

Corporate Audit Committee

Date: Tuesday, 4th December, 2018

Time: 2.00 pm

Venue: Council Chamber - 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.



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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. We request that those filming/recording meetings avoid filming public seating areas, children, vulnerable people etc; however, the Council cannot guarantee this will happen.

The Council will broadcast the images and sounds 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**

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Corporate Audit Committee-Tuesday, 4th December, 2018

at 2.00 pm in the Council Chamber - 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: 30 JULY 2018 (Pages 5 - 8)

9. FINANCIAL REGULATIONS UPDATE - PRESENTATION

10. TREASURY MANAGEMENT SIX MONTH UPDATE (Pages 9 - 24)

11. EXTERNAL AUDIT UPDATE REPORT (Pages 25 - 68)
12. INTERNAL AUDIT SIX MONTH UPDATE (Pages 69 - 76)

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

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 Audit West), Jamie Whittard (Financial Accounting and Planning Team Leader), Gary Adams (Finance and Resources Manager), 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 21st 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 1st 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 – Resources 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 would be a significant impact on international interest rates, which will 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 Resources 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 31st March 2018, prepared in accordance with the CIPFA Treasury Code of Practice;
2. the Treasury Management Indicators to 31st 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

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	4 th December 2018	
TITLE:	Treasury Management 2018-19 Quarter 2 Performance Report (Mid Year Update)	EXECUTIVE FORWARD PLAN REFERENCE: E 3090
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 2018 Appendix 3 – Average monthly rate of return for 1 st 6 months of 2018/19 Appendix 4 – The Council’s External Borrowing Position at 30 th September 2018 Appendix 5 – Arlingclose’s Economic & Market Review Q2 of 2018/19 Appendix 6 – Interest & Capital Financing Budget Monitoring 2018/19 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 2018/19 for the first six months of 2018/19.

2 RECOMMENDATION

The Committee agrees that:

- 2.1 The Treasury Management Report to 30th September 2018, prepared in accordance with the CIPFA Treasury Code of Practice, is noted
- 2.2 The Treasury Management Indicators to 30th September 2018 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 2018/19 is 0.63%, which is 0.14% above the benchmark rate.
- 5.2 The Council's Prudential Indicators for 2018/19 were agreed by Council in February 2018 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 2018 is given in **Appendix 2**. The balance of deposits as at 30th June 2018 and 30th September 2018 are also set out in the pie charts in this appendix.
- 5.4 Gross interest earned on investments for the first six months totalled £125k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.63%, which was 0.14% above the benchmark rate of average 7 day LIBID +0.05% (0.49%).

Summary of Borrowings

- 5.5 The Council's external borrowing as at 30th September 2018 totalled £182.8 million and is detailed in Appendix 4. A short term loan for £2.5 million matured during the quarter and new long term PWLB annuity borrowing for £10 million was arranged during the quarter to maintain appropriate cashflow balances.
- 5.6 The Council's Capital Financing Requirement (CFR) as at 31st March 2018 was £247.1 million with a projected total of £434 million by the end of 2018/19 based on the capital programme approved at February 2018 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.
- 5.7 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 2018 apportioned to Bath & North East Somerset Council is £12.3m. 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 5.5.

- 5.8 The borrowing portfolio as at 30th September 2018 is shown in **Appendix 4**.

Strategic & Tactical Decisions

- 5.9 As shown in the charts at **Appendix 2**, The Council mainly uses AAA rated Money Market funds to maintain very short term liquidity. The Council had £18.2 million

invested in Money Market Funds as at 30th September 2018. The investment portfolio also included investments with UK banks and very highly rated Foreign Banks.

- 5.10 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.
- 5.11 The Council's average investment return is slightly above the budgeted level of 0.45%.

Future Strategic & Tactical Issues

- 5.12 Our treasury management advisors economic and market review for the second quarter 2018/19 is included in **Appendix 5**.
- 5.13 The rebound in quarterly GDP growth in Q2 to 0.4% appeared to overturn the weakness in Q1 which was largely due to weather-related factors. However, the detail showed much of Q2 GDP growth was attributed to an increase in inventories. Year/year GDP growth at 1.2% also remains below trend. The Bank of England Monetary Policy Committee (MPC) made a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%, but maintains expectations of a slow rise in interest rates over the forecast horizon
- 5.14 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.
- 5.15 The borrowing forecast to take place in 2018/19 is likely to be driven by a need to maintain an appropriate working cash balance rather than any immediate changes to interest rates.

Budget Implications

- 5.16 A breakdown of the revenue budget showing interest and capital financing and the forecast year end position based on the period April to September is included in **Appendix 6**. The current forecast is for an underspend of £495k, mainly related to the re-phasing of capital spend, as reported in the 2017/18 outturn report, leading to lower than forecast borrowing costs and minimum revenue provision (MRP) requirement. This is partly offset by lower internal income related to service charges for funding debt costs in relation to the re-phased capital projects.
- 5.17 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 Finance & Efficiency, 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>Donna Parham- 01225 477468; Giles Oliver- 01225 477209 Donna_Parham@bathnes.gov.uk ; Giles_Oliver@bathnes.gov.uk</i>
Background papers	<i>2018/19 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.

	2018/19 Prudential Indicator	Actual as at 30th September 2018
	£'000	£'000
Borrowing	434,000	182,762
Other long term liabilities	2,000	0
Cumulative Total	436,000	182,762

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.

	2018/19 Prudential Indicator	Actual as at 30th September 2018
	£'000	£'000
Borrowing	403,000	182,762
Other long term liabilities	2,000	0
Cumulative Total	405,000	182,762

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.

	2018/19 Prudential Indicator	Actual as at 30th September 2018
	£'000	£'000
Fixed interest rate exposure	403,000	162,762*

* 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.

	2018/19 Prudential Indicator	Actual as at 30th September 2018
	£'000	£'000
Variable interest rate exposure	246,000	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.

	2018/19 Prudential Indicator	Actual as at 30th September 2018
	£'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 2018
	%	%	%
Under 12 months	50	Nil	10.9*
12 months and within 24 months	75	Nil	5.5
24 months and within 5 years	75	Nil	0
5 years and within 10 years	100	Nil	0
10 years and above	100	Nil	83.6

* 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**.

	2018/19 Prudential Indicator	Actual as at 30th September 2018
	Rating	Rating
Minimum Portfolio Average Credit Rating	A-	AA

APPENDIX 2

The Council's Investment position at 30th September 2018

The term of investments is as follows:

Term Remaining as at 30th June 2018	Balance at 30th September 2018
	£'000's
Notice (instant access funds)	18,200
Up to 1 month	10,000
1 month to 3 months	0
Over 3 months	10,000
Total	38,200

The investment figure of £33.9 million is made up as follows:

	Balance at 30th September 2018
	£'000's
B&NES Council	32,961
Schools	5,239
Total	38,200

The Council had a total average net positive balance of £39.8m during the period April 2018 to September 2018.

