

**CORPORATE AUDIT COMMITTEE**

**Minutes of the Meeting held**

Tuesday, 28th June, 2011, 5.00 pm

**Councillors:** Gerry Curran, Barry Macrae, Will Sandry, Kate Simmons, Brian Simmons and Geoff Ward

**Independent Member:** John Barker

**Officers in attendance:** Andrew Pate (Strategic Director, Resources & Support Services), Tim Richens (Divisional Director - Finance), Jeff Wring (Head of Risk and Assurance) and Andy Cox (Risk Manager)

**Guests in attendance:** Wayne Rickard (Audit Commission) and Chris Hackett (Audit Commission)

**1 EMERGENCY EVACUATION PROCEDURE**

The Democratic Services Officer read out the procedure.

**2 ELECTION OF VICE-CHAIR**

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

**3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

There were none.

**4 DECLARATIONS OF INTEREST**

John Barker, Independent Member, declared a personal and prejudicial interest in respect of item 15, under which the future of the Independent Member role would be discussed.

Cllr Barry Macrae declared a personal and potentially prejudicial interest in relation to agenda item 13 as an employee of Capita working for Mendip District Council. He said that he would withdraw if there was any discussion of contractual arrangements between B&NES and the South West Audit Partnership, which undertakes work for Mendip District Council.

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

There was none.

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

There were none.

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

There were none.

## **8 MINUTES: 1ST FEBRUARY 2011**

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

## **9 ACCOUNTS UPDATE & POLICY RE ACCOUNTING FOR COMPONENTS**

The Divisional Director – Finance introduced this item. He reported that the Council's annual accounts were near to completion and would be presented to the Committee in September after they had been audited. The outturn would also be reported to Cabinet. There had been an underspend of £445,000, 0.1% of the total budget. The accounts would be fully compliant with International Financial Reporting Standards (IFRS). Three schools, Oldfield, Norton Hill and Somervale, had become academies, and this had to be reflected on the balance sheet, as would the creation of further academies. The creation of the social enterprise would have an impact. The Government's decision that pension increases should be linked to CPI rather than RPI would reduce the liabilities of the Avon Pension Fund. The draft accounts would be published on the Council's website on 30<sup>th</sup> June.

He invited the Committee to approve the new treatment of property components required by IFRS. An exercise carried out to assess the effect on depreciation showed that accounting separately for components of assets valued at less than £500,000 had no material impact. It was therefore proposed to consider only assets with a value in excess of £500,000.

A Member asked whether the Council had enough staff with expertise in IFRS. The Divisional Director – Finance that IFRS expertise had been concentrated in one individual, who had retired. There were now three staff who shared the expertise between them and three new staff who were being trained.

A Member asked about the transfer of assets when functions were outsourced. The Divisional Director – Finance replied that this happened with academies, but not with the social enterprise. The Member asked about property like the Victoria Hall, Radstock. The Divisional Director – Finance said that short-term leases appeared on the balance sheet, but long-term leases did not.

### **RESOLVED**

(a) to note the update on the Accounts;

(b) approve the accounting policy for components.

## **10 TREASURY MANAGEMENT OUTTURN REPORT 2010/11**

The Divisional Director – Finance introduced this item. He said that there were two types of Treasury operation: investment of cash and borrowing to support the capital programme. The average rate of investment return for 2010/11 had been 0.51% above the benchmark rate. The Council was careful where it put its money and only lent money to top-rated institutions. The borrowing portfolio was set out in Appendix 4 on page 23 of the agenda. New loans totalling £10 million had been taken out from the Public Loans Work Board, in order to benefit from lower rates of interest

available before the increase in rates announced in the Comprehensive Spending Review took effect.

The Chair commented that the credit ratings for the financial institutions listed in Appendix 4 seemed lower than last year. The Divisional Director – Finance replied that there had been a general recovery in credit ratings this year and that UK institutions had strengthening balance sheets. Abbey National had been downgraded because it was domiciled in Spain.

A Member asked about the risk of borrowing. The Strategic Director of Resources and Support Services said the risk was the future level of interest rates. Regulations required all Council borrowing to be fully covered by revenue. Alternative methods of financing the capital programme were being reviewed.

#### **RESOLVED:**

1. To note the Treasury Management Annual Report to 31<sup>st</sup> March 2011.
2. To note the 2010/11 actual Treasury Management Indicators.

