

CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 15, Priory House, Chicksands, Shefford on Monday, 12 January 2015

PRESENT

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

Cllrs K M Collins
N B Costin

Cllrs D J Lawrence
A Zerny

Apologies for Absence: Cllrs R D Berry

Substitutes: Cllr A Shadbolt (In place of R D Berry)

Members in Attendance: Cllrs A R Bastable
M R Jones
Mrs J G Lawrence

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 N Visram Financial Controller
Mr C Warboys Chief Finance Officer

Others In Attendance: Mrs C O'Carroll Manager – Ernst & Young LLP

A/14/25. **Minutes**

RESOLVED

that the minutes of the meeting of the Audit Committee held on 22 September 2014 be confirmed and signed by the Chairman as a correct record.

A/14/26. **Members' Interests**

None.

A/14/27. **Chairman's Announcements and Communications**

None.

A/14/28. **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/14/29. **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/14/30. **Certification of Claims and Returns Annual Report 2013-14**

The Committee considered the annual report from Ernst & Young LLP which summarised the results of the certification work undertaken by the company on the Council's 2013-14 claims and returns. The report's four sections covered the following matters:

- Section 1 - summary of 2013-14 certification work (including any significant issues identified)
- Section 2 - 2013-14 certification fees
- Section 3 - looking forward (covering indicative certification fees for 2014-15 and related issues)
- Section 4 – summary of recommendations (highlighting the recommendations arising from the work carried out by Ernst & Young and the actions agreed).

The Ernst & Young Manager introduced the report and drew Members' attention to particular issues of interest. With regard to a statement in Section 1 of the report regarding a fall in the Council's performance on benefit assessment accuracy down from 94% in April 2014 to 87% in October 2014 the Chief Finance Officer explained that the sampling methods, which included a heavy focus on the work undertaken by new staff, skewed the results. He assured the meeting that the overall performance figure was actually at 90%. In connection with this issue the Chief Finance Officer advised the meeting that staff training had been increased and all errors found in the processing of claims were reported to the relevant member of staff and discussed with them. In addition any error trends were analysed and an internal bulletin containing the analysis circulated to staff. All errors were reported to team leaders to help monitoring. He concluded by comparing the average annual claw back figure of £480k from 2009-13 with the much improved figures of £54k and £51k for the last two years.

In response to a query regarding the level of staff turnover the Chief Finance Officer stated that turnover of permanent staff was low but there were high levels of sickness absence and temporary staff were used to fill the resulting gaps. He added that, unfortunately, the temporary staff, whilst experienced

through similar work at other local authorities, could interpret the benefit rules slightly differently as a result.

NOTED

the annual certification report 2013-14.

A/14/31. **Annual Audit Letter**

The Committee considered a report from Ernst & Young LLP which presented the 2013/14 Annual Audit Letter for Central Bedfordshire Council. The letter set out the key issues arising from the work undertaken by Ernst & Young as the Council's external auditors.

The Ernst & Young Manager reminded the meeting that a copy of the Annual Audit Letter had been circulated to all members of the Council at the end of October 2014.

NOTED

the 2013/14 Annual Audit Letter.

RESOLVED

that the 2013/14 Annual Audit Letter be published on the Council's website.

(Note: A copy of the 2013/14 Annual Audit Letter is attached at Appendix A to these minutes).

A/14/32. **2013/14 Audit Scale Fee - Late Variation**

The Committee considered a letter from Ernst & Young LLP which set out the revised final scale fee in respect of the 2013/14 audit. Members were reminded that Ernst and Young set out its 'final' audit fees in respect of the 2013/14 audit year in its Annual Audit Letter dated 6 October 2014. However, since that date the Audit Commission had applied a permanent variation of £1,070 to the base scale fee to reflect additional audit procedures required to gain sufficient audit assurance around business rate income and expenditure within the Collection Fund. The meeting noted that certification work on business rates had originally been withdrawn for 2013/14 and the grant certification scale fee reduced to reflect this. However the Audit Commission had now acknowledged that councils' external auditors were required to undertake these additional procedures and the base scale fee had been revised accordingly.

NOTED

the permanent variation of £1,070 to the audit base scale fee.

A/14/33. **External Audit Progress Report**

The Committee considered a report from Ernst & Young LLP which provided an overview of the stage reached by the company in carrying out the Council's 2013/14 audit. The report also included, as an appendix, a briefing document on issues which might have an impact on the Council, the local government sector and audits undertaken by Ernst & Young.

The Ernst & Young Manager introduced the report and drew Members' attention to the article in the briefing document entitled 'The Future of Local Audit'. Members noted that the article covered the government proposal to bring forward the dates for the accounts to be signed, approved and published and the Ernst & Young Manager stated that she believed compliance with the proposed timetable would prove challenging for both external auditors and local authorities (minute A/14/34 below also refers).

