

CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 13, Priory House, Chicksands on Monday, 12 April 2010

PRESENT

Cllr R A Baker (Vice-Chairman)

Cllrs Mrs A Barker
T Green
A Shadbolt

Cllrs P Snelling
B J Spurr

Apologies for Absence: Cllrs M R Jones
D J Lawrence

Members in Attendance: Cllr D Bowater

Officers in Attendance: Mr M Bowmer Assistant Director Financial Services
Mrs E Heaney Temporary Democratic Services Officer
Mr A King Head of Corporate Finance
Mr S Knight Head of Revenue and Benefits Customer Accounts
Mr N Murley Assistant Director Audit & Risk
Ms K Riches Head of Audit

Others In Attendance: Mr P King Audit Commission

A/09/65 **Apologies for Absence**

Apologies were received from Cllr Lawrence; Cllr Baker, Vice-Chair, took the Chair for the meeting.

Apologies were also received from Cllr Maurice Jones, Portfolio Holder Finance, Governance and People, John Atkinson, Head of Legal Services and Richard Ellis, Director Customer and Shared Services.

A/09/66 **Chairman's Announcements**

The Chairman advised the Committee that the amended minutes would be the version signed.

A/09/67 **Minutes**

RESOLVED

That the minutes of the meeting held on 27 January 2010 be approved as a true and accurate record.

A/09/68 **Matters Arising**

There were no matters arising from the minutes of the previous meeting.

A/09/69 **Members' Interests**

(a) **Personal Interests:-**

None.

(b) **Personal and Prejudicial Interests:-**

None.

A/09/70 **Public Participation**

No applications had been received under Procedure Rule No. CM9 to speak during the fifteen minute question and statement period at the beginning of the meeting. Furthermore there had been no applications to speak under the Public Participation Scheme on any items included on the Agenda for this meeting and no members of public were present.

A/09/71 **Petitions**

The Chairman announced that no petitions had been received.

A/09/72 **Disclosure of Exempt Information**

As there were no members of press and public present at the meeting there were no disclosures of exempt information.

A/09/73

Internal Audit Strategy and the three year Strategic Plan

The Assistant Director, Internal Audit and Risk Management, presented the Committee a report setting out the Internal Audit Strategy and the Three Year Strategic Plan. The Audit Strategy (Appendix A) aimed to deliver a risk based audit approach and like all effective strategies captures the aims and objectives of Internal Audit, explained the risk approach, how audits would be reported and communicated as well as setting out quality, performance and resource allocations.

The Three Year Audit Plan recognised that the internal control environment in Central Bedfordshire was still developing and that as a new authority a number of risks may be emerging. Flexibility was important to ensure that Internal Audit could respond to these risks and any posed by the current economic climate.

An Audit Needs Assessment had been carried out by considering the risks that Directors and Assistant Directors had highlighted when they met with the Internal Audit team, this information along with the Strategic Risk Register and knowledge of historical audit issues also informed the assessment. The Audit Plan had then been derived from this information. A large proportion of the plan for 2010-11 would largely focus on managed audit work to ensure that key systems were embedded and working appropriately.

Members noted that the Members Code of Conduct would be considered in 2011-12 and questioned whether the timing was appropriate given that an election would take place in that year, but noted that the internal audit plan was flexible and that work would be moved as appropriate.

Members discussed whether sufficient time had been allocated for ICT Assurance Audits; given the recent difficulties that the Council had faced the Committee was keen that assurances be given. Officers reported that an internal review was taking place and that an external review had been commissioned. The report of the review was likely to be considered by the Customer and Shared Services Overview and Scrutiny Committee and as a public document would be available to Members; again the flexibility built into the plan would allow Internal Audit to review how actions had been implemented in the future.

Section 106 funding was discussed as an area of concern for Members, it was noted that officers in the Sustainable Communities directorate were putting together a register of Section 106 agreements. Internal Audit were to look at this in the 2010/11 Audit Plan and as a result the findings of this audit would be reported to the Committee when completed.

RESOLVED:

- 1. That the Committee's concerns regarding the treatment of Section 106 funding be noted**
- 2. That the Internal Audit Strategy be approved**
- 3. That the 2010/11 Annual Audit Plan and the Three Year Strategic Audit Plan be approved.**

A/09/74

Internal Audit and Risk Management Progress Report

The Committee discussed the report which updated them on progress made against the 2009/10 Audit Plan and work of the Risk Management Team to the end of February 2010.

The Committee also noted Internal Audit and Risk Management's performance against Key Performance Indicators. It was anticipated that once the last stages of substantive reporting were completed the percentage of planned reviews completed would reach the target of 80%. Internal Audit was disappointed not to have reached its target of completing 80% of audit reviews within the planned time budget, this was due to the time needed to bring together legacy systems as well as the work involved in documenting all the key financial systems.

The Committee considered Appendix 2: Risk Management Corporate Report, which was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act. The Appendix set out the key H&S and insurance activity and incidents of interest, health and safety audits and reportable accidents for the month of February 2010.

