

CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 15, Priory House, Monks Walk, Shefford on Monday, 28 September 2015

PRESENT

Cllr M C Blair (Chairman)

Cllrs P Downing
D J Lawrence
R Morris

Cllrs D Shelvey
A Zerny

Apologies for Absence: Cllr D Bowater

Substitutes: Cllr N B Costin (In place of D Bowater)

Members in Attendance: Cllrs F Firth
Mrs J G Lawrence
R D Wenham

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

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

AUD/15/14 Minutes

RESOLVED

that the minutes of the meeting of the Audit Committee held on 29 June 2015 be confirmed and signed by the Chairman as a correct record.

AUD/15/15 Members' Interests

None.

AUD/15/16 Chairman's Announcements and Communications

The Chairman reported that he would be changing the running order of business and item 8 (Audit Results Report 2014/15) would now be considered

before item 7 (2014/15 Statement of Accounts) as it would more logical to consider them in that order.

The Chairman next advised the meeting that a Treasury Management Briefing would take place on 27 October 2015. He commented that he had attended a previous briefing and found it very interesting and insightful. He was aware that 25 Members had already registered for the Briefing, and commented that he would expect all members of the Committee to attend.

AUD/15/17 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/15/18 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/15/19 Audit Results Report 2014/15

Members considered the Audit Results Report from Ernst & Young LLP. The report informed the Committee of the work carried out by the Company in order to discharge its statutory audit responsibilities together with any governance issues identified. The report summarised the findings from the substantially completed 2014/15 audit and also included the messages arising from the audit of the Council's financial statements and the results of the work Ernst & Young had undertaken to assess the Council's arrangements to secure value for money in the use of its resources. The Ernst & Young Manager explained that the audit of the Cash Flow Statement, Note 28 (Segmental Reporting of Amounts Reported for Resource Allocation Decisions) and Whole of Government Accounts was still in progress.

The Ernst & Young Manager worked through the Audit Results Report highlighting various matters of note.

In response to a Member's query on Section 4 (Financial statements audit – issues and findings) and in particular the item on planning materiality and tolerable error the Ernst & Young Director explained the approach taken to determining this. Following further Member comment regarding the size of the planning materiality figure (£9.8m or 2% of gross expenditure) the Chief Finance Officer assured the Committee that there was definitely not a complacent attitude towards reducing errors but he stressed that the planning materiality figure of £9.8m needed to be seen in the context of total gross expenditure of £490.9m.

In connection with Section 5 (Arrangements to secure economy, efficiency and effectiveness) a Member referred to the impact of changes in staffing. In response, the Chief Finance Officer explained how the departure of the former Financial Controller coupled with sickness and other issues within the Financial Control team had caused additional pressures in producing the Council's Annual Statement of Accounts within the reporting deadline. Nonetheless, the Head of Financial Control and his team had risen to this challenge.

Arising from consideration of Section 6 (Independence and audit fees) the meeting noted the additional audit work undertaken by Ernst & Young on the teachers' pensions return. The Ernst & Young Manager advised that historically this work had been undertaken by the Audit Commission but local authorities were now free to choose who they wished to do it and the Council had appointed Ernst & Young. As it was outside its core work it had been disclosed and charged separately. The Chief Finance Officer advised that the work undertaken was an audit function and not consultancy.

With regard to Section 7, Appendix A, the Ernst & Young Manager drew Members' attention to the misstatements in respect of Council Tax that had not been amended. She explained that officers' reasons for not amending the accounts were set out in the Letter of Representation and the Chief Finance Officer's report accompanying the revised Statement of Accounts (minute AUD/15/20 below refers).

Also with regard to Section 7 (Appendices) and specifically under 'Appendix B – corrected audit misstatements', the Ernst & Young Manager drew Members' attention to the overstated business rates appeals provision following a change in legislation setting a deadline for appeals to be lodged. She then explained that three additional errors had been identified; these being:

- Capital financing misclassified between direct revenue contributions and capital grants and contributions
- Grant income previously recognised in the Comprehensive Income and Expenditure Statement (CIES) as grant income with no conditions had been included in the Capital Grants Unapplied reserve and not applied for a number of years
- Errors made in accounting for monies received in respect of the Sundon landfill site.

