

CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in the Council Chamber, Priory House, Monks Walk, Shefford on Monday, 11 March 2019

PRESENT

Cllr M C Blair (Chairman)
Cllr D J Lawrence (Vice-Chairman)

Cllrs P Downing
D Shelvey

Cllrs A Zerny

Apologies for Absence: Cllr R Morris

Substitutes: Cllr Mrs J G Lawrence (In place of R Morris)

Officers in Attendance: Mr D Galvin Assistant Director of Finance
Mr C Horne Head of Internal Audit and Risk
Mr L Manning Committee Services Officer
Mr G Muskett Head of Revenues & Benefits
Ms S Pocock Financial Controller
Mr C Warboys Director of Resources

Others In Attendance: Mr N Harris Associate Partner - Ernst & Young
LLP
Ms C Ryan Manager - Ernst & Young LLP

AUD/18/26 Minutes

RESOLVED

that the minutes of the meeting of the Audit Committee held on 19 November 2018 be confirmed and signed by the Chairman as a correct record.

AUD/18/27 Members' Interests

None.

AUD/18/28 Chairman's Announcements and Communications

The Chairman asked Members to silence their mobile phones.

AUD/18/29 Petitions

No petitions were received from members of the public in accordance with the Public Participation Procedure set out in Part 4G of the Constitution.

AUD/18/30 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 Part 4G of the Constitution.

AUD/18/31 Certification of Claims and Returns Annual Report 2017/18

The Committee considered a report from Ernst & Young LLP (EY) which summarised the results of the company's work on the Council's 2017-18 claims and returns.

Points and comments included:

- The Director of Resources expressed satisfaction on the overall outcome of the certification of the Housing Benefits subsidy claim. Following the work by EY the subsidy had been reduced by only £9.00 which was an extremely low figure. He added that the Council was investing in new software which would help with the analysis of where errors were detected.

RECEIVED

the certification of claims and returns annual report 2017-18.

AUD/18/32 External Audit Planning Report

The Committee considered a report which provided Members with a basis to review the proposed audit approach and scope for the 2018/19 audit by the Council's external auditors, Ernst & Young LLP, and ensure that the audit was aligned with the Committee's service expectations.

Points and comments included:

- The Ernst & Young Associate Partner briefly outlined the forthcoming changes which would impact over the new financial year.
- At the next meeting of the Committee EY would be reporting on the company's strategy for the audit of the Council's asset base and show what the disaggregation was and how EY proposed to target its testing,
- The EY Associate Partner referred to a possible significant risk in the form of the valuation of property. In clarification he explained that valuation of the Council's property did not include dwellings. These would be tested but their valuation was not regarded as a significant

audit risk. Part of the reason was the amount of observable market data which could be used for corroboration purposes. The valuation of schools and other specialised assets were far harder to value and used more complex assumptions.

- A query arose regarding the significance of a deliberate undervaluation of the Council's assets in relation to depreciation, insurance charges and so forth. The Director of Resources stated that the Council had a high value of assets on the balance sheet so a minor percentage change could create a large financial issue. However, he gave the Committee full assurance that there was no deliberate attempt to misstate the value. The valuation was a transparent process and it was right that it was an area of audit focus. He stressed that he would not wish to see an alternative value arising from the audit given that this was not its function.
- If there was a major difference in asset value following valuation by EY then it was a valid challenge which would be examined. Processes had been agreed to try and speed up the exchange of this information based on last year's experience. By providing the values to EY earlier it enabled a greater opportunity to deal with any issues which arose. The Director stressed that these were all standard audit issues and did not highlight Central Bedfordshire Council as a particular risk.
- On the matter of the incorrect capitalisation of revenue expenditure the Director commented that it was actually the inappropriate use of capital receipts to reduce revenue expenditure which was appearing in some local authorities. This had been an issue at Northamptonshire County Council and, more recently, Peterborough City Council had come under scrutiny for its actions. He did not have any concerns with regard to Central Bedfordshire Council though fully recognised the need for independent examination.
- In response to a Member's comments regarding the auditing of areas of 'orphan' land in towns the Director stated that this matter had been investigated to ensure records were as up to date as possible. The Director asked for notification of specific examples of such land so action could be taken. The Chairman stated that this was not of concern in relation to the asset valuation.
- In response to a Member's reference to the possibility of fraudulent activity involving regular but low level payments, the Director stated that the possibility of such fraud arising could not be totally discounted but, to combat this, a number of controls and processes existed, including the complete disaggregation of duties. No evidence of fraud of any significance had been discovered and there was a policy of zero tolerance towards fraudulent action in place. In addition the anti-fraud controls and processes themselves were audited.
- The Associate Partner outlined the methods used by EY to detect fraudulent activity.
- Following a query the Director confirmed that the salaries of the Council's proposed wholly owned housing development company would be transparent. The Associate Partner stated that the Council's arrangements undertaken prior to possibly setting up the housing company had been carried out in an appropriate way.

