

CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 15, Priory House, Monks Walk, Shefford on Monday, 22 September 2014

PRESENT

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

Cllrs R D Berry
K M Collins

Cllrs D J Lawrence
A Zerny

Apologies for Absence: Cllrs N B Costin

Substitutes: Cllrs Mrs J G Lawrence (In place of N B Costin)

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

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

A/14/13. **Minutes**

RESOLVED

that the minutes of the meeting of the Audit Committee held on 30 June 2014 be confirmed and signed by the Chairman as a correct record.

A/14/14. **Members' Interests**

None.

A/14/15. **Chairman's Announcements and Communications**

None.

A/14/16. **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.

A/14/17. **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/14/18. **2013/14 Statement of Accounts/Audit Results Report 2013/14**

The Committee considered a report by the Chief Finance Officer which presented the 2013/14 Statement of Accounts for approval. An amended copy of the annual accounts (Appendix A to the report) was circulated at the meeting. The amended version reflected an increased provision in respect of the backdating of business rates appeals.

Members were aware that auditing standards required an authority's external auditor to obtain appropriate written representation from the council about the financial statements and governance arrangements. The Committee was also asked, therefore, to approve a draft letter of representation to its external auditor, Ernst & Young LLP. An amended copy of the draft letter of representation (Appendix B to the report), in which typographical errors had been corrected, was also circulated at the meeting.

Copies of both amended Appendices can be viewed through the following link:

<http://www.centralbedfordshire.gov.uk/modgov/documents/b6399/Amended%20Documents%20Circulated%20at%20Meeting%20Item%207%20Monday%202-Sep-2014%2014.30%20AUDIT%20COMMITTEE.pdf?T=9>

Members were reminded that, as required by the 2011 Regulations, the Chief Finance Officer had certified the unaudited 2013/14 annual accounts in June. A presentation on the annual accounts had been made to the Audit Committee and other Members at its last meeting on 30 June 2014 (minute A/14/6 refers) followed by a period of public inspection which had closed on 1 August. The annual accounts had also been subject to an external audit validation by Ernst & Young and the resulting Audit Results Report, which formed item 8 on the agenda, was considered in conjunction with the Chief Finance Officer's report.

The Committee then turned to consider the Audit Results Report from Ernst & Young. The report summarised the findings from the substantially completed 2013/14 audit.

The Ernst & Young Director worked through the Audit Results Report highlighting various matters of note. The Committee was aware that the Report outlined non-trivial adjustments to the original version of the accounts. However, whilst the Chief Finance Officer's own report had stated that, at the time of writing, no such adjustments had been identified the Audit Results Report had identified that the calculation of the provision for unsettled appeals by business ratepayers was calculated for the current year only and did not include provision for any successful backdated appeals. As a result the business rates appeals provision of £1.3 m was understated. Discussion

followed during which Members expressed their dissatisfaction with these arrangements which arose as a result of central government requirements.

Whilst further considering the Audit Results Report a Member raised a number of queries regarding the use of a particular contractor. He commented on the absence of any reference in the Report to the concerns which had previously been expressed on this matter and the lack of action in response. In reply the Ernst & Young Director stated that he was satisfied both that the Council had learned from the experience and with the related investigation and outcomes.

In conclusion the Chief Finance Officer suggested that the signing off of the Statement of Accounts should be deferred until Ernst & Young had issued an unqualified audit opinion on the Statement of Accounts and had formally confirmed that there were no material changes.

RESOLVED

- 1 that authority be delegated to the Chairman of the Audit Committee to approve the amended 2013/14 Statement of Accounts for Central Bedfordshire Council, as set out at Appendix A to the report of the Chief Finance Officer, subject to there being no material changes;**
- 2 that the amended draft Letter of Representation, as set out at Appendix B to the report of the Chief Finance Officer, be approved for submission to the Council's external auditor, Ernst & Young LLP, and that the Chairman of the Audit Committee and the Chief Finance Officer be authorised to sign it;**

NOTED

the Audit Results Report from Ernst & Young LLP setting out the results of its 2013/14 audit.

A/14/19.

EY Local Government Audit Committee Briefing

The Committee received a briefing paper for June 2014 which covered issues which might have an impact on the Council, the local government sector and the audits undertaken by Ernst & Young LLP. The document was introduced by the Ernst and Young Manager.

The meeting noted the article within the paper on the formation of the Single Fraud Investigation Service (SFIS) within the Department of Work and Pensions. This issue was also covered at agenda item 10 by the Chief Finance Officer (minute A/14/20 refers).

NOTED

the Local Government Audit Committee briefing paper from Ernst and Young LLP.

A/14/20.