The Ernst & Young Manager stressed that none of these errors had an impact on the General Fund bottom line for 2014/15.

In response to a query by the Chairman the Head of Financial Control stated that there was a specific earmarked reserve of £441k to fund future reinstatement costs at Sundon Landfill site rather than, as previously accounted for, as a contribution receipt in advance. In response to a query from a Member the Head of Financial Control confirmed that the funding identified was to meet the costs of future reinstatement works at the Sundon site including removal of the existing temporary road to the site within the next 18 months as was scheduled.

In conclusion the Ernst & Young Director stated that the impact of the various corrections was to improve the Council's overall financial position.

NOTED

the Audit Results Report from Ernst & Young LLP setting out the results of its 2014/15 audit.

RESOLVED

that an updated version of the Audit Results Report setting out additional information, as reported in the preamble above, be attached to the minutes of the meeting.

(Note: A copy of the updated Audit Results Report is attached at Appendix A).

AUD/15/2014/15 Statement of Accounts

The Committee considered a report by the Chief Finance Officer which presented the 2014/15 Statement of Accounts for approval. A copy of the annual accounts document was attached at Appendix A to the Chief Finance Officer's report.

In addition a table setting out various amendments to the annual accounts document included with the agenda, was circulated at the meeting. The Head of Financial Control informed the meeting that the amendments, which reflected either corrections of typographical errors or instances where some specific numbers in the notes to the accounts had not been updated in line with the changes reported, had no impact on the General Fund balance.

A copy of the table of amendments is attached at Appendix B to these minutes.

The Committee was aware that the annual accounts had to be published with the audit opinion and certificate by no later than 30 September following the end of the financial year. In advance of this the accounts needed to be approved by Members. Approval was, therefore, required at this meeting of the Audit Committee. In addition, auditing standards required an authority's external auditor to obtain appropriate written representation from the council about the financial statements and governance arrangements. As a result the Committee was also asked to approve a draft letter of representation to its external auditor, Ernst & Young LLP. A copy of the letter was attached at Appendix B to the Chief Finance Officer's report.

Members were reminded that, as required by the Accounts and Audit Regulations, the Chief Finance Officer had certified the draft 2014/15 annual accounts on 29 June 2015. A presentation to explain the key figures within the accounts had been made to the Audit Committee and other Members at its meeting on the same day (minute AUD/15/6 refers) followed by a period of public inspection which had closed on 31 July. 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, had already been considered (minute AUD/15/19 above refers).

The Head of Financial Control worked through the annual accounts document explaining to Members the background to the corrections made to the misstatements identified through the audit process and outlining why the Collection Fund related misstatements identified within the Audit Results Report had not been corrected in 2014/15. He explained that the corrected misstatements related to the classification of capital financing transactions or the application of historical capital resources or errors made in the presentation of financial information. Corrections made in respect of the application of capital resources had the impact of reducing the Council's borrowing requirement and associated revenue costs from 2015/16.

The Head of Financial Control explained that the uncorrected misstatements related to arrears in respect of Council Tax and associated recovery costs. He explained that it was important to note that the Revenues system for Council tax and business rates had complete and accurate records for all taxpayers and there was no impact on debt recovery activity. The issue identified through the audit process was that the overall value for Council taxpayers arrears was understated in the Council's accounting system. A correction to the position would improve the financial position of the Collection Fund and the General Fund balance. The corrections had not been made in the 2014/15 statements to allow further work to be carried out to confirm the values. It was planned that the impact on the Council and major preceptors of any corrections would be confirmed in time to update forecasts used for 2016/17 budget setting.

In response Members welcomed this action as the increased accuracy which resulted was viewed as producing more effective governance. Following an enquiry from a Member the Head of Financial Control confirmed that all the legacy council issues identified through the audit process had been addressed and that a number of changes to the final accounts process for the current year would assist in further improving levels of assurance. He indicated that he did not know of any identified legacy council issues that had not been addressed.

The Head of Financial Control confirmed that the audit of the Cash Flow Statement, Note 28 (Segmental reporting) and Whole of Government Accounts was still in progress. He expected that both the Cash Flow Statement and Note 28 would be amended to reflect the various changes outlined in the Audit Results Report.

