

# Corporate Audit Committee

**Date: Tuesday, 30th July, 2019**

**Time: 4.30 pm**

**Venue: Kaposvar Room - Guildhall, Bath**

## **Agenda**

**To: All Members of the Corporate Audit Committee**

Councillors: Andrew Furse (Chair), Colin Blackburn, Mark Elliott, Lucy Hodge and Brian Simmons

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

The agenda is set out overleaf.



**Sean O'Neill**

**Democratic Services**

Lewis House, Manvers Street, Bath, BA1 1JG

Telephone: 01225 39 4435

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

E-mail: [Democratic\\_Services@bathnes.gov.uk](mailto:Democratic_Services@bathnes.gov.uk)

## NOTES:

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

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

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

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

### 3. **Recording at Meetings:-**

The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control. Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators. 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](http://www.bathnes.gov.uk/webcast). The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

### 4. **Public Speaking at Meetings**

The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group. They may also ask a question to which a written answer will be given. **Advance notice is required not less than two full working days before the meeting. This means that for meetings held on Thursdays notice must be received in Democratic Services by 5.00pm the previous Monday.** Further details of the scheme:

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

### 5. **Emergency Evacuation Procedure**

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are signposted. Arrangements are in place for the safe evacuation of disabled people.

### 6. **Supplementary information for meetings**

Additional information and Protocols and procedures relating to meetings

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

**Corporate Audit Committee-Tuesday, 30th July, 2019**

**at 4.30 pm in the Kaposvar Room - Guildhall, Bath**

**A G E N D A**

1. EMERGENCY EVACUATION PROCEDURE

The Chair will draw attention to the emergency evacuation procedure as set out under Note 7.

2. ELECTION OF VICE-CHAIR

To elect a Vice-Chair (if required) for this meeting.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

4. DECLARATIONS OF INTEREST

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

(a) The agenda item number in which they have an interest to declare.

(b) The nature of their interest.

(c) Whether their interest is a **disclosable pecuniary interest** *or* an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair will announce any items of urgent business.

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

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

To deal with any petitions, statements or questions from Councillors and, where appropriate, co-opted and added Members.

8. MINUTES: 7 FEBRUARY 2019 (Pages 5 - 10)

9. ACCOUNTS AND AUDIT FINDINGS REPORT - TO FOLLOW

10. TREASURY MANAGEMENT OUTTURN 2018/19 (Pages 11 - 26)

11. INTERNAL AUDIT ANNUAL REPORT 2018/19 (Pages 27 - 34)
12. INTERNAL AUDIT PLAN 2019/20 (Pages 35 - 60)
13. AUDIT COMMITTEE ANNUAL REPORT 2018/19 (Pages 61 - 68)

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**

Thursday, 7th February, 2019, 2.00 pm

**Councillors:** Brian Simmons (Chair), Chris Dando, Sally Davis, Andrew Furse and Chris Watt

**Independent Member:** John Barker

**Officers in attendance:** Donna Parham (Interim Director - Finance), Jeff Wring (Service Director - One West), Andy Cox (Head of Audit and Assurance (One West)) and Ian Savigar (Director of Revenue and Benefits Transformation)

**Guests in attendance:** Councillor John Bull (Bath and North East Somerset Council) and Peter Barber (Grant Thornton)

**24 EMERGENCY EVACUATION PROCEDURE**

The Democratic Services Officer advised the meeting of the procedure.

**25 ELECTION OF VICE-CHAIR**

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

**26 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Apologies were received from Councillor Barry Macrae, for whom Councillor Sally Davis substituted.

**27 DECLARATIONS OF INTEREST**

There were none.

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

There was none.

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

There were none.

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

There were none.

**31 MINUTES: 4TH DECEMBER 2018**

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

**32 DEBT MANAGEMENT POLICY - PRESENTATION**

The Director of Revenue and Benefits Transformation made a presentation to the Committee. A copy of his PowerPoint slides is attached as an appendix to these minutes.

This presentation was made in accordance with the resolution of the Council in November 2018:

“To agree in principle that, as the Council is currently reviewing its total Debt Management Policy, that officers should provide their conclusions to the Corporate Audit Committee in February to which the Resources Policy Development & Scrutiny Panel members should be invited, which in turn should consider the Council’s proposed approach to debt collection before any final decision is made.”

Members of the Resources PDS had been notified about today’s presentation.

Members noted that the draft policy would be presented to the Committee for approval in the near future.

The Director of Revenue and Benefits Transformation responded to comments and questions from Members.

- Does the Council have any strategy or practice to identify vulnerable customers?  
*I do not think that anyone has a really adequate definition of vulnerability. The facts can be complex. However, it becomes fairly obvious if a customer has a carer, for example.*
- Does the Council have powers to refer customers to the Citizens Advice Bureau or another agency?  
*We could only do so with the customer’s consent. Usually the first conversation by a customer having difficulty in paying would be with a Council Tax Officer or Customer Services. All our staff are trained to be able to handle these conversations and have knowledge of help to which customers can be referred. If a customer contacts Council Connect, they are referred to a Council Tax Officer if their query is about Council Tax. The forthcoming restructure will provide additional Welfare Officer support. If a customer agrees a payment arrangement no further action would be taken for as long as they comply with that arrangement. It is proposed that after restructuring the cases of customers who fail to comply with agreed plans will be managed by the Welfare Support Team. If a customer goes on Universal Credit, we automatically defer their first instalment payment of Council Tax by one month.*
- Is it not the case that if the Council has no contract with the bailiffs/enforcement agents, then there is no basis in law for exchanging personal data with them?  
*The Council does have a signed agreement with the enforcement agents and a statutory basis to share information.*
  - Does this agreement contain all the required provisions relating to the exchange of personal data?

*Yes, it is something we have checked with reviewers, who have assured us that we are operating within the rules.*

- Are businesses treated in the same way as individual customers?  
*In essence, yes. Many small businesses qualify for business rate relief, and we would encourage them to check their entitlement. We have started to speed up enforcement where we think some kind of rates avoidance activity is being practised.*

The Service Director – One West asked Members whether they would like a further session in the same format as today's presentation and discussion after the remaining stages of consultation on the Debt Management Policy had been completed. Members agreed that they would.

The Chair thanked the Director of Revenue and Benefits Transformation for the presentation.

### **33 EXTERNAL AUDIT UPDATE**

Mr Barber presented the report.

He drew Members' attention to the Grant Certification Letter in Appendix 1, which reported that for 2017/18 Housing Benefit errors had been detected which were consistent with errors found in previous years, and that errors had been detected in one new area, Working Tax Credit Disregard. The extrapolated financial impact of errors was relatively significant to the total subsidy receivable.

Members expressed concern about the continuing high level of errors.

A Member asked whether actual figures could be used rather than extrapolation. How confident could we be about the extrapolation? Mr Barber replied that the extrapolation methodology was uniform across all councils and had not changed for many years.

A Member suggested that every Housing Benefit error should be categorized and a review conducted of how the probability of a recurrence of that type of error could be reduced, whether by individual training or software changes or something else. The Interim Director – Finance responded that the Housing Benefit team did not just sit back and wait for the auditors to detect errors; if errors were found by the Team then sample testing was carried out to try to ascertain the extent of the errors. The auditors sometimes detected additional errors. The Member asked how, apart from the time of detection, the errors detected by the Housing Benefit Team differed from those detected by the auditors. The Interim Director – Finance replied that the difference lay in the choice of samples tested. Mr Barber said that a review of a sample could sometimes disclose additional errors as did the retrospective rounding of a sample based on the prescribed criteria. The Member suggested that reliance on the training of individual staff did not appear to be tackling the root of problems. At present there were significant clawbacks of benefit subsidy by DWP, and it seemed that an entirely different approach was needed. He thought that what was required was not corrective action but preventative measures. The Interim Director – Finance

said that there was to be a dedicated team within the Council working on the issues and changes to ways of working were being implemented.

A Member suggested that a report on the findings of internal error testing should be presented to the Committee mid-way through the next financial year. Members agreed that it would be helpful if the percentage and type of errors detected were reported to the Committee. A Member suggested that any such report should contain a description of the error testing process. A Member suggested that a report should be made to the Committee after restructuring, to reveal whether or not restructuring had been a success.

The Chair asked about the proportion of errors caused by wrong information provided by applicants and those called by the Council. The Interim Director – Finance explained that excess payments made because of wrong information given by applicants could be recovered from them, and so did not affect the amount repayable to DWP, whereas overpayments made because of errors made by the Council could not be recovered.

Mr Barber presented the External Audit Plans for the Council and the Avon Pension Fund.

A Member asked Mr Barber for how many of the ten members of the Brunel Pensions Partnership Grant Thornton acted as auditors, and whether they were able to share information about issues identified during an audit with other members of the pool. Mr Barber said that he believed that they were auditors for nine of them and that their ability to share information was restricted by client confidentiality.

**RESOLVED** to note the report.

## **34 TREASURY MANAGEMENT AND INVESTMENT STRATEGY**

The Interim Director – Finance presented the report.

In response to a question from a Member the Interim Director – Finance confirmed that Arlingclose were now suggesting that one of the two 0.25% increases in interest rates they had forecast for 2019 would be deferred until 2020.

**RESOLVED** to note:

1. the actions proposed within the Treasury Management Strategy Statement (Appendix 1) to February Council and the Investment Strategy as detailed in Appendix 2 to February Council;
2. the Treasury Management Indicators detailed in Appendix 1.

## **35 RISK MANAGEMENT STRATEGY**

The Service Director – One West presented the report.

He said that the revised Risk Management Strategy was a refresh of the existing risk management framework with a focus on the next 5-year horizon and subject to annual review. The previous strategy had a much more process-based approach.



The new Strategy recognises that taking more risk is part of modern service delivery in tough times. Services are expected to understand what their significant risks are and it shouldn't become a bureaucratic process..

He said that the Risk Management Toolkit (Appendix 2) would be available to officers online. It was intended to be easily navigable, brief and intelligible. It draws on the best practice of other local authorities.

Members welcomed the toolkit and the aim of making risk management part of corporate culture not just a process.

**RESOLVED** to endorse the Draft Risk Management Strategy.

The meeting ended at 4.00 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

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Bath & North East Somerset Council		
MEETING	Corporate Audit Committee	
MEETING DATE:	30 July 2019	EXECUTIVE FORWARD PLAN REFERENCE:
		E 3119
TITLE:	Treasury Management Outturn Report 2018/19	
WARD:	All	
AN OPEN PUBLIC ITEM		
<p><b>List of attachments to this report:</b></p> <p><b>Appendix 1</b> – Performance Against Prudential Indicators</p> <p><b>Appendix 2</b> – The Council’s Investment Position at 31<sup>st</sup> March 2019</p> <p><b>Appendix 3</b> – Average monthly rate of return for 2018/19</p> <p><b>Appendix 4</b> – The Council’s External Borrowing Position at 31<sup>st</sup> March 2019</p> <p><b>Appendix 5</b> – Arlingclose’s Economic &amp; Market Review Q4 of 2018/19</p> <p><b>Appendix 6</b> – Interest &amp; Capital Financing Budget Monitoring 2018/19</p> <p><b>Appendix 7</b> – Summary Guide to Credit Ratings</p>		

## 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 for 2018/19.

## 2 RECOMMENDATION

The Corporate Audit Committee agrees that;

- 2.1 The Treasury Management Report to 31<sup>st</sup> March 2019, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.
- 2.2 The Treasury Management Indicators to 31<sup>st</sup> March 2019 are noted.

