

CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 15, Priory House, Monks Walk, Shefford on Monday, 11 January 2016

PRESENT

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

Cllrs P Downing
D J Lawrence
R Morris

Cllrs D Shelvey
A Zerny

Members in Attendance: Cllr M A G Versallion

Officers in Attendance: Mr R Gould Head of Financial Control
Mr L Manning Committee Services Officer
Mrs K Riches Head of Internal Audit & Risk
Mr C Warboys Chief Finance Officer

Others In Attendance: Mrs C O'Carroll Manager – Ernst & Young LLP
Mr N Harris Director – Ernst & Young LLP

AUD/15/26 **Minutes**

RESOLVED

that the minutes of the meeting of the Audit Committee held on 28 September 2015 be confirmed and signed by the Chairman as a correct record.

AUD/15/27 **Members' Interests**

None.

AUD/15/28 **Chairman's Announcements and Communications**

Aware that meetings of the Audit Committee would be webcast in the future, and mindful of the need for Members to become used to following associated practices, the Chairman asked that Members turn their mobile phones off.

The Chairman welcomed Neil Harris from Ernst & Young LLP to his first meeting of the Committee. Members noted that Mr Harris had replaced Mick West and Carol Ryan had replaced Cathy O'Carroll as the Ernst & Young attendees at the Committee. On behalf of Members the Chairman thanked Mr West and Mrs O'Carroll, the latter of whom was present, for their assistance and contribution and wished them both well.

AUD/15/29 **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.

AUD/15/30 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.

AUD/15/31 Certification Annual Report 2014-15

The Committee considered the annual report from Ernst & Young LLP which summarised the results of the certification work undertaken by the company on the Council's housing benefit subsidy claim for 2014-15. The report's four sections covered the following matters:

- Section 1 - summary of 2014-15 certification work (including any significant issues identified)
- Section 2 - 2014-15 certification fees
- Section 3 - looking forward (covering the indicative certification fee for 2015-16)
- Section 4 – summary of recommendations (highlighting the recommendations arising from the work carried out by Ernst & Young and the actions agreed).

The Ernst & Young Manager introduced the report. She reminded the meeting that, under the certification guidance and as a result of the number of errors found in the calculation of housing benefit or compilation of the subsidy claim to the Department for Work and Pensions (DWP) by the Council in previous years, a large volume of additional testing by Ernst & Young as the external auditor continued to be required. The Committee noted that, as a result of the DWP requirement to extrapolate the value of the errors found, the net impact was a potential loss of subsidy in 2014-15 of £21,875. This represented a reduction over the corresponding figure of £46,810 in 2013-14 and a fall for the third successive year. However, the Ernst & Young Manager commented that, whilst remedial action had been introduced by the Council to improve benefit assessment accuracy, errors were still being identified in the processing of benefits payments and the main issues remained similar to those reported in 2013-14. Arising from this Ernst & Young had recommended additional action be taken to improve the accuracy of benefits processing.

In response the Chief Finance Officer took the opportunity to remind the Committee that during the Council's first three years of operation the value of errors found averaged £450k a year so, in comparison with those for 2014-15, there had been a major improvement. Nonetheless, he acknowledged the need to further improve levels of accuracy and so, besides accepting the changes recommended by Ernst & Young, further, additional measures had been introduced. The Chief Finance Officer assured Members that the outcome of the efforts undertaken to date to improve assessment accuracy had been highly positive.

In response to a Member's query the Ernst & Young Manager explained in detail the methodology underpinning the certification guidance.

In response to another Member's query on whether the errors arose through mistakes by staff in processing claims or as the result of incorrect information from claimants the Chief Finance Officer explained that, due to recruitment difficulties, it was necessary to use temporary staff. Some of those recruited had worked at other authorities where they had been expected to interpret the assessment rules slightly differently than at this Council. In addition, the introduction of new rules into an increasingly complex area could cause difficulties of interpretation for some staff. In both cases, there was a focus on targeting staff assessment accuracy.

