

CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 15, Priory House, Monks Walk, Shefford on Monday, 13 January 2014

PRESENT

Cllr M C Blair (Chairman)
Cllr D Bowater (Vice-Chairman)

Cllrs R D Berry
D Jones

Cllrs D J Lawrence
A Zerny

Apologies for Absence: Cllr N B Costin

Substitutes: Cllr Mrs J G Lawrence (In place of N B Costin)

Officers in Attendance: Mr L Manning Committee Services Officer
Ms K Riches Head of Internal Audit and Risk
Mr N Visram Financial Controller
Mr C Warboys Chief Finance Officer

Others In Attendance: Mr M West Director – Ernst & Young LLP

A/13/71 **Minutes**

RESOLVED

that the minutes of the meeting of the Audit Committee held on 23 September 2013 be confirmed and signed by the Chairman as a correct record.

A/13/72 **Members' Interests**

None.

A/13/73 **Chairman's Announcements and Communications**

On behalf of Members the Chairman welcomed Councillor D Jones to his first meeting of the Committee.

The Chairman reported the receipt of a letter from Mr West, the Ernst & Young representative on the Committee, requesting information which enabled him to understand how the Audit Committee gained assurance from management on internal control and other governance issues. The meeting noted that a response would be drafted as requested.

A/13/74 **Petitions**

No petitions were received from members of the public in accordance with the Public Participation Procedure as set out in Annex 2 of Part A4 of the Constitution.

A/13/75 **Questions, Statements or Deputations**

No questions, statements or deputations were received from members of the public in accordance with the Public Participation Procedure as set out in Annex 1 of Part A4 of the Constitution.

A/13/76 **Certification of Claims and Returns Annual Report 2012-13**

The Committee considered the annual report from Ernst & Young LLP which summarised the results of the certification work which the company had undertaken on the Council's 2012-13 claims and returns. The Ernst & Young representative introduced the report which covered the following matters:

- summary of 2012-13 certification work (covering the main findings on the housing and council tax benefits subsidy claim, the teachers' superannuation return, the national non-domestic rates return and the pooling of housing capital receipts)
- 2012-13 certification fees
- looking forward (covering future certification fees and changes in certification arrangements)
- summary of recommendations (covering the recommendations arising from the work carried out by Ernst & Young on the 2012-13 claims and returns and the actions agreed).

The Ernst & Young representative drew Members attention to issues of importance and answered any queries which arose.

NOTED

the annual certification report 2012-13.

A/13/77 **Annual Audit Letter 2012/13**

The Committee considered a report from Ernst & Young LLP which presented the 2012/13 Annual Audit Letter for Central Bedfordshire Council. The letter set out the key issues arising from the work undertaken by Ernst & Young as the Council's external auditors.

The Ernst & Young representative stated that there were no significant issues to draw to the Committee's attention.

The Chairman, on behalf the Committee, congratulated the Chief Finance Officer and his staff for their efforts.

RESOLVED

that the 2012/13 Annual Audit Letter be published on the Council's website.

A/13/78 External Audit Update

The Committee was advised by the Ernst & Young representative that the 2013/14 audit had yet to start and there was nothing to report at this stage. The representative reminded the meeting that information on the 2012/13 audit had been contained in his earlier reports (minutes A/13/76 and 77 above refer).

A/13/79 Final Accounts Process 2013/14

The Committee considered a report by the Chief Finance Officer which summarised key changes in the Statement of Accounts for 2013/14 and internal procedures for producing the Statement of Accounts.

The Financial Controller introduced the report; Members noting that under the Accounts and Audit Regulations 2011 the Council's accounts were required to present a 'true and fair' view of the financial position of the Council and comply with 'proper accounting practices'. The Local Government Act 2003 specified the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice, which was issued annually, as representing the proper accounting practice for that purpose.

The Committee further noted that the 2013/14 Code incorporated updates originally issued as mid year updates to the 2012/13 Code. The two main areas of change related to accounting for the Housing Revenue Account (HRA) under self-financing and changes in accounting for Carbon Reduction Commitments (CRC). There were also a number of minor technical updates to the 2013/14 Code and two changes of note in the current financial year relating to the following:

- post-employment benefits and International Accounting Standard (IAS) 19
- accounting requirements in respect of National Non-Domestic Rates (NDR) following the move to localisation.

The Financial Controller informed the meeting that the 2013/14 Code incorporated changes made to IAS 19 in 2011; the most notable of these changes being the introduction of new classes of components of defined pension benefits costs to be recognised in the financial statements and new recognition criteria for termination benefits. The figures for the 2012/13 year would be restated although the changes would be presentational and there would be no material impact on the financial statements.

The meeting was also advised that National Non Domestic Rates (NNDR) would be accounted for through the Collection Fund in a manner similar to Council Tax. As councils retained a share of the business rate income there would be an annual surplus/deficit on the Collection Fund which would be distributed/recovered in the subsequent year's budget. These changes reflected the new regime applicable from 1 April 2013 and so no restatement of prior year balances would be required.