RESOLVED

- 1 that the 2014/15 Statement of Accounts for Central Bedfordshire Council, as set out at Appendix A to the report of the Chief Finance Officer and incorporating those amendments set out in the table circulated at the meeting by the Head of Financial Control, be approved;**

- 2 that the Chairman be authorised to approve and sign a revised version of the 2014/15 Statement of Accounts and Letter of Representation if changes were required following the completion**

of the audit to the Cash Flow Statement with its associated notes and Note 28 – Amounts Reported for Resource Allocation Decisions;

- 3 **that the Annual Governance Statement for 2014/15, previously approved at the meeting of the Audit Committee on 29 June 2015, be included with the published 2014/15 Statement of Accounts;**
- 4 **that the 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.**

AUD/15/21 External Audit Progress Report

Members considered a report from Ernst & Young LLP which provided an update on the progress made by the company in carrying out the Council's 2014/15 audit. The report also included, as appendices, two briefing documents which covered 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 before turning to the local government audit committee briefing documents. The Ernst & Young Manager worked through the June briefing document highlighting the changes to the management of transport infrastructure assets (TIAs) and the major accounting and auditing implications for all highway and some non highway authorities. The meeting noted that TIAs within local government were to be valued on a Depreciated Replacement Cost (DRC) basis with effect from 1 April 2016 though the change was to be applied retrospectively and thus required valuations as at 1 April 2015 and comparative values for 2015/16. The Head of Financial Control stated that the Council's current highways contractor had already been undertaking valuation work for this purpose.

A Member queried whether any long term liability would arise on TIAs but the Ernst & Young Manager explained that this would not occur as the recommended value was only being recorded on local authority balance sheets.

The Ernst & Young Manager introduced the September briefing document, again highlighting matters of interest.

NOTED

- 1 **the report on the progress of External Audit work on the 2014/15 audit;**
- 2 **the local government audit committee briefings for June and September 2015.**

AUD/15/22 Internal Audit Progress Report

The Committee considered a report outlining the progress made on Internal Audit work against the 2015/16 Audit Plan up to the end of August 2015.

Amongst the matters considered were the following:

- Background
- Fundamental System Audits
- Other Audit Work
- National Fraud Initiative (NFI)
- Fraud and Special Investigations
- Schools
- Public Sector Internal Audit Standards Update
- Performance Management

The Head of Internal Audit and Risk introduced the report. With regard to the National Fraud Initiative (NFI) she reported that the review of the Single Person's Council Tax Discount had now resulted in an extra £300k in Council Tax collectable receipts. The Head of Financial Control added that there were plans to maintain the review as an ongoing exercise.

The Head of Internal Audit and Risk reported that there was currently a vacancy in her small team for one Audit Manager and this had impacted on productivity levels. However, she was also able to report that a replacement officer had been appointed and he was due to start in November.

NOTED

the progress made against the 2015/16 Internal Audit Plan.

AUD/15/23 Risk Update Report

The Committee considered a report which provided an overview of the Council's risk position as at September 2015.

The Head of Internal Audit and Risk introduced the report, including the Risk Register Dashboard attached at Appendix A to the report. She drew Members' attention to the key revisions relating to the following:

- strategic risks
- operational risks
- emerging risks

The Committee was advised that, although risks had been regularly reviewed and updated, a fundamental review and refresh of the strategic risk register had not taken place since July 2013. In view of the probability of continuing funding reductions, changes in government policy and changes in service provision another fundamental review had been scheduled following the next

financial settlement in December. A report on the outcome of the review would be submitted to the Committee at its meeting on 4 April 2016.

The Executive Member for Corporate Resources referred positively to the progress made in the adoption of a Community Infrastructure Levy (CIL) (STR0027) given the significant financial risk of a loss of income from s106 receipts. However, he queried whether this risk was adequately reflected in the scoring. In response the Chairman stated that the query would be considered further by the officers.

A brief discussion took place during which a Member commented on the importance of reputational risk and how this stood separately from financial risk.

NOTED

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

AUD/15/24 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.

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/15/25 Work Programme

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

RESOLVED

that the proposed Audit Committee work programme for the remainder of the 2015/16 municipal year, 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 11.50 a.m.)

Chairman

Dated