

## CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 14, Priory House, Monks Walk, Shefford on Monday, 4 April 2011

### PRESENT

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

Cllrs Mrs A Barker  
A Shadbolt

Cllrs P Snelling  
B J Spurr

Members in Attendance: Cllrs M R Jones  
R C Stay

Officers in Attendance: Mr J Atkinson Head of Legal and Democratic Services  
Ms D Clarke Interim Assistant Director People  
Mr J Drea Customer Insight and Risk  
Manager  
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 Audit Commission  
Mrs C O'Carroll Audit Commission

A/10/61 **Minutes**

### RESOLVED

**that the Minutes of the meeting of the Audit Committee held on 27 January 2011 be confirmed and signed by the Chairman as a correct record.**

A/10/62 **Members' Interests**

(a) **Personal Interests:-**

None.

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

None.

A/10/63 **Chairman's Announcements and Communications**

The Chairman thanked the Members of the Committee, Portfolio Holders and officers for their support during the municipal year.

A/10/64 **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/10/65 **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/10/66 **Audit Opinion Plan 2010/11**

The Committee received the Audit Commission's Audit Opinion Plan for 2010/11.

The District Auditor (Audit Commission) stated that the Plan followed up on his original fee letter dated March 2010 and set out the audit work that the Commission proposed to undertake for the audit of financial statements 2010/11.

The District Auditor then worked through his report highlighting aspects for Members' information. Arising from this a Member referred to the risk area identified with regard to the Housing Benefit and Council Tax claim and sought clarification as to how this situation had come about. In response the District Auditor explained that 2009/10 represented the first year that a unified Central Bedfordshire benefits team had existed and, further, that certain operational issues had been inherited from the legacy authorities. Both factors had contributed to the issue of a qualification letter. However, he did not anticipate that these same issues would arise for 2010/11. The Audit Manager (Audit Commission) outlined the related difficulties which had occurred at the legacy district councils.

The Portfolio Holder for Policy and Performance expressed disappointment regarding the Audit Commission's decision to release information on the Council's Housing Benefit operation into the public domain in view of the resulting negative media response, and mindful of the Council's openness and willingness to work with the Commission on this issue. The Portfolio Holder for

Finance, Governance and People reminded Members that Housing Benefit would be considered at the June meeting of the Customer and Central Services Overview and Scrutiny Committee within a report on the Customer and Shared Services Directorate Recovery Programme.

**NOTED**

**the Audit Commission's Audit Opinion Plan for 2010/11.**

A/10/67

**Certification of Claims and Returns - Annual Report 2009/10**

The Committee received the Audit Commission's annual report on Certification Claims and Returns for 2009/10.

With regard to housing benefits the Audit Manager (Audit Commission) commented that issues relating to this matter had already received consideration by the Committee and the need for improved staff training and quality control in the benefits calculations had been acknowledged and acted on. However, a Member expressed concern that the increasing number of claimants could have a negative impact on attempts to undertake remedial action. In response the Interim Assistant Director of Finance explained that, whilst the benefits caseload had increased by some 12% and there had been a corresponding pressure on resources, a significant improvement in the quality of the work had still been achieved.

Arising from discussion on the Teachers' Pension Scheme the Portfolio Holder for Policy and Performance commented on the accelerating rate of change in the relationship between local authorities and schools and the possible role of the Audit Commission. The District Auditor (Audit Commission) acknowledged the increasingly complex nature of the relationship.

Whilst recognising the difficulties which had arisen in connection with the Teachers' Pension Scheme within the Council the Chairman and Vice-Chairman also referred to the problem of securing accurate personal information on teaching staff from some schools.

**NOTED**

**the Audit Commission's Certification of Claims and Returns Annual Report for 2009/10.**

A/10/68

**2010/11 External Audit Plan - Position Statement at March 2011**

The Committee received a Position Statement as at March 2011 for the Audit Commission's External Audit Plan for 2010/11.

The Portfolio Holder for Policy and Performance referred to the 28% reduction in funding that the Council had experienced and, in view of the comparatively low reduction of 10% for the planned Audit Commission 2011/12 fee, he queried the Commission's commitment to reduce its own costs. In response

the District Auditor (Audit Commission) drew the meeting's attention to the additional rebates of between 2%-15% that would be forthcoming from the Commission in 2011/12 and stated that the possibility of further reductions was being considered. Furthermore, there could be additional reductions on a year on year basis whilst the Commission remained in operation. The District Auditor stressed that he was fully aware of the financial pressures that local authorities were under and the need to reduce costs.