### 3 THE REPORT

#### Summary

- 3.1 The average rate of investment return for the 2018/19 is 0.73%, which is 0.17% above the benchmark rate.
- 3.2 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

- 3.3 The Council's investment position as at 31<sup>st</sup> March 2019 is given in **Appendix 2**. The balance of deposits as at 31<sup>st</sup> December 2018 and 31<sup>st</sup> March 2019 are also set out in the pie charts in this appendix.
- 3.4 Gross interest earned on investments totalled £329k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.73%, which was 0.17% above the benchmark rate of average 7 day LIBID +0.05% (0.56%).

#### Summary of Borrowings

- 3.5 The Council's external borrowing as at 31<sup>st</sup> March 2018 totalled £226.1 million and is detailed in Appendix 4. PWLB annuity borrowing for £20million was arranged during the final quarter to maintain appropriate cashflow balances, in particular reflecting an investment property purchase.
- 3.6 The Council's Capital Financing Requirement (CFR) as at 31<sup>st</sup> March 2019 was £300.7 million. 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.
- 3.7 The CFR represents the underlying need to borrow and the difference from the current borrowing of £226.1 million, represents re-investment of the internal balances of reserves, reducing the in-year borrowing costs in excess of the potential investment returns.
- 3.8 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 31<sup>st</sup> March 2019 apportioned to Bath & North East Somerset Council is £11.9m. 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.
- 3.9 The borrowing portfolio as at 31<sup>st</sup> March 2019 is shown in **Appendix 4**.

#### Strategic & Tactical Decisions

- 3.10 As shown in the charts at **Appendix 2**, the investment portfolio is diversified across Money Market Funds, highly rated UK and Foreign Banks and a UK Building Society. The Council uses AAA rated Money Market funds to

maintain very short term liquidity and had overall investments of £39.7m invested as at 31<sup>st</sup> March 2019

3.11 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.

3.12 The Council's average investment return is above the budgeted level of 0.45%.

### **Future Strategic & Tactical Issues**

3.13 Our treasury management advisors economic and market review for the fourth quarter 2018/19 is included in **Appendix 5**.

3.14 With GDP Growth rising to 0.6% in the third calendar quarter from 0.4% in the second, the fourth quarter economic growth slowed to 0.2% with weaker expansion in production, construction and services dragging on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August 2018, no further changes to monetary policy have been made since.

3.15 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.

3.16 The borrowing that has taken place in 2018/19 is therefore driven by a need to maintain an appropriate working cash balance rather than any immediate changes to interest rates.

### **Budget Implications**

3.17 A breakdown of the revenue budget showing interest and capital financing and the year end position based on the period April to March is included in **Appendix 6**. An overall underspend of £741k is reported towards the Council's net revenue outturn, mainly related to the re-phasing of capital spend leading to lower than forecast borrowing costs and minimum revenue provision (MRP) requirement. (Overall Outturn is reported elsewhere on the Agenda). This is partly offset by lower internal income related to service charges for funding debt costs in relation to the re-phased capital projects.

## **4 STATUTORY CONSIDERATIONS**

4.1 This report is for information only.

## **5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

5.1 The financial implications are contained within the body of the report.

## 6 RISK MANAGEMENT

- 6.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.
- 6.2 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.
- 6.3 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.
- 6.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

## 7 CLIMATE CHANGE

- 7.1 This is a technical report for information only and does not directly link to climate change policy.

## 8 OTHER OPTIONS CONSIDERED

- 8.1 None

## 9 CONSULTATION

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

<b>Contact person</b>	<i>Donna Parham- 01225 477468; Giles Oliver- 01225 477209 Donna_Parham@bathnes.gov.uk ; Giles_Oliver@bathnes.gov.uk</i>
<b>Background papers</b>	<i>2018/19 Treasury Management &amp; Investment Strategy</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

## 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.

	<b>2018/19 Prudential Indicator</b>	<b>Actual as at 31<sup>st</sup> March 2019</b>
	£'000	£'000
Borrowing	434,000	226,125
Other long term liabilities	2,000	0
<b>Cumulative Total</b>	<b>436,000</b>	<b>226,125</b>

#### 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.

	<b>2018/19 Prudential Indicator</b>	<b>Actual as at 31<sup>st</sup> March 2019</b>
	£'000	£'000
Borrowing	403,000	226,125
Other long term liabilities	2,000	0
<b>Cumulative Total</b>	<b>405,000</b>	<b>226,125</b>

#### 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.

	<b>2018/19 Prudential Indicator</b>	<b>Actual as at 31<sup>st</sup> March 2019</b>
	£'000	£'000
<b>Fixed interest rate exposure</b>	<b>403,000</b>	<b>206,125*</b>

\* 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.

	<b>2018/19 Prudential Indicator</b>	<b>Actual as at 31<sup>st</sup> March 2019</b>
	£'000	£'000
<b>Variable interest rate exposure</b>	<b>246,000</b>	<b>20,000</b>

## 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.

	<b>2018/19 Prudential Indicator</b>	<b>Actual as at 31<sup>st</sup> March 2019</b>
	£'000	£'000
<b>Investments over 364 days</b>	<b>50,000</b>	<b>0</b>

## 6. Maturity Structure of borrowing

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

	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Actual as at 31<sup>st</sup> March 2019</b>
	%	%	%
Under 12 months	50	Nil	13.3*
12 months and within 24 months	75	Nil	0
24 months and within 5 years	75	Nil	0
5 years and within 10 years	100	Nil	0
10 years and above	100	Nil	86.7

\* 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**.

	<b>2018/19 Prudential Indicator</b>	<b>Actual as at 31<sup>st</sup> March 2019</b>
	Rating	Rating
<b>Minimum Portfolio Average Credit Rating</b>	<b>A-</b>	<b>AA</b>



## APPENDIX 2

### March

#### The Council's Investment position at 31<sup>st</sup> March 2019

The term of investments is as follows:

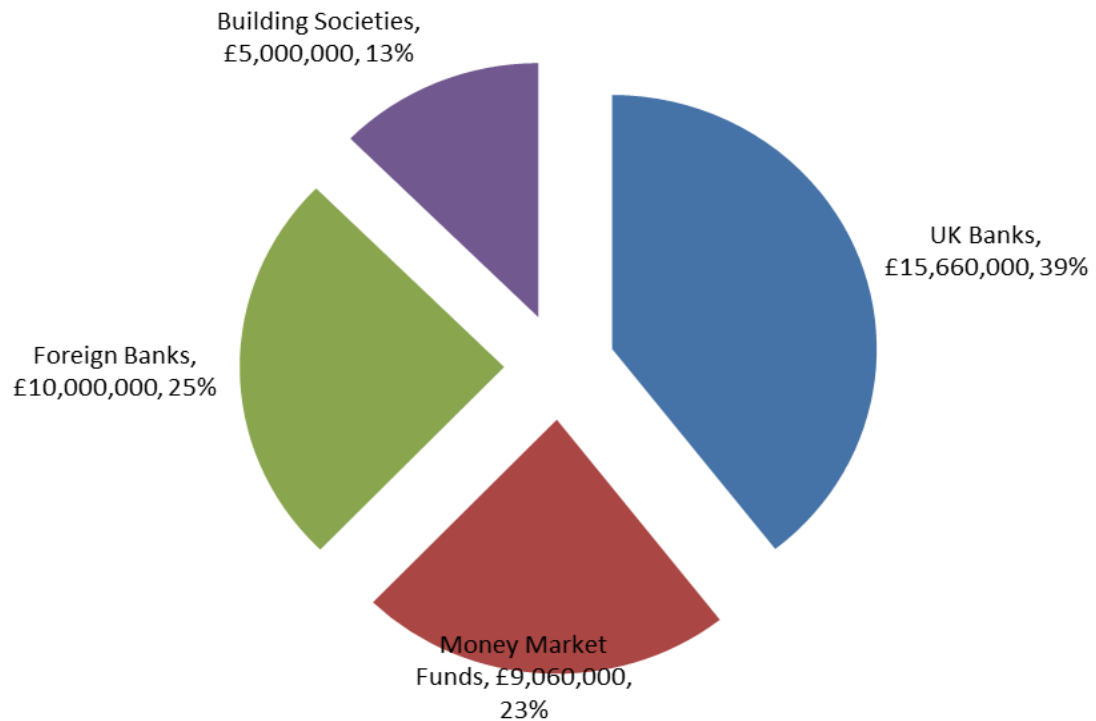
<b>Term Remaining as at 31<sup>st</sup> March 2019</b>	<b>Balance at 31<sup>st</sup> March 2019</b>
	£'000's
Notice (instant access funds)	14,720
Up to 1 month	
1 month to 3 months	10,000
Over 3 months	15,000
<b>Total</b>	<b>39,720</b>

The investment figure is made up as follows:

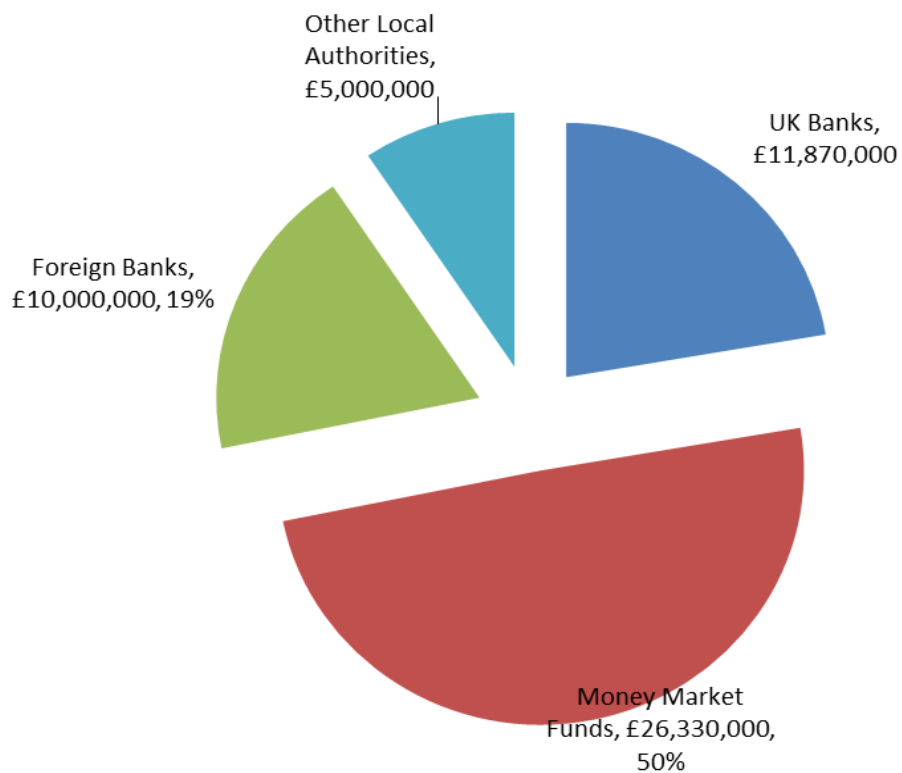
	<b>Balance at 31<sup>st</sup> March 2019</b>
	£'000's
B&NES Council	35,966
Schools	3,754
<b>Total</b>	<b>39,720</b>

The Council had a total average net positive balance of £45.1m during the period April 2018 to March 2018.

