

CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Council Chamber, Priory House, Monks Walk, Shefford on Thursday, 27 January 2011

PRESENT

Cllr D Bowater (Chairman)
Cllr R A Baker (Vice-Chairman)

Cllrs Mrs A Barker
T Green
A Shadbolt

Cllrs P Snelling
B J Spurr

Members in Attendance: Cllr M R Jones

Officers in Attendance:

Mr J Atkinson	Head of Legal and Democratic Services
Mr M Bowmer	Assistant Director Financial Services/Chief Finance Officer
Mr R Ellis	Director of Customer and Shared Services
Mr A King	Head of Financial Strategy
Mr L Manning	Committee Services Officer
Ms K Riches	Head of Audit
Mr J Unsworth	Interim Assistant Director of Finance

Others In Attendance:

Mr P King	District Auditor (Audit Commission)
Ms C O'Carroll	Audit Manager (Audit Commission)

A/10/45 **Minutes**

RESOLVED

that the Minutes of the meeting of the Audit Committee held on 21 October 2011 be confirmed and signed by the Chairman as a correct record.

A/10/46 **Members' Interests**

(a) **Personal Interests:-**

None.

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

None.

A/10/47 **Chairman's Announcements and Communications**

The Chairman advised the meeting that he would be taking a verbal report on the security of the Council's Common Seal as a matter of urgency following consideration of the 2010/11 Annual Governance Report (Item 13).

On behalf of Members the Chairman then gave Mr Bowmer, the Assistant Director Financial Services, the Committee's best wishes in his new job. The Chairman also welcomed Mr Unsworth as the Council's new Interim Assistant Director of Finance and Mr Bowmer's successor.

A/10/48 **Petitions**

No petitions were received from members of the public in accordance with the Public Participation Procedure as set out in Part D2 of the Constitution.

A/10/49 **Questions, Statements or Deputations**

In accordance with the Public Participation Procedure, as set out in Annex 1 of Part A4 of the Constitution, a member of the public made use of the opportunity to express concern regarding the public service pensions deficit and its national economic implications. He also queried the absence of any reference to this issue in the Financial Statement before the Committee.

In response a Member reminded the meeting that Central Bedfordshire Council's pension fund, as part of the Local Government Pension Scheme, was administered on Central Bedfordshire's behalf by Bedford Borough Council. He explained that meetings of the Borough Council's Pension Fund Committee, of which he was a member, were held in open session and questions to that Committee could be submitted by the public. The Member also stated that the Local Government Pension Scheme was a national scheme and that, whilst the Council was unable to take independent action to reduce the deficit, the Government was undertaking a review with this aim.

The Portfolio Holder for Finance, Governance and People informed the member of the public that a written response to the matters raised would be sent to him.

A/10/50 **Annual Audit Letter 2009/10**

The Committee received the Audit Commission's Annual Audit Letter for 2009/10. The meeting was aware that much of the content had been considered at previous meetings. The meeting was also aware that copies of

the Audit Letter had been circulated to all members of the Council on 6 December 2010.

The District Auditor introduced the Audit Letter, highlighted various matters and updated the Committee on the following:

- Audit opinion and financial statements - with regard to the problems experienced in finalising the Council's 2009/10 statements of accounts he recognised that progress had been made by the Council in overcoming the factors involved.
- Current and future challenges – the financial settlement had been announced and it was acknowledged that the Council was taking measures in response.
- Approach to local value for money work from 2010/11 – the Audit Commission was to introduce a more focused approach to its local value for money (VFM) audit work based on securing financial resilience and prioritising resources within financial budgets. To this end the District Auditor stated that he would be meeting with officers from the Council on Monday, 31 January. A report on the results of the local VFM work and the key messages for the Council would be included in the annual report to those charged with governance and in the annual audit letter. The report would be issued before the end of September 2011.

In response to a Member's query regarding the Council's general fund balance the District Auditor referred to the medium term financial plan's aim to rebuild the balance from £5.158M to £9M. He emphasised that this should remain a key priority for the Council as it presented a prudent level and that this figure should be reviewed by the Council according to circumstances. The Assistant Director Financial Services commented that it would be of benefit to include work on the general fund balance at the forthcoming Members' training session.

A Member referred to the difficulties experienced in producing the Council's 2009/10 accounts on time in 2010 and queried whether even greater problems would occur in 2011. In response the Assistant Director advised the meeting that major progress had been made in the preparation of the 2010/11 accounts and referred the Committee to the accompanying reports on the agenda as an example of such improvements. Nonetheless another Member sought assurance from the Director of Customer and Shared Services that similar delays would not reoccur and the Director informed Members that safeguards had been put in place to this end.