- The Director advised that the Corporate Resources Overview and Scrutiny Committee had already received a presentation on the proposed housing company and it was envisaged that there would be continued scrutiny interest.
- Comment was passed on the forthcoming local elections on 2 May 2019 and the possible impact on the make-up of the Audit Committee and continuity. It was felt that the report submitted by EY had an important role in briefing new Members on the detail of the Committee's work and what was expected of the Council's external auditors. In response the Associate Partner suggested that he resubmit the report to the next meeting of the Committee, the first in the new municipal year, in order to provide an overview of his company's work. He added that the company also provided training and workshops for Members.

RESOLVED

that the Audit Planning report for the year ending 31 March 2019 be resubmitted to the next meeting of the Audit Committee on 29 May 2019 for background/training purposes.

AUD/18/33 Annual Review of Risk Based Verification (RBV) Policy for Housing Benefit and Local Tax Support Assessments

The Committee considered a report which provided an update on the operation of the current Risk Based Verification (RBV) Policy and sought the Committee's approval of a new Policy for the coming year. A copy of the proposed Housing Benefit and Local tax Support Verification Policy 2019/20 was attached as an exempt document at Appendix A to the report. An update to the information contained in paragraphs 10 and 11 of the report was contained at Appendix B.

Points and comments included:

- There was an increasing number of high risk claims being submitted which was in part due to the demographic within Central Bedfordshire where there were more claimants that were working and where there tended to be a fluctuation in earning levels.
- There had been approximately 1,800 new high risk claims during 2018/19. Less than 25% were still in receipt of Housing Benefit which reflected the 'on/off' nature of claims as people moved in and out of work.
- It was felt that the decline in the overall number of claims during 2018/19 was due to the migration of claimants toward Universal Credit system. Approximately 700 claimants (5% of the caseload) who would have previously claimed Housing Benefit were now in receipt of Universal Credit.
- It was envisaged that further reductions in the overall number of Housing Benefit claims would take place over the coming year due to the ongoing migration to Universal Credit.
- The Head of Revenues and Benefits stated that he was not aware of any plans to update the RBV criteria used in the software despite it

dating from 2011. However, he stated that it would need to take place at some point as the number of Housing Benefit claims declined thereby affecting the 'averages' built into the software.

- The Head of Revenues and Benefits added that Universal Credit would have an RBV tool built in to it.

RESOLVED

that the proposed Housing Benefit and Local Tax Support (Risk Based) Verification Policy 2019/20, as attached at exempt Appendix A to the report of the Director of Resources, be approved and adopted.

(Note: Minute AUD/18/41 below also refers).

AUD/18/34 Local Government Pension Scheme Update

(Note: At this point in the proceedings the Chairman, Councillor M Blair, declared an interest as a member of the Bedfordshire Local Pension Board).

The Committee considered an update on the governance of the Local Government Pension Scheme (LGPS).

Points and comments included:

- Barnett Waddingham had replaced Hymans Robertson as the new Bedfordshire Pension Fund actuary with effect from 1 October 2018 and would be examining the Council's next actuarial valuation.
- In his Autumn Statement on 29 October 2018 the Chancellor had announced that, from an unspecified date, pension increases would be in line with Consumer Price Inflation Housing (CPIH) instead of Consumer Price Inflation (CPI). CPIH was CPI but it included housing costs (the average change in residential rents) in the basket of goods that were measured). As housing costs often increased faster than other goods CPIH was generally higher than CPI, though not always. The Assistant Director Finance stated that a considerable impact on pensions could arise relatively easily but local authorities, and their actuaries, could only monitor the situation. If any issues did arise they would be raised with the appropriate authorities.
- With regard to the Separation Project the Assistant Director Finance explained that a project had been commissioned in 2015 to examine the issues and challenges of separating the pension's functions of the LGPS administering authorities from the host authorities, thereby managing any potential conflicts of interest. A further project had been established for 2019/20 under the actuary Hymans Robertson to see how the recommendations could be made to work in practice. The project had yet to conclude its business and the Assistant Director stated that he was unable to comment until he had seen the resulting report. A report would be made to the Committee on the outcome.