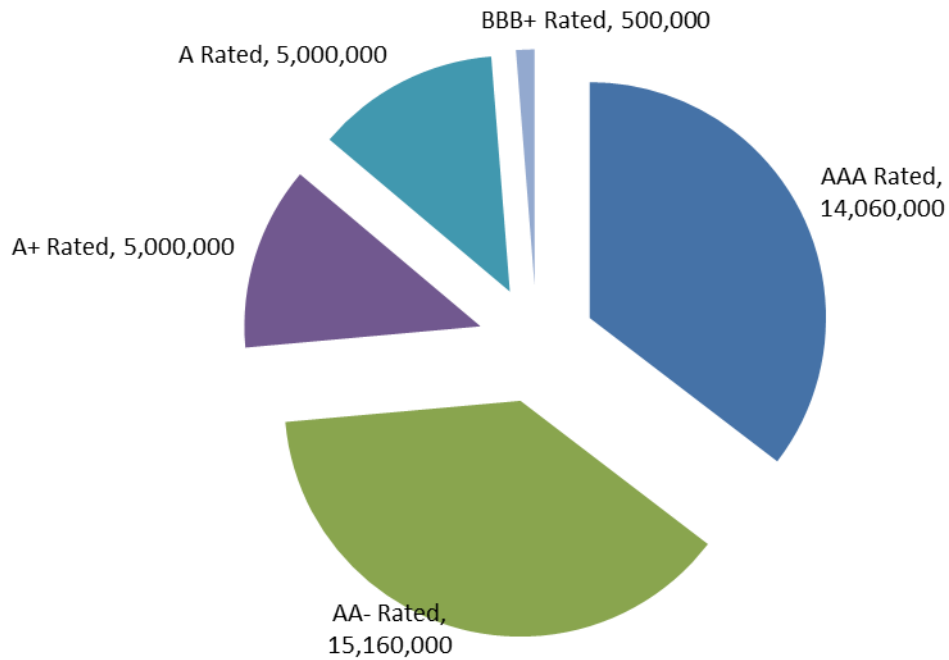
**Chart 1: Council Investments as at 31st March 2019 (£39.7m)**



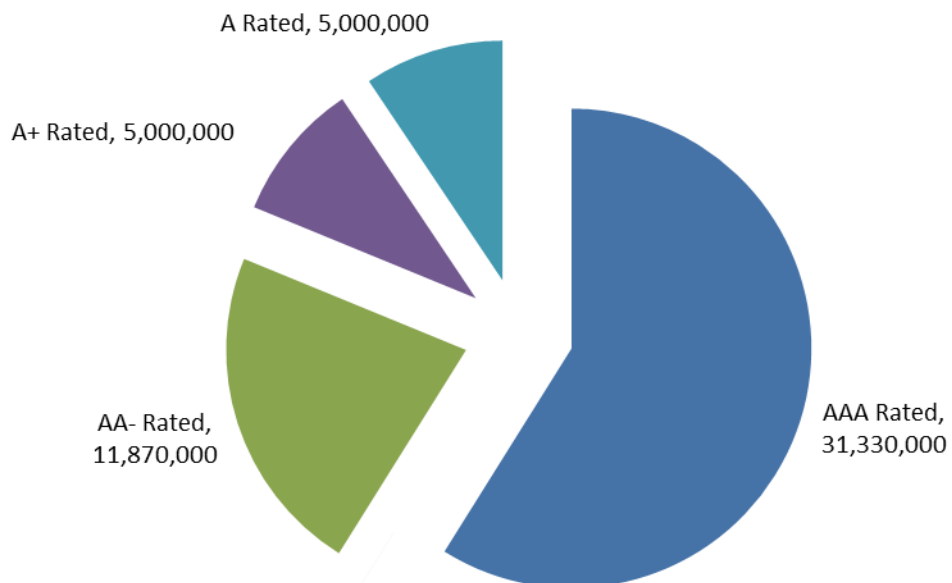
**Chart 2: Council Investments as at 31st December 2018 (£53.2m)**



**Chart 3: Council Investments per lowest equivalent Long Term credit rating (£39.7m) 31th March 2019**



**Chart 4: Council Investments per lowest equivalent Long Term credit rating (£53.2m) 31th December 2018**



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

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

	<b>Oct %</b>	<b>Nov %</b>	<b>Dec %</b>	<b>Jan %</b>	<b>Feb %</b>	<b>Mar %</b>	<b>Average for Period</b>
<b>Average rate of interest earned</b>	0.75%	0.82%	0.81%	0.82%	0.84%	0.83%	0.73%
<b>Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)</b>	0.63%	0.64%	0.63%	0.63%	0.62%	0.62%	0.56%
<b>Performance against Benchmark %</b>	+0.12%	+0.16%	+0.18%	+0.19%	+0.22%	+0.21%	+0.17%

**APPENDIX 4**  
**Councils External Borrowing at 31<sup>st</sup> March 2019**

<b>Borrowing</b>	<b>Amount (£)</b>	<b>Start</b>	<b>Maturity Date</b>	<b>Interest Rate</b>
<b>LONG TERM</b>				
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	18,485,552	20/06/16	20/06/41	2.36%
PWLB	9,302,947	24/02/17	16/02/40	2.28%
PWLB	9,390,197	04/04/17	16/02/43	2.26%
PWLB	7,981,019	08/05/17	15/02/42	2.25%
PWLB	6,896,403	10/08/17	10/04/67	2.64%
PWLB	9,702,041	13/12/17	10/10/42	2.35%
PWLB	9,708,599	06/03/18	10/10/42	2.52%
PWLB	9,777,159	06/03/18	10/10/47	2.62%
PWLB	9,853,265	10/09/18	20/07/43	2.42%
PWLB	9,852,481	06/12/18	20/06/43	2.38%
PWLB	9,950,587	12/12/18	20/06/68	2.59%
PWLB	4,924,955	13/12/18	20/06/43	2.35%
PWLB	20,000,000	11/02/19	11/02/68	2.52%
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%
<b>Overall Total</b>	<b>226,125,204</b>			

\*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 March 2019**

#### Economic background:

After spiking at over \$85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over \$50 in late December before steadily climbing toward \$70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

With the 29th March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament, including shooting down Theresa May's deal for the third time, MPs voted by a majority of one (313 to 312) to force the prime minister to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs did not yield any positive results. The EU have granted an extension to 31<sup>st</sup> October and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

Financial markets: December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts

regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

#### Credit background:

Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.

The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.

In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

## APPENDIX 6

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

April to March 2019	YEAR END POSITION			ADV/FAV
	Budgeted Spend or (Income) £'000	Actual Spend or (Income) £'000	Actual over or (under) spend £'000	
<b>Interest &amp; Capital Financing</b>				
- Debt Costs	7,647	6,340	(1,307)	FAV
- Internal Repayment of Loan Charges	(10,998)	(9,400)	1,597	ADV
- Ex Avon Debt Costs	1,140	1,143	3	ADV
- Minimum Revenue Provision (MRP)	6,230	5,267	(963)	FAV
- Interest on Balances	(304)	(375)	(71)	FAV
<b>Total</b>	<b>2,974</b>	<b>3716</b>	<b>(741)</b>	<b>FAV</b>



## 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:	30 <sup>th</sup> July 2019	AGENDA ITEM NUMBER
TITLE:	Audit & Assurance Annual Report 2018/19	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 - Audit Plan Reviews Position Statement		

## **1 THE ISSUE**

- 1.1 This is the Annual Report of the Internal Audit function detailing progress against the Plan, a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

## **2 RECOMMENDATION**

- 2.1 The Corporate Audit Committee notes the Internal Audit Annual Report 2018/19 and formal opinion on the internal control framework.

## **3 FINANCIAL IMPLICATIONS**

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

## **4 THE REPORT**

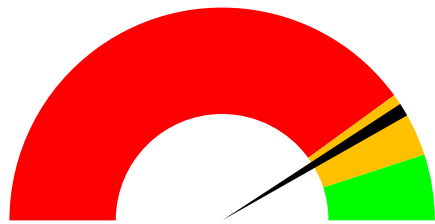
- 4.1 The Annual Internal Audit Plan for 2018/19 was presented to the Corporate Audit Committee on the 24th April 2018. The Plan forms the principal work of the Internal Audit Service and is a significant source of assurance of the effectiveness of the Council's internal control environment.
- 4.2 The Committee receives verbal updates at each meeting and a formal update on delivery against the plan on the 4th December 2018. This report builds upon that update and the chart overleaf records the position as at 31st March 2019.

