

**CORPORATE AUDIT COMMITTEE**

**Minutes of the Meeting held**

Tuesday, 25th June, 2013, 5.30 pm

**Councillors:** Will Sandry (Chair), Nicholas Coombes (In place of Andrew Furse), Gerry Curran, Barry Macrae and Brian Simmons

**Independent Member:** John Barker

**Officers in attendance:** Andrew Pate (Strategic Director, Resources) and Tim Richens (Divisional Director, Finance)

**Guests in attendance:** Chris Hackett (Grant Thornton)

**15 EMERGENCY EVACUATION PROCEDURE**

The Democratic Services Officer read out the procedure.

**16 ELECTION OF VICE-CHAIR**

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

**17 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Apologies were received from Councillor Andrew Furse, for whom Councillor Nicholas Coombes substituted, and from Councillor Dave Laming.

**18 DECLARATIONS OF INTEREST**

There were none.

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

The Chair announced that there would be an additional item on the restructuring of the Council's debt, which would be taken as the last item of business.

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

There were none.

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

There were none.

**22 MINUTES: 20 MAY 2013**

These were approved as a correct record, subject to two amendments:

item 10, page 7, end of the third paragraph, "*implanted*" should be "*implemented*".

item 12, top of page 10, Newbridge Park and Ride scheme, amend “*complicated by a number of local factors and that it that it really did not merit inclusion in the list*” to “*complicated by a number of local factors. It did merit inclusion in the list*”.

## **23 INTERNAL AUDIT - FUTURE DELIVERY OPTIONS**

The Strategic Director of Resources presented the report. He presented the apologies of the Divisional Director – Risk and Assurance, who was unwell. He said that it was intended to do further work on the third option (the co-sourced model). Appendix 1 showed the scorings for the four options considered. The partnership model had achieved the highest score. The report referred to two existing partnerships, the Devon Partnership and the South West Audit Partnership (SWAP). He believed that a partnership would be able to deal with the complexity of the world in which local authorities now operated, while offering improved value for money. He noted the presence of Internal Audit staff in the public gallery, and acknowledged their apprehensions about restructuring. He believed that a partnership could allow the skills and experience of local staff to be used, while also allowing greater flexibility in the deployment of specialist staff. Value for money and resilience were two key issues.

He said that the present report summarised the first stage of the project, on which the Committee was invited to comment. It was important to have the right model in place for the next financial year. Cabinet would decide the level of financial resources to be allocated to the internal audit function, but would take into account the views of the Committee. SWAP used to be led by South Somerset District Council, but is now a Limited Company, so it was not certain whether or not entering into an arrangement with them would be subject to the procurement rules. The Devon Partnership was still local authority led.

Councillor Macrae said that knowledge and experience of local staff was very important, as was continuity. He cautioned against regarding this as a cost-saving exercise. It should be about extending the range of expertise available to the Council. The same areas of work were deferred repeatedly, which suggested that there was a lack of expertise in these areas.

Councillor Coombes agreed that the emphasis should be on increasing expertise when the issue was taken to Cabinet. However, he wondered why restructuring was being considered at all. The report implicitly ruled out the in-house option, without making it clear why change was necessary or desirable and what the objectives were. He thought the similarity in some of the scorings for different options raised suspicions about how accurate they were. The Strategic Director of Resources suggested the objectives were implicit in the scoring criteria. There were comments about the in-house service in the report.

John Barker said that he had had an ongoing dialogue with the Divisional Director – Risk and Assurance during the development of these options. A lot of detailed work had been done, which he believed should be made available to the Committee. At present, it was not clear what level of resources the Council was prepared to allocate to audit functions; the only figure available was the £381K given in the report as the budget for Internal Audit in 2013/14. More clarity should be sought about this. The Strategic Director of Resources pointed out that it was stated that staffing and budget would not change for the next three years.

Mr Barker reminded Members that he had previously recommended the adoption of a strategic audit plan for at least three years to replace the current annual plans. One of the key benefits of a partnership was the ability to share expertise; any partnership should maintain a register of expertise and endeavour to increase the range of expertise over time. He knew of other audit partnerships, such as the Southern Audit Partnership, and a partnership between Oxford and Buckinghamshire County Councils, with which Hertfordshire County Council was currently negotiating. These other partnerships could provide benchmarks, which could assist with negotiations with Cabinet about resources.

The Chair said that a significant change in the structure of Internal Audit was being proposed, and the Committee needed to be assured that the new arrangements were sound. He asked how many of the 9.5 full-time equivalent audit staff worked in the field. Members of audit staff explained that 6.5 were involved in front-line work. He asked what checks would be made on the financial status and directors of SWAP before an agreement was made with them. The Divisional Director – Finance said that an appropriate range of checks would be carried out.

