

**CORPORATE AUDIT COMMITTEE**

**Minutes of the Meeting held**

Monday, 30th July, 2018, 2.00 pm

**Councillors:** Brian Simmons (Chair), Paul Crossley, Chris Dando, Fiona Darey (in place of Barry Macrae) and Chris Watt

**Independent Member:** John Barker

**Officers in attendance:** Donna Parham (Director of Finance), Jeff Wring (Head of One West), Jamie Whittard (Financial Accounting and Planning Team Leader), Gary Adams (Head of Corporate Finance), Giles Oliver (Finance & Resources Manager) and Martin Phillips (Finance & Systems Manager (Pensions))

**Guests in attendance:** Peter Barber (Grant Thornton), Sophie Morgan-Bower (Grant Thornton) and Julie Masci (Grant Thornton)

**1 EMERGENCY EVACUATION PROCEDURE**

The Democratic Services Officer advised the meeting of the procedure.

**2 ELECTION OF VICE-CHAIR**

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

**3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Apologies were received from Councillors Andy Furse and Barry Macrae. Councillor Paul Crossley substituted for Councillor Furse and Councillor Fiona Darey substituted for Councillor Macrae.

**4 DECLARATIONS OF INTEREST**

There were none.

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

There was none.

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

There were none.

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

There were none.

**8 MINUTES - 24TH APRIL 2018**

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

## **9 ANNUAL ACCOUNTS AND EXTERNAL AUDIT FINDINGS**

The Head of Audit West introduced this item.

Members were provided with an update note, which is given as Appendix 1 to these minutes.

The Head of Corporate Finance gave a presentation on the structure of the accounts. A copy of his slides is attached as Appendix 2 to these minutes.

A Member asked what risk analysis was being undertaken of the potential impact of Brexit on currency volatility and property values. He noted that property prices had declined this year for the first time in many years. Officers replied that in 2017/18 there had actually been a £26m revaluation gain in the value of the Council's investment property portfolio. There was still so much uncertainty about what Brexit would actually mean, that there was little concrete planning that could be done for it, but officers had it fully in mind and were monitoring the property market.

The Head of Audit West presented the Annual Governance Statement (AGS) (agenda page 153). This forms part of the annual accounts. It sets out the governance arrangements for the Council, and identifies significant issues that occurred during the year. No significant governance failures were identified during the year. The sole significant issue remained the financial challenge. The AGS is a management statement not an audit statement, and is signed by the Leader and Chief Executive.

Mr Barber presented the Audit Findings for the Council for the year ending 31 March 2018. He was pleased that the accounts had been prepared by the new earlier deadline and no significant issues had been identified. Issues had been identified in relation to the valuation of property, plant and equipment, as detailed on agenda page 21. Recommendations had been made about internal controls, which were set out with management responses on agenda pages 25-26. He drew attention to the three recommendations in the action plan on page 36 and to the draft Letter of Representation from the Council on agenda pages 167-170. Members noted the audit adjustments listed on agenda pages 38-39. Mr Barber said that the external auditors will not be able to certify the closure of the accounts until the Pension Fund Committee has approved the Pension Fund accounts, which it will do at its next meeting on 21<sup>st</sup> September. It is anticipated that, subject to a small number of outstanding queries being resolved, an unqualified audit opinion will be issued on the Financial Statements, as set out in the draft Audit Opinion on agenda pages 41-42, and an unqualified value for money conclusion.

Ms Masci presented the Audit Findings for the Avon Pension Fund for the year ending 31 March 2018. (This was a late paper issued as a supplement to the agenda). No issues have been found which would affect the value of the Fund. Outstanding issues to be resolved include those listed on page 3 of the supplement. She drew attention to the work done on Level 3 investments detailed on agenda supplement page 8 and the resulting reclassification of a Level 3 investment to Level 2. It was identified that the conditions causing this reclassification were present in the

previous year, so management have reclassified the amount of this investment in the previous year.

She drew attention to the external auditor's view on the classification and valuation of the Pension Fund's holding in Brunel Pension Partnership Ltd (BPP) detailed on page 11 of the agenda supplement.

She said that the external auditors are required to give a separate opinion as to whether the financial statements included in the Pension Fund Annual Report, not due for publication until 1<sup>st</sup> December 2018, are consistent with the audited Financial Statements. A draft copy of the Report has been received and reviewed and no material inconsistencies have been found between it and the audited financial statements. However, an opinion on the Annual Report cannot be given at this time, and certification of the completion of the audit cannot be given to the administering authority until this has been done.