## PERFORMANCE DASHBOARD - INTERNAL AUDIT

Client - Bath & North East Somerset

Period - April 2018 - March 2019

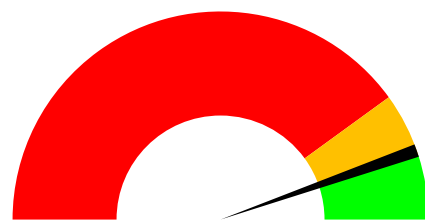
### 1. AUDIT PLAN COMPLETED



82%

Green Target = >80% of annual plan  
Amber Target = >90% of annual plan

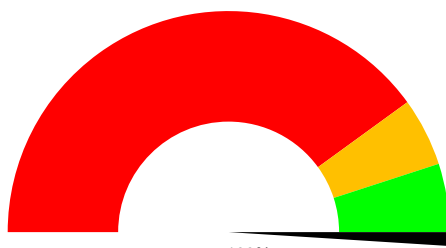
### 2. AUDITS COMPLETED IN PLANNED TIME



88%

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

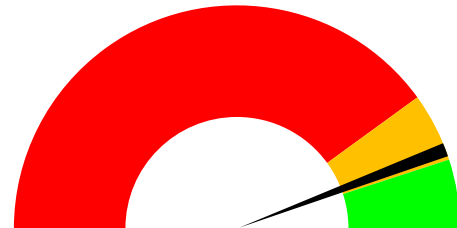
### 3. CUSTOMER SATISFACTION



100%

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

### 4. IMPLEMENTATION OF RECOMMENDATIONS

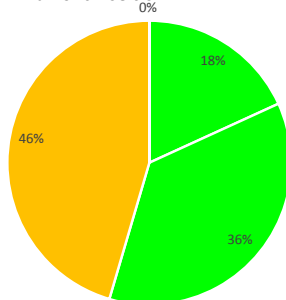


88%

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

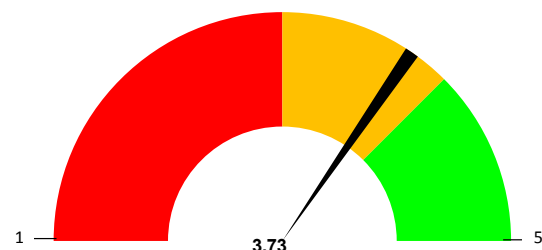
### 5. AUDIT OPINION - ASSURANCE LEVEL PROVIDED

#### Current Position



■ Excellent  
■ Good  
■ Satisfactory  
■ Weak  
■ Poor

#### Current Average Assurance Level



3.73

#### Previous Years Average Assurance

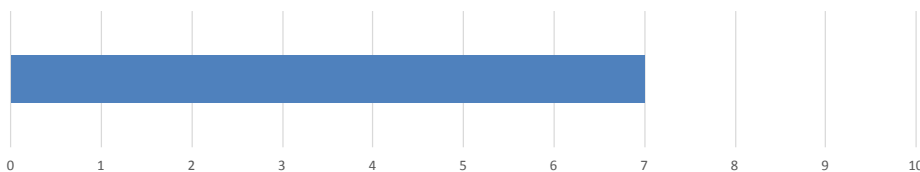
2017/18 3.88  
2016/17 3.57

### 6. WHISTLEBLOWING CASES IN CURRENT FINANCIAL YEAR



Number of New Cases

### 7. INVESTIGATIONS - CASES UNDER INVESTIGATION DURING REPORTING PERIOD



Equating to  
30.1  
Audit Days  
2018/19

### 8. NEW UNPLANNED WORK



Equating to  
61.3  
Audit Days  
2018/19

## **PERFORMANCE SUMMARY**

### **4.3 COMPLETION OF THE INTERNAL AUDIT PLAN**

- 4.3.1 The performance dashboard shows that 82% of the plan is 'substantially completed'. This includes work that is either finalised or at reporting stage.
- 4.3.2 When the half year position was reported in December we had 'substantially completed' 32% of the Audit Plan and were predicting 80% of the plan would be completed subject to no further unplanned work or vacancies.
- 4.3.3 The primary reason for the under-performance against the plan was availability of resources and unplanned work. The team had vacancies through the year until January 2019 when new staff started and following a restructure more vacancies have resulted in 2019/20. A plan is in place to resolve this but recruitment of suitably skilled staff within current resources is challenging and so we have called in resource from our alliance with the Devon Audit Partnership to assist.
- 4.3.4 Another reason was that one of the planned audits 'Virgin Care - Contract Management' was replaced by an unplanned audit review of contract management of Adult Care contracts (Older Persons Care Homes, Home Care and Learning Disabilities) being managed directly by the Council. This audit was made at the request of senior management and the findings / conclusions of this review were reported to management in February 2019. The report concluded that improvements were required in the management and monitoring of payments to service providers. An action plan is being developed by Commissioning / Contract Management to deal with the issues highlighted by the report.
- 4.3.5 Appendix 1 records the estimated status of each audit review within the 2018/19 Audit Plan (38 audit reviews) at the end of March 2019. It also records the outcome of audits which were 'unplanned' or outside of the agreed audit plan.
- 4.3.6 The loss of productive auditor days through the delay in appointing a Senior Auditor accounted for the 7 audits in the Audit Plan which were deferred to 2019/20.

### **4.4 AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS**

- 4.4.1 The percentage of audits completed within the initial allocated days is recorded at 88%. This figure was calculated based on audits recorded as being at 'Final' Report stage.
- 4.4.2 There was a single audit review (Data Analytics – Payment Cards) at report stage which exceeded the allocated time. In addition, there was another audit (GDPR – Phase 2) near completion which exceeded the planned time allocation.
- 4.4.3 For these 2 audits, the reason(s) for going over time was considered reasonable by Audit Management. The importance of completing work within assigned number of days is monitored closely by the management team.

## **4.5 CUSTOMER SERVICE**

4.5.1 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, management of the Internal Audit function responded to comments made about the relevance of this performance indicator by stating that it was crucial that management views were sought and monitored as One West rely on good relationships with auditees / clients to ensure prompt action is taken when control weaknesses or other concerns are highlighted.

4.5.2 In addition to audit clients completing electronic audit questionnaires (used to inform the Performance Dashboard) it is important that Committee Members are aware that feedback is also obtained from face to face discussions with Council Statutory Officers, Directors and other senior Officers (in relation to past, current and future audit work). Those completing questionnaires have the opportunity to score performance and to provide comments. Examples of comments received during this reporting period include:

- "kept me informed throughout the process and myself and team were able to provide feedback on any queries as they arose"
- "Very helpful for Service improvement"
- "always looking to help rather than criticise and always working within the best interests of all parties"
- "Excellent professional service - can't recommend highly enough".

## **4.6 IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS**

4.6.1 The dashboard records the implementation of high risk rated recommendations at the time the audit was 'Followed-Up' at 88%. Of the 7 audits 'Followed-Up' during the financial year, 4 had high risk rated recommendations. For 3 of the 4 audits all high recommendations were implemented.

4.6.2 The single 'High' Risk recommendation recorded in the Audit system as not implemented was in relation to the IT Data Back-Up Audit.

The recommendation was recorded as - Review the DR provision against the critical services' applications identified by the recent business continuity review (2017).

The response against the high risk recommendation was "We have not carried out a full blown test with all systems. Pensions and a couple of other systems have been tested. A full blown test with all systems at the same time would require all service areas to buy in to the exercise corporately".

The response to the recommendation was more related to testing rather than undertaking a review of DR provision against those applications identified as 'critical'. Detailed testing was above and beyond what was expected by the audit recommendation. Addition clarification is being sought from management to confirm that the actual audit recommended action was implemented.

## **4.7 INVESTIGATIONS/ WHISTLEBLOWING**

4.7.1 During the year 2018/19 the service has been involved in seven formal investigations.

4.7.2 Only one of the seven 'investigations' (unplanned work) had resulted from an internal 'whistleblowing'. This case was fully investigated and no wrong doing was identified. The findings and outcome of the investigation was reported back to the whistleblower.

4.7.3 One investigation was focussed on reviewing the internal control breakdowns which resulted in a financial loss linked to a phishing email. One West continue to send out communications to Council and other clients to highlight potential scams. During 2019/20 further work will be carried out to review and update Anti-Fraud and Corruption Policies and guidance and to provide further training and communications to increase fraud awareness.

## **4.8 ASSURANCE LEVEL PROVIDED**

4.8.1 Of those audit reports carried out in 2018/19 (planned and unplanned) 54% of 'Final' Audit Reports issued have recorded an audit opinion of good or excellent (Assurance Levels 4 and 5).

4.8.2 The remaining 46% of Final version Audit Reports provided a 'Satisfactory' Assurance Level 3 assessment. There is therefore nothing to report to Audit Committee in terms of audits recording a 'Poor' or 'Weak' Assurance Level.

## **4.9 UNPLANNED AUDITS / WORK**

4.9.1 The total amount of time spent on unplanned work was 91.4 days which approximately equalled the contingency allowance.

4.9.2 This included the seven investigations (referred to in section 4.7.1); three items of 'unplanned' audit work - the review of Adult Care Contract Management, Parade Gardens Income Collection and Banking, and Anti-Fraud related work.

4.9.3 The Audit Team have also carried out grant claims which required 'independent' certification work.

## **4.10 COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

4.10.1 In December 2017 a report was presented to the Committee on the Public Sector Internal Audit Standards and based on this report the Committee approved a revised Internal Audit Charter.

4.10.2 The Internal Audit Charter states that the Chief Audit Executive will report periodically to the Corporate Audit Committee regarding Internal Audit conformance to the Code of Ethics and the Standards and is being separately reported in the Audit Plan report for information to the Committee.

#### **4.11 FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK**

4.11.1 The Chief Audit Executive is required to give an opinion on the internal control framework.

##### **4.11.2 Statement of the Chief Audit Executive –**

In forming an opinion on the internal control framework I have considered the work of the Audit & Assurance function as well as consideration of the wider governance framework, other assurances we can place reliance on and performance of the Council.

It is my opinion that at the current time the Council's internal control framework and systems to manage risk have not altered significantly from last year and are reasonable.

- Reasonable assurance can be provided over the council's systems of internal control, helping to ensure corporate priorities can be achieved;
- Agreed policies, Financial Regulations and Contract Standing Orders are broadly being complied with;
- Managers throughout the council are aware of the importance of maintaining adequate and effective governance arrangements;
- Appropriate arrangements are operated to deter and detect fraud and investigations did not identify any systemic failures;
- There were no fundamental system failures or control breakdowns to business critical functions;

The continued reduction on council budgets places further pressure on all services to respond and manage risk in a proportionate way – including Internal Audit - and the Council's financial position remains very challenging. A robust Internal Audit service is a vital component of the Council's governance systems and provides the third and final line of defence in relation to the internal control framework.

The Audit Committee's support in ensuring their support of our work and maintaining effective corporate governance is appreciated and I would like to thank all members of the committee for their input and guidance over the past year.