RECEIVED

the annual certification report 2014-15.

AUD/15/32 Annual Audit Letter

The Committee considered a report from Ernst & Young LLP which presented the 2014/15 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 and covered the following areas:

- Part 1 - Executive summary
- Part 2 - Key findings
- Part 3 - Control themes and observations
- Part 4 - Looking ahead

The Ernst & Young Manager reminded the meeting that the detailed findings from the company's audit work had already been set out in the 2014/15 Audit Results Report. That report had been submitted to the Committee on 28 September 2015 (minute AUD/15/19 refers).

The Ernst & Young Director advised that he would be submitting the Audit Plan for 2015/16 to the next meeting of the Committee. In connection with this he worked through the following items contained in Part 4 of the report before Members:

- Earlier deadline for production and audit of the financial statements from 2017/18
- Highways Network Assets (formally Transport Infrastructure Assets)
- Better Care Fund

The Ernst & Young Director highlighted any points of interest and the probable impact on the Council. With regard to the requirement to account for Highways Network Assets under depreciated replacement cost from the existing depreciated historic cost from 1 April 2016 a Member expressed concern that some of the infrastructure was of Victorian origin and so would be coming to

the end of its useful life. As such he believed that the above would not merely represent a change in accounting policy for the Council but an actual liability.

The Chief Finance Officer stated that the Council had made strenuous efforts to deliver 'value for money' at the expense of being left with low reserves. However, the recent government funding settlement required the Council to make major efficiency savings over the next four years. He therefore queried whether, if the required efficiency savings were larger than the Council's reserves, the Council's accounts would be qualified. In response the Ernst & Young Director explained that if the budget gap, irrespective of the level of reserves and balance, exceeded Ernst & Young's planned level of audit materiality, then the auditor would need to consider if a significant audit risk arose.

The Ernst & Young Director explained that it was anticipated that there would be an increasing number of qualifications of value for money conclusions across the public sector given the increasing financial pressures facing local government, the National Health Service and the community safety sector. He stressed, however, that external auditors would first look at the arrangements that a council had put in place to manage its finances, address its budget gap and deliver a sustainable financial plan before reaching a professional judgement as to whether a council was meeting its financial challenges. A qualification would not, therefore, be automatic.

RECEIVED

the 2014/15 Annual Audit Letter.

AUD/15/33 External Audit Progress Report

Members considered a report from Ernst & Young LLP which provided an overview of the progress made by the company in carrying out the Council's 2014/15 audit. The report also included, at Appendix 2, a briefing document which covered issues which might have an impact on the Council, the local government sector and the audits undertaken by Ernst & Young.

The Ernst & Young Manager introduced the report before turning to the local government audit committee briefing document. The Chairman expressed his general appreciation of the Ernst & Young briefing documents before referring specifically to the article on cloud computing and the finance function ('Finance in the Cloud?'). In connection with this the Chief Finance Officer advised that the Chief Information Officer was examining the issue of cloud computing and a meeting was due to be held the next day regarding a possible variation to the Council's use of SAP and the adoption of that company's next generation of business suite applications (SAP S/4HANA). The Chief Finance Officer added that, as a result of IT developments, there was a move away from capital costs (as there was no longer an asset) and towards revenue. This represented a significant shift in expenditure type and, therefore, budget planning. In response to a Member's comments regarding the suitability of SAP's extensive functionality for the Council's use the Chief Finance Officer informed the meeting that S/4HANA could, perhaps, be better suited to the Council's requirements. He also acknowledged that the Council should undertake a

review of its financial management software requirement if a new system was to be adopted rather than merely implementing an upgrade.

