

## CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in the Council Chamber, Priory House, Chicksands, Shefford on Monday, 29 June 2015

### PRESENT

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

Cllrs D J Lawrence  
R Morris

Cllrs D Shelvey  
A Zerny

Apologies for Absence: Cllr P Downing

Substitutes: Cllr Mrs J G Lawrence (In place of P Downing)

Members in Attendance: Cllrs R D Berry  
A D Brown  
Mrs C F Chapman MBE  
J Chatterley  
K M Collins  
F Firth  
Mrs S A Goodchild  
J G Jamieson  
M A G Versallion  
R D Wenham

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

Others In Attendance: Mrs H Rothwell-  
Trickett Ernst & Young LLP

AUD/15/1. **Minutes**

### RESOLVED

**that the minutes of the meeting of the Audit Committee held on 30 March 2015 be confirmed and signed by the Chairman as a correct record.**

**AUD/15/2. Members' Interests**

Councillor D Bowater declared a personal interest with regard to item 11 (Local Government Pension Scheme Update) because he had been appointed as a representative of Leighton-Linslade Town Council.

**AUD/15/3. Chairman's Announcements and Communications**

The Chairman asked all attendees to turn off their mobile telephones.

The Chairman informed Members that he would be presenting the Annual Audit Report to the July meeting of Council.

**AUD/15/4. 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.

**AUD/15/5. 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.

**AUD/15/6. Central Bedfordshire Statement of Accounts 2014/15**

Members received a presentation on the unaudited Statement of Accounts for 2014/15. The presentation was introduced by the Chief Finance Officer and Head of Financial Control who circulated paper copies of the presentation slide pack together with copies of a document entitled 'Unaudited Statement of Accounts – Central Bedfordshire Council 2014/15' and copies of a document entitled 'Core Financial Statements 2014/15 – Note 32 Remuneration' which contained extracts from the unaudited Statement of Accounts.

A copy of the slide pack is attached at Appendix A to these minutes and a copy of the Core Financial Statements document is attached at Appendix B. Because of its length a copy of the Unaudited Statement of Accounts is not attached as an appendix but can be accessed through the following link:

<http://www.centralbedfordshire.gov.uk/council-and-democracy/spending/annual-accounts-financial-information/default.aspx>

Members raised questions and sought clarification on various matters during the presentation.

The Chief Finance Officer informed the meeting that the documents before them clearly indicated that the Council was in a strong financial position though uncertainty remained regarding future government funding and the Council's reserves needed to be viewed in that context.

The Chief Finance Officer stated that he had signed the unaudited Statement of Accounts and would pass it to Ernst and Young LLP at the end of the meeting. The company would carry out the audit over the summer with public inspection rights taking place between 6-31 July 2015. The fully audited Statement of Accounts would be submitted to the meeting of the Audit Committee on 28 September 2015 for approval.

At the conclusion of the presentation a Member referred to the increase in the pension deficit as disclosed in the Statement of Accounts which, at £379.6m, had increased by £72.5m in the year to 31 March 2015. The Head of Financial Control explained that the Local Government Pension Scheme deficit in the Statement of Accounts was measured in line with International Accounting Standard 19 (IAS19). This IAS19 measure used the yield on bonds at the 31 March 2015 to discount the Pension Fund's liabilities and changes in bond market yields had a significant impact on the level of estimated liabilities. Market rates of interest paid on corporate and government bonds had been in decline for many years which had increased pension scheme liabilities. Short term volatility in bond prices also meant that the calculation of liabilities could vary significantly within a short time period. The Head of Financial Control advised that, in the year ended 31 March 2015, the change in financial assumptions to measure liabilities had increased the liabilities by £98,710m. Importantly, the actuarial calculation determining employers' contribution rates was carried out on a different actuarial basis.

The Member suggested the possibility of finding alternative sources of investment that would secure greater returns. The Head of Financial Control explained that the Pension Fund's investment approach was to seek an appropriate level of return that reflected both the scheme's liabilities and risks. A later agenda item explained the approach in more detail (minute AUD/15/10 refers).