Chart 1: Council Investments as at 30th September 2018 (£38.2m)

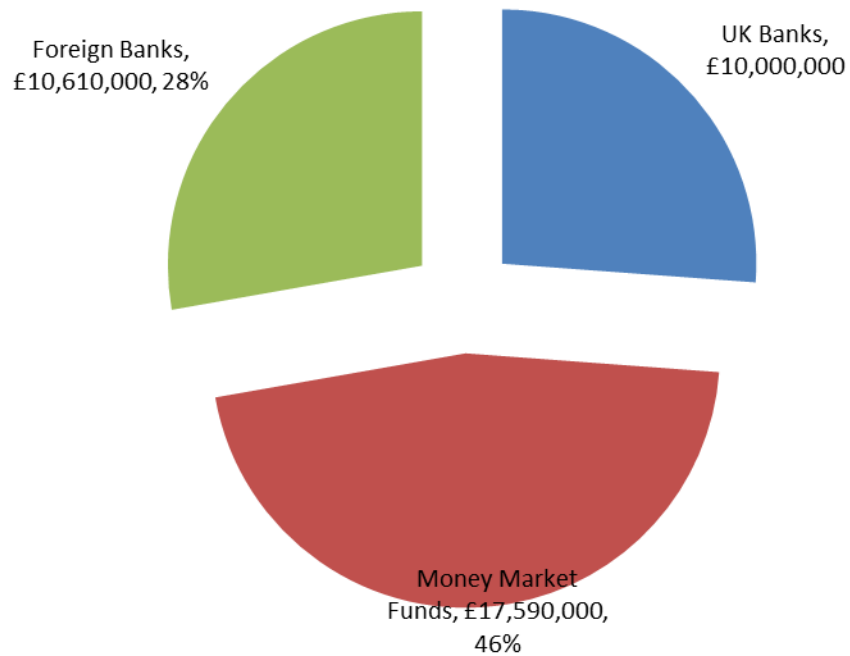


Chart 2: Council Investments as at 30th June 2018 (£33.9m)

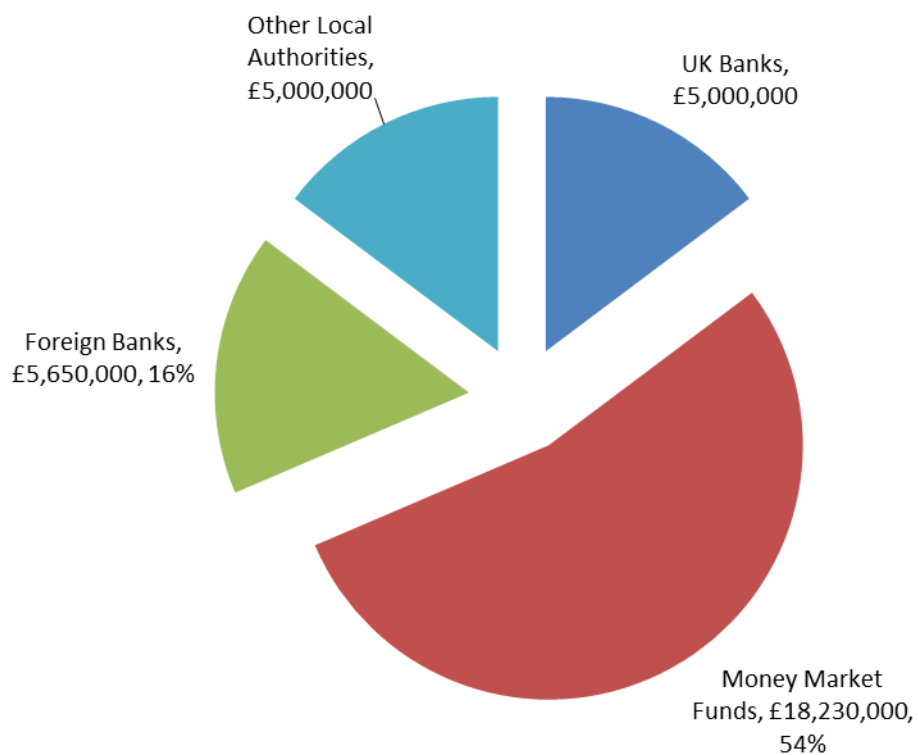


Chart 3: Council Investments per lowest equivalent Long Term credit rating (£38.2m) 30th September 2018

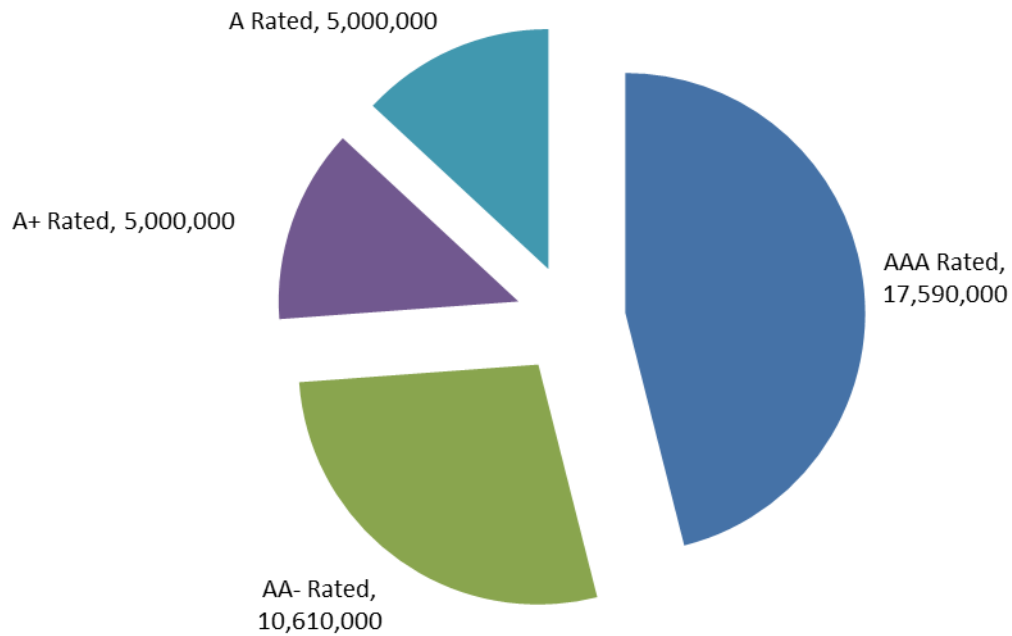
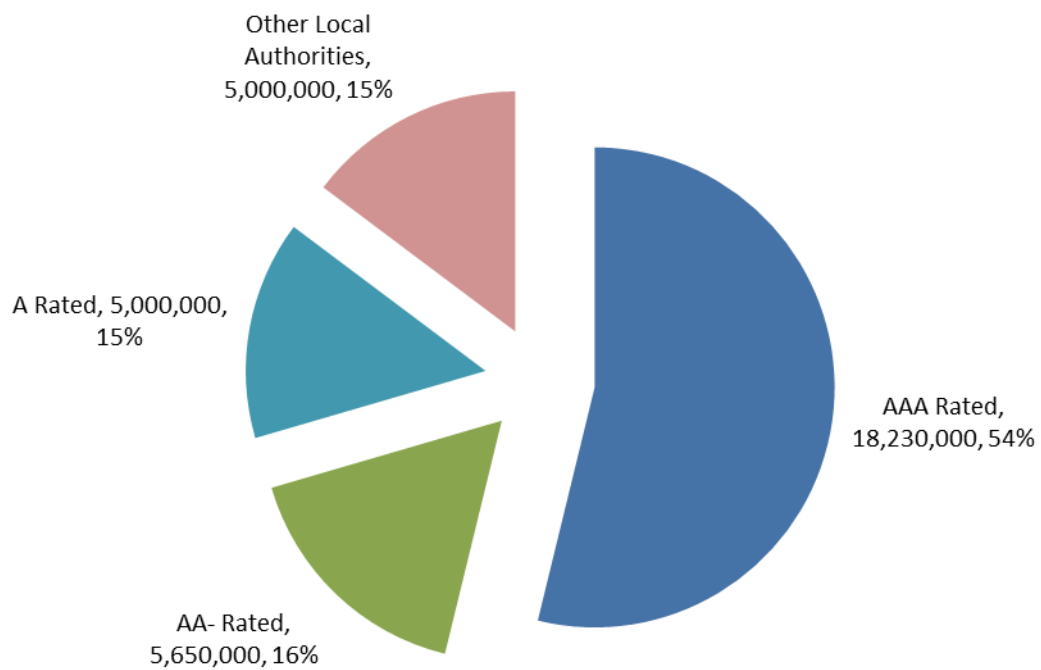