## **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.

<b>Contact person</b>	<i>Andy Cox (01225 477316) Jeff Wring (01225 477323)</i>
<b>Background papers</b>	<i>Reports to Corporate Audit Committee –5<sup>th</sup> December 2017 Public Sector Internal Audit Standards; 4<sup>th</sup> December 2018 Internal Audit Annual Plan – Six Month Performance Update.</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

Ref	Topic	Status	Assurance Level	Recommendations	
				Made	Agreed
18-001B	Virgin Care - Contract Management	See Unplanned Audit	N/A	N/A	N/A
18-002B	HB Subsidy / Benefits Claim Process	Position Statement	N/A	N/A	N/A
18-003B	Payroll: Starters / Leavers / Permanent Variation Payment Requests	Final	4	7	7
18-004B	IT - Service Level Management	Final	3	6	6
18-005B	Children's Direct Payments	Final	3	10	9
18-006B	IT - Supplier Management	Draft	3	9	Awaiting
18-007B	Pension Fund - Investments (Governance)	Postponed	N/A	N/A	N/A
18-008B	Pension Fund - Payroll	Final	4	3	3
18-009B	IT - Patch Management	In - Progress	N/A	N/A	N/A
18-010B	Payroll: Net Pay Variance Analysis Controls	Final	4	2	2
18-011B	Mental Health - Section 117 Funding (CCG)	Position Statement	N/A	N/A	N/A
18-012B	Reablement Contract Management	Position Statement	N/A	N/A	N/A
18-013B	Waste / Recycling Service	Position Statement	N/A	1	1
18-014B	IT - Cyber Security Risk Management	Draft	3	8	Awaiting
18-015B	Pension Fund - Data Integrity - Admin	Final	4	4	4
18-016B	Highways Contract Management	Final	3	4	4
18-017B	Visit Bath HR and Payroll	Postponed	N/A	N/A	N/A
18-018B	YCYW - Data Management	Postponed	N/A	N/A	N/A
18-019B	Bank A/C Management	In - Progress	N/A	N/A	N/A
18-020B	Financial Ledger - Reconciliations	Postponed	N/A	N/A	N/A
18-021B	Financial Ledger - Controls Accounts	In - Progress	N/A	N/A	N/A
18-022B	Property Disposals	In - Progress	N/A	N/A	N/A
18-023B	Payroll Compliance - Statutory Returns	Draft	5	0	0
18-024B	Property - Capital Maintenance Budget Allocations and Property 'Compliance'	See Unplanned Audit	N/A	N/A	N/A
18-025B	Pension Fund - Code of Practice 14	Final	4	2	2
18-026B	Council Tax - Collection Fund - Collection Rates and Return Completion	In - Progress	N/A	N/A	N/A
18-027B	Public Health - Allocation of Funding and Expenditure Certification & Reporting	Final	4	1	1
18-028B	Homelessness	Final	5	4	4
18-029B	IT - User ID and Access Management	Postponed	N/A	N/A	N/A
18-030B	IT - Applications - User ID and authentication	Draft - 4 reports	3	26	Awaiting
18-031B	Financial Ledger - Journals/Virements	Draft	4	5	Awaiting
18-032B	Apprenticeship Levy	Final	3	5	5
18-033B	Financial Ledger - Suspense Account	Final	4	2	2
18-034B	Data Analytics - Payment Cards	Position Statement	N/A	11	Awaiting
18-035B	Council Tax Support Scheme	Final	5	1	1
18-036B	Haycombe Cemetery & Crematorium (Bereavement Services)	Final	3	8	8
18-037B	Companies Governance	In - Progress	N/A	N/A	N/A
18-038B	GDPR Phase 2 - Implementation & Compliance	In - Progress	N/A	N/A	N/A
18-201B	Adult Care Contract Management	Position Statement	N/A	N/A	N/A
18-202B	Property Services - Voids Management	In - Progress	N/A	N/A	N/A
18-203B	Parade Gardens Café Income Reconciliation	Completed	N/A	N/A	N/A
18-204B	Anti Fraud Bulletin	Completed	N/A	N/A	N/A

Bath & North East Somerset Council			
MEETING:	Corporate Audit Committee		
MEETING DATE:	30 <sup>th</sup> July 2019	AGENDA ITEM NUMBER	
TITLE:	Internal Audit Plan - 2019/2020		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Appendix 1 – Internal Audit Annual Plan 2019/20			
Appendix 2 – Audit Charter			

## 1 THE ISSUE

1.1 This is a report detailing the proposed Internal Audit Plan for 2019/20 and informing the committee of the Audit Charter.

## 2 RECOMMENDATIONS

2.1 The Corporate Audit Committee is asked to:

- Approve the Internal Audit Plan for 2019/20

## 3 FINANCIAL IMPLICATIONS

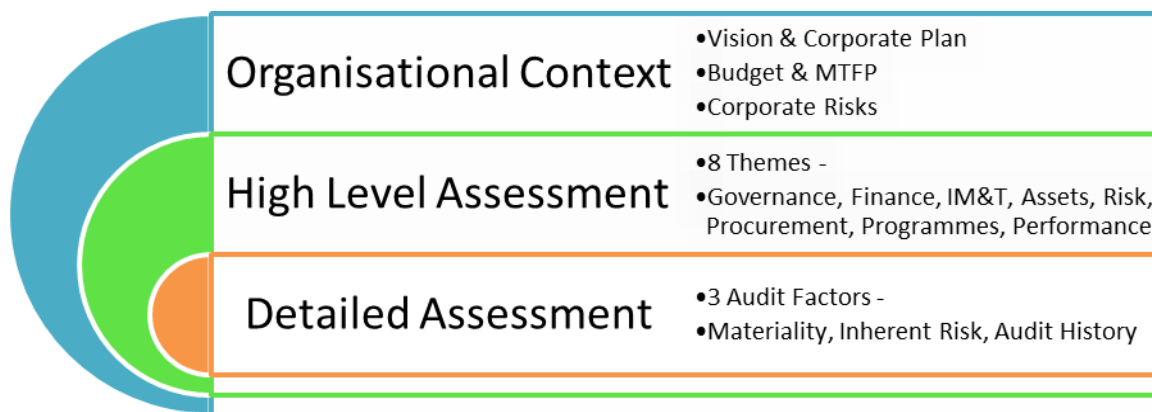
3.1 There are no direct financial implications relevant to this report.

## 4 THE REPORT

### 4.1 Internal Audit Annual Plan 2019/20 (Appendix 1)

4.2 The Public Sector Internal Audit Standards require Internal Audit to prepare a risk-based plan and this is attached at Appendix A.

4.3 The Plan has gone through a wide series of consultation including with Statutory Officers, Directors and other senior managers, and as detailed to the Committee previously we use the reasonable assurance model to compile the plan of which the essential elements are as follows –



4.4 Notwithstanding the assessment, specific circumstances (such as a significant reputational issue or request of S151 Officer or Senior Management Team) may on occasion mean that a low scoring topic is nevertheless included in the Plan.

4.5 In addition to completing the Internal Audit Reviews, One West will -

- Provide support to the corporate governance framework within the Council including completing the Annual Governance review work required to publish the Council's Annual Governance Statement;
- Complete 'Follow-up' reviews to verify the implementation of Internal Audit Review recommendations.
- Provide support to assess the Council's risk management framework;
- Carry out the Co-ordination and Investigation roles to complete the work required through the Cabinet Office Data Matching 'National Fraud Initiative';
- Carry out Anti-Fraud and Corruption work – review of Strategy, Policies and guidance. This will include fraud awareness training to staff in targeted areas.
- Provide advice on systems of internal control including Council policies and procedures. This is particularly important when systems and processes are being developed or changed;
- Provide support to Services on carrying out investigations in relation to financial irregularities. This may require Audit staff to take on the Investigating Officer role in compliance with the Council's disciplinary procedures;
- Provide a service to verify the accuracy of specific grant claims and when required provide assurance to the Council's Chief Executive or other officers who are required to 'sign-off' Claim Certificates.

- 4.6 The Plan will remain fluid during the year to enable the service to respond to the Council's changing risk environment and the Committee will receive an update on performance during the year.

### **Internal Audit Charter & Professional Standards**

- 4.7 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1<sup>st</sup> April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government, Central Government and the NHS. The PSIAS was revised wef 1<sup>st</sup> April 2017 and are based on the Institute of Internal Auditors' International Standards. The objectives of the PSIAS are to:
- Define the nature of internal auditing within the UK public sector.
  - Set basic principles for carrying out internal audit in the UK public sector.
  - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations.
  - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 4.8 A key requirement of the PSIAS is an Internal Audit Charter which defines the internal audit activity's purpose, authority and responsibility. The Internal Audit Charter establishes its position within the organisation; the nature of the Chief Audit Executive (CAE's) functional reporting relationship with the Audit Committee; formally records its access to property, records and personnel; and defines the scope of internal audit activities. The CAE must periodically review the Internal Audit Charter and present it to the Audit Committee for approval.
- 4.9 As part of best practice we always present the Charter annually to the Audit Committee (which you approved last year) so that they are aware of how Internal Audit delivers its services and derives its authority and to re-confirm our independence.
- 4.10 Each year we will assess ourselves against the required standards and ensure a quality assurance and improvement programme (QA&IP) is in place requiring both internal and external assessment with an external assessment being required once every 5 years.
- 4.12 We were externally assessed in 2018 and are pleased to confirm we have received the highest rating – general confirming to standards – and will ensure we keep the Committee apprised on an annual basis of our ongoing compliance

## **5 RISK MANAGEMENT**

- 5.1 The preparation of the audit plan is carried out following a risk assessment using a number of factors. Commentary and opinion in relation to past

performance has used the outcome of audit and other inspection work to inform the risk assessment and there is nothing significant to report.

## **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.

## **7 CONSULTATION**

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

<b>Contact person</b>	Jeff Wring (01225 477323) Andy Cox (01225 477316)
<b>Background papers</b>	
<b>Please contact the report author if you need to access this report in an alternative format</b>	

# Audit & Assurance Plan 2019/20

Delivering Independent Assurance to Local Government

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**1. Introduction & Our Role**

**2. Scope and Scale of the Council**

**3. Key Priorities**

**4. Reasonable Assurance Model**

**5. Areas for Review**

**6. Methodology, Approach & Standards**



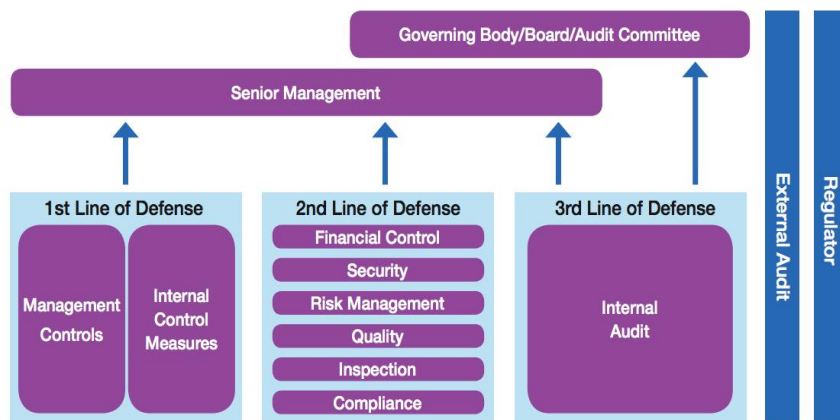
# 1. Our Role

## Introduction

Bath & North East Somerset Council strives to deliver excellent services to local people and make its area *the* place to live, invest, and visit in the UK. The Council has recognised through its Corporate Plan the importance of excellence in resource management and sound governance as fundamental to achieving its priorities. This will require significant transformation to be a modern, innovative and accessible organisation.

One West fully recognizes its need to be flexible and agile in the face of the significant changes affecting the whole of the public sector and meet the needs of its stakeholders. Independent assurance which is strong but supportive can provide a helpful and positive role not just to services but to elected Members and the Community at large by demonstrating that the Council is operating effectively and protecting its assets and resources for the benefit of all its stakeholders.

## Three Lines of Defence Model



By being independent of management One West maintain the third line of defence and we continue to do this effectively by working with all our stakeholders - especially the Audit Committee, Statutory Officers and Senior Management – to improve the service we offer but also to provide an independent voice in supporting service change and transformation.