She drew attention to the audit adjustments listed on page 19 of the agenda supplement.

She explained that "assurance to other auditors" on page 20 of the agenda supplement meant assurance given to the auditors of employers in the Fund about governance at the Fund level.

She said that it was expected that an unqualified opinion would be given on the Fund accounts, as set out in the draft Audit Opinion on pages 21-22 of the supplement.

A Member asked whether the funds in BPP shared a common custodian and if so whether there was communication between the funds and the custodian. The Finance and Systems Manager (Pensions) confirmed a single custodian was required in order for BPP to be able to manage assets on behalf of the individual funds. Avon Pension Fund (APF) received regular reports from BPP and had access to its online system. In future there would be an increase in reporting from BPP and a reduction in reporting by APF.

**RESOLVED:**

1. to note the issues contained within the Audit Findings Report for the Council and Avon Pension Fund;
2. to approve note the Audited Statement of Accounts, incorporating the changes in the Avon Pension Fund notes contained in Annex I of the update note to the report, Annual Governance Statement and the Letter of Representation for Bath & North Somerset Council and the Avon Pension Fund for 2017/18.

## **10 TREASURY MANAGEMENT OUTTURN 2017/18**

The Interim Director – Resources presented the report.

A Member asked whether the Treasury Management Policy allows the Council to invest in gold. The Interim Director – Finance replied that it did not.

A Member noted the comments by Arlingclose in Appendix 5 about the delay in raising base rates and suggested that the forecast needs to factor in the impact of Brexit on tariffs and international relations. Arlingclose do make a passing reference to this, but he was sure there could be a significant impact on international interest rates, which may impact on domestic interest rates. More importantly, it brings new risk factors into play and he suggested the next review of the Treasury Management Strategy ought to highlight these a bit more. The Interim Director – Finance replied that interest rates were being monitored to avoid borrowing at a higher level. Markets were already predicting increases, which is affecting the long-term rate.

**RESOLVED** to note:

1. to note the Treasury Management Report to 31<sup>st</sup> March 2018, prepared in accordance with the CIPFA Treasury Code of Practice;
2. the Treasury Management Indicators to 31<sup>st</sup> March 2018.

## **11 ANNUAL REPORT - CORPORATE AUDIT COMMITTEE**

The Head of Audit West presented the report.

A Member said there should be a formal acknowledgement of the dedicated work of officers, which had produced such good outcomes.

**RESOLVED** to recommend the Annual Report to full Council, with an expression of thanks to officers whose dedicated work has produced excellent results for the Council.

The meeting ended at 3.10 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

## **Governance Reports for Council and Avon Pension Fund, and Audited Statement of Accounts 2017/18 Update Note**

Following completion of the audit of the Avon Pension Fund Accounts, some amendments to the notes to Accounts have been agreed. These are highlighted in Annex 1 to this update note. An amended recommendation No 2.2 will be moved at the meeting to incorporate this as follows:

### **RECOMMENDATION**

The Corporate Audit Committee agrees that:

2.1 the issues contained within the Audit Findings Reports for the Council and Avon Pension Fund are noted.

2.2 the audited Statement of Accounts, incorporating the changes in the Avon Pension Fund notes (see Annex 1 of the update note), Annual Governance Statement and the Letter of Representation for Bath & North East Somerset Council and the Avon Pension Fund for 2017/18 are approved.

### **Annex 1 Amendments to Pension Fund Accounts 2017/18**

#### ***Additional text shown below in bold italics***

##### Net Assets Statement as at 31<sup>st</sup> March 2018

Page 84 (Page 128 of Agenda pack)

The following text added to the bottom of the statement:

***The restatement of the 31<sup>st</sup> March 2017 assets relates to the re-ordering of the assets. There has been no change in the asset values.***

##### Note 1 – Introduction and Statement of Accounting Policies

Page 85 (Page 129 of Agenda pack):

1.10 The Fund's Funding Strategy Statement can be found on the Fund's website [www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk) (search Funding Strategy Statement) ***and is summarised within the Fund's Annual Report. The purpose of the Funding Strategy Statement is to set out a clear and transparent funding strategy that will identify how each employer's pension liabilities are to be met going forward.***

Page 86 (*Page 130 of Agenda pack*):

1.11 The Fund's Investment Strategy Statement (ISS) as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 can be found on the Fund's website [www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk) (search Investment Strategy Statement) **and is summarised within the Fund's Annual Report**. The first statement was published for 1 April 2017 and it includes a statement on the Fund's approach to pooling its investment assets as required under the regulations. The ISS has since been updated as required.