The Member then referred to employee remuneration and the increase in the numbers below senior officer level being paid more than £50k a year. He commented that more detailed information and a comparison with a plc of a similar size to the Council would improve the disclosure note. In response the Chief Finance Officer indicated that the note included officers and teachers and that the increase in numbers was largely related to national pay awards in the year and split broadly equally between teachers and officers. Further, salary bands had remained unchanged for approximately 10 years so the impact of pay awards and increments moved employees into higher remuneration bands. The Member acknowledged the impact of annual inflation but felt that this supported the case for further data to be supplied. He then sought further information on the number of job terminations. In response the Chief Finance Officer referred to the information contained on page 84 of the unaudited Statement of Accounts and reminded the meeting that whilst there were initial costs for exit (redundancy) packages there were substantial ongoing savings by no longer requiring those posts.

The Chairman thanked the Chief Finance Officer and Head of Financial Control for their presentation.

**NOTED**

**the presentation on the unaudited Statement of Accounts for 2014/15.**

**AUD/15/7. Annual Audit and Certification Fees 2015-16**

The Committee received a letter from the Council's external auditors, Ernst and Young LLP, to the Chief Executive. The letter confirmed the audit and certification work that the company proposed to undertake for the Council during the 2015/16 financial year.

The letter stated that the 2015/16 audit would be the first the company would carry out following the closure of the Audit Commission and that its contract would be overseen by Public Sector Audit Appointments Ltd until it ended in either 2017 or 2020 if extended by the Department of Communities and Local Government. The meeting noted that the scale fee was based on the fee initially set in the Audit Commission's 2012 procurement exercise subsequently reduced by 25% following the further tendering of contracts in March 2014.

Whilst informing the meeting that the closure of the Audit Commission had resulted in further rebates to the Council the Chief Finance Officer advised that the scope of the work to be carried out by the external auditors was now more tightly defined than previously and that, should the Council require additional work outside the Code of Audit Practice, then further charges would arise.

**NOTED**

**the 2015/16 annual audit and certification fees letter to the Chief Executive from Ernst & Young LLP.**

**AUD/15/8. Annual Governance Statement 2014/15**

Members considered a report by the Chief Legal and Democratic Services Officer and Monitoring Officer which sought Members' approval of the draft 2014/15 Annual Governance Statement. The Head of Internal Audit and Risk introduced the report and highlighted particular issues of note. She also drew attention to a proposed amendment to part 2.9 of the draft Statement which clarified that the formal processes for registering complaints in respect of housing landlord functions referred specifically to the Council's housing landlord functions.

The Committee was of the opinion that the draft Statement accurately reflected the governance arrangements and the management of risk within the Council.

## **RESOLVED**

**that the draft Annual Governance Statement for 2014/15 be approved for submission to the Leader and Chief Executive to be formally signed off subject to first amending the final sentence in Part 2.9 of the document to read as follows:**

**‘There are also formal processes for registering complaints in respect of the Council’s housing landlord functions’.**

### **AUD/15/9. Annual Counter Benefit Fraud Update**

The Committee considered a report by the Chief Finance Officer which provided an update on the work of the recently formed Corporate Fraud Investigation Team.

The Head of Revenues and Benefits introduced the report and drew Members’ attention to the circumstances behind the formation of the team and the development of an annual work programme for it. It was noted that an annual report on the outcome of the work programme would be presented to the Committee. The Head of Revenues and Benefits then referred specifically to a nationally emerging fraud area involving business rates and to the ongoing counter fraud work regarding claims for the Council Tax Single Person Discount (SPD). In response to a Member’s query the Head of Revenues and Benefits stated that, based on the level of costs so far recovered, he was optimistic that the service provided by the team would be cost neutral.

The Head of Revenues and Benefits then introduced the accompanying presentation entitled ‘Council Tax Single Person Discount Review’. A copy of the slide pack was attached at Appendix A to the report and set out the legislation, Central Bedfordshire Council context, the previous review process employed, the background to the 2015/16 SPD review, the procedure being followed and the likely outcomes. The meeting noted that the review had already generated substantial savings since it had started in May.

The Head of Revenues and Benefits stated that he would update Members on the outcome of the review if required.

A Member raised a query relating to the retention of any personal data that had been gathered as part of the review in situations where no additional action was taken. In response the Head of Revenues and Benefits explained that data relating to residents’ Council Tax records had to be kept as the Council was required by statute to do so. He also pointed out that there was no allegation of fraud during the review and it was attempting to establish why there was a credit data mismatch indicating the apparent presence of another person(s) at the resident’s address.

