in an overall Assurance Level 2 (Weak) being allocated.

The key control objectives reviewed were:

1. The Libraries Consortium and the Council fulfil their individual and joint obligations as part of the Libraries Consortium agreement. (Assessed as 'Weak').
2. Libraries Consortium contractual payments are in accordance with the agreement, accurate and paid timely. (Assessed as 'Poor').

Weaknesses identified included:

- The Lead Authority (Somerset County Council) was not fulfilling its contractual role in administering good governance of LibrariesWest. For example - Key Performance Indicators had not been agreed by the Board and were not being monitored; Annual Estimates were not produced 3 months in advance of the start of the financial year; invoicing was not in line

with the contract; subgroup discussions around key governance issues were not reported to the Board

- The Council was not sufficiently monitoring the performance of LibrariesWest and whether it was obtaining the required benefits from remaining part of the Consortium.

4.7.3A series of recommendations have been made and these will be formally reviewed in Quarter 4 when the audit is scheduled to be 'followed-up'.

5 RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6 EQUALITIES

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

7 CONSULTATION

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

Contact person	<i>Andy Cox (01225 477316) Jeff Wring (01225 477323)</i>
Background papers	<i>Report to Corporate Audit Committee – 13th April 2017 – Internal Audit Plan - 2017/18</i>
Please contact the report author if you need to access this report in an alternative format	

Audit Reviews Position Statement (as at 30th September 2017)
Appendix 1

Ref	Topic	Status	Assurance Level	Recommendations	
				Made	Agreed
17-001B	Governance of Council Companies	In Progress	W	I	P
17-002B	Your Care Your Way - Transition of Service Provision - Governance / Systems (Liquid Logic)	In Progress	W	I	P
17-003B	Your Care Your Way - Contract Management	Not yet started			
17-004B	Pension Investments (Project Brunel)	Not yet started			
17-005B	Your Care Your Way - Data Management	Not yet started			
17-006B	Your Care Your Way - Project Plan Implementation	Not yet started			
17-007B	Bath Quays (South) - Governance	In Progress	W	I	P
17-008B	IT - Physical Security	In Progress	W	I	P
17-009B	Business Continuity & Disaster Recovery	In Progress	W	I	P
17-010B	IR35 Compliance	Not yet started			
17-011B	Bath Quays (North) - Expenditure	In Progress	W	I	P
17-012B	Salary Sacrifice	In Progress	W	I	P
17-013B	Heritage - Financial Reporting & Monitoring	Not yet started			
17-014B	Delivery of Council Savings Programme	In Progress	W	I	P
17-015B	Project Initiation Document Process	Not yet started			
17-016B	School Theme - Procurement / Purchasing Arrangements	Not yet started			
17-017B	Liquid Logic - Client Charges	Not yet started			
17-018B	Liquid Logic - Payments to Providers	Draft	3	8	Awaited
17-019B	Pension Administration - Benefit Calculations	Not yet started			
17-020B	LibrariesWest - Consortium Contract Management	Final	2	2	2
17-021B	iTrent / Payroll - Input & Processing	Final	4	2	2
17-022B	GLL Contract Management	Not yet started			
17-023B	Asset Planning	Not yet started			
17-024B	General Data Protection Regulation - Readiness Assessment	Not yet started			
17-025B	Purchasing Cards - Policy / Data Analytics	In Progress	W	I	P
17-026B	Data Analytics	In Progress	W	I	P
17-027B	School Transport - Special Education Need Disability Pupils	Not yet started			
17-028B	NNDR Debt Recovery	Not yet started			
17-029B	Asset Management - Inventory and Insurance	In Progress	W	I	P
17-030B	iTrent / Payroll - Payroll Reconciliation	Not yet started			
17-031B	Public Health - Allocation of Funding and Expenditure Certification & Reporting	Not yet started			
17-032B	Bus Gate Enforcement	Not yet started			
17-033B	Fleet Management External Commercial Activity	Draft	2	8	Awaited
17-034B	Housing Services - Disabled Facilities Grants	Draft	5	2	Awaited
17-035B	Registrars - Income Reconciliation	Not yet started			
17-036B	Foster Care	Not yet started			
17-037B	Waste Service	Not yet started			
17-038B	Energy - Governance / Structure of Service Provision	Not yet started			
17-039B	Children Safeguarding - Child Referrals	Not yet started			
17-040B	Section 106 - Expenditure Records	In Progress	W	I	P

