

**CORPORATE AUDIT COMMITTEE**

**Minutes of the Meeting held**

Thursday, 8th February, 2018, 2.00 pm

**Councillors:** Brian Simmons (Chair), Andrew Furse and Barry Macrae

**Independent Member:** John Barker

**Officers in attendance:** Donna Parham (Divisional Director - Business Support) and Andy Cox (Audit Manager (Audit West))

**Guests in attendance:** Peter Barber (Grant Thornton) and Sophie J. Morgan (Grant Thornton)

**171 EMERGENCY EVACUATION PROCEDURE**

The Democratic Services Officer advised the meeting of the procedure.

**172 ELECTION OF VICE-CHAIR**

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

**173 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

There were none.

**174 DECLARATIONS OF INTEREST**

There were none.

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

There was none.

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

There were none.

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

There were none.

**178 MINUTES: 5TH DECEMBER 2017**

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

**179 EXTERNAL AUDIT UPDATE**

Mr Barber introduced this item.

Ms Morgan commented on the Grant Certification Letter issued on the 25 January 2018. Members noted that as a result of errors identified the Housing Benefit subsidy claim for 2016/17 was amended and qualified, though the financial impact of the error was relatively insignificant in relation to the total subsidy receivable. The number of errors, however, was quite high. She drew attention to the details of errors identified (agenda pages 13-14) and the recommendation that the Council should, as part of its internal quality assurance process, increase its focus or level of testing in the areas where errors had been identified.

A Member said that while the Council was fully prepared to accept criticism and to strive to improve its processes, he was concerned that the manner in which the information about errors was presented could create an unduly negative impression. It was a question of balance: the total extrapolated error was exceedingly small when expressed as a proportion of the total Housing Benefit subsidy claim. Public concern should not be aroused when it was not justified. Mr Barber responded that the Member had raised a very valid point, and in fact the Certification Letter stated in its fourth paragraph: "The extrapolated financial impact on the claim, which we have reported to the DWP, was relatively insignificant in relation to the total subsidy receivable". However, the external auditors had a duty to report all Housing Benefit errors to the DWP, irrespective of their amount. Moreover the quantum and rate of error in Bath and North East Somerset was greater than he had seen elsewhere, and the direction of travel gave cause for concern, in that the number of errors had increased in successive years.

The Divisional Director – Business Support assured Members that the problems identified by the External Auditors were being addressed. The claims process had been reviewed, the amount of claim testing had been increased, with senior officers carrying out checks, there was now a training calendar for staff, and a quality dashboard had been introduced to ensure that improvements were made.

A Member said that the emphasis in the discussion had been on getting payments right from an accounting point of view. However, it should not be forgotten that it was important to get payments right in the interest of claimants, who needed these payments to get by, and did not have the flexibility in their personal budgets to be able to repay overpayments easily. It was important for them that both under- and over-payments were minimised. In response to a question from another Member, the Divisional Director – Business Support explained that overpayments made as a result of an error by the local authority could not be recovered from the claimant.

A Member asked whether there was any data showing how the roll out of Universal Credit was impacting on the error rates of different local authorities. Mr Barber replied that he was not aware of any. The Divisional Director – Business Support said that it appeared that local authorities would be left with the most complex cases and the most vulnerable claimants, which was one of the sources of error. Transfer to Universal Credit was not taking place at the rate expected. The Chair asked whether the application form for Universal Credit was actually too complicated for vulnerable claimants, and whether therefore they should not be expected to complete it by themselves, but with the assistance of an officer. The Divisional Director – Business Support replied that the Council did not calculate the rate of Universal Credit to be paid to claimants, but only the Housing Benefit element. She said that the way complex cases were handled needed to be reviewed.

Mr Barber commented on the External Audit Plan for the Council. A Member wondered why no significant risks had been identified in relation to Bath Tourism Plus; he understood, for example, that there were issues relating to staff pensions in the organisation. Bath Tourism Plus was a major earner for the Council, and he would have thought there were significant risks for the Council associated with them. He suggested the Committee needed assurance so that it was comfortable with Bath Tourism Plus's accounts being incorporated in the Council's accounts. Mr Barber referred to the information on agenda page 27. In terms of ISA (UK) 600 Bath Tourism Plus does not constitute a significant risk for the Council's accounts, and no specific audit work in relation to them was proposed. They might have an impact on the Value for Money opinion, for which Council services were assessed on the basis of risk.

Mr Barber said that the challenges facing the Council were shared by all local authorities, which could be addressed by a mixture of measures, including increases in Council Tax and non-traditional ways of delivering services. He referred to the situation of Northampton Council, which had declared bankruptcy. The Chair said that some neighbouring councils were in a much worse financial position than Bath and North East Somerset.