The meeting noted that, surprisingly, there had been no clarification included within the Code on how schools should be treated within the Council's books. Whilst CIPFA had stated in its exposure draft that only community schools should be included in the Council's balance sheet the Department for Education had raised issues with this. However, no clarification had been issued in the Code and CIPFA had asked councils to continue as before.

The Committee was reminded that, at its meeting on 24 June 2013 (minute A/13/55 refers), a presentation had taken place on the key figures in the accounting statements. All members of the Council had been invited to attend in order to encourage scrutiny and discussion. The use of a presentation rather than a report had also allowed Finance staff significantly more time to focus on quality assurance work in June and minimise the work needed by the Finance team and the external auditors during July to September. In view of the positive feedback following the presentation it was proposed to include a presentation at the June 2014 meeting. The Committee concurred with this proposal.

A Member referred to the discussion at the last meeting (minute A/13/67 refers) regarding the submission of a report on matters of interest on employee pensions arising from meetings of the local Pension Fund Committee. It was noted that the first of regular six monthly reports on this topic was scheduled to go before the General Purposes Committee, as the body which dealt with employee issues, in May but the Member suggested that a copy of the report should also be submitted to the Audit Committee mindful that staff represented the Council's biggest cost. The meeting concurred with this suggestion.

NOTED

the key changes in the Statement of Accounts for 2013/14 and internal procedures for producing the Statement of Accounts.

RESOLVED

- 1a that an interactive presentation on the unaudited accounts for 2013/14 be made to the Audit Committee at its meeting in June 2014;**
- 1b that all members of the Council be invited to attend the above presentation;**
- 2 that a copy of the update report submitted to the General Purposes Committee on developments arising from meetings of the local**

Pension Fund Committee be submitted to the Audit Committee to note.

A/13/80

Public Sector Internal Audit Standards - Overview and Self Assessment

The Committee considered a report by the Chief Finance Officer which provided a summary briefing on the new Public Sector Internal Audit Standards (PSIAS) and advised of the outcome of a self assessment of the Council's current compliance with the Standards.

Members were advised that the PSIAS had been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) in collaboration with the Chartered Institute of Internal Auditors (IIA) and had come into force on 1 April 2013. The Standards contained the following:

- A definition of Internal Auditing
- A Code of Ethics
- Standards for the Professional Practice of Internal Auditing

The meeting noted that the PSIAS replaced the Code of Practice for Internal Audit in Local Government in the UK and adoption was mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2011. Members further noted that the PSIAS applied to all internal audit service providers whether in-house, shared services or outsourced. The Head of Internal Audit and Risk commented on the value of common standards across the public sector given the growing extent of partnership working.

The meeting noted that CIPFA had recently produced a Local Government Application Note and the Council's Internal Audit Service had been reviewed against this to assess compliance. Arising from the outcome of the review, and the issues identified, a management action plan had been produced aimed at moving the Internal Audit Service to position of full compliance. A copy of the management action plan was attached at Appendix A to the Chief Finance Officer's report.

In response to queries by the Chairman, the Head of Internal Audit and Risk explained that the requirement under the PSIAS for the development of a Quality Assurance and Improvement Programme represented a new task for the Internal Audit Service but that there were, currently, sufficient resources to undertake this work.

RESOLVED

- 1 that the adoption of the Public Sector Internal Audit Standards (PSIAS) be endorsed;**
- 2 that the management action plan produced to ensure full compliance with the PSIAS, as set out at Appendix A to the report of the Chief Finance Officer, be approved and adopted.**

A/13/81

Internal Audit Charter

The Committee considered a report by the Chief Finance Officer which proposed the adoption of an Internal Audit Charter so that the Council would comply with the Public Sector Internal Audit Standards as applied in the UK. The meeting was aware that the Public Sector Internal Audit Standards were based on international standards which had been adopted by the UK on 1 April 2013.

A copy of the draft Charter was attached at Appendix A to the Chief Finance Officer's report.

Members were reminded that the Committee had a key role in ensuring that effective corporate governance arrangements were both in place and maintained. The proposed Internal Audit Charter would provide evidence of such arrangements with regard to the Internal Audit function and fully reflected the recent adoption of the Public Sector Internal Audit Standards.

Members noted that the Charter would replace both the Internal Audit Strategy and the original Internal Audit Charter, both of which had been previously approved by the Committee. The documents had complied with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice 2006 which was the predecessor to the new Public Sector Internal Audit Standards. It was further noted that the original Internal Audit Charter had been renamed as the Internal Audit Engagement Protocol, a title which better described its contents.

The Chairman drew the Committee's attention to paragraph 4.4 of the draft Charter which specifically excluded Internal Audit from investigating benefits fraud and sought clarification. In response the Chief Finance Officer explained that this function was carried out by dedicated officers within the Revenues and Benefits Team and that the Team had enjoyed considerable success in its work. He added that the Government had considered the creation of a national fraud unit but no further action had been taken.