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	5th December 2017	AGENDA ITEM NUMBER
TITLE:	Public Sector Internal Audit Standards	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
<p>List of attachments to this report:</p> <p>Appendix 1 – Public Sector Internal Audit Standards – Self Assessment Conformance RAG.</p> <p>Appendix 2 – Internal Audit Charter</p>		

1 THE ISSUE

- 1.1 The Relevant Internal Audit Standards setters (including HM Treasury, Department of Health and CIPFA for Local Government) have adopted a set of Public Sector Internal Audit Standards (PSIAS). The PSIAS, originally introduced on 1 April 2013 were revised on 1 April 2017.
- 1.2 The purpose of this report is to provide the Committee with the results of a self-assessment undertaken to review B&NES Council Internal Audit Service (Audit West) conformance with the revised Standards.
- 1.3 Audit West must be subject to an external assessment by a qualified, independent assessor or assessment team from outside the Council, once every five years. The next external assessment must be completed by 30 March 2018. The process followed and the evidence compiled by the self-assessment will assist the external assessor and minimise the time spent to complete the external assessment.

2 RECOMMENDATIONS

- 2.1 The Corporate Audit Committee is asked to:
 - 1) Note that the Council's Internal Audit Service (Audit West) has to comply with the revised PSIAS which came into effect from 1st April 2017.
 - 2) Note the Self-Assessment PSIAS RAG and approve the associated Action Plan (Appendix 1).
 - 3) Approve the revised Internal Audit Charter (Appendix 2).

3 FINANCIAL IMPLICATIONS

- 3.1 The implementation of an action plan to ensure compliance with the PSIAS will be carried out using existing resources, i.e. Internal Audit management time. It is proposed that the external assessment will be carried out between January and March 2018 by the Head of Devon Audit Partnership (DAP) and there will be a charge for this work.

4 THE REPORT

- 4.1 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1st April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government, Central Government and the NHS. The PSIAS was revised wef 1st April 2017 and are based on the Institute of Internal Auditors' International Standards. The objectives of the PSIAS are to:

- Define the nature of internal auditing within the UK public sector.
- Set basic principles for carrying out internal audit in the UK public sector.
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations.
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

- 4.2 In common with the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) on which they are based, the PSIAS comprise Attribute Standards (characteristics of organisations and parties performing internal audit activities) and Performance Standards (nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated).

- 4.3 A key requirement of the PSIAS is an Internal Audit Charter which defines the internal audit activity's purpose, authority and responsibility. The Internal Audit Charter establishes its position within the organisation; the nature of the CAE's functional reporting relationship with the Corporate Audit Committee; formally records its access to property, records and personnel; and defines the scope of internal audit activities. The CAE must periodically review the Internal Audit Charter and present it to senior management and the Corporate Audit Committee for approval.

- 4.4 A Quality Assurance and Improvement Programme (QA&IP) will need to be in place requiring both internal and external assessments. The external assessment will be required at least every 5 years. The CAE is required to communicate the results of the QA&IP to senior management and the Corporate Audit Committee including the conclusions of the assessors and details of the corrective action plans.

- 4.5 An initial desk top review of the Standards has been carried out to confirm

compliance and also to identify work required to be fully compliant. The RAG assessment of conformance with the PSIAS is attached (Appendix 1).

- 4.6 The external assessment process must be carried out by a qualified and independent assessor from outside the organisation. An external assessment of Audit West must be completed by 30 March 2018. As stated in 3.1, the Head of Devon Audit Partnership will be carrying out the assessment between January and March 2018.
- 4.7 The assessment will also involve interviews with key officers and members of the Audit Committee (including the Chair) and a more detailed timetable will be made available to those included once it has been agreed with the assessor.