Members raised concerns about the treatment of Asbestos in schools. It was noted that the report mentioned all annual visual inspections of the conditions of asbestos in Central Bedfordshire Schools as being completed and that the Council's insurers had started auditing the Council's management of asbestos. Members were concerned that the information in the condition surveys was not always accurate, officers agreed to circulate and update on work on the asbestos register to the Committee members.

RESOLVED:

- 1. That the Committee's concerns regarding the condition surveys and asbestos register be noted and that an update be provided to the Committee on the supply of information to the schools.**
- 2. That the progress made by Internal Audit and Risk Management be noted.**

A/09/75

Audit Opinion Plan 2009/10

The Committee discussed the Audit Opinion Plan. It was noted that the indicative fee for the audit was £323,000; this was as stated in May 2009.

The fee was 10.6% above the scale fee for an authority of this size, as a new authority Central Bedfordshire Council's accounts were considered to be relatively high risk as there was not a basis for comparison against previous years and the systems were not yet embedded.

The Audit Commission had identified a number of additional risks, set out in Table 1 of the report, and had specified how the Audit Commission would respond to these risks. It was noted that the following risks could result in additional work, above that accounted for in the fee being carried out.

- The Audit Commission was likely to need to test a sample of payroll payments as they could not rely on the controls in place in the Payroll system, this would be in addition to the work in the initial fee.
- The legacy Bedfordshire County Council had entered into a private finance initiative contract for two schools, the accounting systems of which needed to comply with International Reporting Standards from 2009-10; if the Audit Commission needed to seek advice from their Technical Unit this may result in an additional fee.
- Audits for housing benefits claims from both of the legacy district authorities were subject to qualification reports. Additional work would need to be carried out resulting in additional fees.

Members expressed concern at the additional fees that could apply. Paul King, Audit Commission, explained that when the indicative fee was set this took into account the work that the Audit Commission would need to do to provide assurance on the Council's accounts. Since the indicative fee had been set it had emerged that controls had not be operating properly in payroll and the Audit Commission could no longer rely on these controls and would need to carry out additional work, this was estimated to cost £5,000.

Members asked whether it would be more cost effective for Internal Audit to carry out the assurance work and then submit this to the Audit Commission. It was agreed that Paul King would meet with officers to discuss the most cost effective way to do this.

The Committee noted that once controls were in place, and as things settled down and systems became established, the fee was likely to reduce; but felt that it would be useful to see how much above scale they were paying compared to other unitary authorities. Paul King, Audit Commission, agreed to share this information if it was publically available.

The Council was required to submit its financial statements by 30 June 2010 and the Audit Commission would complete their audit and issue their opinion by 30 September 2010.

RESOLVED:

- 1. That the Audit Committee would consider comparative data on the fee's paid by other Unitary Authorities to the Audit Commission, if this was publicly available.**
- 2. That the Audit Committee's concerns regarding additional fees be noted.**
- 3. That the Audit Committee notes Audit Opinion Plan.**

A/09/76 Indicative Fee Letter 2010/11

The Committee discussed the Audit Commission's indicative fee for 2010-11 and noted that the fee was currently proposed to be £342,380. In setting this fee the District Auditor had considered the work that would need to be undertaken around significant risks, namely that a number of weaknesses had been identified in the operation of controls and that the Council would continue to face significant budget pressure.

The Committee noted that the fee was 8% above the scale and that this was a reduction on the previous year's audit fee, which had been 10.6% above scale.

Part of the fee would cover the increased audit work needed as all local authorities' accounts would be required to comply with International Reporting Standards from 2010-11. The Audit Commission had agreed to give a rebate for this element of the audit to all local authorities for this year. Central Bedfordshire would receive a rebate of £18,500 which should be paid in April 2010.

This fee only covered the audit element of the work, any inspections and assessments would be charged separately, as would any work undertaken by the Audit Commission to give advice or assistance to the Council.

RESOLVED

That the indicative audit fee be noted.

A/09/77 Annual Claims and Returns Report 2008/09

The Committee discussed the Annual Claims and Returns Report 2008/09. It was noted that the Council received funding from various grants and that the Council needed to demonstrate to auditors that it had met the conditions attached to each grant, if this could not be evidenced then this funding could be at risk. This work was looking at the legacy Bedfordshire County Council, Mid Bedfordshire and South Bedfordshire District Councils.

In assessing a claim with a value over £500,000 the Audit Commission needed to decide whether they could rely on the control environment for the preparation or return of the claim, in the 2008/09 year they had not been able to rely on the control environment for any of the claims above £500,000 due to the inherent complexity of such claims and issues from previous years audits. Detailed testing of such claims had therefore been carried out.

The legacy South Bedfordshire District Council Housing Benefit claim had been certified by 30 November 2009 with qualifications. The legacy Mid Bedfordshire District Council Housing Benefits claim had not been certified by 30 November and was now with the Secretary of State for his opinion.

