

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Tuesday, 5th December, 2017, 2.00 pm

Councillors: Brian Simmons (Chair), Tim Ball (in place of Andrew Furse), Chris Dando and Barry Macrae

Independent Member: John Barker

Officers in attendance: Jeff Wring (Head of Audit West) and Andy Cox (Audit Manager (Audit West))

Guests in attendance: Barrie Morris (Grant Thornton), Peter Barber (Grant Thornton) and Sophie J. Morgan (Grant Thornton)

159 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

160 ELECTION OF VICE-CHAIR

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

161 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillors Chris Dando and Andrew Furse. Councillor Tim Ball substituted for Councillor Furse.

162 DECLARATIONS OF INTEREST

There were none.

163 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

165 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

166 MINUTES:12 SEPTEMBER 2017

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

Minute 156, page 4 (agenda page 8), third paragraph: progress on review of number of administrative staff and maintenance of separation of duty principles: the Divisional Director – Business Support advised that the review had been completed.

167 TREASURY MANAGEMENT MID-YEAR PERFORMANCE UPDATE

The Divisional Director – Business Support presented the report. She noted that, contrary to the expectation of the Council's treasury management advisors, the Bank of England had raised base rate by 0.25% to 0.5% on 2 November. In response to a question from the Chair about the impact on the Council's outstanding loans, she explained that it was the Public Works Loan Board rates that were significant. After the BoE rise some PWLB rates had been reduced, though it was expected they would rise in future.

In response to a question from a Member she explained that because of current low interest rates only a small amount of cash was invested to provide immediate cash flow, while most cash was used to finance capital investment instead of long-term borrowing.

RESOLVED:

1. to note the Treasury Management Report to 30th September 2017 prepared in accordance with the CIPFA Treasury Code of Practice.
2. to note the Treasury Management Indicators to 30th September 2017.

168 EXTERNAL AUDIT UPDATE AND ANNUAL AUDIT LETTER

Mr Morris commented on the Annual Audit Letter, which summarises the work undertaken by the external auditor during the year.

He said that the review of Housing Benefit returns for DWP had been completed. A qualification letter had been issued, which identified a number of issues and would be presented to the next meeting of the Committee. The proportion of errors was quite high, but the total value quite low. A Member asked whether there were any particular factors causing errors. The Divisional Director – Business Support replied that in some cases there were errors in applicants' claim forms. In others there were complexities, such as a transfer of tenancies, which gave rise to errors during processing. An error reduction action plan was in place and would be reviewed quarterly. Members were pleased to note this.

Mr Morris drew attention to the final fees for audit and provision of non-audit services (agenda page 39). An additional fee would be charged for the work on Housing Benefit claims.

Mr Barber introduced himself and his colleagues Sophie Morgan and Scott Corboy (not present at the meeting) as the Council's 2017/18 external audit team.

Ms Morgan commented on the External Audit Update Report.

A Member asked why the external auditor had drawn attention to the Independent Review of Building Regulations and Fire Safety (agenda page 52). Mr Barber and Mr

Morris pointed out that there could be impacts on the capital programme, corporate risk, including reputational risk, and control systems. A Member suggested that the Council needed to assess any relevant risks identified by the review report and the resources that needed to be allocated to address them. He hoped that the Government would provide additional funding to local authorities and the rest of the public sector for work on buildings that needed to be brought up to fire safety standards. The Divisional Director – Business Support responded that there had been a suggestion that the Government might do this, but they would want to see what the costs of doing so would be. There is nothing specific about it in next year's grant bid information, but it is possible to bid for funds for property maintenance. The Chair commented that as far as he knew there were no buildings in Bath and North East Somerset that had the same type of cladding as the Grenfell Tower.

Mr Barber commented on the planned audit fee for 2017/18 (agenda pages 63-64).

It was noted that this would be the last meeting of the Committee that Mr Morris would attend. Members thanked him for his past assistance and support and wished him well for the future.

RESOLVED to note the report and updates provided by the External Auditor.

169 INTERNAL AUDIT MID-YEAR PERFORMANCE UPDATE

The Audit Manager (Audit West) presented the report.

He said that staff resources had been severely stretched because of sickness, staff leaving and unplanned work. . The Head of Audit West said that the staffing situation could impact on the work being done for the Council for the rest of the year and on Audit West's external contracts. He had secured additional staff resources through the arrangement with Devon Audit Partnership; these were being deployed on audit work for the Avon Pension Fund. Attempts were also being made to recruit agency staff. However, it was unlikely that any new staff would be in place before the end of this financial year.

