

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Tuesday, 30th July, 2019, 4.30 pm

Councillors: Andrew Furse (Chair), Colin Blackburn, Winston Duguid (in place of Lucy Hodge), Mark Elliott and Brian Simmons

Independent Member: John Barker

Officers in attendance: Donna Parham (Chief Finance Officer), Jeff Wring (Service Director - One West), Andy Cox (Head of Audit and Assurance (One West)), Gary Adams (Head of Corporate Finance), Jamie Whittard (Financial Accounting and Planning Team Leader), Liz Woodyard (Investments Manager) and David Richards (Finance & Systems Manager (Pensions))

Guests in attendance:

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 Councillor Lucy Hodge, for whom Councillor Winston Duguid substituted.

4 DECLARATIONS OF INTEREST

There were none.

5 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair informed Members that the previous week a reply signed by him had been sent to the external auditors' standard enquiries about how the Committee performed its role. A copy was available for inspection by Members.

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: 7 FEBRUARY 2019

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

9 ACCOUNTS AND AUDIT FINDINGS REPORT

The Chief Finance Officer introduced the item, and invited Mr Barber to present the Audit Findings Reports for the Council and the Avon Pension Fund.

Mr Barber reminded Members that the external auditor had a twofold responsibility to the Council: to give an opinion on the Financial Statements and to reach a Value for Money conclusion. The report reflected the situation at 23rd July. Good progress had been made in the intervening period with the outstanding items listed on page 4. The headline opinion on the accounts was as set out on page 3. The draft accounts had been received by the new earlier deadline, and had been free from material error. As is inevitable in such a large and complex set of accounts, issues had arisen, the most significant of which was the High Court judgement on the McCloud pension case in December 2018. The external auditor's view was that this had a clear impact on the liabilities of the Avon Pension Fund and therefore the Council's balance sheet. Following discussion with the external auditor, the Avon Pension Fund instructed its actuary to assess the potential effect of the judgement. In addition a number of minor changes had to be made to the draft accounts. Full assistance and co-operation was given to the external auditor by officers, which considerably facilitated reaching the current position.

The external auditor could not yet issue a certificate that the audit work on the 2018/19 accounts was complete, because they needed to be assured that the annual report for the Pension Fund, to be published in December, was consistent with the Pension Fund accounts.

He hoped to be able to sign off the accounts with an unqualified opinion later that day.

He then commented in detail on the findings. He explained that the materiality level is usually set in the ½-2% range. It could be argued that a low level should be set, because of the high level of risk associated with the accounts, since external parties, such as banks, rely on them when deciding, for example, whether to advance loans. However a level of 2% had been set, because the external auditor considered that the inherent risk of misreporting or error was low in the light of their experience of the Council. Significant risks were identified in the Audit Plan. Findings in relation to these are set out on pages 5-7 of the report. More audit work had been done on Property, Plant and Equipment than in previous years. This had been made easier by the fact that following previous comments from the external auditor, the Council had moved the valuation date from December to the end of the financial year, enabling the auditor to be sure that the carrying value did not differ from the current value.

The report of APF's actuary on the impact of the McCloud judgement had identified an additional liability of £10.534m as at 31 March 2019, for which the Council had adjusted in the final accounts. The external auditor had requested its own internal actuary to scrutinise this figure, and was satisfied that it fairly reflects the additional liability of the Pension Fund.

He drew attention to the opinion on management's use of the "going concern" assumption, namely their assumption that they would continue to provide services during the following twelve-month period ending in July 2020. This was something that had not been given particular attention in relation to public sector organisations in the past, but the example of the difficulties of Northamptonshire Council would ensure that it was given more attention in future. The external auditor's view was that the Council, like many public sector bodies, was in a middle position in that it was a going concern, but faced uncertainties.

He concluded by saying that the audit findings constituted a very positive assessment of the Council. In relation to Value for Money, the external auditor was satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Inevitably there were recommendations for improvement, as set out in the Action Plan in Appendix A.

He drew attention to the findings on the significant risks of the Medium Term Financial Plan (pages 19-21) and Aequus Developments (page 22).

Members noted the audit fees stated on page 29, which included an additional £9,000 for the work necessitated by the McCloud judgement and the Plant, Property and Equipment valuation.

The Chair invited the finance officers to comment.

The Head of Corporate Finance said that after a review it had been concluded that the accounts of Aequus did not require consolidation.