5 RISK MANAGEMENT

- 5.1 An effective Internal Audit function demonstrates good governance to the public and stakeholders at large. This helps to ensure that the Council is transparent about the delivery of its functions and how it attempts to deliver good value to its residents from its services

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 The report was distributed to the S151 Officer for Consultation.

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

Public Sector Internal Audit Standards - Self Assessment Conformance RAG (Appendix 1)			
Reference	Code Title	Assessment Rating	Action Plan
Code of Ethics			
1	Integrity	Green	
2	Objectivity	Green	
3	Confidentiality	Green	
4	Competence	Green	
Attribute Standards			
1000	Purpose, Authority and Responsibility	Amber	A review of the current Internal Audit Charter will be undertaken to ensure the content is in line with PSIAS Standards and the revised document will be submitted to the December 2017 Corporate Audit Committee for approval. A process of annual review of the Internal Audit Charter will be established.
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter	Red	Recognition of the Definition of Internal Auditing, the Code of Ethics and the Standards will be included in the revised Internal Audit Charter (See Code 1000).
1100	Independence and Objectivity	Green	
1110	Organisational Independence	Green	
1111	Direct Interaction with the Board	Green	
1112	CAE Roles Beyond Internal Auditing	Amber	A policy should be established which will ensure that assurance engagements over areas that are under the control or direct influence of the CAE (Information Governance) are overseen by a party external to the CAE. The CAE must highlight to the CAC any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics as well as any relevant requirements set out by other professional bodies to which the CAE may belong.
1120	Individual Objectivity	Green	
1130	Impairments to Independence or Objectivity	Amber	A process is established to remind Audit West staff of their responsibilities with regard to Independence and Objectivity on an annual basis including a signed declaration that they have read and understood the policies in respect of Code of Conduct, Declarations of Interest and Gifts and Hospitality.
1200	Proficiency and Due Professional Care (The sum of Standards 1210-1230)	Amber	
1210	Proficiency	Green	
1220	Due Professional Care	Green	
1230	Continuing Professional Development	Amber	A training record for each member of the Audit West Team whereby CPD /CPE can be demonstrated and monitored for 2017/18 and beyond will be established. A training strategy for Audit West will be introduced which links to CPD / CPE training needs and the skills and competencies matrix.
1300	Quality Assurance and Improvement Programme (The sum of Standards 1310 - 1320)	Red	
1310	Requirements of the Quality Assurance and Improvement Programme	Amber	A Quality Assurance and Improvement Programme (QAIP) will be developed that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated. It will need to be maintained by the CAE and assess efficiency / effectiveness and opportunities for improvement.
1311	Internal Assessments	Amber	A plan or schedule will be established which sets out the type, nature and timing of future self assessments including ongoing monitoring the performance of Audit West through benchmarking and a revised customer feedback process.
1312	External Assessments	Red	Based on the requirements of PSIAS external assessment will be completed at least every 5 years commencing with an external validation of the Audit West self assessment in March 2018.
1320	Reporting on the Quality Assurance and Improvement Programme	Red	The CAE will communicate the results of both external and periodic internal assessments upon completion to senior management and the CAC.
1321	Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	Green	
1322	Disclosure of Non-conformance	Green	