A Member, whilst acknowledging the desire by the Council to reduce its expenditure, emphasised the need for a strong, independent audit of its financial affairs. He warned of the possibility that important financial issues would not be identified if the level of external audit was reduced.

A Member queried the level of fee reductions that private sector auditors had introduced when undertaking the external audit role. In response the District Auditor explained that the Commission determined the scale fee that was charged and this was the same whether the work was undertaken by the Commission or by a private sector auditor. In the future, however, a free market for the audit of local authorities would exist and a standard fee would no longer be imposed. He added that the continued existence of the Commission would be dependent on it being competitive in the level of fee it charged. The Portfolio Holder for Policy and Performance stressed the need for competition to be introduced.

## **NOTED**

### **the Audit Commission's External Audit Plan (Position Statement) for 2010/11.**

A/10/69

### **Payroll Issues**

The Committee considered a report by the Director of Customer and Shared Services which sought Members' support for an extensive review of the arrangements and processes for payroll.

The meeting noted that a 'root and branch' review of the Payroll function provided by SERCO was being carried out in response to the problems which had occurred within the service. A report on the outcome of the review would be made to the next meeting of the Customer and Central Services Overview and Scrutiny Committee and that Committee could then make recommendations to the Executive on the way forward.

The Interim Assistant Director People reported that whilst some issues could be rectified quickly others required extensive remedial action. The Chairman advised the meeting that he had discussed the matter with the Portfolio Holder for Finance, Governance and People and he, the Chairman, had concurred that reporting to the Overview and Scrutiny Committee offered the most effective means of dealing with such problems. The Audit Committee could then monitor the effectiveness of any decisions.

Discussion took place on the time left in the contract with SERCO and the possibility of its early termination. The Interim Assistant Director People confirmed that any options for the future of the contract with SERCO would be included in the report to the Overview and Scrutiny Committee.

In response to a query by a Member regarding the possibility of reducing payments to SERCO where they had failed to provide a satisfactory service the Interim Assistant Director People stated that the contract did not allow penalties to be imposed for minor errors. However, officers met with SERCO every month and work was being undertaken to improve the quality of service provision where possible. Issues relating to fees would be dealt with under the review. The officer also stressed that not all the errors which had occurred were the fault of SERCO.

With specific reference to payroll provision to schools the Interim Assistant Director People advised that eight of the eleven SERCO staff dealt solely with payroll issues relating to school employees. She also reported that the Council had been undercharging schools for this service and so costs would be raised as from September 2011. In response to a Member's query on the effect on staffing requirements should schools move to alternative payroll providers the officer stated that both HR and SERCO staffing requirements were being monitored.

The Portfolio Holder for Finance, Governance and People encouraged Members to attend the relevant Customer and Central Services Overview and Scrutiny Committee so that they were aware of, and could participate in, the debate.

A Member referred to the problems experienced with SAP and queried when the system would be working optimally. In response the Assistant Director People explained that the SAP optimisation project was one of the workstreams within the Customer and Shared Services Recovery Programme which would be presented to the Customer and Shared Services Overview and Scrutiny Committee in June.

## **RESOLVED**

**that the 'root and branch' review of the Payroll function provided by SERCO be endorsed.**

A/10/70

## **Code of Corporate Governance and Annual Governance Statement**

The Committee considered a report by the Director of Customer and Shared Services which proposed the adoption of the Code of Corporate Governance and sought Members' comments on the draft Annual Governance Statement for 2011/12.

The Head of Legal and Democratic Services advised the meeting that the Code, which set out the six core principles of Corporate Governance and described how the Council would achieve them, had been drafted in 2010 but not yet formally adopted by the Council. The officer then referred to the draft

Annual Governance Statement and explained that this document demonstrated how the Council had achieved those principles set out in the Code. The meeting noted that the latest Statement was an updated version of the document adopted for 2009/10.

A Member suggested that the Code be submitted to the first meeting of the Committee in the 2011/12 municipal year to enable any new Members to be aware of its content. However, and in view of the Code's central importance, the meeting felt that this aim should be achieved by including the Code in the Ethical Handbook issued with the Council's Constitution.