- A full report on developments regarding the Border to Coast Pension Partnership pool would be included in the next LGPS report to the Committee.
- The Pension Fund net investment return for the quarter ending 30 June 2018 had been 3.37% which was below the benchmark return of 4.09%. The Assistant Director explained that the quarter in question had seen very unusual activity in the market, particularly with regard to equities, and there had been a considerable dropdown, which had impacted on the pensions market as a whole. However, the most recent quarter had shown a different performance and the market had recovered but the new data had appeared too late to be included in the officer report.
- The ability of the fund to meet demands from its pensioners was monitored through the valuation by the actuary. Matters such as expected longevity, potential liability and the ability to meet liabilities as they formed were all considered. There was a deficit which meant the Council and other employers had to pay more into the LGPS. There was a plan to ensure that the deficit was always covered in the longer term. It was unlikely that surpluses would be seen in the future.
- In response to a query on whether covering the pension deficit was sustainable the Assistant Director stated that full account was taken of it when drawing up the medium term financial plan. Any changes to the LGPS would be nationally driven rather than by an individual pension fund. He acknowledged the challenge involved.

NOTED

the Local Government Pension Scheme update.

AUD/18/35 Statement of Accounts 2018/19

The Committee considered a report which outlined the key changes required to the Council's statutory Statement of Accounts for 2018/19.

Points and comments included:

- The main changes to the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for 2018/19 related to the presentation of the financial statements and amendments arising from changes to accounting standards (IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers). It was felt that neither standard would have a material impact on the Statement of Accounts.
- IFRS 16 Leases would not now apply until 1 April 2020. A great deal of work would need to be undertaken on implementing this standard.
- Other key issues related to the earlier closedown of accounts as required under the Accounts and Audit Regulations 2015, the proposed Statement of Accounts presentation at the Audit Committee on 29 May 2019, the proposed creation of Council owned housing development company and rights of access to the Statement of Accounts under the Accounts and Audit Regulations 2015.

- The Chairman commented on the usefulness of the Statement of Accounts presentation to both Members and officers.
- The meeting noted that the 'Big Red Button' (BRB) closedown software tool was working well and its role was due to be developed further.
- A challenge would arise next year as the BRB software would require remapping as a result of the move to the new version of SAP. However, Finance had two years' experience of using the BRB and it was expected that the work would go relatively smoothly.
- Arising from the Council's successful employment of the BRB software it had received queries from other local authorities regarding its use.
- Whilst a large amount of work had been involved in its implementation the impact of the BRB software had been highly beneficial in achieving accuracy and meeting deadline dates.

NOTED

the key changes required to the Council's statutory 2018/9 Statement of Accounts.

AUD/18/36 Corporate Risk Management Review

The Committee considered a report on the findings of a recent review undertaken by Zurich Municipal of the Council's corporate Risk Management arrangements and the resultant action plan drawn up in response to the review's recommendations.

The full report by Zurich Municipal was attached at Appendix A to the officer's report and the resulting action plan was attached at Appendix B.

Points and comments included:

- Four priority areas had been identified in the Zurich Municipal report, these being:
 - Improving the link between strategy and risk by developing the role of the Executive and Portfolio Holders.
 - Providing greater direct support to Directorate Management teams to build a robust risk profile and supporting the embedding of effective risk management practices.
 - Reviewing risk management tools and processes to ensure they supported Directorate risk management effectively.
 - Improving the level of risk management capability and awareness across Member and officer groups.
- The Head of Internal Audit and Risk explained that there was a recognition that the presentation of risk information by him was not as effective as it being delivered by the business itself. It was therefore proposed that a cyclical approach be adopted in which Directorates attended the Committee to present the information. In support of that approach a training programme of briefing sessions for the Directorate Management Teams and the Audit Committee would take place to ensure that all parties fully understood their role in the process.

- The Vice-Chairman expressed concern that the Audit Committee was being expected to perform a role which should be shared with the overview and scrutiny committees. He stated that the overview and scrutiny committees had an expert knowledge of those areas of business within the Council for which they had a scrutiny role. Further, the relevant Executive Members were required to report to those committees so questions relating to risk could be raised at that point. The Audit Committee's role would be to ensure that this was happening. Other Members expressed support for these comments.
- The Head of Internal Audit and Risk stressed that the aim was to ensure that the Committee received direct assurance from the businesses that the processes were in place and were working effectively. The Director of Resources reminded the meeting that, under the Constitution, it was the Audit Committee's responsibility to satisfy itself that robust processes were in place. Scrutiny had not, to date, become involved in this area though Audit Committee could recommend that this change and the current scrutiny arrangements be examined.
- The Director recommended support for the proposed cyclical programme of calling Directors before the Audit Committee so their processes could be challenged. This would reveal if any particular risk wasn't being managed effectively so a recommendation could be made to the appropriate overview and scrutiny committee on this issue.
- Comment was made on the current review of the overview and scrutiny structure, the relationship to the proposals before the Committee and the need for General Purposes Committee to consider and approve any changes to the Constitution.

