

Minutes of a meeting of the Governance and Audit Committee held on Thursday, 22 March 2018 in Committee Room 3 - City Hall, Bradford

Commenced 10.05 am
Concluded 12.05 pm

Present – Councillors

CONSERVATIVE	LABOUR	LIBERAL DEMOCRAT AND INDEPENDENT
M Pollard	Johnson Thornton	Reid

Apologies: Councillor Michelle Swallow

Councillor Johnson in the Chair

44. DISCLOSURES OF INTEREST

- (1) Councillor Pollard disclosed an interest in Minute 49 as he was governor of a school that was part of the Wakefield Governing Body Academy Trust.
- (2) All those who were Members of the West Yorkshire Pension Fund disclosed an interest.

Action: City Solicitor

45. MINUTES

Resolved-

That the minutes of the meeting held on 25 January 2018 be signed as a correct record.

46. INSPECTION OF REPORTS AND BACKGROUND PAPERS

There were no requests made to inspect background papers.

47. AUDIT STRATEGY MEMORANDUM 2017/18 - CITY OF BRADFORD METROPOLITAN DISTRICT COUNCIL

The External Auditor submitted the Audit Strategy Memorandum (**Document “AB”**) which sets out the plan for the external audit of the City of Bradford Metropolitan District Council for 2017/18.

It was reported that the document:

- described the approach to the audit of the Council’s financial statements;
- included the assessment of the significant risks of material misstatement in the financial statements; and
- outlined the proposed testing strategy to address the identified risks.

The Auditor had identified significant risks of material misstatement relating to:

- management override of controls which was common to all entities subject to audit;
- revenue recognition which was also common to most entities subject to audit;
- the high degree of estimation uncertainty relating to pension liabilities; and
- the high degree of estimation uncertainty relating to the valuation of land and buildings.

Members were informed that the findings in relation to these risks would be reported to the July Governance and Audit Committee meeting through the Audit Completion Report.

It was reported that as this was a major audit, Mazars had appointed an engagement quality control reviewer (EQCR) to review quality.

Members were informed that the Audit Strategy Memorandum also set out the approach to the Value for Money work, sufficient to enable External Audit to form a conclusion as to whether the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

It was reported that as previously discussed with the Committee the statutory timetable for the production and audit of the Council’s financial statement changed for 2017/18; the Council was now required to produce accounts by 31 May 2018 (1 month earlier) and to publish audited accounts by 31 July 2018 (2 months earlier); the auditors continued to work with the Council to minimise the risks of the new deadlines being missed and noted that the Council successfully moved towards the earlier timetable in 2016/17 with the majority of the audit work also completed by the end of July 2017.



In response to a Member's question it was reported that based on last year's audited accounts the materiality for the year ending 31 March 2018 had been set at £18 million which was fair, reasonable and comparable to other authorities.

Resolved-

That the Committee considered and approved the Audit Strategy Memorandum for the City of Bradford Metropolitan District Council for 2017/18.

Action: External Auditor

48. WEST YORKSHIRE PENSION FUND AUDIT STRATEGY MEMORANDUM 2017/18

The External Auditor submitted the Audit Strategy Memorandum (**Document "AC"**) which set out the plan for the external audit of the West Yorkshire Pension Fund for 2017/18.

The report:

- described External Audit's approach to the audit of the Fund's financial statements;
- included External Audit's assessment of the significant risks of material misstatement in the financial statements; and
- outlined the proposed testing strategy to address the identified risks.

External Audit had identified significant risks of material misstatement relating to:

- management override of controls which was common to all entities subject to audit; and
- the high degree of estimation uncertainty relating to valuation of unquoted investments.

Members were informed that External Audit would be reporting their findings in relation to these risks to the July Governance and Audit Committee meeting through the Audit Completion Report.

It was reported that as this was a major audit, Mazars had appointed an engagement quality control reviewer (EQCR) to review quality.

Members were advised that based on investments reported to the WYPF Investment Advisory Panel the overall materiality for the year ending 31 March 2018 to be in the region of £140 million.



It was reported that during 2017-18 External Audit had reviewed and revised the materiality methodology for public sector pensions fund. In previous years one materiality figure was applied to the financial statements which considered net assets, contributions receivable and benefits payable. The revised methodology calculated a financial statement materiality based on net assets, but calculated a specific materiality for the fund account. The impact of the revision was that the materiality applied to the net assets statement would be higher than in previous years. This was considered to be an appropriate level to give a reasonable assurance opinion that the financial statements were materially fairly stated.