Performance Standards			
2000	Managing the Internal Audit Activity (Sum total of Standards 2010 - 2030)	Amber	
2010	Planning	Green	
2020	Communication and Approval	Green	
2030	Resource Management	Green	
2040	Policies and Procedures	Amber	A procedural guidance manual is established to guide auditors in performing their duties in a manner that conforms to PSIAS / IPPF. The manual should include detailed guidance on how to conduct an audit i.e. planning (understanding objectives and risks of the area to be audited), sample sizes, evidence recording, control identification and assessments.
2050	Coordination	Amber	An assurance mapping exercise is undertaken as part of the planning process for the 2018/19 Annual Audit Plan to identify and determine the approach to using other sources of assurance effectively.
2060	Reporting to Senior Management and the Board	Green	
2100	Nature of Work (Sum of Standards 2110 - 2130)	Green	
2110	Governance	Green	
2120	Risk Management	Green	
2130	Control	Green	
2200	Engagement Planning (Sum of Standards 2201 - 2240)	Amber	
2201	Planning Considerations	Amber	See Standard 2310 - An Audit Planning Document will be established to document / evidence that internal auditors have adequately researched, scoped and planned the internal audit engagements to provide assurance on the key risks.
2210	Engagement Objectives	Amber	See Standard 2310 - An Audit Planning Document will be established to document the rationale used to identify the objectives of the audit review.
2220	Engagement Scope	Green	
2230	Engagement Resource Allocation	Green	
2240	Engagement Work Programme	Green	
2300	Performing the Engagement (The Sum of the Standards 2300 - 2340)	Amber	
2310	Identifying Information	Amber	An Audit Planning document is produced for each audit which documents the key planning information for the audit including the business and process objectives, risk appetite and identified risks, background information, a walkthrough (system narrative) of in scope processes (includes key risks and controls) use of data analytics and the approach to be adopted. This will help keep the focus of the audit on the key risks.
2320	Analysis and Evaluation	Green	
2330	Documenting Information	Amber	The current Record Retention Policy is reviewed to ensure timescales and document areas are still relevant and appropriate. A process of formal review should be established on an annual basis with details of the review and any amendments recorded (version control). A formal process for the review of the documents held electronically and in paper format should be established to ensure documents are destroyed in line with the the Record Retention Policy.
2340	Engagement Supervision	Green	
2400	Communicating Results (Sum of Standards 2410 - 2440)	Green	
2410	Criteria for Communicating	Green	
2420	Quality of Communications	Green	
2421	Errors and Omissions	Green	
2430	Use of conducted in conformance with the International Standards for the Professional Practice of Internal Auditing	Green	
2431	Engagement Disclosure of Non-conformance	Green	
2440	Disseminating Results	Green	
2450	Overall Opinions	Green	
2500	Monitoring Progress	Green	
2600	Resolution of Senior Management & Acceptance of Risks	Green	

Internal Audit Charter

This document sets out the purpose, authority and principal responsibilities of the Internal Audit Service for Bath & North East Somerset Council.

1 Internal Audit's Purpose and Mission

- 1.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on its control environment. Internal Audit helps the organisation to achieve its objectives through a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and control, processes. Its mission is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight

2 Internal Audit's Statutory Role

- 2.1 The Accounts & Audit Regulations 2015 (Local Government England & Wales) states that:
- “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.
- 2.2 Section 151 of the Local Government Act 1972 requires the Council to designate an Officer to be responsible for “making arrangements for the proper administration” of the Council's financial affairs. One of the ways by which this duty is discharged is by maintaining an adequate and effective Internal Audit Service.
- 2.3 The Corporate Audit Committee responsibilities are recorded in its' own Terms of Reference, and are also subject to regular review.

3 Standards for Professional Practice of Internal Auditing

- 3.1 Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing.
- 3.2 The Head of Audit West will report periodically to the Council's Chief Executive, Chief Financial Officer (S151 Officer) and the Corporate Audit Committee regarding Internal Audit conformance to the Code of Ethics and the Standards.

4 Management's Responsibilities for Internal Control

- 4.1 Responsibility for internal control rests fully with Management, who shall ensure that arrangements are appropriate and adequate. Management shall establish and maintain an adequate system of internal control to enable them to discharge their responsibilities and to ensure that the Council's resources are properly applied in the manner intended. This includes responsibility for the prevention and detection of fraud.