We also aim to offer continued value to all our clients based on the following key priorities –

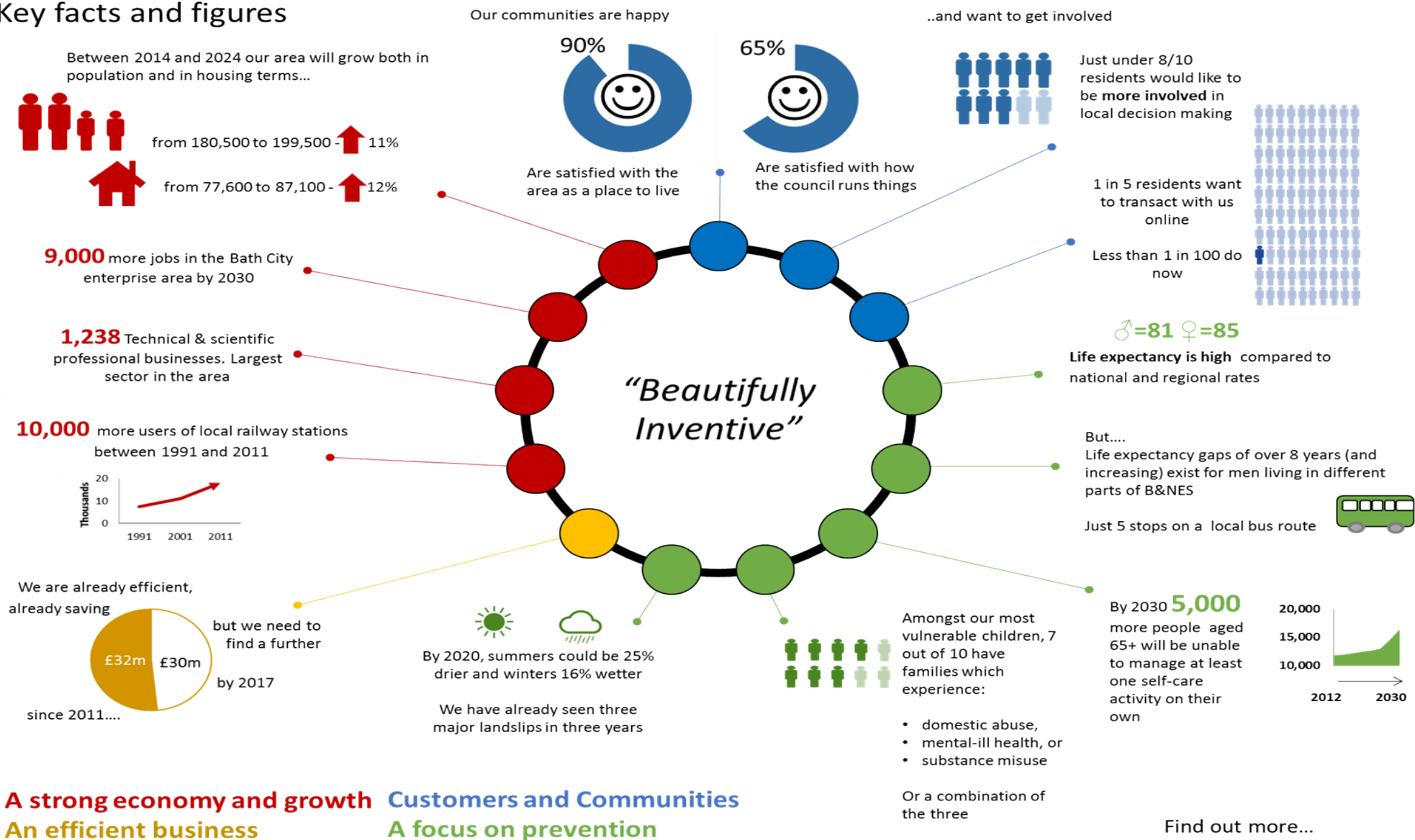
- **Use of our Reasonable Assurance Model**
- **Maximising Use of Technology**
- **Investment in Skills**
- **Offering complimentary assurance services**
- **Providing Value for Money**

The remainder of this document outlines our approach and also the indicative areas for our audit and assurance plan for 2019/20.



## 2. Scope & Scale of Council

### Life in Bath and North East Somerset Key facts and figures

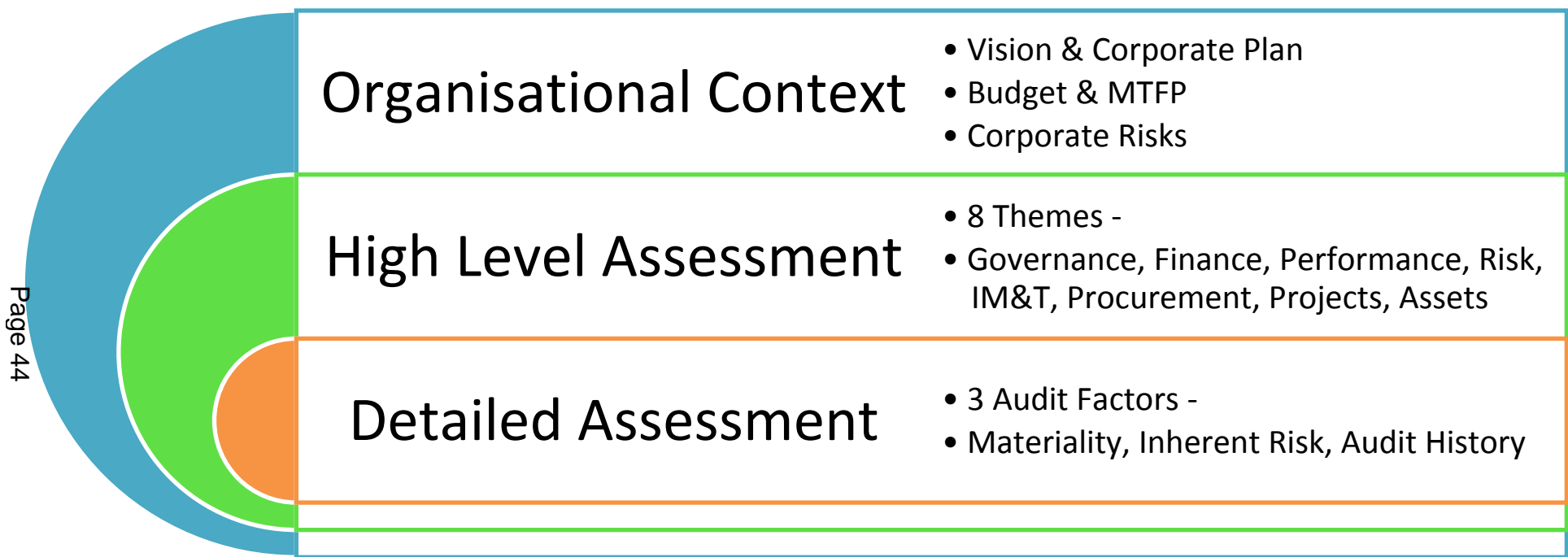


### 3. Key Priorities for Bath & North East Somerset

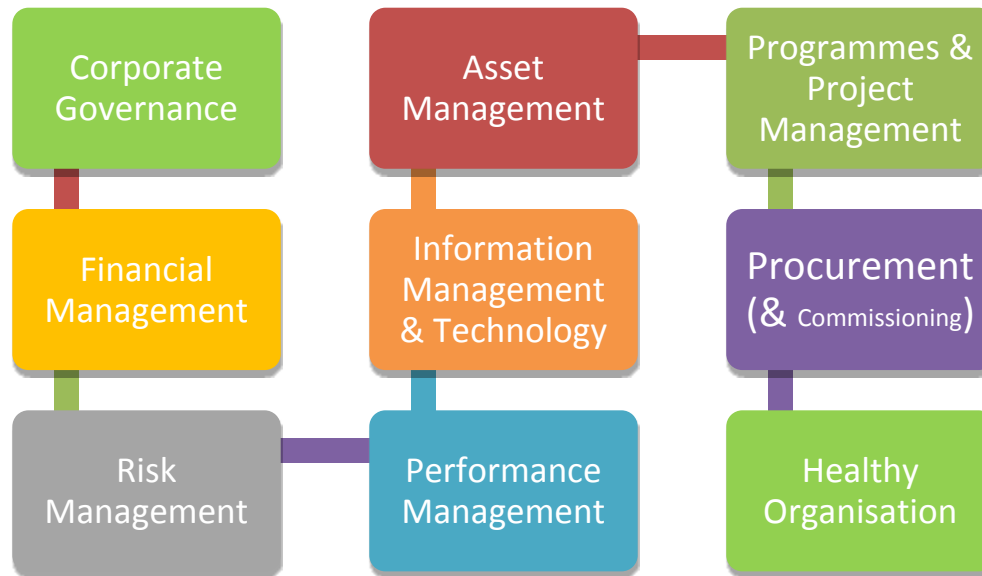
Corporate Strategy priorities	'Putting Residents First' manifesto commitments
A strong economy and growth	<p>Improve transport</p> <p>New homes and jobs</p> <p>Cleaner, greener and healthier communities</p>
A focus on prevention	<p>Invest in our young people</p> <p>Greater choice and independence for older people</p>
A new relationship with customers and communities	Putting residents first in everything we do
An efficient business	Tackling wasteful spending

# 4. Reasonable Assurance Model – Producing the Audit Plan

The model is based on the fundamental requirement that the audit plan proposed will deliver sufficient work to enable the Head of Audit to independently assess the internal control framework and give a reasonable assurance opinion at the end of each year. This involves considering current context of the Council, what a ‘healthy organisation’ requires to operate effectively and then assessing independently against this in a staged process as follows –



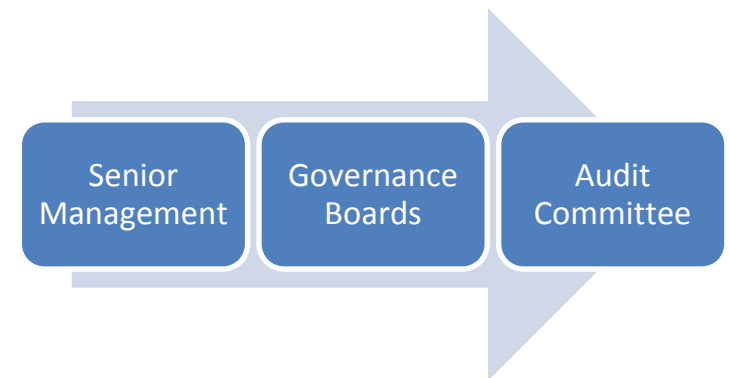
## HIGH LEVEL ASSESSMENT AREAS – REASONABLE ASSURANCE



## DETAILED ASSESSMENT CRITERIA



## CONSULTATION & APPROVAL



## Results of our Reasonable Assurance Model Risk Assessment –

HIGH		FINANCIAL MANAGEMENT				
		ASSET MANAGEMENT	PROCUREMENT	INFORMATION MANAGEMENT		
	CORPORATE GOVERNANCE	PROGRAMME & PROJECT MANAGEMENT	RISK & PERFORMANCE MANAGEMENT			
	HIGH	LEVEL OF ASSURANCE				LOW