In response to a query regarding the means by which those residents who lacked access to the internet were able to supply the personal information requested, the Head of Revenues and Benefits explained that residents could,

alternatively, contact the company undertaking the review on the Council's behalf and provide the information by telephone.

**NOTED**

- 1 the formation of the Corporate Fraud Investigation Team and the development of the team's annual work programme;**
- 2 the ongoing Council Tax Single Person Discount review.**

**AUD/15/10 Local Government Pension Scheme Update**

The Committee considered a report by the Chief Finance Officer which provided an update on the governance of the Local Government Pension Scheme (LGPS).

The Head of Financial Control introduced the report, Members noting in particular the recent establishment of a Pension Board from 1 April 2015 and its role of assisting the Pension Committee to secure compliance with regulations and ensure the effective and efficient governance and administration of the LGPS.

The Head of Financial Control advised Members that the report had also been considered by the General Purposes Committee on 25 June 2015 when discussions had taken place regarding the risk profile of the Bedfordshire Pension Fund (minute GPC/15/9 refers). A Member sought clarification on how the Fund's investment return compared with that of other local authorities. In response the Head of Financial Control explained that whilst approximately 10-20 years ago all local authorities compared their pension fund investments to the WM local authority average many funds had, since then, developed specific benchmarks to reflect their particular liabilities and risk appetites. It was therefore important to ensure that any performance comparison was made against the scheme's specific, chosen benchmark. Performance information for the Fund, its benchmark and the average local authority return was set out within the report. The average local authority fund had tended to have a greater allocation to equities than the Bedfordshire Fund's strategic asset allocation.

**NOTED**

**the Local Government Pension Scheme update.**

**AUD/15/11 2014-15 Internal Audit - Annual Audit Opinion**

The Committee considered the annual report by the Head of Internal Audit and Risk to those charged with governance on the overall adequacy and effectiveness of Central Bedfordshire Council's financial and other management internal controls. The meeting noted that under the Public Sector Internal Audit Standards (PSIAS), which came into effect in April 2013, the Head of Internal Audit and Risk was required to deliver such a report to those

charged with governance, timed to support the Annual Governance Statement (minute AUD/15/8 above refers).

Following an introduction by the Head of Internal Audit and Risk, Members worked through the report which set out the following matters:

- an opinion on the overall adequacy and effectiveness of Central Bedfordshire's framework of governance, risk management and control for the 2014/15 financial year
- a summary of the audit work undertaken that supported that opinion
- a highlight of the significant issues identified as part of Internal Audit's work, including those that were particularly relevant to the Annual Governance Statement
- a comparison of the Internal Audit work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and criteria
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

The Head of Internal Audit and Risk emphasised the large number of initiatives for continuous improvement whilst the Chief Finance Officer explained that the term 'adequate' (assurance), which had been used to describe the Council's overall Internal Control environment, was actually positive and second only to 'full' (assurance).

## **NOTED**

**the 2014/15 Internal Audit Annual Audit Opinion.**

### **AUD/15/12 Tracking of Internal Audit Recommendations**

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

A Member sought clarification regarding the slippage in preparing and validating the Teachers' Pensions End of Year Certificate (EOYC) for 2013/14. In response the Head of Internal Audit and Risk and Head of Financial Control advised the meeting that, whilst progress had been made in securing the data from the schools' own payroll providers, a number of difficulties remained in obtaining validated data in a timely manner.

## **NOTED**

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

## AUD/15/13 **Work Programme**

Members considered a report which set out the Committee's work programme for today's meeting and the proposed work programme for the 2015/16 municipal year.

In response to a request from a Member that an update on the audit of the European Union's accounts be included as a future item, the Chairman advised that, whilst Ernst and Young LLP could be alerted to this, it was unlikely that the company would regard this issue as falling within its remit.

### **RESOLVED**

**that the proposed Audit Committee work programme for the municipal year 2015/16, as attached at Appendix A of the report of the Committee Services Manager and Committee Services Officer, be approved.**

(Note: The meeting commenced at 10.00 a.m. and concluded at 12.45 p.m.)

Chairman .....

Dated .....