Additional work had been carried out on the 2007/08 South Bedfordshire Housing Benefit claim in response to queries from the Department of Work and Pensions. The fee's for this work were set out in the report and noted by the Committee.

The Audit Commission recommended that Central Bedfordshire Council should:

1. Ensure all claims were submitted for audit by the required deadline.
2. Complete all claims within the relevant guidelines set by the grant paying authority.
3. Address problems experienced at both Mid Bedfordshire and South Bedfordshire when implementing the Central Bedfordshire housing benefits system and training staff.

The Head of Revenue and Benefits Customer Accounts, advised the Audit Committee that this year there would be a number of challenges, as although there would only be one claim going in for Central Bedfordshire Council Housing Benefits it would be formed from information from three systems and there would need to be additional testing carried out on the areas that had failed last year to give assurance that the return was accurate.

RESOLVED:

That the report and action plan be noted.

A/09/78

Audit Progress Monitoring Report

The Committee considered the activities of the External Audit; members noted that the following work would be undertaken over the coming months:

- Detailed work would take place on the Council's accounts in July and August with the Annual Governance Report and Opinion being reported in September 2010
- The Use of Resources Assessment – Value For Money conclusion report was due September 2010
- The Audit Commission and officers were currently agreeing the timescales for the Managing Performance Assessment.
- The Shared Services Review was underway and would inform the Use of Resources Assessment.
- A project brief was being agreed for a review of Performance Management.
- Grant claims were being audited as they were received and a report would be issued once the audit was completed.
- The Annual Audit letter would be sent to all Members by 31 December 2010.

RESOLVED

That the action plan and report be noted.

A/09/79

Updated Code of audit practice and Statement of responsibilities of auditors and audited bodies

The Committee discussed the updated code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies. It was noted that the responsibilities of auditors was largely unchanged since they had considered the last Code of Practice in June 2009.

RESOLVED:

That the Audit Committee notes the Code of Audit Practice 2010 and Statement of Responsibilities of Auditors and Audited Bodies.

A/09/80

Annual Audit Letter Action Plan and Annual Governance Report

The Head of Corporate Finance, reported to Members that the Council needed to respond to the findings of the Audit Commission as reported in the Annual Governance Reports and Annual Audit letter, that were provided to earlier Audit Committee meetings.

The details of the recommendations and actions taken were presented at Appendix A and Appendix B, the Committee noted the following key actions had been taken:

- Interim staff with significant capital accounting experience had been recruited and had undertaken a harmonisation of accounting practices.
- The Head of Revenue and Benefits Customer Accounts reported that staff had received substantial training following the 2007-08 Housing Benefit claim issues and the increased automations provided through the system should reduce the qualification issues in the certification of grants and returns.
- A project plan had been introduced in the Authority and initial proposals for accounting for PFI to comply with International Financial Reporting Standards had been submitted to the Audit Commission for review. Working Groups had been established to look at how to apply International Financial Reporting Standards for the rest of the Council's accounts to apply in 2010-11 and beyond.
- The Assistant Director Financial Services reported that the Council's projected overspend was reducing following intensive scrutiny and management action during the financial year.
- Clear expectations were being provided for the submission of working papers and supporting records and additional training was planned for delivery to finance staff in April. This would be delivered with the assistance of the Audit Commission.

The Committee discussed their concerns about controls in payroll. It was noted that a large number of other teams were involved in inputting information. As the committee was concerned about the complexity and significance of payroll to the Council's accounts it was agreed that the Committee would look in depth at the assurance rating of Payroll reported in the Managed Audit in the June meeting and then consider the recommendations for this area in September.

Officers agreed to invite Gordon McFarlane, Acting Assistant Director HR and OD, and Theresa Williams, Payroll Manager SERCO to the next meeting to answer questions about controls exercised in payroll.

RESOLVED:

That the Audit Committee notes the contents of the report.

A/09/81

Final Accounts 2009/10 Progress Report

The Committee noted that Council had instigated a third quarter close to identify and correct any issues before the full closure. The timetable for the full year closure and closure packs had been issued, training had also been given to Finance staff. Draft final account templates and draft Statement of Accounting Policies had been submitted to the Audit Commission for early review.

It was reported that the extensive reconciliation of control and suspense accounts had not been completed within expected timescales and this exercise was being prioritised accordingly to meet the deadline.

The first set of accounts for Central Bedfordshire Council would be submitted to the Audit Committee for their approval in June, a briefing session would be arranged for Committee members in early – mid June.

A member enquired as to whether the Authority would be able to produce the accounts by the statutory deadline of 30 June.

RESOLVED:

That the Audit Committee notes the Annual Accounts Progress Report.

A/09/82

Internal Audit and Risk Management Progress Appendix B

Minute A/09/74 refers.

(Note: The meeting commenced at 9.30 a.m. and concluded at 11.50 a.m.)

Signed.....

Dated.....