NOTED

the Audit Commission's Annual Audit Letter for 2009/10.

A/10/51

Supplementary Annual Governance Report 2009/10

The Committee received the Audit Commission's Supplementary Annual Governance Report for 2009/10. The meeting was aware that the Commission's Annual Governance Report had been submitted to the Audit Committee on 27 September 2010 but, at that time, further work had still been required on the 2009/10 Statement of Accounts. The Supplementary Report before Members represented a completed audit with amendments incorporated where necessary.

The Audit Manager (Audit Commission) drew the meeting's attention to the work undertaken in testing on the creditors and debtors balances which had resulted in establishing that, although errors had been found, both balances had not been materially misstated in the original Report and it was not proposed that the errors be amended.

NOTED

the Audit Commission's Supplementary Annual Governance Report for 2009/10.

A/10/52

External Audit Plans - Position Statements for 2009/10 and 2010/11

The Committee received Position Statements as at January 2011 for the Audit Commission's External Audit Plans for 2009/10 and 2010/11.

The Audit Manager (Audit Commission) reported that work on the Plan for 2009/10, including grant claims, was complete and had been signed off. She added that work on the 2010/11 Plan had begun including that for the Council's key financial systems. The meeting was advised that a report would be submitted on the direction of travel at the Committee's April meeting.

The Audit Manager drew Member's attention to the proposed rebate of 3.5% on the indicative audit fee for 2010/11 for single tier councils. This would give rise to a rebate of £11,092 to Central Bedfordshire. The Committee noted that this would be in addition to the earlier rebate of 6% (£19,000) paid in April 2010 on the fee charged by the Commission for the additional audit costs arising from the transition to International Financial Reporting Standards (IFRS). She added that the Commission would also not be charging for inspection fees for work already carried out in 2010/11 on the managing performance element of the organisational assessment. This fee had been set at £18,293.

The District Auditor stated that the Commission would decide the final level of rebates in February.

NOTED

the Audit Commission's External Audit Plans (Position Statements) for 2009/10 and 2010/11.

A/10/53 **Internal Audit Progress Report**

The Committee considered a report by the Director of Customer and Shared Services which provided an update on the status of Internal Audit work for 2010/11 as at 31 December 2010.

The Head of Audit reported that, as part of the Managed Audit work, considerable progress had been made on Payroll since the report had been written. An exercise was also being carried out with regard to Housing Benefits which was expected to deliver significant savings.

The Head of Audit reported that although the Financial Management Standard in Schools (FMSiS) was no longer mandatory the majority of schools within Central Bedfordshire had asked the Council to continue to provide assessments by Internal Audit until the Government's replacement standard was introduced.

Turning next to Internal Audit's progress on some key performance indicators (KPIs) the Head of Audit reported on both Council and school audit activity. Whilst three of the six performance targets had been exceeded and two showed a positive direction of travel Members expressed concern with regard to KPI 104 (Time taken to respond to draft reports) although it was acknowledged that this reflected the failure by auditees in other areas of the Council to respond to draft reports.

A Member referred to action taken to detect the inappropriate claiming of single person discount and to the complaints which had been received that such action had been disproportionate. In response the Interim Assistant Director of Finance, whilst acknowledging that the content of a letter sent to occupants on this matter could have been better phrased it had proved successful in identifying a significant number of occupants who were not entitled to the discount. The Assistant Director Financial Services added that the letter had not been sent indiscriminately and its despatch had been based on careful research. In response to a Member's comments the Assistant Director stated that such action was ongoing and that a second letter would be despatched within the next few days. The officer and the Head of Audit stated that an update would be provided to the next meeting of the Committee and such updates would be included in the latter's report on a regular basis.

A Member expressed concern that the management of schools' budgets could be adversely affected following the government's decision on FMSiS as the financial expertise available within each school varied. In response the Head of Audit stated that Internal Audit had a scheme in place which would see all schools visited within a four year period.

NOTED

the progress made against the 2010/11 Internal Audit Plan.

A/10/54 **Tracking of Audit Recommendations**

Members considered a report by the Director of Customer and Shared Services which summarised the high risk recommendations arising from Internal Audit reports, outlined how these were monitored and the progress made on their implementation as at the end of December 2010.