Chart 4: Council Investments per lowest equivalent Long Term credit rating (£33.9m) 30th June 2018



APPENDIX 3**Average rate of return on investments for 2018/19.**

	April %	May %	June %	July %	Aug %	Sep %	Average for Period
Average rate of interest earned	0.50%	0.60%	0.61%	0.60%	0.71%	0.74%	0.63%
Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	0.41%	0.41%	0.41%	0.41%	0.63%	0.64%	0.49%
Performance against Benchmark %	+ 0.09%	+ 0.19%	+ 0.20%	+ 0.19%	+ 0.08%	+ 0.10	+ 0.14%

APPENDIX 4**Councils External Borrowing at 30th September 2018**

Borrowing	Amount (£)	Start	Maturity DaBte	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	18,795,590	20/06/16	20/06/41	2.36%
PWLB	9,480,184	24/02/17	16/02/40	2.28%
PWLB	9,545,227	04/04/17	16/02/43	2.26%
PWLB	8,112,949	08/05/17	15/02/42	2.25%
PWLB	6,931,389	10/08/17	10/04/67	2.64%
PWLB	9,851,890	13/12/17	10/10/42	2.35%
PWLB	9,855,212	06/03/18	10/10/42	2.52%
PWLB	9,889,305	06/03/18	10/10/47	2.62%
PWLB	10,000,000	10/09/18	20/06/43	2.42%
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 C C	5,000,000	25/11/14	19/12/19	2.05%
Gloucestershire C C	5,000,000	19/12/14	19/12/19	2.05%
Overall Total	182,761,746			

*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 2018

Economic background: Oil prices rose by 23% over the six months to around \$82/barrel. UK Consumer Price Inflation (CPI) for August rose to 2.7% year/year, above the consensus forecast and that of the Bank of England's in its August Inflation Report, as the effects of sterling's large depreciation in 2016 began to fade. The most recent labour market data for July 2018 showed the unemployment rate at 4%, its lowest since 1975. The 3-month average annual growth rate for regular pay, i.e. excluding bonuses, was 2.9% providing some evidence that a shortage of workers is providing support to wages. However real wages (i.e. adjusted for inflation) grew only by 0.2%, a marginal increase unlikely to have had much effect on households.

The rebound in quarterly GDP growth in Q2 to 0.4% appeared to overturn the weakness in Q1 which was largely due to weather-related factors. However, the detail showed much of Q2 GDP growth was attributed to an increase in inventories. Year/year GDP growth at 1.2% also remains below trend. The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%.

Having raised rates in March, the US Federal Reserve again increased its target range of official interest rates in each of June and September by 0.25% to the current 2%-2.25%. Markets now expect one further rise in 2018.

The escalating trade war between the US and China as tariffs announced by the Trump administration appeared to become an entrenched dispute, damaging not just to China but also other Asian economies in the supply chain. The fallout, combined with tighter monetary policy, risks contributing to a slowdown in global economic activity and growth in 2019.

The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK into the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament. With just six months to go when Article 50 expires on 29th March 2019, neither the Withdrawal Agreement between the UK and the EU which will be legally binding on separation issues and the financial settlement, nor its annex which will outline the shape of their future relationship, have been finalised, extending the period of economic uncertainty.

Financial markets: Gilt yields displayed marked volatility during the period, particularly following Italy's political crisis in late May when government bond yields saw sharp moves akin to those at the height of the European financial crisis with falls in yield in safe-haven UK, German and US government bonds. Over the period, despite the volatility, the net change in gilt yields was small. The 5-year benchmark gilt only rose marginally from 1.13% to 1.16%. There was a larger increase in 10-year gilt yields from 1.37% to 1.57% and in the 20-year gilt yield from 1.74% to 1.89%. The increase in Bank Rate resulted in higher money market rates. 1-month, 3-month and 12-month LIBID rates averaged 0.56%, 0.70% and 0.95% respectively over the period.

Credit background: Reflecting its perceived higher risk, the Credit Default Swap (CDS) spread for non-ringfenced bank NatWest Markets plc rose relatively sharply over the

period to around 96bps. The CDS for the ringfenced entity, National Westminster Bank plc, has held steady below 40bps. Although the CDS of other UK banks rose marginally over the period, they continue to remain low compared to historic averages.

The ringfencing of the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc – is complete, the transfer of their business lines into retail (ringfenced) and investment banking (non-ringfenced) is progressing and will need to be completed by the end of 2018.

There were a few credit rating changes during the period. Moody's downgraded Barclays Bank plc's long-term rating to A2 from A1 and NatWest Markets plc to Baa2 from A3 on its view of the credit metrics of the entities post ringfencing. Upgrades to long-term ratings included those for Royal Bank of Scotland plc, NatWest Bank and Ulster Bank to A2 from A3 by Moody's and to A- from BBB+ by both Fitch and Standard & Poor's (S&P). Lloyds Bank plc and Bank of Scotland plc were upgraded to A+ from A by S&P and to Aa3 from A1 by Moody's.

Our treasury advisor Arlingclose will henceforth provide ratings which are specific to wholesale deposits including certificates of deposit, rather than provide general issuer credit ratings. Non-preferred senior unsecured debt and senior bonds are at higher risk of bail-in than deposit products, either through contractual terms, national law, or resolution authorities' flexibility during bail-in. Arlingclose's creditworthiness advice will continue to include unsecured bank deposits and CDs but not senior unsecured bonds issued by commercial banks.

Technical Update Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local authority specific Guidance Notes to the latter. In England, MHCLG published its revised Investment Guidance which came into effect from April 2018. The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority will be producing its Capital Strategy later in 2018/19 for approval by full Council.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2018/19 (Apr to September)

April to September 2018	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	7,647	7,167	(480)	FAV
- Internal Repayment of Loan Charges	(9,245)	(8,295)	950	ADV
- Ex Avon Debt Costs	1,140	1,140	0	
- Minimum Revenue Provision (MRP)	6,230	5,270	(960)	FAV
- Interest on Balances	(304)	(309)	(5)	FAV
Sub Total - Capital Financing	5,468	4,973	(495)	FAV

APPENDIX 7

Summary Guide to Credit Ratings

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

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Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	4th December 2018	AGENDA ITEM NUMBER
TITLE:	External Audit Update	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – External Audit Letter Appendix 2 – External Audit Update & Progress Report		

1 THE ISSUE

- 1.1 The External Auditor will update progress against their plan and the Committee is also asked to note their Audit and Publication Letters.

2 RECOMMENDATION

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

3 FINANCIAL IMPLICATIONS

- 3.1 Financial implications of the Audit Fee are already contained within existing corporate budgets.

4 THE REPORT

- 4.1 Appendix 1 details the Annual Audit Letter which is an external summary of the work carried out on behalf of Bath & North East Somerset Council.
an update report on the work of the External Auditor as well as links to national reports on areas of potential interest to the Committee.
- 4.2 Appendix 2 details an update report on the work of the External Auditor as well as links to national reports on areas of potential interest to the Committee.
- 4.4 The External Auditor and Officers 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	

Annual Audit Letter

Year ending 31 March 2018

Bath and North East Somerset Council

August 2018

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Bath and North East Somerset Council and Avon Pension Fund for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice 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 30 July 2018.

Respective 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 and the Pension Fund 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) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £7.5m, which is 2% of the Council's gross revenue expenditure. We determined materiality for the audit of the Pension Fund accounts administered by the Council to be £46.0m which is 1% of the Pension Fund's net assets.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2018. We gave an unqualified opinion on the Pension Fund accounts of the Avon Pension Fund on 31 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council issued on 31 July 2018.
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 2018. We will report the results of this work to the Corporate Audit Committee in our Annual Certification Letter.
Certificate	We are currently unable to certify that we have completed the audit of the accounts of Bath and North East Somerset Council for 2017/18 as we have not yet given an audit opinion on the pension fund annual report.