## **RESOLVED**

- 1 that the Code of Corporate Governance be approved;**
- 2 that the draft Annual Governance Statement 2011/12 be submitted to the Leader and Chief Executive with a recommendation of approval;**
- 3 that the Director of Customer and Shared Services examine the proposed inclusion of the Code of Corporate Governance in the Council's Ethical Handbook.**

A/10/71

### **2011/12 Corporate Risk Management Strategy & Policy Statement**

The Committee considered a report by the Head of Partnerships and Performance which sought Members' endorsement of the Corporate Risk Management Strategy for 2011/12 (which incorporated the Risk Management Policy Statement). The meeting noted that the 2011/12 Strategy was an update of the 2009/10 version which the Committee had considered in April 2009. Members were aware that the major difference between the two was that, following a change in organisational structure, the risk and health and safety functions were dealt with separately in the latest document.

The Customer Insight and Risk Manager advised that the Strategy represented a move towards a more 'light touch', though no less effective, approach to ensuring that risk was effectively managed within the Authority.

A Member commented that, whilst the Corporate Management Team (CMT) was scheduled to receive a quarterly risk report outlining the key strategic and operational risks facing the Authority, there appeared to be no way that the Committee or other councillors could access this information. She emphasised, in particular, the need for Members to be aware of what major risks existed in their wards. Following discussion the Portfolio Holder for Finance, Governance and People acknowledged that whilst the Audit Committee had the responsibility to approve the Risk Management Policy Statement and monitor its operation it had no access to the information contained in the quarterly risk report. As a result it was unable to take action by referring issues of concern to the relevant overview and scrutiny committee for consideration. The Portfolio Holder suggested that the introduction of a linkage be examined by the officers.

**RESOLVED**

- 1 that, subject to resolution 2 below, the Corporate Risk management Strategy 2011/12 be agreed and endorsed;**
- 2 that the Director of Customer and Shared Services examine the introduction of an explicit linkage by which the Audit Committee would receive all necessary risk management information on a quarterly basis.**

A/10/72

**2010/11 Annual Accounts Progress Report**

The Committee considered a report by the Interim Assistant Director of Finance which provided information on the progress made to date on the preparation of the 2010/11 Annual Accounts. For Members' information the Head of Financial Strategy highlighted aspects of the work which had been undertaken.

Members were asked to note the draft Statement of Accounting Policies and restated core financial statements that demonstrated the revised comparative figures as required under International Financial Reporting Standards (IFRS).

In response to a Member's query regarding the possibility of delays arising in the preparation of the Annual Accounts because of changes to school funding the Head of Financial Strategy explained that there would be no impact given the closure was for 2010/11. Whilst acknowledging this the Member commented that such a problem could arise in the preparation of the 2011/12 Annual Accounts.

**NOTED**

**the progress made to date in the preparation of the 2010/11 Annual Accounts and draft Statement of Accounting Policies.**

**(Note: The Committee adjourned at 11.16 a.m. for a short break and reconvened at 11.26 a.m.)**

A/10/73

**2011/12 Internal Audit Charter**

The Committee considered a report by the Director of Customer and Shared Services which presented the Internal Audit Charter 2011/12 for consideration. The meeting noted that the Charter had been refreshed to reflect any revisions that were needed but contained no significant changes from the document presented to the Committee in September 2010.

**RESOLVED**

**that the 2011/12 Internal Audit Charter be endorsed.**

**A/10/74 Internal Audit Strategy, Strategic Audit Plan and Annual Plan**

The Committee considered a report by the Director of Customer and Shared Services which sought Members' approval of the Internal Audit Strategy 2011/13, the Strategic Audit Plan 2012/13 and the Annual Audit Plan 2011/12. The meeting noted that both the Internal Audit Strategy and the Strategic Audit Plan were based on existing documents and had merely been refreshed to take account of any changes over the last year. The meeting noted that there had been no fundamental amendments to either document.

With regard to the Internal Audit Strategy a Member asked that the cover be amended to clearly indicate the period covered by the document.