Review of Approach to Counter Fraud Activity Following Implementation of the Single Fraud Investigation Service

The Committee considered a report by the Chief Finance Officer which updated Members on the recent review of the approach to counter fraud activity across the Council. The following fraud related issues were covered:

- Introduction of Single Fraud Investigation Service
- Review of Current Arrangements
- Benchmarking – The Local Picture and the National Picture
- “Fighting Fraud Locally”
- Draft CIPFA Code of Practice on Managing the Risk of Fraud and Corruption
- Education Funding Agency Assurance for Schools
- Establishment of a Corporate Fraud Team

The Chief Finance Officer explained how, as a part of Welfare Reform, the Department of Work and Pensions (DWP) was creating a Single Fraud Investigation Service (SFIS) which would bring together council, DWP and Her Majesty’s Revenue and Customs (HMRC) investigation services to investigate all social security benefit fraud. To this end it was proposed that two of the Council’s benefit staff would be transferred to the DWP in May 2015 and become SFIS employees. However, whilst the investigation of Housing Benefit fraud cases would transfer the amendment of Housing Benefit, dealing with error, verification and the calculation and recovery of overpayments would remain within councils until Housing Benefit was replaced by Universal Credit.

Members noted that whilst the transfer of staff, and the loss of government grant funding relating to combatting Housing Benefit fraud, was anticipated the SFIS would not assume responsibility for investigating non-benefit or local taxation fraud such as Council Tax Single Person’s discount or Tenancy Fraud. As such the introduction of the SFIS had provided an opportunity to review the current arrangements for counter fraud activity within the Council and assess the risks of fraud.

Arising from this the Committee noted that senior management had agreed to establish a Corporate Fraud Team to support the Council in delivering a counter fraud service. The team would be staffed by the four remaining Benefit Fraud Team and continue to report to the Head of Revenues and Benefits.

With regard to the local benchmarking of fraud detection performance the Chief Finance Officer drew Members’ attention to the summary (attached at Appendix A to the report) which showed Central Bedfordshire Council as having less detected fraud in each reported category in comparison with other Midlands and East of England metropolitan districts and unitary authorities. He suggested that this could be as a result of there being less fraud within Central Bedfordshire than elsewhere or because of differences in reporting procedures between councils. In response to a query he explained that a focused review of Council Tax discount fraud was undertaken every two years, rather than annually, because it was so resource intensive. The Chairman drew the meeting’s attention to the Council’s bid to the Department for Communities and

Local Government for funding to enable targeted investigation of Council Tax discount fraud and Council Housing fraud.

A Member sought clarification on the data contained in the summary (attached at Appendix B to the report) relating to the national outcome of the fraud and corruption survey, as reported by the Audit Commission in its publication "Protecting the Public Purse 2013". In response, and following consideration, the Chief Finance Officer undertook to seek an explanation from the Audit Commission and advise the Member.

RESOLVED

that the approach set out within the Chief Finance Officer's report to the following be endorsed:

- a) the establishment of a Corporate Fraud Team;**
- b) the development of an annual counter fraud work programme through closer working between the Corporate Fraud Team and Internal Audit;**
- c) the production of an annual report on counter fraud activity for presentation to the Audit Committee.**

A/14/21.

Internal Audit Progress Report

The Committee considered a report by the Chief Finance Officer outlining the progress made against the 2014/15 Internal Audit Plan up to the end of August 2014. The Head of Internal Audit and Risk then introduced the following matters from the report for consideration:

- Fundamental Systems Audits
- Other Audit Work
- National Fraud Initiative (NFI)
- Fraud and Special Investigations
- Schools
- Performance Management

Discussion followed during which a Member sought further information on the special investigation being undertaken. In response the Head of Internal Audit and Risk explained that, because the investigation was still in progress, she was unable to comment further.

Further discussion followed during which a Member raised various issues relating to the continued operation of a particular contract. In response the Chief Finance Officer clarified the current status of the contract and the reasons why no action had been taken to end it. Another Member emphasised that any fault in this matter lay with the Council's own procedures and not in the actions of the other party.

NOTED

the progress made against the 2014/15 Internal Audit Plan.

A/14/22. **Risk Update Report**

The Committee considered a report by the Chief Finance Officer which provided an overview of the Council's risk position as at August 2014.

The report was introduced by the Head of Internal Audit and Risk who worked through the report and the accompanying Risk Summary Dashboard, Members noting the strategic, operational and emerging risks. In particular the meeting was aware of a new strategic risk concerning Deprivation of Liberty Standards which related to the possible failure to ensure vulnerable people did not have their liberty inappropriately denied.

NOTED

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

A/14/23. **Tracking of Audit Recommendations**

The Committee considered a report by the Chief Finance Officer which summarised the high priority recommendations arising from Internal Audit reports. The report also outlined the progress made in implementing them.

NOTED

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

A/14/24. **Work Programme**

Members considered a report by the Chief Legal and Democratic Services Officer which set out the proposed Work Programme for the Committee for the remainder of the 2014/15 municipal year and the beginning of 2015/16.

RESOLVED

that the proposed Audit Committee Work Programme for the remainder of 2014/15 and the beginning of 2015/16, as attached at Appendix A of the report of the Chief Legal and Democratic Services Officer, be approved.

(Note: The meeting commenced at 2.30 p.m. and concluded at 3.56 p.m.)

Chairman

Dated