RESOLVED

- 1 that the action plan attached at Appendix B to the Director of Resource's report, and drawn up in response to the recommendations contained in the review of the Council's corporate Risk Management arrangements by Zurich Municipal, be approved and adopted.**
- 2 that the above action plan be incorporated into whatever changes that were required in order to implement the overview and scrutiny roles if they proved to be necessary.**
- 3 that an update on the implementation of the action plan be submitted to the Audit Committee on 29 October 2019.**
- 4 that a full review of the implementation of the above action plan be submitted to the Audit Committee on 3 March 2020.**

(Note: Minute AUD/18/40 below also refers).

AUD/18/37 Risk Update Report

The Committee considered a report which provided an overview of the Council's risk position as at February 2019.

Points and comments included:

- Whilst it was the Committee's role to challenge the risk scores set out in the report the scores were based on the information supplied by Directorates. Internal Audit did not provide an independent review of the risk scores but the 'owners' of that data (listed in Appendix B to the officer's report) could be asked to attend the Committee to address Members on particular service risks and how the relevant scores were arrived at.
- Members were reminded that the Committee had previously undertaken a similar process with regard to IT risk.
- Although there were exceptions there was evidence of the correlation between educational outcomes and the quality of the teaching accommodation (STR0042 refers).
- Members emphasised that they wished to undertake a more active role in discharging their role in the future through the calling in and questioning of relevant officers. The Chairman commented that future developments in this area could be linked to the current overview and scrutiny review.

NOTED

Central Bedfordshire Council's risk position as at February 2019.

AUD/18/38 Internal Audit Progress Report

The Committee considered a report outlining the progress made on Internal Audit work against the Internal Audit Plan for 2018/19 up to the end of January 2019.

(Note: Councillor A Zerny left the meeting at this point in the proceedings).

Points and comments included:

- Internal Audit and the Council's external auditor (Ernst & Young LLP) worked closely together and there was no apparent duplication of effort.
- In the last year a new approach to the assurance audits for schools had been successfully implemented. This had reduced the number of delays which had previously been experienced.
- Internal Audit staff were providing an advisory role with regard to the implementation of the S4Hana software.
- A secondment from Internal Audit to the S4Hana project had taken a particular skillset to the project which would be of benefit in assisting the audit process in future.
- The Internal Audit team was of an appropriate size to perform its duties.

NOTED

the progress made against the 2018/19 Internal Audit Plan up to the end of January 2019.

AUD/18/39.Tracking of Internal Audit High Priority Recommendations/Agreed Actions

The Committee considered a report which summarised the high priority recommendations/agreed actions arising from Internal Audit reports and the progress made in their implantation as at the end of January 2019.

Points and comments included:

- The report showed only those recommendations/actions which had not been implemented.
- That once an action to implement any recommendations/actions had been agreed between Internal Audit and the relevant Directorate it was fully monitored by the former to ensure that an area of weakness was being addressed.
- That should there be a lack of sufficient progress to implement an Audit recommendation then the Audit Committee could request a representative from the relevant Directorate to attend a meeting of the Committee to provide an explanation.

NOTED

the report setting out the high priority recommendations/agreed actions arising from Internal Audit reports and the progress made in implementing the recommendations at the end of January 2019.

AUD/18/40.Work Programme

Members considered a report which set out the Committee's work programme.

Points and comments included:

- The Chairman stated that the previously agreed scheduling of a further update on LGSS Law Ltd to the meeting of the Committee on 29 May 2019, following the local elections, would enable any new members of the Council to be briefed on this subject.
- The Committee was aware that it had already resolved to resubmit the Audit Planning report and include an update and a review of the implementation of the action plan adopted in response to of the recommendations contained in the Zurich Municipal review of the Council's corporate risk management (minutes AUD/18/32 and 36 above refer).

RESOLVED

that the proposed Audit Committee work programme, as set out at Appendix A to the report of the Director of Resources, be approved subject to the following amendments:

- **29 May 2019 - add the Audit Planning report for the year ending 31 March 2019 for background/training purposes.**
- **29 October 2019 – add an update on the implementation of the action plan adopted in response to the Zurich Municipal Corporate Risk Management Review.**
- **3 March 2020 – add a full review of the implementation of the action plan adopted in response to the Zurich Municipal Corporate Risk Management Review.**

AUD/18/41 Annual Review of Risk Based Verification (RBV) Policy for Housing Benefit and Local Tax Support Assessments

Minute AUD/18/33 above refers.

(Note: The meeting commenced at 10.00 a.m. and concluded at 12.12 p.m.)

Chairman

Dated