### **11 CONSULTATION - FUTURE OF LOCAL PUBLIC AUDIT**

The Head of Risk and Assurance introduced this item. The Department of Communities and Local Government had launched a consultation on the future of local public audit in March. The background to the consultation was the need to establish alternative arrangements for the external audit of local public bodies after the planned abolition of the Audit Commission. However, the DCLG appeared to have underestimated the work necessary to revise the current audit framework and the consultation paper addressed wider issues, including the composition of the Audit Committee and the role of the Section 151 Officer. Officers had felt it was not possible simply to reply to the list of consultation questions on pages 56-59 of the consultation document, because of the interconnectedness of the issues. The draft response had therefore been structured in five sections:

- (a) general comments;
- (b) principles for local public audit;
- (c) the new role for local authorities in procuring their external auditor;
- (d) the new proposals for changing the membership and scope of the Audit Committee;
- (e) options on scope of audit work.

The consultation document proposed that Audit Committees should have a stronger independent element and might even consist entirely of independent members. It also proposed that Section 151 officers should have responsibility for procuring the external audit of small public bodies in their Council's area. With regard to the latter proposal, the view of officers was that the existing system of national frameworks established by the Audit Commission should be continued in some form, for the reasons listed on page 3 of the draft response (page 99 of the agenda). These reasons included the need for common standards and the avoidance of additional costs.

The Director of Resources and Support Services commented that the DCLG might be trying to give more autonomy to local authorities, but they were doing so in a very unhelpful way. It was not a good idea to make the Section 151 Officer spend a large amount of time procuring external audit for other organisations, or to impose onerous functions on local audit committees. Colleagues in other authorities agreed that the proposals were over the top and bureaucratic. Several Members expressed their agreement with this view.

The Independent Member said that appointing auditors and regulating external audit were key functions. He thought that the Audit Commission performed its regulatory role well. Recruiting external auditors would be expensive; the proposals were likely to lead to increased, not reduced, costs. He did not think that the paper recognised the value of the local knowledge brought to audit committees by local elected members. He thought that there would probably be a second consultation in the autumn.

The District Auditor said that the views expressed by previous speakers were shared by the other local authorities with which he had dealings. The DCLG proposals probably went too far. He felt that one of the things the Audit Commission was good at was disseminating information and examples of good practice. He wondered how the proposals could lead to cost savings. He believed that they were a retrograde step, which would burden local authorities rather than liberate them. A Member questioned whether the Audit Commission was truly independent. It was seen by some as just a Government quango. There had to be more localism and independence for local authorities. The District Auditor responded that his role was independent of the Audit Commission and local authorities. He emphasised the variety of functions that the Commission performed, including inspection, regulation and research. The consultation paper focussed only on the audit role. A Member said that he believed that the Audit Commission had performed a valuable service by providing information about how the performance of the Council compared with that of other local authorities. The Director of Resources and Support Services said that he wanted to emphasise that the draft response was not a rejection of localism. Increased local choice was desirable, but under the current proposals the role of local elected members would actually be reduced. He would argue that local members were independent. Localism could exist within national frameworks. He was very concerned about the proposals for new duties for the Section 151 Officer, whom he would not wish to see burdened in the same way as the Monitoring Officer had been burdened by the local assessment of standards complaints. However, these were not meant to be understood as arguments for retaining the Audit Commission. The Head of Risk and Assurance said that in his opinion the effectiveness of the current system had increased in the past five years. The contribution made by the Independent Member was a valuable one. A Member suggested that the number of auditors who could carry out the work was very limited and that costs would rise as demand for their services increased.

**RESOLVED** to endorse the proposed response to the DCLG consultation paper on the future of local public audit.

## **12 ANNUAL GOVERNANCE REVIEW UPDATE**

The Head of Risk and Assurance introduced this item. He explained that the Annual Governance Statement is an output of the Annual Governance Review, and that it is

a managerial statement not a member statement. The framework for the Review was summarised in Appendix 1 on page 109 of the agenda. The most important part of the Statement is the list of significant issues, a copy of which he circulated to Members. The list would have come to the May meeting of the Committee had this not been cancelled because of its closeness to the election. The list had been considered by the Strategic Directors Group and the Chair had been consulted about it. He explained the background to the individual issues and Members commented on them.

A Member suggested that officers should continue to monitor the government grant that B&NES was losing because of equalisation. The Director of Resources and Support Services said that was already being done and officers were raising issues about the calculation of grant with the DCLG. A new system of local government finance would be introduced in 2013-2014 with local authorities being allowed to retain local business rates. However, the baseline would continue to be affected by historic issues.