The Head of Audit advised that most of the high risk recommendations related to managed audit reviews. She added that, although progress had been made on implementing these recommendations, 15 (20%) were ongoing with the target missed within the agreed timescales. The meeting noted that 14 of these were within the Customer and Shared Services Directorate. Following a query by the Chairman the Head of Audit stated that a plan had been put in place, and work started, to rectify this situation.

The Director of Customer and Shared Services referred to the one high risk recommendation where implementation had not yet started. He stated that this was within Housing Benefits, one of the services within the Directorate Recovery Programme. He added that the Audit Commission had assisted with the preparation of an Action Plan for this function and progress was being made. As an example the Director referred to the Key Performance Indicator (KPI) for the processing of new claims and how a once major backlog had been considerably reduced. He was confident that the target for processing claims within 29 days would be met and possibly improved still further. The Director assured the meeting that the foundations for sustainable improvements were in place. He added that he was not aware of any issues that would give rise to concern regarding the 14 recommendations where work was still ongoing.

The meeting acknowledged the number and extent of the challenges faced by Housing Benefits since 2009.

NOTED

the report on the high risk recommendations arising from Internal Audit reports and the progress made in implementing these as at the end of December 2010.

A/10/55 **IFRS Progress**

The Committee considered a report by the Assistant Director Financial Services which informed Members of the progress made to date on the adoption and implementation of the International Financial Reporting Standards (IFRS). The meeting noted that adoption of IFRS had required the Council to undertake a fundamental review of its accounting practices. The meeting further noted that it was intended to present IFRS compliant Statement of Accounts for 2010/11 to the meeting of the Audit Committee on 27 June.

The Head of Financial Strategy reminded the meeting that some of the information within the report had been reported previously. The officer then drew Members' attention to the 19 IFRS workstreams identified for further

evaluation and stated that 15 had now been completed and the remainder would follow by the end of January. The meeting was advised that all review work was being made available to the Audit Commission to allow early audit work to be undertaken. The progress in completing the transitional work was in advance of the majority of other local authorities. The Audit Manager (Audit Commission) stated that early indications were that the Commission agreed with the submitted review work to date and the likelihood of a smooth closedown of the 2010/11 Accounts appeared positive. Members expressed satisfaction with the progress which had been made.

The meeting was aware from the officer's report that that transition to the IFRS required retrospective amendments to the Council's opening balances for 31 March 2009 and 31 March 2010 as these had originally been reported under Statement of Recommended Practice (SORP) requirements. Appendix C to the report showed the amendments and set out the conversion from the balance sheet produced under SORP to IFRS requirements.

A Member referred to the reclassification of Short Term Investments to cash and sought clarification as to how these were recognised as such. He also sought a definition of Investment Property and why it was held before commenting that the document appeared balance sheet orientated. The Member then queried the cost of the transition to IFRS. In response the Head of Financial Strategy stated that there would be no impact on the General Fund, that the Investment Property categorisation was self contained within the balance sheet whilst the reclassification of Short Term Investments to cash did not change how the Council could use them.

NOTED

the progress made to date on the adoption and implementation by the Council of the International Financial Reporting Standards (IFRS).

A/10/56

2010/11 Annual Governance Report - Progress on Implementation of Recommendations

The Committee considered a report by the Assistant Director Financial Services which set out the progress made to date on implementing the recommendations within the Audit Commission's 2009/10 Annual Governance Report. The meeting was aware that the recommendations related to the improvement of the production and closedown process for the Council's Statement of Accounts and that the Council had prepared an action plan providing detailed responses to the recommendations.

The Head of Financial Strategy advised the meeting that significant progress had been made in meeting the Report's recommendations. The meeting noted that an update setting out the results of the exercise would be submitted to the Committee at its meeting on 4 April.

The Interim Assistant Director of Finance stated that the advances made supported the earlier comments made by the Director of Customer and Shared Services (minute 10/50 refers) regarding to the production and closing down of

the 2010/11 Statement of Accounts. The meeting was also advised that the Interim Chief Accountant felt the early signs to be very positive.

NOTED

the progress made to date on implementing the recommendations within the Audit Commission's 2009/10 Annual Governance Report.

A/10/57

Common Seal of Central Bedfordshire Council

The Committee was aware that the Chairman, by virtue of the authority vested in him in accordance with Section 100(b)(4)(b) of the Local Government Act 1972, had agreed to allow this item to be considered at the meeting as a matter of urgency. Members were further aware that consideration of this item could not be delayed until the next scheduled meeting of the Audit Committee because of immediate concerns regarding the security of the Council's Common Seal.