The Strategic Director of Resources said that there were issues of fit and scale that made some authorities possible partners and others not. There was no proposal for a partnership with Bristol, because their role and scale did not match those of B&NES. He was aware that North Somerset was at a similar stage in relation to future plans for Internal Audit as B&NES was, and they might make an appropriate partner.

Mr Hackett said that the external auditor did not have a view on the right model for internal audit arrangements, but just wanted to be satisfied that there was clarity about what services were required and by whom they were provided.

Councillor Coombes said that he still felt that a key stage had been missed from the process: that of identifying exactly what was wrong with the current arrangements.

Councillor Macrae suggested that increasing the in-house resource might not deliver the desired result. The Committee should make it clear that whatever arrangement was adopted, there should be no increase in risk to the Council and preferably a reduction in risk.

John Barker felt that having a bigger pool of auditors to draw on, as would happen in a partnership, must be a positive development. He suggested that arrangements needed to

The Strategic Director of Resources said the comments made by Members had been extremely useful. He had noted that, among others, issues of flexibility, resilience, continuity and retention of existing skills had been raised. He hoped that a more advanced proposal would be presented at the September meeting of the Committee.

John Barker suggested that arrangements needed to be put in place to allow effective consultation with the Committee about this project during the three months before the September meeting, to ensure that all aspects were covered. The Chair said that he would liaise with the Strategic Director of Resources and the Cabinet and bring any significant issues to the attention of Members.

**RESOLVED** by 5 votes in favour and 1 against:

- A) To endorse in principle the partnership model of service delivery as the appropriate way forward for the Internal Audit Service in the medium to long term;
- B) To recommend to the Council to enter into a period of due diligence to assess whether a partnership model can be implemented within existing budgets and by or within the 2014/2015 financial year subject to the appropriate financial and legal checks and controls;
- C) That the Divisional Director reports back to the Corporate Audit Committee with regular updates to ensure it keeps up-to-date and comments on any parts of any implementation process as appropriate.

## **24 EXTERNAL AUDIT UPDATE**

Mr Hackett presented the report.

**RESOLVED** to note the update from the external auditor and the findings from Appendix 1.

## **25 ANNUAL REPORT**

The Strategic Director of Resources presented the report. He invited the Committee to delegate to the Chair and the Divisional Director for Risk and Assurance the preparation of the Committee's Annual Report to be submitted to Council in September.

Councillor Coombes objected that no draft Annual Report had been circulated with the agenda, contrary to previous practice. John Barker agreed that previous practice had been to circulate a draft Annual Report to Members, even if skeletal, on which the Committee commented before delegating to the Chair and senior officer the final editing of the draft. Since it was important that the Annual Report was submitted to Council at the same time as the Accounts he suggested that a draft be circulated to Members in time for them to comment on it before it went to Council in September. The Chair and the Strategic Director of Resources undertook to do this.

**RESOLVED** that the draft annual report be circulated to Members and that the final editing of the draft to incorporate Members comments be delegated to Councillor Will Sandry as Chair of the Committee and the Divisional Director for Risk and Assurance.

## **26 COUNCIL DEBT RESTRUCTURING**

The Divisional Director – Finance apologised for the lateness of this item. However, he thought it better to discuss it with the Committee before implementation rather than just to report it retrospectively at the September meeting. The consensus of city analysts was that low interest rates would continue in the medium term. So the Council's treasury management advisors, Arlingclose, were requested to undertake a review of the Council's debt portfolio. The Council had a £120m of debt, on which the average interest rate was 4.5%, while the interest earned on cash was only

0.5%. Arlingclose had advised that £50m of long-term loans should be repaid. There was a potential saving of £1.45m in the first year of repayment. The decision was one that had been delegated to officers, but he wanted to share it with the Committee and take its views into account.

Councillor Macrae said that he was willing to accept the professional judgement of officers on this matter.

Councillor Coombes asked why it was not intended to pay high-interest loans. The Divisional Director – Finance explained that premiums were payable when loans were repaid to the Public Works Loan Board, and the premium payable on high-interest loans was so high that early repayment was not worthwhile.

Councillor Curran asked whether the reduction in Council debt would be permanent. The Divisional Director – Finance said that this was not possible, because cash was needed for other things as well, but shortfalls arising from the use of cash to repay loans could be covered by short-term borrowing at very low interest rates. The process resembled the use of an offset mortgage.

John Barker said that he was sure that officers had received the best possible advice. The average rate at which the Council borrowed was an important issue. He thought the proposal was excellent and that officers should be congratulated.

**RESOLVED** to note the debt restructuring proposal.

## **27 COUNCIL DEBT RESTRUCTURING**

The meeting ended at Time Not Specified

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

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