A Member thought that there was a danger that the Council might become risk averse and unwilling to take enforcement action. Another Member, however, thought that members of the Development Control Committee, of whom he was one, needed to have greater regard for the advice of officers and be wary of pressurising them into taking precipitate action.

The Head of Risk and Assurance suggested that it was appropriate that the Committee should be involved in the monitoring of the improvement plan for Peoples Services & Information Governance.

The Head of Risk and Assurance said that usually Members would have had a chance to input into the list at an earlier stage. However, they could still suggest any items for inclusion. The criterion could be, for example, systems failure or the risk of significant loss. A Member asked why there was so little in the list relating to Social Services, which accounted for a significant portion of Council expenditure. The Head of Risk and Assurance replied that the list was based on events that had occurred during the year. Social Services would only feature in the list if there had been, for example, an incident in a care home, a failure in safeguarding or an adverse ombudsman report.

**RESOLVED** to confirm that the Committee has considered the Annual Governance Statement 2010/11 and to recommend to the Leader of the Council and Chief Executive to sign it.

### **13 INTERNAL AUDIT REPORT - (OUTTURN 2010/11 & ANNUAL PLAN 2011/12)**

The Head of Risk and Assurance introduced this item. He said that overall the performance of Internal Audit had been positive. 81% of the plan had been completed despite a large amount of unplanned work and a high rate of staff sickness. There had been restructuring accompanied by redundancies, the costs savings from which would show up next year. There were challenges from national policies, such as the promotion of academies and social enterprises. Discussions with Bristol City Council about the possibility of joint arrangements for Internal Audit were continuing. Next year there would a greater focus on IT risks.

A Member asked about prioritisation and the contingency for unplanned work. He wondered whether the plan had perhaps been too optimistic. The Head of Risk and Assurance replied that even though only 65% of staff days had been available, 81% of the plan had been completed, which reflected well on the service. 18% of staff days had been set aside as contingency for unplanned work, but the amount of unplanned work had exceeded this.

**RESOLVED**, with one Member abstaining:

(a) to note the summary of audit work during 2010/11;

(b) to approve the Internal Audit Plan for 2011/2012.

## **14 EXTERNAL AUDIT REPORTS & UPDATE**

Mr Hackett introduced this item. He said that there two main strands to the work of the external auditor: the review of the control environment and the review of financial systems. One key control issue had been identified, which concerned the manual system for the authorisation of journals (adjustments to amounts recorded in the accounts). Evidence for authorisation was not always recorded promptly or recorded at all. The Divisional Director – Finance said that it was planned to introduce an electronic system for journals.

A Member asked about virements. The Divisional Director – Finance that these were tightly controlled and always reported to Council.

The District Auditor reported that neither of the two objections to the Council's 2009/10 accounts, which were reported to the Committee in the 2009/10 audit letter, had been upheld.

**RESOLVED** to note the update from the External Auditor and the findings in the Interim Audit Summary of Key Findings.

## **15 ANNUAL REPORT OF THE CORPORATE AUDIT COMMITTEE**

The Head of Risk and Assurance introduced this item. He requested the Committee to delegate responsibility to the Chair and himself to prepare the Annual Report.

John Barker said that he was content with the issues listed in paragraph 4.2 of the covering report. He then withdrew in accordance with his declaration of interest.

The Head of Risk and Assurance reminded Members that when the Committee had reviewed the role of the Independent Member the previous year, it had agreed that there should be fresh external recruitment exercise. However, because of the implications for the Council's governance arrangements of the Government review of external audit for public bodies, he suggested that the recruitment process for the Independent Member should be postponed and that the current Independent Member should continue in the role for further 6 months or 1 year.

Members commented on the effectiveness of the Committee in carrying out its role in 2010/11. One Member emphasised the need for ongoing training for Members.

Members also commented on the effectiveness of the role of Independent Member on the Committee.

## **RESOLVED**

1. To delegate responsibility to Councillor Andrew Furse as Chair of the Committee during 2010/11 and the Head of Risk and Assurance to prepare an annual report for submission to Council in September.
2. To delegate responsibility to Councillor Andrew Furse and the Head of Risk and Assurance to decide on future arrangements for the Independent Member in 2011/12.

## **16 DATES OF FUTURE MEETINGS**

The dates of future meetings were noted.

It was agreed that the preferred start time for meetings was 5.30pm and that dates should be scheduled beyond December 2011.

The meeting ended at 7.18 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

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