

## CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 14, Priory House, Chicksands, Shefford on Monday, 27 June 2016

### PRESENT

Cllr M C Blair (Chairman)  
Cllr D J Lawrence (Vice-Chairman)

Cllrs P Downing  
F Firth  
R Morris

Cllrs D Shelvey  
A Zerny

Members in Attendance: Cllrs Mrs S A Goodchild  
Mrs J G Lawrence  
R D Wenham

Officers in Attendance: Mr Q Baker Monitoring Officer  
Ms M Damigos Senior Corporate Lawyer  
Mr R Gould Head of Financial Control  
Mr L Manning Committee Services Officer  
Ms K Riches Head of Internal Audit & Risk  
Mr C Warboys Chief Finance Officer

Others In Attendance: Mr N Harris Executive Director – Ernst & Young  
LLP

#### AUD/16/1. **Minutes**

##### **RESOLVED**

**that the minutes of the meeting of the Audit Committee held on 4 April 2016 be confirmed and signed by the Chairman as a correct record.**

#### AUD/16/2. **Members' Interests**

None.

#### AUD/16/3. **Chairman's Announcements and Communications**

The Chairman reminded the Committee that the meeting provided the annual opportunity for the Finance team to show Members what financial developments had taken place over the previous year. He referred Members to the supplementary financial information which had been made available at the meeting.

(Note: Minute AUD/16/6 below refers).

#### AUD/16/4. **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/16/5. **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/16/6. **Central Bedfordshire Council Unaudited Statement of Accounts 2015/16**

Members received a presentation on the unaudited Statement of Accounts for 2015/16. The presentation was introduced by the Chief Finance Officer and Head of Financial Control who circulated paper copies of the following:

- 'Unaudited Statement of Accounts 2015/16 – Presentation to Members 27/6/2016' (slide pack)
- 'Unaudited Statement of Accounts 2015/16 - Presentation to Members 27/6/2016 – Core Statements and Note 32' (extracts from the unaudited Statement of Accounts).

Copies of the above documents are attached to these minutes at Appendices A and B respectively.

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/Images/unaudited-accounts-2015-2016\\_tcm3-17309.pdf](http://www.centralbedfordshire.gov.uk/Images/unaudited-accounts-2015-2016_tcm3-17309.pdf)

The Chief Finance Officer reminded the meeting that it was not necessary to approve the Statement of Accounts at this point. Instead the Council's external auditors, Ernst & Young LLP would carry out the audit over the summer. The fully audited Statement of Accounts would then be submitted to the meeting of the Audit Committee on 26 September 2016 for approval.

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

In conclusion the Chairman thanked the Chief Finance Officer and Head of Financial Control for their presentation and commented warmly on the quality of their financial management.

**NOTED**

**the presentation on the unaudited Statement of Accounts for 2015/16.**

**AUD/16/7. Annual Audit and Certification Fees 2016/17**

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 2016/17 financial year and the related fees.

Following an introduction by the Ernst & Young Executive Director a small number of queries were raised by Members.

**NOTED**

**the 2016/17 annual audit and certification fees letter to the Chief Executive from Ernst & Young LLP.**

**AUD/16/8. External Audit Progress Report**

Members considered a report from Ernst & Young LLP which provided an overview of the progress made by the company in carrying out the Council's 2015/16 audit. For Members' benefit the Ernst & Young Executive Director introduced the report.

**RECEIVED**

**the report on the progress of external audit work on the 2015/16 audit.**

**AUD/16/9. Central Bedfordshire Council - Public Interest Disclosure regarding the Partnership the Council has entered into for Legal Services**

(Note: Before considering the following item, and in view of its subject matter, the Committee was asked whether it wished to allow the Monitoring Officer to remain in the meeting. No objections were raised by Members to the Monitoring Officer's presence for this item so he remained in the meeting).

The Committee received a letter from an Executive Director of the Council's external auditors, Ernst and Young LLP, to the Chief Executive of the Council. Members noted that, following a meeting on 19 April 2016 between the Chief Executive and the Executive Director, the letter had been written by the latter to confirm his position regarding his review of the Council's arrangements for the procurement of legal services. Members were aware that the review had arisen following a Public Interest Disclosure from a whistleblower concerning the approach taken by the Council on the procurement.

After introducing his letter the Ernst & Young Executive Director concluded that, whilst there had been no unlawful act by the Council in its procurement of legal services, there had been weaknesses in some aspects of the Council's written documentation and evidence to support the decision making process. He had therefore recommended that the Council should ensure that, in any future procurements of a similar nature, sufficient and appropriate evidence was available to support each stage of the decision making process and the Council's assertions. The Executive Director had also recommended that the Council should revisit its Constitution and ensure that it reflected how the Council should respond when either considering options and/or intended to make a decision that involved entering into a shared service arrangement. He then stated that, unless new information was received during the course of the External Audit and before the conclusion of the public inspection period for the Council's 2015-2016 accounts, he considered the matter to be closed and no further action would be taken.