NOTED

the report on the progress of External Audit work on the 2013/14 audit.

A/14/34. **Final Accounts Process 2014/15**

The Committee considered a report which summarised the key changes in the Statement of Accounts for 2014/15 and internal procedures for producing the Statement of Accounts.

The meeting noted in particular the change in the 2014/15 CIPFA Code of Practice which related to accounting for schools and meant that the income, expenditure, assets and liabilities of all maintained schools were required to be consolidated within local authorities' accounts. Members were advised that the Council's valuations teams had been assessing school buildings within Central Bedfordshire to derive values and bring these assets on to the Council's books during the current financial year. It was expected that these assets would have a significant impact on the value of the assets held on the Council's balance sheet. However, and in response to a query by the Chairman, the Financial Controller explained that there would be no impact on local taxpayers as the required accounting entries ensured that there was no impact on the General Fund. In response to a further query regarding whether the increase in asset value would enable greater levels of borrowing the Chief Finance Officer explained that, unlike the private sector, the Council's borrowing capacity was determined through the use of prudential indicators and decisions in respect of financing capital expenditure. Changes in asset valuations and recognition of additional assets such as Foundation schools would not influence the Council's borrowing limits.

A Member referred to the Local Audit and Accountability Act 2014, which included updates to the Accounts and Audit Regulations 2011, and to the proposed changes to the deadlines for publication of councils' Statements of Accounts. Under the proposals the Chief Finance Officer would sign the draft accounts by 31 May (currently 30 June) and the audited accounts would have

to be approved by the Audit Committee by 31 July (currently 30 September). If the changes proceeded it was anticipated that they would be implemented from the 2017/18 financial year. In response to the Member's query the Chief Finance Officer stated that it would be difficult to meet the 31 May deadline without closing some accounts on the basis of estimates. Consideration would therefore be given to the use of more estimates (following consultation with External Audit). However, he indicated that a greater difficulty lay in auditing the accounts by 31 July as this represented a reduction of two months over the current deadline. Further, the problem would be compounded by the absence of any flexibility, as all local authorities would be required to meet the same timescales, and this would generate difficulties for the relatively small number of external auditors to complete their work on time.

The Ernst & Young LLP Manager stated that the four largest external auditors had all made representations against the proposal because the rescheduling of local authority work would lead to an overlap with the auditing of Health Service accounts. She added that, whilst no final decision had been taken on the proposal, she was of the opinion that it would be introduced and would, as a result, necessitate a change in the way the company undertook its auditing of council accounts, probably by undertaking the audit of month 12 accounts within the month (March) itself. With regard to the impact on the External Audit fees charged she stated that these would remain unaltered as only the timescales would change.

The Chief Finance Officer assured the Committee that the Council's officers would work in full co-operation with Ernst & Young, as the appointed External Auditor, to establish when it was acceptable to make use of estimates within the accounts and the process for reflecting the inevitable adjustments in the following financial year.

In conclusion the Committee expressed its dissatisfaction with the changes proposed to the audit deadlines by the Secretary of State as it was felt these would be disadvantageous to local authorities.

NOTED

the key changes in the Statements of Accounts for 2014/15 and internal procedures for producing the Statement of Accounts.

RESOLVED

- 1 that an interactive presentation on the unaudited accounts for 2014/15 be made to the Audit Committee at its meeting in June 2015;**
- 2 that all members of the Council be invited to attend the above presentation.**

A/14/35. **Local Government Pension Scheme Update**

The Committee considered a report which provided an update on recent developments with regard to the Local Government Pension Scheme (LGPS). The Head of Financial Control advised the meeting that a similar report had already been submitted to the General Purposes Committee (minute GPC/14/34 refers).

The report before Members provided information on the following:

- The development of mechanisms for cost capping across public service pension schemes
- The implementation of Local Pension Boards
- The Bedfordshire Pension Fund's asset management.

With regard to the Fund's asset management the Head of Financial Control referred to the implementation of an investment strategy and benchmark that sought, over time, to provide less volatile investment returns when compared to the average Local Authority Funds which tended to allocate a higher weighting to equities. Following an extended bull market in equities, comparing the Bedfordshire Fund to the average local authority would show the Fund to be performing below the local authority average. The Head of Financial Control stated that it was important to recognise that the role of the Bedford Borough Council's Pensions Fund Committee was to balance both risk and return by developing and implementing an appropriate investment strategy. He advised that the next update report on the LGPS to the General Purposes Committee and, eventually, the Audit Committee would include an explanation of the ways that the Bedford Borough Pension Fund Committee sought to manage the various risks that a funded defined benefit pension scheme faced.