Working with the Council

- An efficient audit – we delivered an efficient audit with you, delivering the accounts by the 31 July deadline, releasing your finance team for other work.
- Improved financial processes – we worked with you to streamline your processes for Property, Plant and Equipment valuation.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports.
- Providing training – we provide your teams with training on financial accounts and annual reporting on a regular basis.

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
August 2018

Audit of the Accounts

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's accounts to be £7.5 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for Senior Officer's Remuneration and Members' Allowances due to the sensitive nature of these disclosures. This was set at 2% of their respective values.

We set a lower threshold of £0.376 million above which we reported errors to the Corporate Audit Committee in our Audit Findings Report.

Pension Fund Materiality

For the audit of the Avon Pension Fund accounts, we determined materiality to be £46.0 million, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower level of specific materiality of £2.0 million for investment management expenses due to the public interest surrounding this disclosure.

We set a lower threshold of £2.3 million above which we reported errors to the Corporate Audit Committee.

The scope of our audit

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

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

We also read the remainder of the Statement of Accounts, and the Narrative report and Annual Governance Statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

We identified key risks for the Council and Pension Fund and set out on the following pages the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Council Significant Audit Risks

These are the significant 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 conclusions
<p>Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For Bath and North East Somerset Council, we have concluded that the greatest risk of material misstatement relates to the occurrence of other fees and charges and the existence of associated receivables.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted for non-fees and charges income streams, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including B&NES Council, mean that all forms of fraud are seen as unacceptable <p>For “Other fees and charges”, where the risk of fraud arising from revenue recognition has not been rebutted, we have performed the following work:</p> <ul style="list-style-type: none"> • Completed a walkthrough of management’s controls over Other Revenue recognition to document our understanding of management’s controls over revenue recognition; • Reviewed and tested revenue recognition policies; and • Tested material revenue streams. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p>	<p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> • Gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; • Obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; and • Evaluate the rationale for any changes in accounting policies or significant unusual transactions. • Carried out a review of accounting estimates, judgements and decisions made by management • Reviewed any unusual significant transactions 	<p>Our audit work has not identified any issues in respect of management override of controls.</p>

Audit of the Accounts

Council Significant Audit Risks (continued)

These are the significant 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 conclusions
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its land and buildings on a rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> Reviewed management's processes and assumptions for the calculation of the estimate. Reviewed the competence, expertise and objectivity of any management experts used. Reviewed the instructions issued to valuation experts and the scope of their work Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. Tested revaluations made during the year to ensure they were input correctly into the Council's asset register Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>Our audit work identified the following issues in respect of valuation of property, plant and equipment:</p> <ul style="list-style-type: none"> As part of the valuation of land and buildings, the Council undertook a review of various indices to ascertain if there has been any significant change in value that would result in the cumulative current value of these assets at the year end being materially different to the carrying value at the date of valuation. The calculations indicated that property, plant and equipment is understated by £5.164m and investment property was understated by £5.352m. As the total increase was material, the Council decided to amend the accounts to reflect the increased values, thus ensuring a materially accurate year end carrying value. The valuation on which the figures in the accounts are based was undertaken in accordance with RICS requirements. However, the use of indices to arrive at the carrying value means that the Council had adopted a valuation method which is not consistent with the Code on Local Authority Accounting. We also identified that the upwards and downwards revaluation figures disclosed on the CIES were both overstated by £6.072m due to the inclusion of Vehicle, Plant and Equipment additions. The accounts have been amended to remove these values. These changes had no impact on the financial position of the Council at year end.

Audit of the Accounts

Council Significant Audit Risks (continued)

These are the significant 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 conclusions
<p>Valuation of investment properties</p> <p>The Council revalues its investment properties on an annual basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of investment property revaluations as a risk requiring special audit consideration.</p>	<p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none">• Reviewed management's processes and assumptions for the calculation of the estimate.• Reviewed the competence, expertise and objectivity of any management experts used.• Reviewed the instructions issued to valuation experts and the scope of their work• Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.• Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.• Tested revaluations made during the year to ensure they were input correctly into the Council's asset register• Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.	<p>With the exception of the issue identified in relation to indexation movements which has been outlined under "Valuation of property, plant and equipment", our audit work has not identified any issues in respect of valuation of investment properties.</p>

Audit of the Accounts

Council Significant Audit Risks (continued)

These are the significant 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 conclusions
<p>Valuation of Pension Fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none">Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement;Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation.Gained an understanding of the basis on which the IAS19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary <p>In addition we have reviewed the accounting treatment of the upfront payment of £9.862m paid across to the pension fund in 2017/18.</p>	<p>Our audit work has not identified any issues in respect of valuation of the Pension Fund net liability.</p>

Audit of the Accounts

Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. Page 36	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted because: <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited• The culture and ethical frameworks of local authorities, including Avon Pension Fund, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Avon Pension Fund.	Our audit work has not identified any issues in respect of revenue recognition. Our audit work has not identified any issues in respect of revenue recognition.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.	We have performed the following work in respect of this risk: <ul style="list-style-type: none">• Reviewed accounting estimates, judgements, and decisions made by management• Testing of journal entries• Review of unusual significant transactions.	Our audit work has not identified any issues in respect of management override of controls.

Audit of the Accounts

Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of Level 3 investments 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.</p> <p>We identified the valuation of Level 3 investments as a risk requiring special audit consideration.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none">• Gained an understanding of the Fund's process for valuing Level 3 investments and evaluated the design of the associated controls• 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 qualifications of the expert to value Level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached• Reviewed the reclassification of one investment balance from Level 3 to Level 2 to consider appropriateness of the reclassification• For a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March with reference to known movements in the intervening period.	<p>We identified that the conditions which caused the reclassification were present in the prior period and therefore the reclassification should have been recorded in the prior year financial statements. Management have adjusted for this and have reclassified the amount in the prior period, restating the disclosure.</p> <p>Our audit work did not identify any further issues in respect of Level 3 investments.</p>

Audit of the Accounts

Council's Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Corporate Audit Committee on 30 July 2018.

In addition to the key audit risks reported above, we identified the following issues throughout our audit that we have asked management to address for the next financial year:

- A number of IT deficiencies were identified as part of our 2017/18 IT review.
- The need to continue to monitor the use of reserves when budget setting to ensure that into the medium term dependency on reserves is reduced.
- The need to continue to work towards closing the savings gap of £1.9m within the next twelve months.

All adjustments and recommendations can be found in the appendix of this letter.

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 in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that, following a number of minor amendments, both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Pension fund Audit Opinion

We gave an unqualified opinion on the Pension Fund accounts of Avon Pension Fund on 31 July 2018.

We also reported the key issues from our audit of the Pension Fund accounts to the Council's Corporate Audit Committee on 30 July 2018.

In addition to the key audit risks reported above, we identified the following issues/adjustments during our audit that we asked management to address for the next financial year were:

- We identified a number of disclosure issues which required amendment to comply with the CIPFA code. We have requested that management review the CIPFA code annually to remain up to date with requirements.
- Management have invested in a one tenth share of an FCA regulated company at a cost of £840,000 and has recorded its interest within the Fund's financial statements at cost. We have requested that management ensure that the Fair Value of the investment is reviewed regularly and assessed for impairment on an annual basis.

All adjustments and recommendations can be found in the appendix of this letter.

Certificate of closure of the audit

We are currently unable to certify that we have completed the audit of the accounts of Bath and North East Somerset Council for 2017/18 as we have not yet given an audit opinion on the pension fund annual report.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 on the following pages.