5 Internal Audit Responsibility & Objectives

- 5.1 Internal Audit is responsible for carrying out an appraisal of all the Council's activities, financial or otherwise, in line with this Internal Audit Charter. Internal Audit will provide an annual opinion to the Council (Corporate Audit Committee), and will carry out Audits and other assurance work in order to deliver this opinion. In addition, Internal Audit will report to Management any material facts that may affect the delivery of the opinion.
- 5.2 As stated in Section 3 Internal Audit will be governed and will comply with the Professional Practices Framework, (including the Public Sector Internal Audit Standards), and will complete an annual fully evidenced internal assessment of compliance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The findings and any required actions will be reported to the Council's Corporate Audit Committee. Compliance will also be verified through an external review assessment every five years.
- 5.3 Internal Audit and its overall resources and objectives are part of an independent arrangement (Audit West) which is hosted by Bath & North East Somerset Council and subject to overall approval by the Cabinet Member for Resources.
- 5.4 One of the key service objectives of Internal Audit will be to produce a risk based Annual Audit Assurance Plan for approval by the Council's Corporate Audit Committee. The Audit Plan will remain flexible to take account of the Council's changing environment and risk profile.
- 5.5 Completion of all or a significant proportion of the approved Audit Plan will be a key performance measure of the Internal Audit Service.
- 5.6 Internal Audit will directly employ staff and contract as necessary to provide a service to the Council.

6 The Scope of Internal Audit

- 6.1 Internal Audit's work is not limited to the Council's financial systems and records, but extends to all activities of the Council. This enables Internal Audit to give an independent and objective opinion on the adequacy and effectiveness of governance, risk management and the control environment as a source of assurance to management. This will include: reviewing and evaluating compliance with policies, laws and regulations; assessing the reliability and integrity of information; and, safeguarding Council assets. In addition to this core internal audit work, it will undertake, where appropriate, other non-assurance work at the request of management. This may include consultancy and fraud / irregularity related work.

- 6.2 Where appropriate, there may be instances whereby Internal Audit works in partnership to meet objectives and deliver services. In these instances, Internal Audit will decide whether to conduct the work required itself or can place reliance on the work carried out by other Auditors or sources of assurance. If Internal Audit were to carry out the work, then access rights need to be established to all systems and documents. Management should ensure these are established as part of the partnership arrangements.

7 Internal Audit Reporting Lines

- 7.1 The Head of Audit West fulfills the role of the Council's "Chief Internal Auditor" and is fully independent. In relation to the delivery of the function for Bath & North East Somerset Council he reports to the S151 Officer who acts as Client. The Head of Audit West has freedom of reporting access without fear or favour to all relevant Members and Officers (including the Leader of the Council, the Chair of the Corporate Audit Committee and the Council's Statutory Officers - Chief Executive {Head of Paid Service}; Chief Financial Officer {Section 151} and the Head of Legal & Democratic Services {Monitoring Officer}).
- 7.2 The Council has a Corporate Audit Committee whose Terms of Reference include responsibility for monitoring the performance of the Internal Audit Service and approving its Annual Audit Plan. The Head of Audit West reports regularly to the Corporate Audit Committee and is required on an annual basis to provide a formal opinion of the adequacy of the Internal Control Framework and systems to manage risk.

8 Internal Audit Independence

- 8.1 A critical element of the performance of Internal Audit is independence from the activities it audits. This enables Internal Audit to form impartial and effective judgment for the opinions and recommendations made. To help ensure independence Internal Audit is allowed unrestricted access to Senior Management & Members, as stated in Section 7.1. The Head of Audit West reports in his own name.
- 8.2 Internal Auditors will be impartial, have an unbiased attitude and avoid any conflict of interest. Auditors will not undertake audit reviews in services where they have previously worked (directly working for the function or carrying out 'consultancy services') in the last two years. In terms of 'consultancy services' this is work which is going beyond providing an opinion on the control environment, i.e. they are designing or developing systems to fulfil an objective.
- 8.3 Internal auditors will disclose any impairments of independence or objectivity, in fact or appearance, to appropriate parties.
- 8.4 Before Internal Audit agrees to carry out consultancy services consideration will be given to any potential conflicts of interest. If it is concluded that the proposed work would compromise delivery of the service's prime function then the work would be declined.

- 8.5 Where the Head of Audit West has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.
- 8.6 The Head of Audit West will confirm to the Corporate Audit Committee at least annually of the independence of the internal audit activity.