Mr Barber commented on the External Audit Plan for the Avon Pension Fund, for which Julie Masci is the auditor. The accounts for the Avon Pension Fund were included in the Council's accounts, but were subject to a separate audit procedure.

A Member noted that the materiality figure calculated as 1% of net assets remained the same as the previous year at £43.5m. He asked how often the assets were revalued. Mr Barber assured him that the Pension Fund assets were revalued every year. The previous year's actual figure was used as the materiality figure for the plan, but would be revised after the revaluation of assets at the end of the year before the accounts were audited. The Member asked about the impact of redundancies and the early payment of pensions on the Pension Fund. Mr Barber replied that redundancies reduced the contributions to the Fund and, depending on the circumstances of the individual, potentially increased pension payments. The redundancy business case should take into account all costs, including pension costs, if applicable. The Divisional Director – Business Support said that the impact of Pension Fund costs would be considered to calculate the payback period of each redundancy.

**RESOLVED** to note the report.

## **180 TREASURY MANAGEMENT STRATEGY**

The Divisional Director – Business Support presented the report. She advised that there had been no major changes. The policy of funding capital expenditure from cash flow in preference to borrowing was being maintained because of continuing low interest rates on cash on deposit. Interest rates were monitored continually to ensure any borrowing was done at the best possible time. The Council was investigating the use of the CCLA Local Authorities Property Account, in which the Council would have to maintain an investment of £10m at all times.

**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.

## **181 ANNUAL GOVERNANCE STATEMENT**

The Audit Manager (Audit West) presented the report. He said that the aim of this item was to update Members and to allow them to contribute to the process. He drew attention to the diagram showing the high-level methodology used for preparing the Annual Governance Statement contained in Appendix 1, and said that he had met Divisional Directors during December and January to discuss events of 2017/18 and to consider issues for inclusion in the Statement. The most important issue remained the financial challenge, as it had been for the previous two years. The previous day the Cabinet had received monitoring reports on the revenue and capital budgets and a paper on the 2018/19 budget, which would go forward to full Council. The current year end forecast for the 2017/18 budget was an overspend of £3.4m, with the largest overspend being in the Adult and Children portfolios. Measures are in place to mitigate the overspend, but further measures, such as use of reserves and capital receipts will be needed. In terms of savings £14.5m had to be delivered in 2017/18, of which £11.2m are on target to be achieved, but a balancing figure of £3.3m is at the moment unlikely to be achieved.

In terms of the 2018/19 budget there is a target of £26.8m savings, of which 61% are considered high risk. The Operational Plan for 2018/19, which sets out the key activities and projects which the Council hopes to deliver in this period (linked to the Corporate Strategy) had just been published.

The Divisional Director – Business Support said that Adult Social Services and Children's Services had been reviewed with the aim of making them more sustainable.

The Audit Manager (Audit West) said that other issues to be considered for inclusion were the new Virgin Care contract, which commenced in 2017; the cancellation of the East of Bath Park and Ride; and the Modern Libraries Programme, all of which significantly impacted on the Council's operations and resources.

A Member asked about the financial impact of the cancellation of the East of Bath Park and Ride, for which no assets had been created and for which he could not recall having seen a revenue reversionary notice. The Divisional Director – Business Support replied that a report on the revised capital programme had been included in the budget papers to Council. The Park and Ride Project was being replaced by a Strategic Transport Improvement Programme and some of the work done for the Park and Ride would contribute to that, though this had not been quantified yet.

A Member asked about the management of risks associated with the contracting out of services to companies, particularly those with very diverse businesses, such as Virgin, Capita and Carillion. The possibility of their failure was a reputational as well as a financial risk to the Council. The Audit Manager (Audit West) advised that an audit of the governance of the transfer of services to Virgin Care had recently been carried out and audits related to contract management were planned. The Member

wondered whether assurances about the robustness of these companies should also be sought from external sources, such as the companies' auditors. He noted that there might also be questions about the robustness of smaller organisations to which services were outsourced. He suggested this was an area the Committee should review. Another Member said that Councils had learned that entrusting the delivery of services to outside organisations, even if it did lower costs, did have inherent risks. He hoped that the Council had begun addressing these risks and was giving thought to some form of early warning system to detect when contracts might not be delivered. The Divisional Director – Business Support responded that continuity plans were being developed in case contracts failed.

Members agreed that the Committee should seek further assurance about the management of the risks associated with outsourcing contracts.

**RESOLVED** to note progress on the review, and to request that there should be an item about the management of risks associated with outsourcing contracts on a future agenda of the Committee.

The meeting ended at 3.33 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**