A Member referred to the government's requirement for councils to produce local plans for new homes by 2017 ('Local Plans for New Homes') and drew the Committee's attention to this Council not scheduling its own report's availability until 2018. The Head of Internal Audit and Risk commented that this issue was touched on in agenda item 13 - Risk Update Report (minute AUD/15/37 refers) whilst the Chief Finance Officer stated that there was a risk of the Council losing its New Homes Bonus if a local plan was not in place. It was noted that this suggestion formed part of the current consultation on the New Homes Bonus.

RECEIVED

- 1 the report on the progress of external audit work on the 2014/15 audit;**
- 2 the local government audit committee briefing document.**

AUD/15/34. Statement of Accounts 2015/16

The Committee considered a report by the Chief Finance Officer which outlined any changes required in the preparation of the Council's statutory Statement of Accounts for 2015/16.

The Head of Financial Control introduced the report. He commented that local authorities in England needed to implement only limited changes arising from regulatory best practice requirements under the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice when preparing the Statement for 2015/16 compared to 2014/15 and what was expected in 2016/17.

The Head of Financial Control drew Members' attention to any matters of particular interest and discussion took place on the adoption of International Financial Reporting Standard (IFRS) 13 - Fair Value Measurement, a universal definition of Fair Value based on the concept of an 'exit price' of an asset or liability at the measurement date which did not reflect the authority's intention for its use.

The Head of Financial Control then referred to the preparations for the Statement of Accounts presentation at the Committee's meeting in June. He stated that the proposed topics of discussion were interest rates and the requirements to account for Highways Network Assets under depreciated replacement costs from 1 April 2016 but he invited Members to submit requests for any other areas they would wish to see considered.

A number of Members' queries arose with regard to the Highways Network Assets. In response the Head of Financial Control stated that there were no staffing implications arising from this issue and, whilst there would be extra work, it could be undertaken using existing resources. He advised that the assets themselves were already checked and surveyed and the relevant data

was used for asset maintenance purposes. He added that a Code existed which provided a standard assessment method for Highways assets although it was constantly evolving.

NOTED

the changes required in the preparation of the Council's statutory Statement of Accounts for 2015/16.

AUD/15/35 Local Government Pension Scheme Update

The Committee considered a report by the Chief Finance Officer which provided an update on the governance of the Local Government Pension Scheme (LGPS).

The Head of Financial Control introduced the report, drawing Members' attention in particular to the impending Government changes regarding arrangements for the administration of the Local Government Pension Scheme (LGPS) investments. The Government's expressed aims were to promote, through the pooling of assets, the creation of six wealth funds spread across the country which would lead to saving hundreds of millions of pounds in costs whilst being able to invest in infrastructure projects. In connection to this the Department for Communities and Local Government (DCLG) had launched a consultation on draft regulations to reform the investment regulations which was scheduled to close on 19 February 2016. The DCLG had also provided criteria and further guidance for administering authorities to meet in order to deliver the proposals for the pooling of assets, including guidance on suitable investment vehicles. The Head of Financial Control advised that up to eight asset pools were currently in the process of forming, although some might not achieve the published criteria.

The Head of Financial Control then highlighted the actuarial valuation scheduled for 31 March 2016. The meeting noted that the valuation assessment was based on the 31 March 2016 end of year data returns. Delays and validation issues with a payroll provider's annual returns for 31 March 2015 had resulted in the Scheme being unable to issue Annual Benefit Statements to its members this year. All LGPS employers were aware of the importance of addressing the data reporting issues for the 31 March 2016 returns.

NOTED

the Local Government Pension Scheme update.

AUD/15/36 Internal Audit Progress Report

The Committee considered a report outlining the progress made on Internal Audit work against the 2015/16 Audit Plan up to the end of November 2015.

The following matters were considered:

- Background

- Fundamental System Audits
- Other Audit Work
- National Fraud Initiative (NFI)
- Fraud and Special Investigations
- Schools
- Other Matters of Interest
- Performance Management

The Head of Internal Audit and Risk worked through the report and introduced the issues within it. A Member referred to the terminology used within Appendix A to the report and sought clarification on what the Internal Audit 'opinions' meant. In response the Head of Internal Audit and Risk undertook to include an explanation in future reports. The Member next referred to Appendix B to the report and the Head of Internal Audit and Risk responded to his request for additional information beyond the brief outline provided.