## 5. Internal Audit Plan 2019/20 Areas for Review

Audit Area	Reasonable Assurance Theme
Property Disposals	Asset Management
Safer Recruitment	Asset Management
Corporate Planned Maintenance Budget	Asset Management
Avon Pension Fund – Governance/Code of Practice 14	Corporate Governance
Avon Pension Fund – Brunel Governance/Investments	Corporate Governance
Avon Pension Fund – Scheme of Delegations	Financial Management
Avon Pension Fund - iConnect	Information Management
Financial Ledger - Interface Systems Reconciliation	Financial Management
Mental Health - Section 117 Funding (CCG)	Financial Management
Car Parking Income	Financial Management
Direct Payments (Adults)	Financial Management
CIL - Allocation, Recording and Reporting	Financial Management
Acquisitions - Achieving Corporate Objectives	Financial Management
Care Assessments & Funding Responsibility	Financial Management
Car Parking Income - Permits	Financial Management
Pooled Budgets - Recharges to CCG	Financial Management
Sundry Debtor & Debt Recovery	Financial Management
Parks - Traded Services	Financial Management
Early Years Grants	Financial Management
Licensing Income	Financial Management
Passenger Transport	Financial Management / Asset Management
SEND - School use of SEND Funding	Financial Management / Corporate Governance
Governance - Management & Control of Delegated Budgets	Financial Management / Procurement (Commissioning)
Street Lighting Procurement	Financial Management / Procurement (Commissioning)
Community Care - Data Management	Information Management & Technology

Audit Area	Service or Reasonable Assurance Theme
IT - User & Access Management	Information Management & Technology
IT Provision - Cloud & Hosted System Security	Information Management & Technology
"Threat Management (Cyber Security) Network Security - Firewalls "	Information Management & Technology
Data Back Up & Recovery	Information Management & Technology
"Threat Management (Cyber Security) Malware Prevention"	Information Management & Technology
Virgin Care Community Care Contract Management	Procurement (Commissioning)
<b>Other Work</b> (audit activity not included in Performance dashboard)	
Annual Governance Statement	
Anti-Fraud Programme of Works	
Council Grant Certification – Internal Audit ‘sign-off’	
Risk Management Support	
Schools Financial Value Standard Certification	
Financial Assessments	
<b>Follow- Ups</b> , including:	
Foster Care	
Liquid Logic - Client Charges	
Liquid Logic - Payments to Providers	
Child Protection Referrals	
Salary Sacrifice	
GLL Contract Management	
Homelessness	
IT - Third Party	
Childrens Direct Payments	
Payroll - Variance Analysis	
Payroll - Starters, Leavers & Variations	
Bereavement Services	
IT - Business Continuity & Disaster Recovery	
Apprenticeship Levy	
NNDR Debt Recovery	
Public Health Allocation of Funding & Expenditure Cert	

**NB – Shaded rows indicate potential for joint working across BANES & North Somerset Councils**



## 6. Methodology, Approach & Standards

### **Introduction:**

Internal Audit is an assurance function that provides an independent and objective opinion to the Council on its control environment. Scope of Internal Audit activity is not limited to the Council's financial systems and records, but extends to all functions of the Council.

Internal Audit is required to compile each year a Plan of its intended activity for approval by the Council's Audit Committee and to be compliant with the Public Sector Internal Audit Standards and designs its methodologies to ensure it meets these standards and considers all available best practice.

### **Independence:**

A critical element of the performance of Internal Audit is independence from the activities audited. This enables the function to form impartial and effective judgment for the opinions and recommendations made.

To help ensure independence, Internal Audit is delivered through a shared service arrangement and sits independently within the Council's structures so is not fettered by any management reporting line restrictions. It also has unrestricted access to Senior Management & Members, particularly, the Leader of the Council, Chair of the Audit Committee, the Chief Executive, Directors, the Council's s151 Officer and the Council's Monitoring Officer. Additionally, the Service Director One West (responsible for the overall arrangements) reports in his own name and acts as Chief Audit Executive for the Council.

### **Relationship with the Council's External Auditor:**

As part of their audit of the Council's financial statements, the Council's external auditor, Grant Thornton, have a dedicated plan from which they carry out specific reviews of the Council's activities. The External Auditors carry out their own risk assessment methodology to assist in agreeing their work plan.

The working relationship between Internal Audit and the External Auditors carrying out their respective functions is important and must take account of their differing roles. The External Auditor has a statutory responsibility to express an opinion on the Council's financial statements, whilst the Internal Audit function is responsible for assessing the adequacy and effectiveness of the internal controls and advising Management accordingly.

The External Auditors whilst not formally required to seek reliance on the work of Internal Audit take into account the outcomes of all audit activity and consider their approach and plans to maximise their effectiveness and there is therefore regular contact between the two parties.

## Performance Management

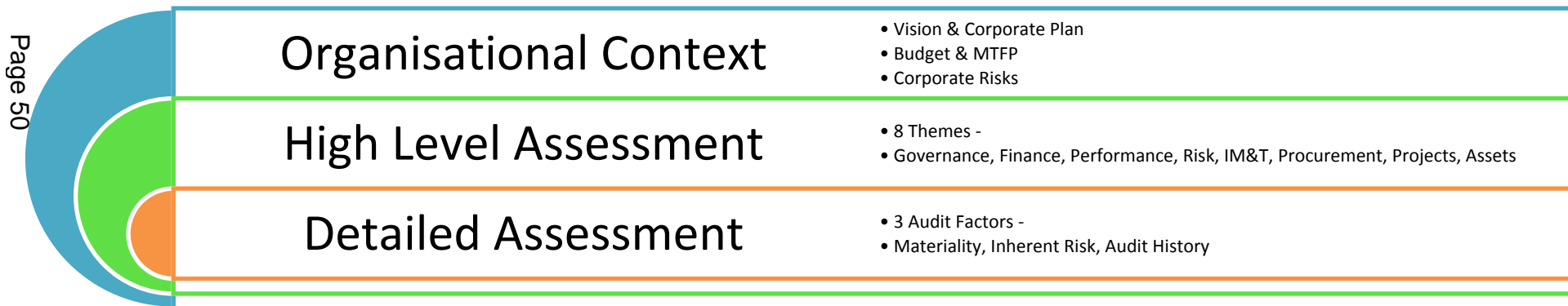
The function recognises the importance of regular and effective performance management to ensure an effective service is being operated. A performance dashboard is produced and reported to each key stakeholders, including the Audit Committee.

Performance Indicators and Measures are set in the following areas –

Completion of the Plan  
Audit Recommendations Implemented  
Assurance Levels Provided  
Productivity  
Customer Satisfaction  
Numbers of Investigations  
Unplanned Work

## Preparation of the Annual Plan: Reasonable Assurance Model

Internal Audit has adopted a risk based approach in determining its Annual Plan using the reasonable assurance model.



## Unplanned Work

The plan also allows for a contingency for any unplanned work. Unplanned work consists of the investigation of irregularities and prioritised 'consultancy' work. If this contingency number of days is fully utilised and further unplanned work is required it is the intention that planned audit reviews, with the lowest risk rating, will be replaced by the unplanned work activity.

In view of the ever changing environment in which Local Government exists the Plan will be reconsidered at regular intervals to confirm that the remaining work planned is still appropriate. This process will be carried out in consultation with Senior Management and in particular the S151 Officer who acts as the principal client for the function.

## **Methodology:**

### **Individual Audit Reviews:**

At the commencement of each Audit Review, an Audit Brief (**Annex A**) will be prepared and issued to the relevant Head of Service/Director and responsible Manager. This Brief will identify the objectives of the review and areas to be covered.

At the conclusion of each review, an end of review meeting will be held with the Client to discuss the matters arising. Following the conclusion of the audit review work a 'draft' audit report will be issued to Management. The report will provide a graded 'Assurance Level' (see ANNEX B); a summary of identified strengths & weaknesses; and a detailed action plan recording weaknesses and recommendations.

The nominated responsible Manager is required to respond to the audit findings and recommendations and prepare an action implementation plan recording responsible officers and timescale for implementation. The management comments and implementation plan are compiled into a 'final' version of the report. The relevant Director, Chief Executive and the Audit Committee will be informed of the outcome of any work which receives a level 1 rating.

### **Audit Review 'Follow-Ups':**

Internal Audit recommendations are subject to "follow-up" to ensure actions are implemented within the agreed timescales. The process is dependent on the risk classification and for all 'Critical' and 'High' risk recommendations Internal Audit will carry out testing to confirm implementation and report its back to the Client. Where an area has a level 1 rating this may be reported to the Audit Committee.

### **Investigation of Fraud & Corruption:**

Senior Management have the primary responsibility for the prevention and detection of fraud and other financial irregularities. Internal Audit will however ensure it provides a lead in supporting management in this area, including design of appropriate strategies, policies and levels of control and will be alert in all their work to the possibility of theft, fraud, corruption and bribery.


Whistleblowing arrangements set out how Staff & Contractors can report concerns and Internal Audit will respond to any such reports received and conduct all investigations relating to fraud and corruption in accordance with the Council's disciplinary process.

### **Professional Standards**

All Internal Audit functions are required to comply the professional standards set out by the Chartered Institute of Internal Auditors and endorsed by CIPFA. Evidence of this compliance is through a formal external assessment every 5 years and annual self-assessments.

One West / Audit West received a formal external self-assessment in March 2018 and it was confirmed that it was confirming with the standards. Updates will be provided to the Audit Committee of areas for improvement on an annual basis.

AUDIT BRIEF

• Title	{Title}	
• Purpose of Review	To review the risks and internal controls related to the scope of the audit (detailed below) and provide management with an opinion on the adequacy of the framework of internal control.	
• Scope of Review	The audit will review the following key risks/control objectives: <ul style="list-style-type: none"><li>• Ensure.....</li><li>• Ensure.....</li><li>• Ensure.....</li></ul>	
• Key Stages of Review Process	 <pre>graph TD; A((Agree Brief with Client)) --&gt; B((Compile &amp; Issue Draft Report)); B --&gt; C((Agree Opinion &amp; Final Report with Client)); C --&gt; D((Implement &amp; Follow-up)); D --&gt; E((Discuss Summary Findings with Client)); E --&gt; F((Testing &amp; Field Work)); F --&gt; A;</pre>	
• Timeframe	Fieldwork Starts: {Date}	Draft Report: {Date}
• Key Contacts	Lead Auditor: {Name}	Lead Client: {Name}
• Service Charter & Professional Standards	Our customer service charter outlines what you can expect from us and what in turn we need from you to complete this audit.  All audit work is reported to and monitored by the Audit Committee. All audit work complies with Public Sector Internal Audit Standards.	

