

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Tuesday, 1st February, 2011, 5.00 pm

Councillors: Tim Ball, Colin Barrett, Bryan Organ, Brian Simmons and Brian Webber

Independent Member: John Barker

Also in attendance: Andrew Pate (Strategic Director, Resources & Support Services), Jeff Wring (Head of Audit, Risk and Information), Gary Adams (Finance and Resources Manager) and Andy Cox (Risk Manager)

30 EMERGENCY EVACUATION PROCEDURE

The Chair drew attention to the procedure.

31 ELECTION OF VICE-CHAIR

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

32 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Armand Edwards.

33 DECLARATIONS OF INTEREST

There were none.

34 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair said that following requests from Members future meetings of the Committee would commence at 4.30pm instead of 5pm. He confirmed that the dates of the meetings for the remainder of 2011 would be 24 May, 28 June, 29 September and 6 December.

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

There were none.

36 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

37 MINUTES: 7 DECEMBER 2010

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

38 TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY

The Finance Resources Manager presented the report. He reminded Members that in February 2010 the Council had, in accordance with the CIPFA *Treasury Management in the Public Services: Code of Practice*, designated the Corporate Audit Committee as the required body to scrutinise the Treasury Management Strategy before the start of each financial year and to receive a mid-year report and annual report on it. The Committee was also being invited to approve the Council's Annual Investment Strategy.

A Member expressed concern about the sharp increase in the upper limit for fixed interest rate exposure from 2009/10 (£82m) to 2011/12 (£204m) recorded in the table on page 18 of the agenda. The Finance Resources Manager explained that this resulted from frontloading of funding for the capital programme. Money would be borrowed in advance to take advantage of the current low interest rates. One of the financing options being considered was a bond issue. The Council had a duty to demonstrate that it was acting prudently and that there was sufficient revenue to cover the cost of loans. The Director of Resources and Support Services said that the capital programme was funded partly by government grant and partly by borrowing. All borrowing was fully covered by revenue and the issue was to identify the most cost-effective form of borrowing. The Member responded that the Committee's duty was to focus on risks and that there appeared to have been no risk analysis of the increase in this borrowing limit; he was concerned about the potential liabilities for the Council and local taxpayers in future years. He also wondered whether government loans might not be cheaper than a bond issue. The Director of Resources and Support Services replied that there were various kinds of risk associated with the capital programme, including financial risks, impacts on services and risks relating to the management of projects. It was crucial to choose the optimum method of financing to secure the best value for the Council. The Government's decision to raise interest rates on new loans from the Public Works Loan Board meant that other sources of finance might now be more favourable. The Finance Resources Manager said that bonds could allow more flexible and efficient financial management, because they could be traded in the market. In response to a question from a Member, he explained that the figure of £35m given in the table on page 22 of the agenda referred to money already spent on the capital programme.

The Chair emphasised the concern felt by Members at a large increase in borrowing by the Council at a time when spending was being cut and the economic outlook was uncertain. The Director of Resources and Support Services replied that the Council had a clear direction of where it wanted to go; the question was whether all factors had been taken into account in planning the route ahead. He felt sure that when the budget was presented at the next Council meeting Members would see that officers had done a thorough job. There was a decision to be made about the best method of borrowing, and he would come back to the Committee when further work had been done on this.

A Member noted that the central interest forecast by Sterling Consultancy Services given in the table on page 21 of the agenda was in line with that of the majority view, namely that there would be a gentle uplift from late 2011. There could also be threats from the performance of the UK and global economy. The Director of Resources and Support Services said that the current historically low interest rates provided a window of opportunity for the Council to borrow now. This coupled with the fact that

all projects were planned to cover their costs, should ensure that future financial risks were minimised.

RESOLVED

1. That the actions proposed within the Treasury Management Strategy Statement have been scrutinised and should be submitted to February Council for approval.
2. The Investment Strategy as detailed in Appendix 2 has been scrutinised and should be submitted to the February Council for approval.
3. That the changes to the authorised lending lists detailed in Appendix 2 and highlighted in Appendix 3 have been scrutinised and should be submitted to February Council for approval.
4. To note that at the Cabinet meeting on 2nd February 2011 it is recommended to delegate authority for updating the Prudential Indicators (detailed in Appendix 1), prior to approval at Full Council on 16th February 2011, to the Divisional Director – Finance and the Cabinet Member for Resources, in light of any changes to the recommended budget as set out in the Budget Report also on the agenda for the Cabinet meeting.

39 ANNUAL GOVERNANCE STATEMENT UPDATE

The Risk Manager presented the report. He reminded Members that the Committee had suggested a number of significant issues for inclusion in the Annual Governance Statement 2009/10. After discussions within the Council the number of significant issues had been reduced to four, which were:

1. Economic downturn and financial challenge to the Council.
2. Bath Transport Package.
3. Severe weather.
4. Information security.

The Risk Manager commented on Appendix 2 of the report, which provided an update on progress with implementing the actions agreed to address these issues, and drew attention to the process and timetable for the Annual Governance Review 2010/11 outlined in paragraph 4.6 of the report. He said that the 2010/11 review would be carried out in accordance with a streamlined version of the same methodology used for the 2009/10 review.