The Chief Finance Officer responded to the Value for Money conclusion. She said that reserves were reviewed regularly to ensure that they were sufficient to meet risks. In this year's budget the reserves had been increased by £1.9m, because it was recognised that there would be an overspend, and so funding had been added to the budget contingency fund. As far as the spending gap was concerned, the Council had achieved over 80% of planned savings, but savings were becoming harder to deliver each year. A Member asked whether reserves were earmarked or could be used flexibly. The Chief Finance Officer replied that they were earmarked for particular circumstances, and there were rules for their use. For the last couple of years there has been a budget contingency for dealing with in-year budget risks. If this is not used, it can be carried forward. This year there is a budget contingency of £3m.

The Chair asked how a projected overspend of £4m at Q3 had been reduced to £0.923m at year end. The Chief Finance Officer explained that there had been a Cabinet budget meeting in September, at which it had been agreed to impose a recruitment freeze and to set up a panel to consider procurement proposals. The slower spending that resulted from these measures had taken a few months to work through.

A Member asked about the £2.3m contingency for education. The Chief Finance Officer said that this related to Special Educational Needs and children's disabilities. This is an educational cost, which should be funded by central government. All councils were struggling with the cost of children's services. She said that the

number of looked-after children had increased across the country, mainly because of safeguarding issues.

The Chair asked about the impact of the McCloud judgement. Was this a real cost or just a risk, and if it was a real cost who would bear it? Mr Barber explained that the £10.534m would be added to the liabilities of the APF and therefore of the Council. The Investments Manager explained that the size of the APF's liabilities was one of the factors used to set employer pension contribution rates, which would be determined by the triennial valuation currently taking place.

Mr Barber presented the audit report on the Avon Pension Fund. He explained that the cost of the McCloud judgement was not material in relation to the total £4.6bn in the Fund.

Members congratulated the Finance team for their hard work, which had resulted in a good and professional set of accounts.

The Chair signed the Letters of Representation for the Council and the Avon Pension Fund.

RESOLVED:

1. to note the issues contained within the Audit Findings Reports for the Council and Avon Pension Fund;
2. to approve the audited Statements of Accounts, including the Letters of Representation for Bath & North East Somerset Council and the Avon Pension Fund for 2018/19.

10 TREASURY MANAGEMENT OUTTURN 2018/19

The Head of Corporate Finance presented the report. He said that because of the timing of meetings the report had already been considered by full Council earlier in the month.

He summarised the headline figures for investment and borrowing.

A Member noted that Public Works Loan Board annuity borrowing was arranged during the last quarter to maintain cashflow balances, and asked whether this would be done more often. The Chair responded that it had been the practice over the past eight years to fund the capital programme from cash flow as far as possible, but on occasion borrowing was necessary to maintain cash flow. Officers explained that it was important to get the timing of borrowing right; the majority of the Council's borrowing was from PWLB, which was at a fixed rate.

RESOLVED to note:

1. the Treasury Management Report to 31st March 2019, prepared in accordance with the CIPFA Treasury Code of Practice.
2. the Treasury Management Indicators to 31st March 2019.

11 INTERNAL AUDIT ANNUAL REPORT 2018/19

The Head of Audit and Assurance (One West) presented the report.

The Service Director (One West) drew attention to his formal opinion on the Council’s internal control framework contained in section 4.11 of the report. He said that it had been a challenging year for One West, but fortunately it had been possible to obtain additional staff resources from the Devon Audit Partnership.

RESOLVED to note the Internal Audit Report 2018/19 and the formal opinion on the internal control framework.

12 INTERNAL AUDIT PLAN 2019/20

The Head of Audit and Assurance (One West) presented the report.

A Member asked about protecting the identity of whistleblowers. He suggested that it might deter some whistleblowers if they felt that they might be identified. The Head of Audit West responded that while whistleblowers were interviewed in total confidence, it could be difficult to deal with them if they were anonymous. Meeting them was part of the assessment process, and it was usually necessary to understand what outcome they were seeking. They had a right to remain anonymous, but this was not encouraged.

RESOLVED to approve the Internal Audit Plan for 2019/20.

13 AUDIT COMMITTEE ANNUAL REPORT 2018/19

The Service Director (Audit West) introduced this item.

He said that as the Committee contained a majority of new Members, he was proposing that he draft the annual report and agree it with the Chair. He invited Members to him email with any suggestion for the content for the report.

RESOLVED to delegate the Annual Report of the Committee to the Chair to endorse and agree before issued to full Council at its November meeting.

The meeting ended at 6.28 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services