The Executive Director explained that, as his work on the Disclosure had fallen outside the scope of Ernst & Young's budgeted audit work, there would be an additional fee of approximately £8,500. In response to this the Chief Finance Officer welcomed the fact that the fee figure was lower than the initial estimate. He also emphasised that the review had been carried out in a full and proper manner and he completely accepted its findings.

The Chairman stated that he had been kept informed throughout the review process and his opinion sought at various points. He stressed that the issues highlighted by the Executive Director should be thoroughly dealt with and, where recommended, formally enshrined in the Constitution. The meeting was advised by the Chairman of the General Purposes Committee, who was in attendance, that that Committee would be considering a report on this matter at its next meeting on 30 July 2016. The Monitoring Officer, who had written the report referred to by the Chairman of the General Purposes Committee, explained that detail had been taken from the Executive Director's letter and included in his report and that the issues raised had been addressed.

Members then raised a number of additional queries. In particular a Member sought clarification on what specific concerns had been raised with regard to the Council's procurement process. In response the Executive Director stated that the concerns had related to a conflict of interests, compliance with regulations and procurement law, and value for money. The Member stated that a particular concern expressed by another bidding organisation was that a person who represented a bidder also worked for the Council. In response the Executive Director explained that the Council had taken steps to remove the individual from the decision making process. The Executive Director stated that he was satisfied that this action had helped though it had not been documented by the Council to the extent required.

## **NOTED**

**the letter to the Chief Executive from Ernst & Young LLP regarding the company's findings and conclusions following its review into the Council's arrangements for the procurement of legal services.**

## AUD/16/10 Annual Governance Statement 2015/16

Members considered a report by the Monitoring Officer which sought Members' approval of the draft 2015/16 Annual Governance Statement. The Senior Corporate Lawyer introduced the report and circulated a revised copy of the draft Annual Governance Statement. She stated that the original draft Statement attached at Appendix A to the report had referred to the Council's medium term four year plan for the period 2012-2016 (Part 2.2 of the original draft Strategy refers). However, the four plan had now been succeeded by a new medium term five year plan for the period 2015-2020 and this was reflected in the revised draft Statement by tracked changes to the text in Part 2.2. A copy of the revised Statement is attached at Appendix C to these minutes.

The Senior Corporate Lawyer highlighted Part 2.5 of the revised draft Statement which dealt with Codes of Conduct and standards of behaviour by both officers and Members. She referred in particular to the use of Independent Persons to advise as and when complaints were received relating to the Members' Code of Conduct and the proposed extension of their term of appointment for a further four years from September 2016. The Senior Corporate Lawyer explained that the proposed extension would need to be submitted to full Council for approval. In response to a query by the Chairman on how Members could know if it was appropriate to extend the term of appointment the Senior Corporate Lawyer explained that an appointment process would be followed and the extension would be a joint decision by the partnership of local authorities (including Central Bedfordshire) which had originally appointed the panel of Independent Persons.

In response to a query from the Vice-Chairman on data protection risk and the sharing of information within the local authority partnership the Monitoring Officer assured Members that he was fully aware of the requirements regarding shared information, how it should be dealt with and the adoption of new regulations. He stressed that the government was keen for local authorities to share information as a means of enabling a more ready approach to co-operation.

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

### **RESOLVED**

**that the revised draft Annual Governance Statement for 2015/16 be approved for submission to the Leader and Chief Executive to be formally signed off subject to first incorporating the tracked changes within Part 2.2 of the document.**

## **AUD/16/11 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, drawing Members' attention in particular to that section dealing with the latest developments regarding the creation of pooled investment arrangements for LGPS assets. He stated that Bedford Borough Council Pension Committee (as the administering authority for the Bedfordshire Pension Fund) had met on 3 February 2016 and resolved to participate in the submission for the 'Border to Coast' proposed pool; the pool representing some thirteen Pension Funds. The Head of Financial Control added that a further meeting of the Pension Committee would take place shortly regarding the pool's business plan.

### **NOTED**

**the Local Government Pension Scheme update.**

## **AUD/16/12 Appointment of the Council's External Auditors following the Expiry of the Current Contract**

The Committee considered a report which summarised the changes to the arrangements for appointing external auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits. The options available for arranging the first appointment of an external auditor by 31 December 2017 were set out and the Committee's preferred approach was sought.

Members noted that Schedule 3, paragraph 1 of the Local Audit and Accountability Act 2014 stated that full Council was required to appoint the new external auditor. At this point, therefore, the Committee was being asked to recommend to full Council a preferred approach for adoption. However, the preferred approach was subject to any final decision being made by full Council at a future meeting.