For Members' information the Chairman referred to an occasion when the Director of Customer and Shared Services had appeared unaware that the Common Seal had been used to attest a contract. On this basis, he (the Chairman) was seeking clarification regarding its security.

The Head of Legal and Democratic Services stated that the Seal was in his care as Monitoring Officer and that only he, or one of three other officers, could authenticate its application. A Register was kept by him and this recorded the details of where an authorisation originated, for example from a committee decision or from an officer acting under delegated powers.

Turning to the incident mentioned by the Chairman the Head of Legal and Democratic Services explained that it had arisen as a result of the transition from South Beds District Council to Central Bedfordshire Council. In March 2009 instructions had been issued by a South Beds District Council officer that a contract be sealed. However, it was not until after the legacy authority had been abolished that action had been taken, in the form of an instruction issued by the Head of Estate Management following a decision by the Executive, to attest the contract.

The Head of Legal and Democratic Services further explained that each Director could authorise officers to act on their behalf. He acknowledged that, because of the ongoing changes in the Council's structure, the list of officers with such delegated powers needed to be updated

The Chairman stated that the existence of the Register had answered his concerns regarding security.

NOTED

the urgent oral report on the authorisation of the use of the Common Seal of Central Bedfordshire Council.

A/10/58 **Exclusion of Press and Public**

RESOLVED

that in accordance with Section 100A (4) of the Local Government Act 1972 the Press and Public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under paragraph 3 of Part 1 of Schedule 12A of the Act:

- (a) Appendices A and B to the Internal Audit Progress Report referred to in Minute 10/53 above;**
- (b) Appendix 2 to the Tracking of Audit Recommendations report referred to in Minute 10/54 above.**

A/10/59 **Internal Audit Progress Report - Exempt Appendices A and B**

The Committee considered the information contained within exempt Appendices A and B to Item 10 (Internal Audit Progress Report). Appendix A provided a table summarising audit activity since the last meeting of the Committee and describing the key issues arising from the reviews completed to date whilst Appendix B set out the special investigations arising and completed within the same period.

Members referred to problems which had arisen with regard to the Payroll service and expressed dissatisfaction with the extent and outcome of the remedial measures which had been taken to date. Arising from this Members sought assurance that the procedures being put in place were robust and that the full extent of the problems that existed was fully recognised.

In response the Assistant Director Financial Services referred the meeting to the information set out in Item 11 (Tracking of Audit Recommendations) which showed that eight of the Committee's ten recommendations relating to Payroll had been fully implemented whilst the remaining two were ongoing. The Assistant Director acknowledged that the improvements had not been delivered as early as they could have been but he emphasised that most were now in place. Nonetheless Members felt that a report should be submitted to the next meeting of the Committee responding to their concerns.

The Portfolio Holder for Finance, Governance and People undertook to raise the issues concerning Payroll at Cabinet.

In response to a query by the Vice-Chairman the Head of Financial Strategy confirmed that the number of legacy bank accounts had been substantially reduced to approximately ten in number. He added that it was not possible to rationalise and reduce this further at present.

The Vice-Chairman referred to the reviews on the National Non Domestic Rates and Council Tax processes. It was felt that updates on these items were required.

RESOLVED

- 1 that a report be submitted to the next meeting of the Committee setting out the remedial measures that had been introduced to improve the Payroll service and the procedures that were now in place;**
- 2 that reports be submitted to the next meeting of the Committee setting out the progress made in addressing control issues in the National Non Domestic Rates and Council Tax processes.**

A/10/60

Tracking of Audit Recommendations - Exempt Appendix 2

The Committee considered the information contained within exempt Appendix 2 to Item 11 (Tracking of Audit Recommendations). The Appendix detailed outstanding Internal Audit recommendations.

The Head of Financial Strategy explained the current situation regarding the outstanding recommendation for the development of a Disaster Recovery Plan for SAP. The Director of Customer and Shared Services advised the Committee of the improvements to the ICT infrastructure and the benefits which this brought. The Head of Financial Strategy stated that work on the Plan was scheduled and it was intended to submit an update report to the Committee once this had been carried out.

NOTED

exempt Appendix 2 to the Tracking of Audit Recommendations report.

(Note: The meeting commenced at 9.30 a.m. and concluded at 11.32 a.m.)

Chairman

Dated