Resolved-

That the Committee considered and approved the Audit Strategy Memorandum for the West Yorkshire Pension Fund for 2017/18.

Action: External Auditor

49. TREASURY MANAGEMENT POLICY STATEMENT, MINIMUM REVENUE PROVISION STRATEGY AND ANNUAL INVESTMENT STRATEGY 2018/19

The Assistant Director of Finance and Procurement submitted **Document “AD”** which reported on the Treasury Management Policy Statement, Minimum Revenue Provision Strategy and Annual Investment Strategy for 2018/19.

The report included the following:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

It was reported that the Treasury policy set limits on amounts invested dependant on certain credit criteria. Any bank that fell outside this benchmark was therefore not used.

Members were informed that the schools however had their own individual bank accounts spread across the four main UK banks. At 31/03/17 their overall bank balances with Lloyds was £18.8m, Barclays £5.1m, HSBC £2.1m, Nat West £1.1m and £0.8m with Yorkshire Bank. Estimated balances were expected to fall to £26.7m by 31/03/18 and £19.1m by 31/03/19 although this was subject to change dependant on School Academy conversions.



It was reported that as this money was controlled by the schools and not the Treasury Manager, there was the risk that reductions to credit ratings may place these accounts outside the preferred credit criteria outlined in the Treasury Policy. The schools had temporary exception in the past (November 2016) due to the expectations of most of the schools converting to academies.

Members were informed that since the financial crisis of 2008, legislative changes had been put in place by the Government aimed at strengthening the financial system. One of these reforms was to separate retail banking (ringfenced bank) from investment banking. All of the four major banks have had to go through this process, which had to be finalised by January 2019 but most would be completed before then.

It was reported that the school balances would be in the retail or ring fenced part of the bank for Lloyds, Nat West and HSBC but not for Barclays.

Members were advised that the credit rating agencies were now reviewing the ratings and there would likely be downgrading for the unringfenced part of the bank for Barclays. The addition of this new legislation consequently added another level of uncertainty going forward. This raised the following issues:

i) The schools had their own individual balances with the four main banks and could exceed their Treasury policy limits for Barclays.

ii) Further more it should be noted that centrally held cash balances had reduced significantly (due to repayment of loans and use of reserves), this meant that the Council's investment limits maybe reduced in the future.

iii) It could also mean that a large percentage of the overall cash held by the council could be in the schools bank accounts, concentrated in a few counterparties.

Members were informed that there was a proposal to review school balances and progress on the issue would be reported in the next Treasury report.

There was a short discussion on who would be responsible for school deficits if a trust became insolvent.

Members discussed the flexible use of capital receipts policy as approved in the Council's Capital Investment Plan for 2018/19 onwards.

It was reported that there were no plans to use the flexible use of capital receipts in 2018/19 financial year but it was possible that the Council may seek approval from the Secretary of State to use capital receipts in this flexible manner in the future.



In response to a Member's question it was reported that the format for calculating capital financing costs was prescribed by regulation and included a cost for items like PFI and finance leases, which were capitalised for the purpose of the statement of accounts.

It was reported that the table showing Ratio of Capital Financing costs to the Net Revenue Stream detailed in Council Document "BB" (22 February 2018) showed the impact on the revenue budget of the borrowing for the Capital Investment Plan and would be circulated to Members.

Resolved-

That the report (Document "AD") be noted and referred to Council for adoption.

Action: Assistant Director, Finance and Procurement/Interim City Solicitor

50. INTERNAL AUDIT PEER REVIEW

The Assistant Director, Finance and Procurement and the Head of Internal Audit (Doncaster Council) submitted **Document "AH"** which provided feedback on the recent peer review to determine the Internal Audit function's compliance with the UK Public Sector Internal Audit Standards (PSIAS). The report was accompanied by an action plan to address recommended areas of improvement.

The Assistant Director, Finance and Procurement thanked the Peer Review team for the work undertaken and considered the findings to be fair. He stated that the Service aspired to be fully conforming in all areas and the action plan would help to do this.