The Committee was advised that when the current transitional arrangements came to an end on 31 March 2018 the Council would be able to move to the local appointment of its external auditor. The three broad options open to the Council under the Local Audit and Accountability Act 2014 were as follows:

- To make a standalone appointment
- Set up a Joint Auditor Panel/local joint procurement arrangements
- Opt-in to a sector led body (SLB)

The advantages/benefits and disadvantages/risks of each option were set out for Members' consideration.

In addition the Committee noted that the current fees charged by external auditors were based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale. The meeting was advised that the LGA believed the fees would rise after the current contracts ended.

Members noted that the scope of the audit would still be specified nationally, the National Audit Office (NAO) being responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms would be eligible to compete for the work; they would need to demonstrate that they had the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process had not yet commenced and so the number of firms was not known but it was expected that the list of eligible firms may include the top 10 or 12 firms in the country, including the Council's current auditor. It was unlikely that small local independent firms would meet the eligibility criteria.

The Committee noted that the LGA was working on developing a sector led body (SLB). In a recent survey, 58% of respondents had expressed an interest in this option. The greatest economies of scale would come from the maximum number of councils acting collectively and opting-in to a SLB.

It was the recommendation of the officers that the SLB option should be adopted and this was the option which Members unanimously supported. In order to strengthen the LGA's negotiating position and enable it to more accurately evaluate the offering it was agreed that the Council be asked to approve the Committee's approved approach of opting in to a SLB subject to a formal decision on whether or not to definitely opt-in at a later stage.

#### **RECOMMENDED TO COUNCIL**

- 1 that the Audit Committee's preferred approach of opting in to a procurement of external audit services through a Sector Led Body be approved;**
- 2 that Council note that officers will notify the Local Government Association of the decision taken;**
- 3 that Council note that any recommendation on the final approach to be taken on this matter will be submitted to it for approval at a later date.**

#### **AUD/16/132015/16 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/16/10 above refers).

Following an introduction by the Head of Internal Audit and Risk, Members raised issues for discussion.

In response to a Member's query regarding the size of the Internal Audit team the Head of Internal Audit and Risk stated that, whilst a larger team would be ideal, it was possible to achieve the necessary results by focusing the efforts of the existing team members. The Chief Finance Officer explained that the role of Head of Internal Audit and Risk was semi independent of him and that if she felt unable to deliver an adequate service she would advise the Committee.

The Vice-Chairman suggested the adoption and use of the term 'adequate plus', rather than 'adequate', to better reflect the standard achieved with regard to the Council's Internal Control environment and/or the use of an arrow to indicate the direction of travel. However, the Head of Internal Audit and Risk explained that, whilst the terminology used was not set out by Regulation, it was fairly standard across local authorities.

Last, the Chairman of General Purposes Committee, who was in attendance at the meeting, sought clarification of the process by which information on flood risk was passed on following consideration by Overview and Scrutiny. She referred to Section 106 Agreements having expired resulting in the Council being left with the responsibility of funding any works. In response the Head of Internal Management and Risk stated that she would pass these comments to the Emergency Planning team for consideration.

#### **NOTED**

**that the 2015/16 Internal Audit Annual Audit Opinion is that the Council's Internal Control environment continues, overall, to be adequate.**

#### **AUD/16/14 Risk Update Report**

The Committee considered a report which provided an overview of the Council's risk position as at June 2016.

The Head of Internal Audit and Risk introduced the report, which included a Risk Register Dashboard attached at Appendix A to the report. The Committee's attention was drawn to Strategic Risk STR0019 which had been regarded with some concern at the last meeting (minute AUD/15/51 refers). However, the Committee noted that a review of this risk had since been carried out and Members advised that the risk was actually linked to the large scale changes in service provision by the NHS. Whilst the likelihood remained 'likely' until there was a sustained improvement across the health sector a number of mitigating measures were being taken by the Council.

In response to a Member's query as to whether the dashboard was shared with other committees the Chief Finance Officer acknowledged its usefulness to

other bodies and the Head of Internal Audit and Risk undertook to investigate the possibility further.

**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.**

**AUD/16/15.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.

The Vice-Chairman referred to the delay in developing and approving the Information Technology Disaster Recovery Plan. He expressed concern at the use of the government managed cloud which he viewed as a failure to take responsibility for the safe and effective storage of the Council's data. The Head of Internal Audit and Risk undertook to ask the Chief Information Officer to respond at the next meeting of the Committee. Discussion followed during which the Committee indicated that it required a written update on the progress made with the Disaster Recovery Plan by the end of July.

**NOTED**

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

**RESOLVED**

**that the Chief Information Officer be requested to circulate a written update to all members of the Committee by the end of July on the progress made with the Information Technology Disaster Recovery Plan.**

**AUD/16/16.Work Programme**

Members considered a report which set out the Committee's work programme for the last part of the 2015/16 municipal year and the proposed work programme for the whole of the 2016/17 municipal year.

**RESOLVED**

**that the proposed Audit Committee work programme for the 2016/17 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 2.00 p.m. and concluded at 4.58 p.m..)

Chairman .....

Dated .....