As part of our Audit Findings report agreed with the Council in July 2018, we agreed that there were no significant recommendations that we would like to make with regards to value for money.

Overall Value for Money 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 2018.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment.

Risks identified in audit plan	How we responded to the risk	Conclusions
<p>1 Medium Term Financial Plan</p> <p>In our audit plan dated January 2018, we highlighted the following risk.</p> <p>The ongoing challenge of meeting the savings outlined by Central Government continue to put pressures on Local Government finances. Bath and North East Somerset Council had a budget gap of £(48.99)m over the five years to 2022/23 which was significant.</p> <p>Over the two years to 2019/20, the budget gap was £(30.96)m. In January 2018, £14.80m of savings have been identified but a further £16.16m savings were required over the period. This included a significant gap of £12.77m to find in 2018/19.</p> <p>The 2017/18 outturn was forecast to be £3.8m over budget for the full year. 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. The continued pressure from Adult and Children's services resulted in overspends annually and further enforced the need to identify alternative methods of achieving the Council's financial position for the future.</p>	<ul style="list-style-type: none"> • The 2017/18 outturn is £1.1m over budget for the full year. 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. The continued pressure from Adult and Children's services has resulted in overspends annually and further enforces the need to identify alternative methods of achieving the Council's financial position for the future. • We have reviewed the actions taken to identify savings and how these have been challenged and consider the plans to identify further savings. • We have reviewed monitoring arrangements, including the robustness of the Council's Medium Term Financial Plan, the delivery of the 2017/18 budget, and the action taken when plans are not being delivered. • The original budget was set at £112.89m and this was subsequently revised to £115.675m in February 2018 to reflect the Council's Efficiency Strategy, approved in November 2017. • The forecast outturn position was an over-budget position of £3.396m; at year end 2017/18 the position is now a net revenue over-budget position of £1.255m after allowing for proposed carry forwards. This is less than 1% of the Council's spend in the year; and it has been mitigated by the release of £0.93m Transition Fund Grant reserves; and £0.325m of the Strategic Risk Provision (specifically set up for reduced savings delivery). • The 2017/18 approved budget included the requirement for the delivery of £14.5m of savings. The final outturn position included achievement of £11.9m or 82% of the savings target. The non-delivery and delay of £2.6m of savings has contributed to the outturn position; however again this is very low in the context of the Council's overall spend. • The Council has made significant progress in identifying £26.8m of savings over the next two years, as part of the budget setting process. Total savings identified over two years are £26.8m with a further £1.9m to find in 2019/20. A further £12.1m needs to be identified in 2020/21 to 2021/22. This gap is being worked on by management. • We reviewed specific key savings plans as part of our work. Savings plans appear well-defined and robust. We also carried out a high-level overview of the budget monitoring process for 2017/18, and a high-level overview of the revenue budget setting process for 2018/19; the Council appears to have robust processes in place for monitoring the budget including a Savings Tracker which is regularly taken to Cabinet and is reviewed by the Section 151 Officer. • Each Directorate at the Council prepared a detailed Directorate plan covering the 2018/198 FY with specific proposals for the following 2 years to 2019/20. Plans were prepared on the basis of 2017/18 as a starting point, taking into account anticipated cost pressures and anticipated government funding (settlement). • Councillors were briefed on proposals throughout the process. Plans were reported to Policy and Development Scrutiny Panels (PDS) for challenge. 	<p>Auditor view</p> <ul style="list-style-type: none"> • There are no significant issues arising from our consideration of the significant risk. • We made one minor recommendation in relation to closing the savings gap of £1.9m in the next two years; • We also made a minor recommendation with regards to the 17/18 overspend against budget.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment.

Risks identified in audit plan	How we responded to the risk	Conclusions
<p>1 Medium Term Financial Plan</p> <p>In our audit plan dated January 2018, we highlighted the following risk.</p> <p>The ongoing challenge of meeting the savings outlined by Central Government continue to put pressures on Local Government finances. Bath and North East Somerset Council had a budget gap of £(48.99)m over the five years to 2022/23 which was significant.</p> <p>Over the two years to 2019/20, the budget gap was £(30.96)m. In January 2018, £14.80m of savings have been identified but a further £16.16m savings were required over the period. This included a significant gap of £12.77m to find in 2018/19.</p> <p>The 2017/18 outturn was forecast to be £3.8m over budget for the full year. 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. The continued pressure from Adult and Children's services resulted in overspends annually and further enforced the need to identify alternative methods of achieving the Council's financial position for the future.</p>	<ul style="list-style-type: none"> The monitoring process appears reasonable and adequate. The Council produces a detailed Savings Tracker for all key savings plans which is presented to the Senior Management Team on a monthly basis, and slippage can be targeted appropriately. The Council has a reasonably strong track record of delivering balanced budgets and identifying required savings. As in previous years, the areas with most pressure in the budget are Adult and Children's' social care. Savings plans for 2018/19 appear well defined. We considered the four largest savings plans in detail; each plan has a well-defined business case, appear realistic based on current year savings, and include appropriate consultation with stakeholders (where relevant). We also carried out a review of the MTFP assumptions for 2018/19 and 2019/20, which appear reasonable. The Council has unearmarked reserves of £12.5m (£12.3m after allowing for carry forwards) in the General Fund as at 31 March 2018 (£12.7m at 31 March 2017). This is in line with the s151 Officer's assessment as at February 2018 that the level of reserves is adequate (within a required range of £11.9m to £13.1m). We concur with this assessment. The Council has £29.9m (£29.4m in previous year) of corporate earmarked reserves as at 31 March 2018, a level consistent with what we see at other similar councils. We raised two minor recommendations in relation to the 2017/18 outturn position and the future savings gap of £1.9m. <p>Overall, the Council has proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.</p>	<p>Management response</p> <ul style="list-style-type: none"> Budgets have been rebased in 2018/19 adding a net budget growth of £3.9m for ASC and £3.1m for Children's services. The over budget position improved significantly through agreed management actions in 2017/18 which reduced the overspend from £5.1m earlier in the year to £1.1m by the year-end. A thorough review of the budget was carried out with a rebasing of Adult Social Care and Children's services budgets to reflect actual spending in these areas. The Medium Term Financial Strategy is currently being updated to outline plans for the savings gap for the next two year's. The current budget gap of £1.9m in 2019/20, £6.8m in 2020/21 and beyond do not include any increases in council tax other than for the Adult Social Care precept in 19/20.

Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	February 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

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Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	123,832	123,832	123,832
Audit of Pension fund	28,805	28,805	28,805
IAS 19 Assurance to other auditors	1,309	1,309	1,309
Housing Benefit Grant Certification	16,760	TBC	15,535
Total fees	170,706	TBC	169,481

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

Fees for non-audit services

Service	Fees £
Audit related services	TBC
- Teachers Pension £4,200	
- Regional growth fund TBC	
Non-Audit related services	Nil
- CFO Insights subscription	



Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- 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.




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

Recommendations - Council

We identified 3 recommendations for the Council as a result of issues identified during the course of our audit. We agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.


