

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Thursday, 8th December, 2016, 2.00 pm

Councillors: Brian Simmons (Chair), Chris Dando, Andrew Furse and Christopher Pearce

Independent Member: John Barker

Officers in attendance: Tim Richens (Divisional Director- Business Support), Jeff Wring (Head of Audit West) and Andy Cox (Audit Manager)

Guests in attendance: Kevin Henderson (Grant Thornton)

111 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised those present of the procedure.

112 ELECTION OF VICE-CHAIR

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

113 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Barry Macrae.

114 DECLARATIONS OF INTEREST

There were none.

115 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

117 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

118 MINUTES: 27 SEPTEMBER 2016

RESOLVED to approve the Minutes of the meeting of 27 September 2016, subject to the following amendments:

In the penultimate paragraph of Minute 108:

in line 1 omit “were” after “auditors”

in lines 3-4 “*Mr Morris replied that the performance said that the performance...*” omit “*said that the performance.*”

119 EXTERNAL AUDIT UPDATE

Mr Henderson presented the Annual Audit Letter for the year ending 31 March 2016 and the external auditors’ progress report and update.

The Chair asked about the valuation of long-term (non-current) assets (agenda page 22). Mr Henderson said that this had been a problem for the last couple of years. One of the issues was the much higher materiality used by the valuer than used by the external auditors. It had now been agreed with the Council’s valuation team that they would carry out their valuation mid-year, rather than at the beginning of the year, and would, if there had been significant changes in value, revalue high-value items at 31st March.

A Member asked about the impact of materiality. Mr Henderson replied that if there was an error or combination of errors above the materiality threshold, the auditors would expect the Council’s accounts to be amended. If the error was below the threshold, the auditor would simply report it. The Member noted that the materiality threshold for the Avon Pension Fund accounts was £38m.

Mr Henderson drew Members’ attention to the progress update (agenda pages 36-37). He said that, as always, there had been issues relating to claims. DWP had written to the Council seeking information, which might result in additional work being requested from Grant Thornton. The issue concerned evidence relating to occupational and retirement pensions. Grant Thornton had no evidence supporting long-standing benefit claims, and had to report that fact. The Council would have to go through a separate process to obtain this evidence. If it could be obtained now, Grant Thornton would be able to amend the qualification letter. The Council may possibly have to pay a large amount to DWP.

He reminded Members that the new statutory deadline for the publication of Council accounts will apply from 2017/18. Both the Council and the auditors would treat this year as a dry run to prepare for this new deadline, with the accounts being published by 31st May 2017 and the audit commencing on 1st June 2017.

He drew attention to the information about the procurement options for engaging external auditors (agenda pages 44-47) and reminded the Committee that they had agreed at the previous meeting that their preferred option was to join a sector-led procurement exercise from Public Sector Audit Appointments Ltd. The Head of Audit West said that it had been for full Council to decide how to proceed and they had approved the use of PSAA in November. A Member said that he understood that a cap would be set on the amount of work that any single audit company would be able to undertake for a Council. Mr Henderson replied that audit companies would not be able to combine the role of external auditor with any other kind of work for a Council, so they would be faced with choices about what kind of Council work to accept.

Mr Henderson drew attention to two changes to the CIPFA/LASAAC Local Authority Accounting Code for 2016/17 (agenda page 49). CIPFA/LASAAC had now announced that the provision relating to measuring the costs of the Highway

Networks Asset would be deferred and that a decision about its implementation would be made in March 2017. The external auditor would therefore not do further detailed work on this until the final decision on implementation had been taken. The other change related to the Comprehensive Income and Expenditure Statement. Because of this requirement the 2015/16 figures would have to be restated. The Head of Audit West said that this change would make it easier for Members to read the accounts, since the revenue budget report and the mid-year budget position reports would be in exactly the same format as that used in the annual accounts.

Mr Henderson drew attention to training events and workshops open to Members (agenda page 54). The Head of Audit West suggested that a regional training event for members of corporate audit committees might be helpful. This would probably be hosted by North Somerset Council. Members indicated interest.

RESOLVED to note the report and updates provided by the external auditor.

120 TREASURY MANAGEMENT 6 MONTH PERFORMANCE UPDATE

The Divisional Director – Business Support presented this item.

He said that the report covered actual Treasury Management activities for the first six months of the current financial year. He said the policy of keeping the cash balances to as near zero as possible in order to minimise investments and borrowings had continued. During the period it had been possible to repay £5m of borrowing. There would have to be extra borrowing later in the current financial year as capital schemes are completed. As a result of a single-member decision an £8m stake in a commercial estate in Bath had been purchased, which would have to be funded at some point during the year. The policy of not holding direct investments in the Eurozone had continued. The Bank of England base rate cut would eventually feed through and he expected investment returns to fall further.