**RESOLVED**

- 1 that the Internal Audit Strategy 2011/13, Strategic Audit Plan 2012/13 and Annual Audit Plan 2011/12 be approved;**
- 2 that the cover of the Internal Audit Strategy document be clearly marked to indicate the period covered by it.**

**A/10/75 2011/12 Audit Committee Outline Work Programme**

The Committee considered a report by the Director of Customer and Shared Services which set out the proposed work programme for the Audit Committee for 2011/12. In response to a query by the Portfolio Holder for Finance, Governance and People the Head of Audit stated that a report on Members' expenses had been included in the programme because this had been a standard item at the legacy authorities. However, she acknowledged that clarification was required to determine whether a report would actually need to be submitted to the Committee.

**RESOLVED**

**that the proposed Audit Committee work programme be approved.**

**A/10/76 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 28 February 2011.

The Head of Audit stated that there had been an increase in time spent on investigations work with three investigations currently in progress. The officer then referred Members to the Key Performance Indicators (KPIs) which set out the progress made by Internal Audit on a range of activities. She commented that three of the six Indicators showed a positive performance and one other, although actual performance was below target, showed a positive direction of travel. However, the remaining two indicators were considerably below the

target figure. The officer stressed that considerable work was being undertaken to improve the situation and she hoped to be able to report progress to a future meeting. The Committee noted the impact of external factors on the progress made on some of the Indicators.

In response to Members' queries regarding the current status of the Internal Audit review on the Council's Shared Service Arrangements (SLAs) the Interim Assistant Director of Finance confirmed that the review remained at draft stage. He stated that it had been submitted to Corporate Management Team (CMT) for comment before being returned to the Head of Audit for revision. He added that it was hoped that the review would be issued within the next ten days. Further discussion followed on this matter during which it was decided that the Chairman of the Shared Services Task Force would meet with selected officers at the conclusion of the Committee to consider the matter further.

A Member referred to completion of a draft review of the Music Service and queried the future of related equipment and assets. In response the Head of Audit explained that the review recommendations had focused on the disaggregation process, which had included assets.

**NOTED**

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

A/10/77

**Tracking of Audit Recommendations**

The Committee 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 February 2011.

The Head of Audit stated that the direction of travel was positive. Although 17% of recommendations were ongoing with the deadline missed no new amber or red deadlines had been added.

The officer drew Members' attention to the inclusion of information within the report which set out the progress made in addressing control issues in the National Non Domestic Rates and Council Tax processes.

**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 February 2011.**

A/10/78 **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) Appendix A to the Internal Audit Progress Report referred to in Minute 10/76 above;**
- (b) Appendix 2 to the Tracking of Audit Recommendations report referred to in Minute 10/77 above.**

A/10/79 **Internal Audit Progress Report - Exempt Appendix A**

The Committee considered the information contained within exempt Appendix A to Item 17 (Internal Audit Progress Report). The Appendix contained a table summarising audit activity since the last meeting of the Committee and describing the key issues arising from the reviews completed to date.

**NOTED**

**exempt Appendix A to the Internal Audit Progress Report.**

A/10/80 **Tracking of Audit Recommendations - Exempt Appendix 2**

The Committee considered the information contained within exempt Appendix 2 to Item 18 (Tracking of Audit Recommendations). The Appendix detailed outstanding Internal Audit recommendations and included the original target date set for the completion of each recommendation so Members were aware of the extent of any delay.

A Member referred to the Payroll Managed Audit and queried whether the two associated recommendations had been actioned. In response the Head of Financial Strategy advised the Committee of the latest position.

Members referred to National Non Domestic Rates (NNDR) Managed Audit and expressed concern at the failure to meet the original and revised target dates for the associated recommendations. Arising from discussion on this item comment was passed that the Committee had not been provided with a full update providing the latest information on either the NNDR Managed Audit or on some other matters.

In response to the failure to meet the target dates referred to above the Interim Assistant Director of Finance stated that he would establish the reasons for any

outstanding delays and advise Members. The meeting was of the opinion that additional action was required to deal with the outstanding recommendations.

**RESOLVED**

**that, following investigation by the Interim Assistant Director of Finance, any recommendations which have failed to be actioned by the agreed target date be referred to the relevant overview and scrutiny committee in order that they be considered and dealt with as matters of urgency and to enable any recommendation(s) to be made to the Executive.**

(Note: The meeting commenced at 9.30 a.m. and concluded at 12.05 p.m.)

Chairman .....

Dated .....