1.13 The Fund has implemented two investment strategies to manage specific risks within the asset portfolio. These strategies are held within a Qualified Investment Fund (QIF) managed by Blackrock.

(i) A Liability Driven Investment strategy has been implemented to provide a hedge against changes in the value of the pension liabilities within the asset portfolio. This strategy consists of **bonds (specifically Index link gilts)** and derivatives such as gilt repurchase agreements and interest and inflation swaps, structured to achieve the desired hedge profile.

(ii) Additionally within the QIF is a strategy to lock in the gains in equity markets ahead of the 2019 actuarial valuation. Using **Over the Counter** (OTC) equity index option contracts this strategy protects the Fund's developed markets equity assets from a fall in global markets.

#### Note 7 – Management Expenses

Page 90 (final paragraph) (*Page 134 of Agenda pack*):

Management costs in Oversight & Governance Costs include investments, actuarial and accounting staff costs. **Audit fees include; £0.029m external audit fee as set out in the Audit Plan (2016/17 £0.029m), £0.008m internal audit charge (2016/17 £0.008m) and £0.001m additional external fee relating to information provided to the actuary regarding individual employers' IAS19 disclosures (2016/17 £0.001m).**

#### Note 9 – Change In Total Net Assets

Page 92 (Page 136 of Agenda Pack):

The Net Revenue of Fund figure in the above table includes the investment transaction costs as specified below. These are the costs that it has been possible to identify. Additional costs will have been absorbed within pooled investments. **The Net Revenue of Fund equals the Net Withdrawals / additions from dealings with members (£36,050k) plus Investment income (£28,008k) as shown in the Fund account.**

- Above paragraph also relocated to appear before (instead of after) the table "Change In Total Net Assets 2016/17".

# ***Audit Committee Briefing***

## ***Overview of the Accounts***

***July 2018***

- » **2017/18 Areas of Change**
- » **Future Changes**
- » **The Main Statements**
- » **Annual Governance Statement**
- » **Audit Findings**



# 2017/18 Changes

- » **Publication Deadline changes**
  - » **Draft Publication by 31<sup>st</sup> May (previously 30<sup>th</sup> June)**
  - » **Final publication by 31<sup>st</sup> July (previously 30<sup>th</sup> Sept.)**
  
- » **No other major changes, just clarifications to:**
  - » **Narrative Reporting**
    - » Accounts & Audit Regulations 2015 requires authorities to prepare a narrative statement which “...*must include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.*”
  - » **Going Concern Basis**
    - » Reporting on financial resilience and sustainability.

# Future Changes

## » **IFRS9 Financial Instruments (2018/19)**

- » Changes to classification & Measurement of financial assets
- » New impairment model – Expected Credit Loss.

## » **IFRS15 Revenue from Contract with Customers**

- » Recognition of income from customers based on meeting contracted performance obligations – due to main sources of income received (e.g. grants, taxes) unlikely to have impact.

## » **IFRS16 Leases (2019/20)**

- » Only changes accounting where Council is Lessee
  - » Creates an asset “Right To Use Asset” & matching liability in Balance Sheet.
  - » No separation between Finance & Operating Leases.

## Narrative Report (Pg 7-16 / 51-60)

### » Key Points

- » 2017/18 Revenue Outturn – Overspend of £1.3m after carry forward of underspends
- » Additional demand pressures in Adult & Children Social Care Services
- » 2018/19 Budget Report included £8m rebasing of budgets to reflect pressures
- » Continued Financial Challenge for future years highlighted in line with MTFS and 2018/19 Budget Report

# The Main Statements

## » **Comprehensive Income & Expenditure Statement (CIES) – (Pg17 / 61)**

- » Summarises the resources that have been generated and consumed in providing services and managing the Council during the year
- » **Expenditure on Services** - Variances across service net expenditure mainly due to changes in asset valuation and other capital accounting charges which are made to services;
- » **Other Operating Expenditure** - increase due to WECA Levy of £4.2m now included (previously Service Expenditure - Transport).
- » **Financing & Investment I&E** – change reflects revaluation gains on Commercial Estate of £25.6m (compared to losses of £8.3m in 2016/17). Indexation accounted for £5.4m of these gains.