## AUDIT OPINIONS

### ***Assurance Level 5 (Excellent)***

The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary.

### **• Assurance Level 4 (Good)**

The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary.

### **• Assurance Level 3 – (Satisfactory)**

The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.

### **• Assurance Level 2 – (Weak)**

The systems of internal control are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce risk exposure.

### **• Assurance Level 1 – (Poor)**

The systems of internal control are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee.

**CONTACT DETAILS**

<b>Engagement Lead –</b>	Jeff Wring 01225 477323 <a href="mailto:jeff_wring@bathnes.gov.uk">jeff_wring@bathnes.gov.uk</a>
<b>Audit Manager (B&amp;NES)</b>	Andy Cox 01225 477316 <a href="mailto:Andy_cox@bathnes.gov.uk">Andy_cox@bathnes.gov.uk</a>
<b>Address</b>	One West Resources The Guildhall High Street BATH, BA1 5AW

### Internal Audit Charter

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

#### 1 Internal Audit's Purpose and Mission

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

#### 2 Internal Audit's Statutory Role

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

#### 3 Standards for Professional Practice of Internal Auditing

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

## **4 Management's Responsibilities for Internal Control**

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

## **5 Internal Audit Responsibility & Objectives**

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

## **6 The Scope of Internal Audit**

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



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

## **7 Internal Audit Reporting Lines**

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

## **8 Internal Audit Independence**

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

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

## **9 Internal Audit Fraud related work**

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

## **10 Internal Audit's Right of Access**

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

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

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

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

## **11 Relationship with External Audit & other assurance providers**

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

## **12 Quality Assurance and Improvement Plan**

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

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

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

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	30 <sup>th</sup> July 2019	AGENDA ITEM NUMBER
TITLE:	Annual Report – Corporate Audit Committee	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Example Annual Report – 2017/18		

## **1 THE ISSUE**

- 1.1 The Corporate Audit Committee has specific delegated powers given to it from Full Council and as such is required to report back annually to Council under its Terms of Reference.
- 1.2 As this is a new Committee following the elections we are recommending delegating completion of the review to aid the process. A copy of last years report is attached for information.

## **2 RECOMMENDATION**

Committee is asked to agree that:

- 2.1 The Annual Report can be delegated to the Chair of the Committee to endorse and agree before issue to full Council at its November meeting.

## **3 FINANCIAL IMPLICATIONS**

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

## **4 CORPORATE PRIORITIES**

- 4.1 Completion of the Corporate Audit Committee's work assists the organisation in efficiently and effectively contributing to the Council's priorities.

## **5 THE REPORT**

- 5.1 As almost the whole Committee has changed following local elections in May it is recommended that the report is drafted by the Service Director – One West and agreed with the new Chair of the Committee before presentation at full Council. Appendix 1 details last years report as an example of the annual report of the Corporate Audit Committee since it was established by the Council on 12 May 2005. It reviews the work done by the Committee over the past 12 months, its future work plan, membership and support of the Committee.
- 5.2 The Committee's work will continue to develop as detailed and as part of its responsibilities it has reviewed its terms of reference and the key areas of responsibility are still considered appropriate and meet current best practice.
- 5.3 Whilst the Committee's work in 2019/20 will be broadly similar to the year recently ended it will keep under close review a number of key issues including the financial resilience of the organisation through its framework for managing risk and governance.

## **6 RISK MANAGEMENT**

- 6.1 A proportionate risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.
- 6.2 The Corporate Audit Committee has specific responsibility for ensuring the Council's Risk Management and Financial Governance framework is robust and effective.

## **7 EQUALITIES**

- 7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

## **8 CONSULTATION**

- 8.1 The report was distributed to the Council's S151 Officer and Chair of the Audit Committee for consultation.

## **9 ISSUES TO CONSIDER IN REACHING THE DECISION**

- 9.1 No specific issues to consider.

## **10 ADVICE SOUGHT**

10.1 The Council's Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	<i>Jeff Wring (01225 477323)</i>
<b>Background papers</b>	<i>None</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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**CORPORATE AUDIT COMMITTEE**

**ANNUAL REPORT TO COUNCIL 2017/18**

**1. INTRODUCTION**

This is the thirteenth annual report of the Committee since it was established by the Council on 12 May 2005. It covers the work done during the year September 2017 to July 2018.

**2. REVIEW OF WORK DONE IN 2017/18**

**a. Financial Governance – Annual Accounts**

- i. The Committee approved on behalf of the Council an unqualified set of accounts for the year ended 31 March 2017 in September 2017 within the statutory deadline. This included the accounts for the Pension Fund.
- ii. The Committee then considered the formal governance reports for the Council and Pension Fund submitted by the external auditors (Grant Thornton) on their audit of the accounts.
- iii. The Council report highlighted some presentational and technical changes to the accounts and recommendations to improve the Asset registers for accounting purposes. However there were no proposed changes to the General Fund Balances and Reserves. The auditors also noted that the accounts were presented promptly and that they were supported by good quality working papers.
- iv. The report on the Pension Fund Accounts highlighted that the financial statements were produced to a good standard, supported by good quality working papers and there were no material adjustments to the accounts.
- v. Both Governance reports were therefore noted and the audit of the accounts formally completed.
- vi. The Committee considered the accounts for the year ended 31 March 2018 in July 2018. Comments to be added post July meeting.

**b. Financial Governance – Treasury Management**

- i. The Committee considered the Treasury Management Outturn for 2016/17 which concluded that all prudential indicators were in line with projections and that the average rate of investment return was 0.47% which is 0.14% above the benchmark rate.
- ii. In addition the committee received an update report six months into the 2017/18 year which showed an average rate of investment return of 0.26%

## **Appendix 1 - Draft**

which is 0.10% above the benchmark rate and all actions on target in line with the strategy..

- iii. Members then reviewed the Treasury Management and Annual Investment Strategy for 2018/19. This set out the treasury limits in force, treasury management indicators, current position, borrowing requirement, prospects for interest rates and the borrowing and investment strategies.
- iv. The committee agreed that current performance is good despite this being a very difficult and challenging arena due to the uncertainties within the global financial economy and therefore scrutiny will continue to be important to ensure Council resources are invested wisely

### **c. External Audit -**

- i. Alongside the audit of the accounts for 2016/17 and 2017/18 the external auditor also conducted work in relation to concluding a satisfactory VFM opinion for the Council following assessments of our financial resilience, economy, efficiency and effectiveness and a broadly satisfactory review of our four main grant returns.
- ii. The external auditor also presented their new audit fees for the Council and Pension Fund as well as their audit plans. No significant variances were proposed from the previous audit approach and update reports on their work continued to be presented to the Committee alongside references to key national reports and reviews which could impact on the governance framework.
- iii. Finally during the year the Committee endorsed the recommended option for appointment of Grant Thornton as the Council's external auditor for the next five years.

### **d. Corporate Governance –**

- i. The Accounts and Audit Regulations require the Council to carry out an annual review of its governance arrangements, and to produce an annual statement detailing the results of that review. In addition there was a review of progress against actions identified in the previous year's statement.
- ii. In relation to the 2017/18 review, two reports were received to inform the Committee of their role and the overall process of the review.
- iii. Whilst there were no governance failures the Council did decide to acknowledge as a significant issue the scale of the financial challenge and the pressures on all services, notably Social Care and Children's Services. The formal statement is then to be signed by the Leader of Council and Chief Executive prior to the statutory deadline.

## Appendix 1 - Draft

- iv. Finally a revised local code of Corporate Governance was proposed and recommended on to full Council to take account of updated guidance and this was endorsed by all Members.

### **e. Internal Audit & Counter Fraud –**

- i. The Committee received a report on a new approach to the preparation of the Audit Plan – the reasonable assurance model – which looked at eight core themes of an organisation. It was supportive of this new methodology as well as the new style and presentation of the plan which demonstrated the linkages between the Council's priorities and the different elements of the Council's internal control framework.
- ii. The Committee was satisfied with the balance of the 2018/19 plan in relation to the Council's key corporate risks as well as the mix of its planned projects, unplanned commissions and follow-up of previous reports.
- iii. In relation to performance the Committee reviewed the outcomes of the service against its key performance indicators for 2017/18 notably high risk audits and the impacts of unplanned work and investigations alongside a number of other key indicators such as customer satisfaction and the level of productivity.
- iv. The committee noted the annual opinion on the internal control framework and that with increased pressure on budgets, choices on the degree of internal control had to be made and there was therefore an imperceptible rise in the level of the risk being accepted.
- v. Updates were also received around improvements delivered to Internal Audit through the 'Audit West' arrangements with significant productivity gains through simplification and use of one single process across partners and increased use of areas such as Data Analytics to maximise the sharing of resources.
- vi. The committee was pleased to see the new arrangements working effectively and remains keen to support further progress so that the partnership continues to deliver value to the Council.
- vii. The committee was also pleased to see that the formal independent review of the service against its professional standards resulted in the highest rating and remains keen to support further progress so that the arrangement continues to deliver value to the Council.
- viii. Finally the Committee considered the annual plan for pro-active Counter-Fraud work in reducing and eliminating fraud and corruption within the Council's activities and monitored progress.

### **f. Awareness & Briefings**

- i. Updates and briefings continue to be a strong part of the Committee's approach to raising awareness of key governance issues with members and several additional briefings were given during the year at meetings. These included -
  - Housing Benefit
  - Internal Audit
  - External Audit
  - Treasury Management
  - Risk Management
  - Annual Accounts
- ii. This approach continues to be welcomed and has resulted in constructive and valuable debate of individual topic areas which will continue in 2017/18.

### **g. Review of Terms of Reference**

- i. As part of good practice a high level desktop review was undertaken of the Committee's Terms of Reference against CIPFA's best practice model for Audit Committees. Areas previously highlighted included independent support and training and development.
- ii. In relation to independent support the committee has already tackled this through the adoption of a co-opted independent member and the level of independence to the committee will be kept under review.

## **3. WORK PLAN FOR 2018/19**

- i. Whilst the Committee's work in 2018/19 will be broadly similar to the year recently ended it will keep under close review a number of key issues –
  - a) Financial resilience of the organisation;
  - b) Treasury Management Arrangements;
  - c) Savings plans and risks in Children's and Adults Services;

## **4. MEMBERSHIP AND SUPPORT**

- i. Councillor Brian Simmons is Chair of the Committee and during the year Cllr Chris Pearce was replaced by Cllr Chris Watt. The Committee would like to extend their condolences following the sad passing of Cllr Pearce.
- ii. The Committee is supported by a number of officers notably the Head of Audit West and the Chief Financial Officer who leads on financial issues through his S151 role.
- iii. The external auditors are currently represented by an Engagement Lead and Audit Manager from Grant Thornton.