The Chair asked for an update on the Avon County Council residual debt (paragraph 5.9). The Divisional Director – Business said this is managed by Bristol City Council (BCC) on behalf of all the former Avon authorities. A share of it is notionally allocated to each of the successor councils, who pay BCC for a share of the interest on it. Discussions were taking place with BCC about the possibility of allocating a portion of the debt to the other councils, so that they can more actively manage this debt. The conversation with BCC was challenging, partly because they have had more than five Section 151 Officers within the past fourteen months. They had appointed a new permanent Section 151 Officer this week, whom he would meet in January 2017 in the hope that this matter could be resolved as a priority.

A Member asked whether the Treasury Management strategy would be modified in view of increasing market volatility. The Divisional Director – Business Support replied that the policy of keeping cash balances low would be maintained for as long as the low interest rate environment persisted. The chart on page 64 showed that the Council had been that a substantial proportion of the Council's investments was in the form of loans to other local authorities. This gave the Council a great deal of flexibility and there are quite a few local authorities who need to take on short-term debt. UK bank exposure was low and would probably remain so. Not many banks were looking for loans and the Council was very aware of the risks associated with banks. The Council did not loan money to NatWest because of their current position;

there are now many bankers who do not leave money with NatWest overnight. The Council had considerable exposure to banks, but only those that are AAA rated and the Council's funds were spread between banks to minimise risk. The Council did have a small exposure to building societies. He did not expect a significant change to the Council's current Treasury Management policy over the next twelve months.

RESOLVED:

1. To note the Treasury Management Report to 30th September, prepared in accordance with CIPFA Treasury Code of Practice.
2. To note the Treasury Management Indicators to 30th September 2016.

121 INTERNAL AUDIT 6 MONTH PERFORMANCE UPDATE

The Audit Manager presented the report. He said that this was the sixth-month update against the Internal Audit plan. Appendix 1 contained the Audit Reviews Position Statement as at 30th September 2016. A summary of performance was contained in section 4.2 of the covering report. The level of unplanned work had been high, and had already used more days than the contingency allocation for the whole of this year, as detailed in 4.2.2.

He gave an update on the Member Allowances audit (4.7.2): all underpayments had now been corrected, and money had been recovered for two of the three overpayments and a payment plan put in place for the third.

He commented on the audit of Council vehicles (4.7.3). Members were surprised by the number of weaknesses identified. A Member noted that the scope of the audit was far wider than just financial issues. The Head of Audit West responded that Internal Audit reviewed many different risks and the controls that were in place to mitigate them. The Chair observed that drivers with the Dial-a-Ride with which he was associated were subject to strict procedures because of the requirements of the Road Traffic Act, and wondered why this did not apply to Council drivers. The Audit Manager replied that it was difficult to monitor whether Council drivers had completed the required procedures each morning in the absence of a formal check list. Services needed to ensure that these were provided to drivers. A Member noted that a number of the weaknesses identified were quite fundamental to the safe operation of the vehicle fleet, and wondered what explanation services had given for not carrying out fundamental checks. The Audit Manager replied that fleet managers had felt that they lacked the authority to enforce procedures. The Chair said that if someone was killed by a Council vehicle because daily checks had not been done, the Council could be prosecuted for corporate manslaughter. He suggested that staff who did not carry out these checks should be subject to instant dismissal. A Member said there seemed to be evidence of systemic failure and wondered how that could be addressed. The Audit Manager replied that the problem was that there was a lot of documentation relating to vehicle management, but little had been adopted at the corporate level. Services had accepted the recommendations, but corporate weight needed to be put behind them.

The Head of Audit West updated Members on progress with the Audit West partnership. He said that the partnership was now fully integrated and could now offer itself as a single brand to academies and other external bodies. North Somerset

was under severe financial pressure and discussions were taking place with them about the consequences of a further reduction in their contract with the partnership. The Divisional Director – Business Support said that the Cabinet and Council had, as part of the 2016/17 budget plan, to give approval to Audit West becoming a stand-alone company to allow it to market its services more effectively, because as part of the Council it was under legal restrictions about the level of commercial activity it could undertake.

RESOLVED to note progress made against the Internal Audit Plan for 2016/17.

122 COUNTER FRAUD ANNUAL REPORT

The Head of Audit West presented the report.

The Audit Manager commented on the Internal Audit targeted investigations (section 4.3). The Divisional Director – Business Support said in relation to the second case that the amount of Deputyship work had increased by something like 200% over the last four years. The Deputyship role required specialist expertise and financial trust. There was a high turnover of Deputyship officers. The case highlighted the responsibilities attaching to the role.

RESOLVED to note:

- (a) the Counter Fraud Strategy;
- (b) the updated Anti-Bribery Policy;
- (c) the updated Anti-Money Laundering Policy.

The meeting ended at 3.31 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services