# The Main Statements

- » **Comprehensive Income & Expenditure Statement (CIES) – (continued)**
  - » **Surplus on Upward Revaluations of Non-current Assets** – mainly due to revaluations of Other Land & Buildings & Heritage Assets;
  - » **Re-measurement of the net defined benefit liability** – reflects positive investment returns offsetting a slight increase in Pensions Liabilities;

# The Main Statements

- » **Movement in Reserves Statement (MiRS) – (Pg18 / 62)**
  - » Shows the movement in the year on different reserves held by the Council. (Usable / Unusable Reserves)
  - » Net £2.8m Transferred from Earmarked Reserves, to fund relevant areas of 2017/18 expenditure. Unearmarked Reserve level stable. Examples include Financial Planning & Smoothing Reserve, DSG Reserve, Restructuring & Severance Reserve, and Social Care & Health Reserve.
  - » Unusable Reserve increase of £33.6m reflects reduction in future Pension Liabilities, owing to changes in the actuary's assumptions in valuing the liability, and Statutory Capital accounting movements.

# The Main Statements

## » **Balance Sheet – (Pg 19 / 63)**

- » Shows the assets and liabilities of the Council as a whole as at 31<sup>st</sup> March
- » **Land & Buildings** – net £10m reduction mainly to disposals, including academy school transfers.
- » **Assets Under Construction / Infrastructure** – £20m transfer between these, mainly due to Bath Western Riverside, Destructor Bridge, Bath Quays North Flood Mitigation & Street Lighting LEDs becoming operational.
- » **Investment Property** – £54m increase due to revaluation gains of £26m and additions of £29m.
- » **Short Term Investments / Cash & Cash Equivalents** – all investments at year end held for under 90 days, so classified as Cash Equivalents.

# The Main Statements

## » Balance Sheet – (Pg 19 / 63) - continued

- » **Short Term & Long Term Borrowing** – change reflects profile of additional borrowing taken in year.
- » **Short Term Creditors** – Large decrease mainly due to West of England RIF creditor balances (previously held in 2016/17) being transferred to WECA during 2017/18.
- » **Other Long Term Liabilities** – decrease due to reduction in Pension liability following changes in the Actuary's assumptions.
- » **Unusable Reserves** – increase reflects the previously mentioned movements on the Pensions Reserve, and statutory capital accounting charges taken to the Revaluation Reserve & Capital Adjustment Account.



# The Main Statements

## » Cash Flow Statement (Pg 20 / 64)

- » Summarises the inflows and outflows of cash arising from external transactions for both capital and revenue transactions.
- » Operating Activities – various movements including revaluation gains (Land & Buildings & Investment Estate) and reduced creditors.
- » Investing & Financing Activities – changes reflect additional borrowing during 2017/18 and higher spend on Investment Estate than in previous year.
- » Cash & Cash Equivalents – change reflects maturity profile of investments held at 31<sup>st</sup> March – increase of £15m to £38m.

# The Main Statements

## » **Collection Fund (Pg 80 / 124)**

- » Shows the transactions of the billing authority in relation to collection from taxpayers of Council Tax and Business Rates and its distribution to preceptors and Central Government.
- » Collection Fund Deficit on Business Rates was mainly due to increase in reliefs (Small Business & Empty Property).
- » Additional s31 grant income received to revenue account to compensate some of these impacts.
- » The Council holds a Business Rate Reserve to help manage these risks.

# Annual Governance Statement

- » **Background (Page 109 / 153 of Accounts)**
- » Paper to Feb Audit Committee setting out process and timetable - It is a Management Statement – but Audit Committee oversee process and it is included in Accounts.
- » Statement is signed by Chief Executive and Leader of Council
- » **What would a Significant Issue look like?**
- » Significant failures in decision making at Council or Executive
- » Significant unexpected use of Resources
- » Significant performance failings or failures in service delivery
- » Significant issues from inspections, audits, complaints etc
- » Significant issues failures in respect of statutory duties
- » Significant issues from operational issues and third parties

# Annual Governance Statement

- » **Outcome of Review for 2017/18 –**
- » No **significant** governance or other failings that satisfy criteria
- » There is significant risk however and there were issues which affected the council (**not failures**). Such as
- » Scale of Financial Challenge
- » Continued spend pressures on Adults & Children's Services
- » Virgin Care contract and service delivery issues
- » Economic Agenda, WECA & transfer of accountable body status
- » GDPR, Increase in Cyber-Security, phishing and scam Attacks
- » **SMT Recommendation –**
- » **Include one issue around the Scale of Financial Challenge focussed on Adults & Children's Services**

# Audit Findings

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

# Questions ?