A Member commented on the need to ask Bedford Borough Council to contact all major employers in the future to enable their participation in changes to the administration to the LGPS. The Head of Financial Control advised that the initial consultations in respect of changes to the LGPS were issued to all local authorities by the Department for Communities and Local Government (DCLG). Responses to the LGPS consultations were prepared by the pensions team at Bedford Borough Council for comment and approval by the members of the Bedford Borough Council Pension Fund Committee which included representatives of the major scheme employers. In respect of the introduction of the Pension Boards, the Pension Fund Committee had responded to the DCLG that the additional costs of introducing a further layer of governance required more justification. Whilst the degree of local authority influence on central government's proposed changes was sometimes limited the Pension Fund Committee had responded to consultations and had sought to engage with the various scheme employers. There were over 130 employers participating in the Bedfordshire LGPS and it had been an ongoing challenge for the Pension Fund Committee to facilitate engagement with all the employers. The Head of Financial Control would feedback the Committee's comments to the Head of Pensions at Bedford Borough Council.

The Member also referred to the need to take and manage risk in order to improve Fund performance together with a need for the correct skillsets and

attitudes to be in place to achieve this. In response the Head of Financial Control indicated that the Pension Fund Committee had in place a number of mechanisms to ensure an appropriate investment strategy was maintained and that the various skills and advice required for this purpose were available to the Pension Fund Committee. The next update report to the Audit Committee would explain how the various pension fund risks were managed and explore the investment issues in more detail alongside risks associated with the scheme's liabilities. The Head of Financial Control referred to the impact on the Fund's financial position of not just investment returns but also the unprecedented low levels of interest rates arising in part from the degree of quantitative easing by central banks which would have the effect of significantly increasing the valuation of the Pension Fund's liabilities.

The Chairman took the opportunity to remind the meeting that the Audit Committee's role focused on governance and it was the General Purposes Committee that considered the human resources aspects of the LGPS.

A Member referred to the forthcoming introduction of Local Pension Boards and, in view of their governance role, queried whether a mechanism should be introduced to enable the local Pension Board to report to the Audit Committee. However, this was felt to be unnecessary and the Head of Financial Control indicated that the Board's role was to assist the Bedford Borough Council Pension Fund Committee, in an advisory capacity, to secure best practice and it could not over rule the Pension Fund Committee. Its role would be similar to that of the existing national LGPS Pension Board. The Chief Finance Officer added that a member of the Audit Committee sat on the Bedford Borough Council Pension Fund Committee as Central Bedfordshire Council's representative. The Head of Financial Control stated that as there was still ongoing consultation in respect of the governance arrangements for Pension Boards he would be able to confirm the arrangements in the next update report.

NOTED

the report of the Chief Finance Officer and Head of Financial Control on recent developments with regard to the Local Government Pension Scheme.

A/14/36.

Internal Audit Progress Report

The Committee considered a report outlining the progress made on the Internal Audit work against the 2014/15 Audit Plan up to the end of November 2014.

The following matters were considered:

- Background
- Progress on the 2014/15 Audit Plan
- Fundamental Systems Audits
- Other Audit Work
- National Fraud Initiative (NFI)

- Fraud and Special Investigations
- Schools
- Performance Management

The Head of Internal Audit and Risk introduced the report following which a Member referred to the two special investigations completed since the last meeting with regard to the Children's Services and Social Care, Health and Housing Directorates. In response to his request for clarification on aspects of the investigations the Head of Internal Audit and Risk provided additional background information for Members' consideration.

NOTED

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

A/14/37. **Risk Update Report**

The Committee considered a report which provided an overview of the Council's risk position as at December 2014.

The Head of Internal Audit and Risk introduced the report and the Risk Summary Dashboard attached at Appendix A to the report. She drew Members' attention to the addition of the new strategic risk STR0027 relating to risks, including financial, associated with a failure to adopt a Community Infrastructure Levy (CIL) by 6 April 2015. It was anticipated that the CIL would be adopted in July/August 2015 following the adoption of the Development Strategy. The meeting considered the relationship with strategic risk STR0003 and the detrimental impact on growth as a result of a failure to adopt a 'sound' Development Strategy. Further discussion followed regarding the CIL and any interim arrangements.

A Member referred to the absence of information within the report relating to the highest rated strategic risk STR0019 and the failure to deliver effective and cohesive Health and Social Care to local residents. In response the Head of Internal Audit and Risk explained that this was because there had been no change since the risk had last been reported. The Member then sought information on what constituted the key risks for Health and Social Care and the Head of Internal Audit and Risk undertook to examine this matter, respond directly to the Member and copy the response to all members of the Committee.

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 and Head of Internal Audit and Risk.

A/14/38. **Tracking of Internal Audit Recommendations**

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

NOTED

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

A/14/39. **Work Programme**

Members considered a report 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 10.00 a.m. and concluded at 11.24 a.m.)

Chairman

Dated