Last, in response to a query by the Chairman on Appendix A to the report, the Head of Internal Audit and Risk explained that a start to the work to be undertaken with regard to Compliance – Assets and School Transport had been deferred at the request of both service areas because they had only been recently transferred to new Directors under reorganisation.

NOTED

the progress made against the 2015/16 Internal Audit Plan.

AUD/15/37 Risk Update Report

The Committee considered a report which provided an overview of the Council's risk position as at December 2015.

The Head of Internal Audit and Risk introduced the report, including the Risk Register Dashboard attached at Appendix A to the report. She drew Members' attention to the key revisions relating to the following:

- strategic risks
- operational risks
- emerging risks

The Committee noted that, whilst a fundamental review of the Risk Register was scheduled to take place in February 2016 some revisions had already been made to the Register since the Committee last met and the report concentrated on those issues. The Head of Internal Audit and Risk also referred to Appendix B to the report which set out the Corporate Risk Management Strategy for 2015/16. She advised the meeting of the following amendments to the text of the document:

Page 6, 'What is Risk Management?' – at the end of the second paragraph add the sentence "The Corporate Risk Management Strategy is designed to enable this."

Pages 15 and 16, remove the 'Draft' watermark from Annex 1.

A Member referred to Strategic Risk STR0003 ('Growth: a risk that failure to adopt a 'sound' Development Strategy and subsequently deliver the levels of housing, jobs or infrastructure proposed for growth and regeneration of the area in a planned way') and queried whether the likelihood should not be higher than indicated on the Risk Register Matrix given that it had already occurred. In response the Head of Internal Audit and Risk stated that this issue would be considered as part of the fundamental review. Reference was then made to Strategic Risks STR0027 ('Failure to adopt a Community Infrastructure Levy (CIL)') and STR0027 ('Failure to adhere to procurement rules') and the comment passed that these had both already occurred.

A Member then queried whether the proposed shared use of legal services should not also be considered as a risk. However, in response the Chief Finance Officer stated that external, independent, legal advice had been taken on the proposal and this mitigated any requirement for the proposal to be considered as a strategic risk.

A Member queried how the content of the Strategy was communicated through the Council given that the Strategy stated that all staff were responsible for the management of risk and should read, understand and follow the Strategy. In response the Head of Internal Audit and Risk stated that notification to officers involved in the risk co-ordination group took place through the Council's intranet and periodic training also took place.

NOTED

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

RESOLVED

that the Corporate Risk Management Strategy 2015/16 be approved, adopted and countersigned by the Chairman of the Audit Committee subject to the following amendments:

Page 6, 'What is Risk Management?' – at the end of the second paragraph add the sentence "The Corporate Risk Management Strategy is designed to enable this."

Pages 15 and 16, remove the 'Draft' watermark from Annex 1.

AUD/15/38. Tracking of Internal Audit Recommendations

The Committee considered a report which summarised the high priority recommendations arising from Internal Audit Reports and the progress made in implementing them.

NOTED

the report setting out the high priority recommendations arising from Internal Audit reports and the progress made in implementing the recommendations to date.

AUD/15/39 Work Programme

Members considered a report which set out the Committee's proposed work programme for the remainder of the 2015/16 municipal year.

The meeting was advised that the report scheduled on the Risk Based Verification Policy for Housing Benefit and Local Council Tax support assessments had been delayed until the April meeting to ensure that a complete range of annual data was available from which to prepare the report.

RESOLVED

that the proposed Audit Committee work programme for the remainder of the 2015/16 municipal year, as attached at Appendix A of the report of the Committee Services Manager and Committee Services Officer be approved.

(Note: The meeting commenced at 10.00 a.m. and concluded at 11.46 a.m.)

Chairman

Dated