	Assessment	Issue and risk	Recommendations
1		<ul style="list-style-type: none"> Over the two years to 2019/20, the Council has a savings gap of £1.9m. 	<ul style="list-style-type: none"> The Council should continue to work towards closing the savings gap of £1.9m within the next twelve months. <p>Management response</p> <ul style="list-style-type: none"> The £1.9m for 2019/20 will be addressed as part of the refresh of Medium Term Financial Strategy and the overall budget setting process for next year. The Council set a balanced budget for 2018/19.
2		<ul style="list-style-type: none"> At year end 2017/18 the position is now a net revenue over-budget position of £1.255m after allowing for proposed carry forwards. This is less than 1% of the Council's spend in the year; and it has been mitigated by the release of £0.93m Transition Fund Grant reserves; and £0.325m of the Strategic Risk Provision (specifically set up for reduced savings delivery). 	<ul style="list-style-type: none"> We recommend that management continue to monitor the use of reserves when budget setting to ensure that into the medium term dependency on reserves is reduced. <p>Management response</p> <ul style="list-style-type: none"> The Transitional Grant was added to the final Local Government Settlement to assist LA's with the gap between identifying and delivering savings and the Strategic Risk Provision set up by the Authority specifically to meet any shortfall in savings plans and these were utilised without having to call on other reserves. The budget for 2018/19 was rebased to reflect the service areas that were overspending (ASC and Children's services) where an increase in external demand factors could be demonstrated. Reserve levels have been estimated as part of budget planning to 2021/22 to ensure they are sufficient to meet the Council's needs. These will be monitored and refreshed as part of the annual MTFS and budget setting process. A Smoothing and Financial Planning Reserve was set up for 2018/19 specifically to deal with the timing of savings delivery within the budget. There should therefore only be planned use of reserves or for meeting new financial risks as they arise.

Controls

-  High – Significant effect on control system or significant risk
-  Medium – Effect on control system or medium risk
-  Low – Best practice or low risk

Recommendations - Council

We have identified 3 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
3		<ul style="list-style-type: none">A number of IT deficiencies were identified as part of our 2017/18 IT review.	<p>The Council should implement the recommendations arising from our IT review.</p> <p>Management Response:</p> <ul style="list-style-type: none">Agreed.

Audit Adjustments - Council

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 Property plant and equipment valuation Adjustment required to reflect movement in value since valuation undertaken.	5,164	5,164	5,164
2 Investment property valuation Adjustment required to reflect movement in value since valuation undertaken.	5,352	5,352	5,352
3 Surplus/deficit on revaluation of non-current assets Both lines on the CIES overstated by £6,702k due to the inclusion of vehicle, plant and equipment movements	6,702 (6,702)	0	Nil net impact
Overall impact	£10,516	£10,516	£10,516

Audit Adjustments - Council

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Disclosure change	Detail	Auditor recommendations	Adjusted?
1	Note 2 – Accounting standards that have been issued but have not yet been adopted	The draft accounts included references to IAS12 and IAS7 which are not applicable to B&NES	References to IAS12 and IAS7 to be removed.	✓
2	Note 30 – Senior officer remuneration	The Council disclosed that £364,673 was accrued for the compensation for loss of office and pension strain on fund costs payable to two post holders.	The costs associated with loss of office should be applied to the relevant senior officer.	✓
3	Note 33 – External audit costs	Fees payable for other services during the year was overstated in the draft accounts by £1k.	Fees payable for other services during the year should be disclosed as £4k.	✓
4	Note 38 – Finance Leases – Authority as Lessor	The Finance Lease note does not disclose details of properties leased by the Council.	The Finance Lease note should be expanded to provide more information to users of the accounts.	✓
5	Other minor amendments	Minor amendments were made throughout the accounts to correct casting, prior year figures, and to correct internal consistency within the statement of accounts.	Minor amendments should be made to improve accuracy and correct minor errors.	✓
6	Annual Governance Statement	A number of minor improvements to align the Annual Governance Statement with the CIPFA "Delivering Good Governance" guidance were proposed.	Minor amendments should be made align the AGS with CIPFA's guidance.	✓

Recommendations – Pension Fund

We have identified two recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	●	As a result of a number of disclosure issues identified in year, there is a risk that future sets of financial statements will not be compliant with the CIPFA code.	<p>It is recommended that management review the CIPFA code and model accounts annually to ensure compliance is maintained.</p> <p>Management response</p> <ul style="list-style-type: none"> The management accept that the Statement of Accounts should be compliant with the CIPFA code and will take the necessary actions to ensure that this is maintained
2	●	Management have invested in a one tenth share of an FCA regulated company in year at a cost of £840,000 and has recorded its interest within the Fund's financial statements as a unquoted equity investment at cost. There is a risk that the investment may be incorrectly valued in the future.	<ul style="list-style-type: none"> Management should ensure that its value its Fair Value is reviewed regularly and assessed for impairment on an annual basis. <p>Management response</p> <ul style="list-style-type: none"> The management accept that the Fair Value of the investment must be reviewed regularly and assessed for impairment on an annual basis

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Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit Adjustments – Pension Fund

Adjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. There are no adjustments to the draft accounts affecting the Fund’s financial positon that have been identified during the audit process.

Impact of unadjusted misstatements

Committee approved management's proposed treatment of all items recorded within the table below:

Detail		Pension Fund Account £'000	Net Asset Statement £' 000	Reason for not adjusting
Page 48	1 We identified as part of our review of the accounts a number of disclosures that required enhancement. Currency risk was disclosed as a whole rather than by currency and a few accounting policies require additional information for clarity.	£nil	£nil	Management have taken points on board and are reviewing in order to action in the future.
	Overall impact	£0	£0	

Audit Adjustments – Pension Fund

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Disclosure change	Detail	Auditor recommendations	Adjusted?
1	Accounting Policies	No disclosure was included within the draft accounts accounting policies in relation to critical judgements.	Officers agreed to include an accounting policy in relation to critical judgements.	✓
2	Net Asset Statement	Disclosure changes made to the category names in the net asset statement and associated notes to amend investment categories to align with the CIPFA code.	Agreed with management that the disclosures would be altered for the current year and prior year statements.	✓
3	Note 7, Management Expenses	Details of the external audit fee were not disclosed within the draft accounts.	Agreed with officers that a footnote should be added to note 7 to identify the element of audit costs which relate to external audit fees.	✓
4	Note 11, Investments over 5% of the fund	The disclosure of single investments over 5% of the fund had applied incorrect percentages for the two largest investments and did not reconcile to the net assets statement.	The percentages disclosed have been corrected by officers and are now consistent with the net asset statement.	✓
5	Note 24, Fair Value Hierarchy	The draft accounts included the reclassification of assets between levels of hierarchy between 31 March 2017 and 31 March 2018 with the transfer of £209,579k of open ended pooled property funds from level 3 to level 2 following a review of the inputs to valuation techniques used to measure the fair value.	As the conditions are considered to have been present in the prior period, officers have agreed to reflect this in the accounts as a prior period disclosure restatement rather than reclassification in the current period.	✓
6	Net gains and losses on financial instruments	No disclosure was included in relation to net gains and losses on financial instruments.	Agreed with management that disclosure note should be included.	✓
7	Various	Other minor presentational changes including spelling, syntax, reordering of notes and rounding.	Presentation adjustments identified have been corrected in the final version of the statement of accounts.	✓



Audit Progress Report and Sector Update

Bath and North East Somerset Council
Year ending 31 March 2019

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November 2018



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Introduction



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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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Members of the Corporate Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

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 2018

2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion was issued on the 31 July 2018.

We issued:

- An unqualified opinion on the Council's financial statements; and
- An unqualified value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

Following the issuing of the Pension Fund consistency statement on the 18 September 2018 we issued our audit certificate on 24 September 2018 formally concluding our audit for 2017/18.

Our Annual Audit Letter, summarising the outcomes of our audit is included as a separate agenda item.

2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by the end of November 2018 deadline.

The results of the certification work will be reported to you in our certification letter.

Meetings

We met with Finance Officers in July and November as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

We will provide invitations for our Local Government Chief Accountant workshops – 7 February (Bristol) and 12 February (Plymouth) to key members of your Finance Team.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	February 2019	Not yet due
2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Corporate Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	February 2019	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Corporate Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Corporate Audit Committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

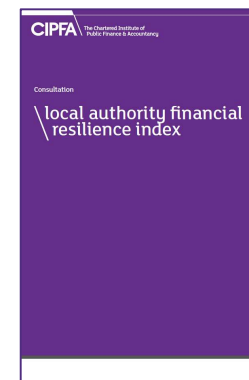
The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

CIPFA Consultation

Challenge question:

Has your Section 151 Officer briefed members on the Council's response to the Financial Resilience Index consultation?



MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:
<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>

Social Housing Green Paper Consultation



Challenge question:

What does the Social Housing Green Paper mean for your local authority?



MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

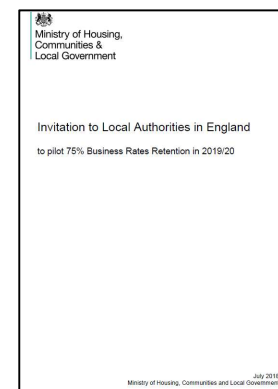
Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

Any proposals need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority were required to sign off the proposal before submission.

Proposal for new pilots should have been received by the MHCLG by midnight on Tuesday 25th September 2018.



Institute of Fiscal Studies: Impact of 'Fair Funding Review'

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government's 'Fair Funding Review' is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils' differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils' spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG's funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of 'spending needs' and 'needs indicators', and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils' revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



National Audit Office – The health and social care interface

The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

Financial challenges – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

Culture and structure – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing person-centred care.

Strategic issues – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

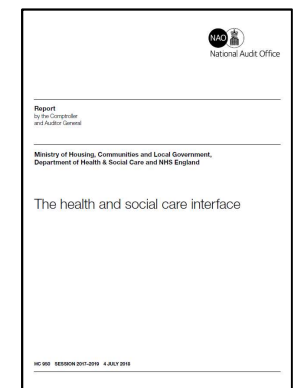
This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:
<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

The health and social care interface

Challenge question:

Has the Corporate Audit Committee considered the 16 challenges to joint working and what can be done to mitigate these?



A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

Scoping Sprint

This took place in October. Following opening remarks by Hilary Cottam (social entrepreneur and author of *Radical Help*) and Cllr Georgia Gould (Leader of Camden Council), the subsequent discussion brought many perspectives but there was a strong agreement about the need to do things differently that would create and support a caring society. Grant Thornton will now take forward further discussions around three particular themes:

1. Ethics and philosophy: What is meant by care? Should the state love?
2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

Sprint 1 – What do we really mean by 'care'?

This will take place on 4 December. Julia Unwin, Chair of the Civil Societies Futures Project, former CEO of the Joseph Rowntree Association and author on kindness will provide her insight to spark the debate on what we really mean by 'care'

Find out more and get involved

- To read the sprint write-ups and opinion pieces visit: grantthornton.co.uk/acaringsociety
- Join the conversation at #acaringsociety

Challenge question:

How is your authority engaging in the debate about the future of social care?



Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.

Flourishing communities are not a 'nice to have' but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care's 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website



Grant Thornton

Challenge question:

How effective is the Council's engagement with the social care sector?



The Vibrant Economy Index

a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website (www.granththornton.co.uk) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy**.

Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy'

- Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)
- Explore the app and take the quiz
- Go to the Vibrant Ideas section to share your picture and story or idea



Supply Chain Insights tool helps support supply chain assurance in public services

Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
 - organisation and category
 - service provider
 - date at a monthly level
- benchmark your spend against your peers
- identify:
 - organisations buying similar services
 - differences in pricing
 - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

Supply Chain Insights

Grant Thornton

Challenge question:

Has your Authority considered how our Supply Chain Insight tool can help support your supply chain assurance?



In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

Choosing the right company model

The most common company models adopted by councils are:

Wholly
owned

Joint
Ventures

Social
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

LATCs need to adapt for the future

- LATCs must adapt to developments in the external environment
 - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	4th December 2018	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 2018)		

1 THE ISSUE

- 1.1 The Annual Internal Audit Plan for 2018/19 was presented to the Corporate Audit Committee on the 24th April 2018. 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 2018/19.

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:

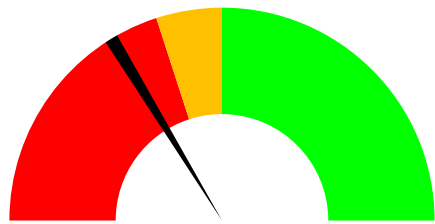
- Delivery of the plan in terms of 'Audit Plan Completed' is below target (as at 30th September 2018);
- Of the four audits at 'Final' Report stage, one audit exceeded the number of audit days allocated;
- Customers continue to rate the service provided as either 'good' or 'excellent';
- Management have largely implemented Critical and High level recommendations within the agreed timescale;
- The Average Assurance Level awarded for reports issued is 'Good';
- Unplanned work took 38 days. This isn't high compared to previous years but based on current resources it has impacted on the completion of planned work.

PERFORMANCE DASHBOARD - INTERNAL AUDIT

Client - Bath & North East Somerset

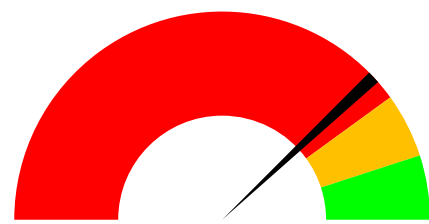
Period - April 2018 - September 2018

1. AUDIT PLAN COMPLETED



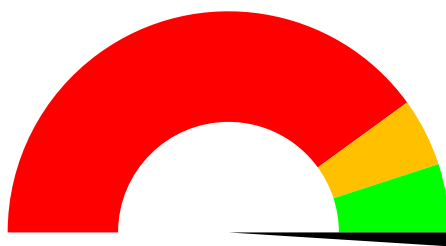
Green Target = >50% of annual plan
Amber Target = >40% of annual plan

2. AUDITS COMPLETED IN PLANNED TIME



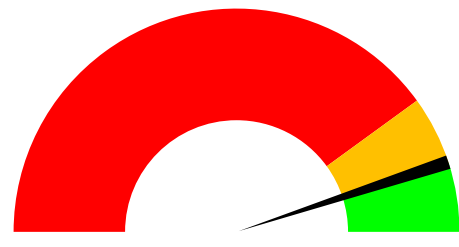
Green Target = >90%
Amber Target = >80%

3. CUSTOMER SATISFACTION



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

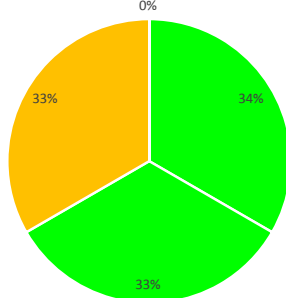
4. IMPLEMENTATION OF RECOMMENDATIONS



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

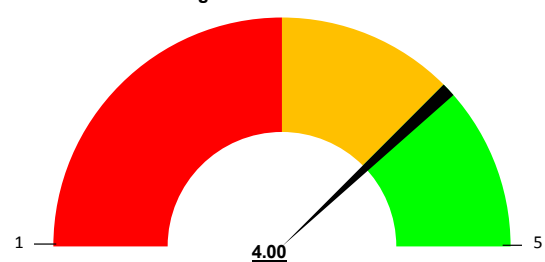
5. AUDIT OPINION - ASSURANCE LEVEL PROVIDED

Current Position



■ Excellent
■ Good
■ Satisfactory
■ Weak
■ Poor

Current Average Assurance Level

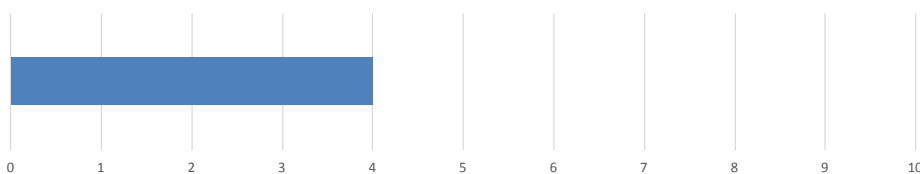


Previous Years Average Assurance
2017/18 3.88
2016/17 3.57

6. WHISTLEBLOWING CASES IN CURRENT FINANCIAL YEAR



7. INVESTIGATIONS - CASES UNDER INVESTIGATION DURING REPORTING PERIOD



Equating to
26.0
Audit Days
2018/19

8. NEW UNPLANNED WORK



Equating to
11.7
Audit Days
2018/19

4.2 COMPLETION OF THE INTERNAL AUDIT PLAN

4.2.1 The performance dashboard shows that at the half-way point of the year, 32% 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). Six audits had been completed ('Draft' or 'Final' report issued), and another six were 'in progress'.