Members commented on a number of issues which included:

- Considering the Council was looking into commercial investment, and the need to do risk assessments, did the Service have capacity to deal with this extra work?
- Concerned that lack of resources in the Service were not reported to senior management and that senior managers were not aware of the issues highlighted in the peer review.
- Assumed resource issues of the Service would be picked up by the Chief Executive and Senior Officers considering that the audit function was such an important area; the resource issues in the Service required prompt action.
- Was it appropriate for the Head of Internal Audit to be undertaking non audit work due to capacity issues.



In response to Members questions it was reported that:

- Investments would be dealt with by Estates and Projects; investment would not be undertaken without due diligence; an Investment Advisory Group would be set up to oversee the development and implementation of a strategy for generating income from investments in assets.
- The merits of reporting to the Corporate Management Team on a regular basis were being explored; resources of the Service were being looked at and an update on this issue could be provided to Members at the next meeting.
- The service budget was being assessed for capacity that could be redirected to allow an increase in staffing numbers.
- The Assistant Audit Manager post had not been recruited immediately as consideration was being given to whether a like for like replacement should be sought or an increase in the number of senior auditors role was more appropriate.

The Peer Review Team representative reported that he was reassured with the response by senior managers in addressing the shortfall in resources in the Service.

Resolved-

- (1) **That the content and recommendations of the peer review report set out in Appendix 1 (attached to Document “AH”) be noted and a verbal report on the progress of recommendation 1 (Audit Resources) of the Peer Review Action Plan be provided to the next meeting; further updates in this area be provided to the Committee as required.**
- (2) **That further updates on the implementation of the recommendations in the Action Plan be submitted to this committee during 2018.**

Action: Assistant Director, Finance and Procurement

51. MINUTES OF WEST YORKSHIRE PENSION FUND (WYPF) JOINT ADVISORY GROUP HELD ON 25 JANUARY 2018

The Council’s Financial Regulations required the minutes of meeting of the WYPF Joint Advisory Group be submitted to this committee.

In accordance with this requirement, the Director of West Yorkshire Pension Fund submitted **Document “AE”** which reported on the minutes of the meeting of the WYPF Joint Advisory Group held on 25 January 2018.



Resolved –

That the minutes of the West Yorkshire Pension Fund Joint Advisory Group held on 25 January 2018 were considered and noted that the pooling arrangements for the Northern Pool met the criteria set out in the November 2015 investment reform and criteria guidance.

52. EXCLUSION OF THE PUBLIC

The Committee was asked to consider if the item relating to the minutes of the meeting of the West Yorkshire Pension Fund Investment Advisory Panel meetings held on 25 January 2018 and 2 November 2017 should be considered in the absence of the public and, if so, to approve the following recommendation:

Resolved –

That the public be excluded from the meeting during the consideration of the items relating to minutes of the West Yorkshire Pension Fund Investment Advisory Panel meetings held on 25 January 2018 and 2 November 2017 because the information to be considered is exempt information within paragraph 3 (Financial or Business Affairs) of Schedule 12A of the Local Government Act 1972. It is also considered that it is in the public interest to exclude public access to this item.

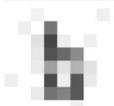
53. MINUTES OF WEST YORKSHIRE PENSION FUND (WYPF) INVESTMENT ADVISORY PANEL HELD ON 25 JANUARY 2018

The Council's Financial Regulations required the minutes of meetings of the WYPF be submitted to this Committee.

In accordance with this requirement, the Director of West Yorkshire Pension Fund submitted **Not for Publication Document "AF"** which reported on the minutes of the meeting of the WYPF Investment Advisory Panel held on 25 January 2018.

Resolved –

That the minutes of the West Yorkshire Pension Fund Investment Advisory Panel held on 25 January 2018 were considered.



54. MINUTES OF WEST YORKSHIRE PENSION FUND (WYPF) INVESTMENT ADVISORY PANEL HELD ON 2 NOVEMBER 2017

The Council's Financial Regulations required the minutes of meetings of the WYPF be submitted to this Committee.

In accordance with this requirement, the Director of West Yorkshire Pension Fund submitted **Not for Publication Document "AG"** which reported on the minutes of the meeting of the WYPF Investment Advisory Panel held on 2 November 2017.

Resolved –

That the minutes of the West Yorkshire Pension Fund Investment Advisory Panel held on 2 November 2017 were considered.

Chair

Note: These minutes are subject to approval as a correct record at the next meeting of the Governance and Audit Committee.

THESE MINUTES HAVE BEEN PRODUCED, WHEREVER POSSIBLE, ON RECYCLED PAPER