9 Internal Audit Fraud related work

- 9.1 Internal Audit does not have responsibility for the prevention and detection of fraud. However, Internal Audit staff shall be alert in all their work, to risks and exposures that could allow fraud or corruption. Internal Audit work alone cannot guarantee that fraud and irregularities will be picked up even when work is performed in compliance with the Public Sector Internal Audit Standards.
- 9.2 The main source for Internal Audit to be alerted to possible fraud and irregularities will be through the awareness of Council Officer and Members of the Council's Counter Fraud Strategy and associated policies (Money Laundering Policy; Anti-Bribery Policy and Whistleblowing Policy). Internal Audit maintain the Council's Strategy and Policies and report on this to the Corporate Audit Committee.
- 9.3 Internal Audit assist in the detection of fraud by assisting the Council's Chief Financial Officer in taking the key co-ordination role related to the Cabinet Office National Fraud Initiative. Internal Audit assists Council Services in the preparation and submission of data to the Cabinet Officer and then the review and investigation of data matches.
- 9.4 Internal Audit may also be requested by Management to assist with the investigation of potential cases of fraud and financial irregularities. The objective of the Internal Audit Service is to ensure that: 1) the matter is fully investigated and if necessary referred for Police or disciplinary action; and 2) the system of internal control is enhanced to avoid a repeat of the issue. All reported irregularities would be investigated in line with adopted Strategies, Policies and protocols.

10 Internal Audit's Right of Access

- 10.1 The Accounts & Audit Regulations 2015 provides that any Officer of the Council must make available such documents of the Council which relates to its' accounts and other records as appear to be necessary for the purpose of the Audit.

In addition the Council's Financial Regulations state that The Chief Audit Executive or their authorised representative, shall have authority to:

- Enter at any reasonable times, any operational or administrative Council premises or land and have access to all Council property;
- Have access to (and where necessary to copy or retain) all records whether manually or electronically held, documentation, correspondence and computer systems relating to any transaction of the Council, or non-official funds operated by Council staff;
- Require and receive such explanations as are necessary concerning any matter under examination;

- Require any employee of the Council to produce or account for cash, stores or any other property under their custody or control,
- Examine any work or services carried out for the council by an employee or contractor, and any goods purchased on behalf of the Council,
- Review appraise and report on the soundness, adequacy and application of internal controls. This includes those controls to protect Council resources, property and assets from loss / waste.

11 Relationship with External Audit & other assurance providers

- 11.1 The relationship between Internal Audit and the Council's External Audit should take account of their differing roles. The External Auditor has a statutory responsibility to express an opinion on the Council's financial statements, whilst Internal Audit is responsible for assessing the adequacy and evaluate the effectiveness of its risk management, control and governance processes and advise Management accordingly.
- 11.2 Internal Audit will co-operate and co-ordinate with External Audit and any other review agencies to:
- Ensure that duplication of work is minimised
 - Consider joint delivery where appropriate
 - Determine the level of assurance that can be obtained from their work
 - Review the reliance that can be placed on that assurance as part of Internal Audit's opinion on the control environment
 - To enable access to all Internal Audit records as appropriate.
- 11.3 As part of its drive to secure efficiencies, Internal Audit will use all sources of assurance available to it to inform its opinion.

12 Quality Assurance and Improvement Plan

- 12.1 The Head of Audit West has developed a quality assurance and improvement programme that covers all aspects of the internal audit activity. It has been designed to enable an evaluation of the internal audit activity's conformance with the Public Sector Internal Audit Standards and an evaluation of whether internal auditors apply the Institute of Internal Auditors Code of Ethics. Identifying opportunities for improvement is a key requirement of the programme.
- 12.2 An annual internal assessment will be carried out using a methodology developed to review compliance with the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework. The results of the internal assessment including any action plans will be reported in the annual report to the Council's Corporate Audit Committee.
- 12.3 An external assessment will be carried out at least every five years by a qualified, independent assessor from outside the organisation.
- 12.4 The Head of Audit West will inform the Corporate Audit Committee of the form of the external assessment and clarify the qualifications and independence of the external assessor. The results of the external assessment including any action

plans will be reported in the relevant annual report to the Corporate Audit Committee.

- 12.5 Any non-conformance to the International Standards for the Professional Practice of Internal Auditing and Code of Ethics will be highlighted for consideration for inclusion in the Council's Annual Governance Statement.

This page is intentionally left blank