The Chair asked about the current status of the Bath Transport Package (BTP), following the submission by the West of England Partnership of an “expression of interest” to the Department of Transport in respect of the scheme. The Director of Resources and Support Services said that a reply was awaited from the Department. The timetable was not entirely clear, but it was not likely that the funding application would be finally signed off before the summer. A Member asked how the risk issues of the scheme would be dealt with. The Director of Resources and Support Services replied that decision making for the scheme had been delegated to the relevant Cabinet Member and been reviewed by the West of England Overview and Scrutiny Committee. The Head of Audit, Risk and Information said that the role of the

Corporate Audit Committee was to review the overall framework for risk management within the Council not the individual detail within each project.

The Chair noted that the review of Comino Systems had concluded that it was a “weak” system of internal control. The Risk Manager replied that there had been good progress in implementing follow-up actions.

RESOLVED

1. To note the action taken to date in relation to the “Significant Issues” recorded in the Annual Governance Statement 2009/10.

2. To note the process and timetable for the Annual Governance Review 2010/11.

40 INTERNAL AUDIT - FUTURE SERVICE DELIVERY OPTIONS

The Head of Audit, Risk and Information presented the report. He said that the covering report was effectively an executive summary of the final project report attached as an appendix. He thanked the project manager and all staff who had contributed to the project for their excellent work.

He said that main issues were the quality of service and the availability of necessary skills. He drew attention to the scoring assessment of the different options on page 55 of the agenda. It was considered that a new internal audit partnership with neighbouring authorities was likely to deliver a better long-term outcome than outsourcing. In the shorter term however a restructure of the existing in-house service offered the best way forward. This would mean the creation of a joint audit and risk team. There were ongoing discussions with Bristol City Council (BCC) about the formation of a local internal audit partnership. What was aimed for was a genuine partnership, not a situation where one authority did the work for another, but one in which skills and resources were pooled under single management. If the plans for a local partnership did not come to fruition, then the South West Audit Partnership was a strong alternative which could be re-assessed in 12 months.

Members strongly approved of the proposal to retain an in-house service in the short term. One asked about whether accommodation issues had been taken into account in personnel planning. The Head of Audit, Risk and Information replied that a local partnership would be structured around a flexible workforce which whilst it may have a headquarters location would still retain accommodation with each partner. A Member asked about the relative performance of B&NES internal audit service compared with those of neighbouring authorities. The Head of Audit, Risk and Information replied that not all benchmarking data was reliable but that performance was not overly dissimilar between South Gloucestershire, B&NES, North Somerset and Bristol. The relative costs had still to be worked through in detail but with the planned reductions for B&NES it should appear significantly cheaper than the other surrounding authorities. A Member asked about the scoring system used for the assessment of the options. The Head of Audit, Risk and Information explained that scores had been awarded on a scale of 1 to 5.

A Member asked whether, given the Committee’s approval of the in-house option, work on other options might be discontinued. The Head of Audit, Risk and Information replied that he would be very reluctant to abandon the constructive

discussions taking place with BCC. It would be a mistake to lose momentum and it would still take some time before a final proposal would be ready to put to the Committee.

RESOLVED to note the report and the recommendations for future service delivery.

41 EXTERNAL AUDIT REPORTS

The Head of Audit, Risk and Information presented this report, to which were appended four documents from the Audit Commission, the Council's external auditor. These were:

1. The Audit Plan: Avon Pension Fund.
2. The Certification of Claims and Returns Annual Report.
3. Addendum to the Audit Plan.
4. Audit Fee update.

Mr Hackett commented on the first two documents. He drew attention to the two special risks for the Pension Fund listed in Table 1 on page 102 of the agenda. The first risk listed related to the £1.8bn unquoted pooled investment securities held by the Fund. The issue was the difficulty of getting a market valuation of these assets. It would be necessary to obtain reports from the external auditors of the fund managers. The Chair noted that the Audit Plan for the Pension Fund had not yet gone to the Avon Pension Fund Committee. Mr Hackett said that if the Pension Fund Committee raised any substantive issues, it would be brought back to the Corporate Audit Committee. He drew attention to the comments made in the Certification of Claims and Returns Annual Report about working papers being generally of a good standard and about the weakness of the control environment for Teachers Pension Returns. The Head of Audit, Risk and Information said that it was sometimes difficult to get information from schools which had contracted out their payroll to Wiltshire County Council. In response to a question from the Chair, the Director of Resources and Support Services said it was not yet clear what the pension responsibilities of the Council would be in relation to teachers employed by academies.

The District Auditor commented on the Addendum to the Audit Plan, which dealt with the Value for Money Audit, about which a presentation had been given at the previous meeting of the Committee. He drew attention to the statement of planned work contained in paragraph 4 of the document, which related to the Council's Change Programme, the development of the Council's medium-term financial plans and the partnership with the Primary Care Trust. The findings would be contained in the auditor's Annual Governance Report, which would be issued in September 2011. He commented on the Audit Fee update, drawing attention to the reduction in fees.

The Chair asked whether there was any further information about the winding up of the Audit Commission. The District Auditor replied that the Department for Communities and Local Government would announce the timetable in April. There was a great deal of work still being done on updating the audit framework for public bodies. He hoped that the Commission would have a successor that would be able to compete for external audit work.

RESOLVED to note the Audit Plan: Avon Pension Fund, the Certification of Claims and Returns Annual Report, the Addendum to the Audit Plan and the Audit Fee update.

The meeting ended at 6.33 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services