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

2017/18 Work Carried Forward. Work on 6 audit reviews had to be completed.

Level of Unplanned Work. The Performance Dashboard records that a total of 38 days has been used on 'Unplanned Work / Investigations'. Audit West have been involved in four investigations in the first six months of the year.

Staff Vacancy. Following an unsuccessful attempt to recruit in June / July 2018 we have just advertised a Senior Auditor post and following interview I am pleased to report that we have appointed an experienced auditor. It is hoped that they will commence in January 2019.

Seasonal use of annual leave. Staff tend to take a larger proportion of their annual leave entitlement during the summer months.

4.2.3 In consultation with the Council's S151 Officer, Corporate Director, and Director of Integrated Commissioning it was agreed that the audit of Virgin Care Contract Management would be replaced by an audit of Adult Care Contract Management. This audit is currently work in progress and its objective is to review contract management of residential / nursing care, home care, and learning difficulties supported living (day care, residential & home care).

4.2.4 To help manage the shortfall in available audit days caused by the staff vacancy we are working with our key partner the Devon Audit Partnership to deliver three audit reviews before the end of the financial year.

4.2.5 It should be noted that we reported a similar half year position in 2017/18 and following the end of 2017/18 we reported 80% of that plan being completed. It is hoped that we will achieve at least the 80% figure but the Committee should be aware that any reduction in staffing resources or significant unplanned work will impact on delivery.

4.3 AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS

4.3.1 The percentage of audits (included in 2018/19 Plan) completed within the initial allocated days is recorded at 75%. As stated earlier in this report this is based on the four 'finalised' audits. The single audit that exceeded time initially allocated was 2 days over and this was considered reasonable by Audit Management based on the scope of the audit.

4.4 CUSTOMER SERVICE

4.4.1 The relevance / importance of the 'Customer Service' performance measure, (based on completion of Audit Quality Questionnaires), has been subject of discussion at previous Committee meetings. At the April 2018 meeting when the 2017/18 Performance Dashboard was last presented, management of the Internal Audit function highlighted the importance of obtaining client feedback. It is important that Committee Members are aware that Audit Management meet with Council Statutory Officers, Directors and other senior Officers to discuss past, current and future audit work. The Audit Service doesn't just rely on the completion of questionnaires to monitor 'client satisfaction', we continually monitor client feedback to ensure the quality of the internal audit service is maintained. Feedback remains very positive. Examples of some of the comments received include:

"Thank you for your help, engagement and professionalism throughout."

"Good Report and fair recommendations"

"Very helpful for Service improvement"

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 85%. The 3 audits 'Followed-Up' during the first half of the financial year recorded 9 high risk rated weaknesses / recommendations. Only a single recommendation had not been implemented within the agreed timescale and this matter was reported to the responsible Group Manager and Director to monitor implementation.

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 four investigations.

4.6.2 One 'whistleblowing' case in the Resources 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 Three investigations were linked to the loss / theft of assets. One of these cases linked to a financial loss of £8,000 was reported to the Police. A prosecution and / or recovery of the money is very unlikely. In all three cases there was a breakdown in the system of internal control and the work of the Audit Team has highlighted the system weaknesses and management have implemented the necessary actions.

4.7 ASSURANCE LEVEL PROVIDED

4.7.1 In terms of 2018/19 planned work, six audits had been completed ('Draft' or 'Final' report issued), and another six were 'in progress'. Management have responded to three 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 2018/19 all reports recorded an Assurance Level of 3 or above (Satisfactory to Excellent).

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 – 24th April 2017 – Internal Audit Plan - 2018/19</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 2018)

Appendix 1

Ref	Topic	Status at 30 Sept 2018	Assurance Level	Recommendations	
				Made	Agreed
18-001B	Virgin Care - Contract Management	Replaced			
18-002B	HB Subsidy / Benefits Claim Process	Final Report	4	0	N/A
18-003B	Payroll Self Service - Starters / Leavers / Payment requests	Substantially Completed	WIP	WIP	WIP
18-004B	IT - Service Level Management	Quarter 3 Start	WIP	WIP	WIP
18-005B	Childrens Direct Payments	Draft Report	3	10	10
18-006B	IT - Supplier Management	Quarter 3 Start	WIP	WIP	WIP
18-007B	Pension Fund - Investments - Residual	Not Started			
18-008B	Pension Fund - Payroll	Quarter 3 Start	WIP	WIP	WIP
18-009B	IT - Patch Management	Substantially Completed	WIP	WIP	WIP
18-010B	Payroll Reporting - Variance Analysis controls	Final Report	4	2	2
18-011B	Mental Health - Section 117 Funding (CCG)	Not Started			
18-012B	Reablement Contract Management	Work In Progress	WIP	WIP	WIP
18-013B	Waste / Recycling Service	Not Started			
18-014B	IT - Cyber Security	Not Started			
18-015B	Pension Fund - Data Integrity - Admin	Not Started			
18-016B	Highways - Contract Management	Substantially Completed	WIP	WIP	WIP
18-017B	Bath Tourism Plus	Not Started			
18-018B	YCYW Data Management	Not Started			
18-019B	Bank A/C Management	Not Started			
18-020B	Financial Ledger – Reconciliations	Quarter 3 Start	WIP	WIP	WIP
18-021B	Financial Ledger - Control A/C's	Quarter 3 Start	WIP	WIP	WIP
18-022B	Property Disposals (links to Asset Planning 2017/18 planned audit review)	Not Started			
18-023B	Payroll Compliance - Statutory Returns	Quarter 3 Start	WIP	WIP	WIP
18-024B	Property - Capital Maintenance Budget Allocations and Property 'Compliance' responsibilities (Focus on Depots)	Not Started			
18-025B	Code of Practice 14	Quarter 3 Start	WIP	WIP	WIP
18-026B	Council Tax - Collection Fund - Collection Rates and Return Completion	Quarter 3 Start	WIP	WIP	WIP
18-027B	Public Health - Allocation of Funding and Expenditure Certification & Reporting	Substantially Completed	WIP	WIP	WIP
18-028B	Homelessness	Final Report	5	4	4
18-029B	IT - User ID and Access Management	Not Started			
18-030B	IT - Applications - User ID and authentication	Not Started			
18-031B	Financial Ledger – Journals/Virements	Quarter 3 Start	WIP	WIP	WIP
18-032B	Apprenticeship Levy	Final Report	3	5	5
18-033B	Financial Ledger – Suspense A/C's	Quarter 3 Start	WIP	WIP	WIP
18-034B	Data Analytics	Not Started			
18-035B	Council Tax Support Scheme	Draft Report	5	1	1
18-036B	Haycombe Cemetary & Crem (Bereavement Services)	Quarter 3 Start	WIP	WIP	WIP
18-037B	Companies Governance	Not Started			
18-038B	GDPR - Phase 2 - Implementation & Compliance	Substantially Completed	WIP	WIP	WIP
18-201B	Adult Social Care - Contract Management	Work In Progress	WIP	WIP	WIP

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