Members noted the reasons for current performance against plan but were concerned. One Member said that the magnitude of the risk to the Council of inadequate audit should be taken into account in decisions about the resourcing of the function; the consequences to the Council of making mistakes with Universal Credit, for example, could be severe. The Head of Audit West responded that the situation could be managed to a degree in the short term. He had informed the Committee about the steps he was taking to secure additional staff resource and he drew attention to the information in paragraph 4.2.4 of the report about reviewing the scope of scheduled audits. The focus would be on the highest risks. The current state of the employment market for auditors was such that it would be very difficult to recruit suitably qualified people in any case. The main cause for failure to deliver the plan had been sickness, and both the affected individuals were now back at work. The Member, however, felt that every reduction in staff resource in the Audit Team increased the risk for the Council, and that there should be a minimum complement of auditors which should not be reduced. Another Member agreed with this, and proposed that the resolution should be amended to express the Committee's concern about the impact of the recruitment freeze on the performance of Internal Audit. The proposed amendment was accepted by the Committee.

[Councillor Ball left the meeting.]

The Audit Manager (Audit West) reported on the follow-up and implementation of audit recommendations. A Member said he was extremely unhappy that recommendations made had not been implemented, and suggested that this should be brought to the attention of the relevant Cabinet Member. Another Member suggested that the Committee take a hard line if the recommendations were not implemented. The Head of Audit West responded that when follow-up reviews took place, there were often legitimate reasons why recommendations had not been implemented. There was total transparency in reporting non-implementation to the Committee, but he felt that mitigating circumstances had to be taken into account, and that a judgement had to be made, based on the relative value of the risk, about when it was appropriate to report non-implementation to a higher level. If the recommendations about the use of council vehicles had not been implemented by the end of the current financial year, it would be appropriate to escalate the matter.

A Member commented that the results of audits suggested that there had been a deterioration in the overall control environment. He wondered if information about mitigating factors that justified not implementing audit recommendations could be provided to the Committee, as this would enable the Committee to have a better understanding of the impact that the work of Internal Audit was having. The principal focus of audit might be on finance, but it could also have an important influence on organisational culture. He requested that consideration be given to providing the Committee with some commentary that would enable it to have a wider view of governance standards within the Council. The Head of Audit West replied that he aim was always to be open and transparent in the information provided to the Committee. When recommendations were made or risks assessed as high, medium or low, not only financial factors were taken into consideration, but also the risk to the achievement of objectives or the level of performance. Each report contained a table like the one on agenda page 73, showing assurance level and the number of recommendations made and the number agreed by the service. Things can change significantly by the time of the follow-up. Change in the Council was now continuous, and that had to be taken into account in the follow-up. However if there was concern because recommendations were being repeatedly ignored, there were escalation procedures available to bring issues to the attention of the relevant Strategic Director, the Chief Executive or the Strategic Management Team. He had made it clear in his annual report that the level of risk in the Council was rising; the environment had changed from risk-averse/low risk to rising risk as a result of reductions in grant funding to the Council, changes to service delivery and the differing control frameworks of organisations with which the Council has digital interfaces. So a certain increase in risk level had to be accepted. Managers had to learn what level of management was required and what level of risk was acceptable. There were no systemic issues and what was reported to the Committee were the exceptions. A Member welcomed that reassurance, but did have concerns that the general control environment was under stress and that audit recommendations were not always treated seriously.

Mr Morris said that Members had made excellent points about the importance of the overall corporate culture and how it might be assessed and reported.

RESOLVED to note progress made against the Internal Audit Plan for 2017/18 and to express concern about the impact of the Council's recruitment freeze on the performance of Internal Audit.

170 INTERNAL AUDIT PROFESSIONAL STANDARDS REVIEW

The Head of Audit West presented the report. Members noted that Audit West's next quinquennial external assessment had to be completed by 30 March 2018. Audit West must comply with the revised Public Sector Internal Audit Standards, which came into effect from 1st April 2017. Members noted the results of the PSIA self-assessment contained in Appendix 1, in which compliance was assessed as red, amber or green. Red assessments were due to the need to refresh the Internal Audit Charter. The Committee was invited to approve the revised Internal Audit Charter contained in Appendix 2.

Mr Morris noted that the external assessment would be carried out by the Head of Devon Audit Partnership and asked whether there would be a conflict of interest through the relationship of Devon Audit Partnership with Audit West. The Head of Audit West replied that the Head of Devon Audit Partnership would not be involved in the direction or operation of any work that the Devon Audit Partnership is currently undertaking on behalf of Audit West.

RESOLVED:

1. To note that the Council's Internal Audit Service (Audit West) has to comply with the revised PSIAs which came into effect from 1st April 2017.
2. To note the Self-Assessment PSIAs RAG and approve the associated Action Plan (Appendix 1).
3. To approve the revised Internal Audit Charter (Appendix 2).

The meeting ended at 3.21 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services