In connection with the gathering of intelligence on benefits fraud a Member commented that the absence of suitable facilities at some of the Council's offices discouraged members of the public from raising concerns. The Committee noted the action already taken to overcome this issue.

Following a query by a Member the Chief Finance Officer explained how cases of benefits fraud were identified by officers. The Chief Finance Officer stressed that simple errors by claimants would not result in prosecution.

Turning next to paragraph 8.2 of the draft Charter the meeting noted the reference to the Audit Committee's agreed work plan for the year. It was felt that the plan, which was currently only submitted to the Committee for approval at the start of the municipal year, would prove of greater benefit if it were submitted, considered and updated at each meeting.

In conclusion, and on behalf of the Committee, the Chairman congratulated the Head of Internal Audit and Risk and her team for their work.

RESOLVED

- 1 that the draft Internal Audit Charter, as attached at Appendix A to the report of the Chief Finance Officer be approved and adopted;**
- 2 that a report be submitted to a future meeting of the Committee on benefits fraud and the measures being taken by the Council to combat it;**
- 3 that the Audit Committee's work plan be submitted to all future meetings of the Committee with effect from its next meeting on 31 March 2014.**

A/13/82

Internal Audit Progress Report

The Committee considered a report by the Chief Finance Officer outlining the progress made against the 2013/14 Internal Audit Plan up to the end of November 2013.

The following matters were considered:

- Managed Audits
- Other Audit Work
- National Fraud Initiative (NFI)
- Fraud and Special Investigations
- Schools
- Performance Management

The Head of Internal Audit and Risk introduced the report and advised the meeting that there were no significant issues to consider. Members then sought clarification on a number of issues including the progress made in reviewing Council procedures relevant to the employment of contractors and consultancy staff which had been approved at the last meeting (minute A/13/66 refers). In response the Head of Internal Audit and Risk stated that the review, which was listed within the Appendix to the report under the section headed 'Assurance Audits – Contracts and Partnerships', was substantially complete and that, whilst some areas of improvement had been identified, no significant issues of concern had been identified to date. She added that a report would be submitted to the Committee once the review was finished and remedial action had been agreed.

A Member sought information on the length of time spent reviewing one particular consultancy company and the Head of Internal Audit and Risk undertook to establish the figure and advise him of her findings. The Member then expressed concern at the time taken to complete the review and its apparent lack of prioritisation. The Head of Internal Audit and Risk explained that the Internal Audit team was also undertaking previously agreed priority

tasks and the review constituted a major area of work. She also stated that time was required to carry out a thorough review.

In response to a further query from the Member the Chief Finance Officer reported on the Chief Assets Officer's priority to reduce the number of agency staff employed by the Council and the accompanying move towards the use of permanent employees. He explained that the particular problems experienced by the Council had required particular skill sets on a temporary basis and the use of consultancy employees was the logical response to that situation.

Following a question as to whether the use of consultants had always been suitable for the level and type of work undertaken the Head of Internal Audit and Risk stated that the review would examine the Council's procedures and whether the decision to use consultants had complied with these. The Chief Finance Officer added that the resulting report to the Committee would contain recommendations regarding the amendment of operational management if this was felt necessary.

NOTED

the progress made against the 2013/14 Internal Audit Plan.

A/13/83

Risk Update Report

The Committee considered a report by the Chief Finance Officer which provided an overview of the Council's risk position as at November 2013. The Head of Internal Audit and Risk introduced the report and highlighted the changes arising from the recent fundamental refresh of the Strategic Risk Register on the Risk Summary Dashboard. The meeting noted that the refresh had taken place following both consultation with the Risk Matters Group and the Directorate Risk Co-ordinators and attendance at a Risk Workshop facilitated by Zurich, the Council's principal insurers.

A Member referred to Strategic Risk STR0019 on the Strategic Risk Register Matrix regarding the failure to deliver effective and cohesive Health and Social Care to local residents and expressed the opinion that its medium rated likelihood of occurring was too low a score. He provided an example where this risk had already occurred. Following further discussion the Head of Internal Audit and Risk undertook to consider amending the position of the Strategic Risk on the Risk Register Matrix when the risk scores were next revised.

NOTED

the strategic and operational risks facing Central Bedfordshire Council as set out in the Risk Summary Dashboard attached at Appendix A to the report of the Chief Finance Officer.

A/13/84

Tracking of Audit Recommendations

The Committee considered a report by the Chief Finance Officer which summarised the High Risk recommendations arising from Internal Audit reports. The report also outlined how the recommendations would be monitored and the progress made in implementing them.

NOTED

the report on the high risk recommendations arising from Internal Audit reports and the progress made in implementing the recommendations to date.

(Note: The meeting commenced at 9.30 a.m. and concluded at 10.46 a.m..)

Chairman

Dated