

## CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 15, Priory House, Monks Walk, Shefford on Monday, 8 January 2018

### PRESENT

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

Cllrs D Bowater  
P Downing  
R Morris

Cllrs D Shelvey  
A Zerny

Members in Attendance: Cllr Mrs J G Lawrence

Officers in Attendance: Ms M Damigos Corporate Lawyer, LGSS Law  
Mr S Dykes Information Security Manager  
Mr D Galvin Assistant Director of Finance  
Mr C Horne Head of Internal Audit and Risk  
Mr L Manning Committee Services Officer  
Mr C Warboys Director of Resources

Others in Attendance: Mr N Harris Associate Partner – Ernst & Young  
LLP  
Ms C Ryan Senior Manager – Ernst & Young  
LLP

### AUD/17/28 Minutes

#### RESOLVED

**that the minutes of the meeting of the Audit Committee held on 27 September 2017 be confirmed and signed by the Chairman as a correct record.**

### AUD/17/29 Members' Interests

None.

### AUD/17/30 Chairman's Announcements and Communications

The Chairman wished attendees a Happy New Year. He then asked they silence their mobile telephones.

### AUD/17/31 Petitions

No petitions were received from Members of the public in accordance with the Public Participation Procedure as set out in Part 4G of the Constitution.

### AUD/17/32 **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 Part 4G of the Constitution.

### AUD/17/33 **Certification of Claims and Returns Annual Report 2016-17**

The Committee considered a report from Ernst & Young LLP which summarised the results of the company's work on the Council's 2016-17 claims and returns.

Points and comments included:

- The errors found in relation to income assessment and the misclassification of overpayments in the housing benefits subsidy claim which the Council subsequently corrected. The Senior Manager, Ernst & Young explained that the errors had been extrapolated across the relevant cell totals and a report submitted to the Department for Work and Pensions (DWP). In response to Members' queries she advised that such errors were widespread across local authorities because the system was inherently complex. Further, many of the cases dealt with by the Council were complicated and if the error rates were lower elsewhere it might be because other councils had smaller numbers of such cases.
- Comment by the Director of Resources on the increasing complexity of the cases being dealt with as a result of zero hours contracts and irregular employment patterns. Despite these issues, however, the level of errors by the Council had decreased to approximately 10% of where it had once been. He added that it would not be possible to reduce it beyond this point. Further, whilst the DWP's extrapolation led to attempts to 'claw back' monies challenges by the Council resulted in a claw back figure of £50k out of a total of £50m. He concluded by emphasising that he was content that the Council was carrying out its duties as well as it could.
- The Senior Manager, Ernst & Young expressed her thanks to the officers for the assistance which the company had received from them during its work.
- The meeting was reminded that from 2018/19 the Council would be responsible for appointing its own external auditors. The Director of Resources stated that he believed the most efficient way forward was to continue with Ernst & Young in this role and that the Council had been about to enter into a contract with that company. However, the DWP had issued a note relating to the scope of the work expected from the external auditors and the proposal had been suspended pending further clarification from the DWP. The Associate Partner, Ernst & Young stated that the clarification was expected by mid-January.

**RECEIVED**

**the certification of claims and returns annual report 2016-17.**

**AUD/17/34 Annual Audit Letter for the Year Ended 31 March 2017**

The Committee considered a report from Ernst & Young LLP which presented the Annual Audit Letter for the year ended 31 March 2017. The letter set out the key issues arising from the company's work as the Council's external auditor.

The Ernst & Young Associate Partner expressed satisfaction with the conduct of the audit and the Chairman expressed his congratulations to the Council's Finance team for its efforts in ensuring the audit's success.

Points and comments included:

- A Member's reference to the external auditor's conclusion that, with regard to the 'Significant Risk' identified in connection with joint working on Sustainable and Transformation Plans (STPs), the Council had sound arrangements in place for local working with its STP partners though he commented that future outcomes remained unknown. In response the Associate Partner stated that Central Bedfordshire was well engaged in the process in comparison to other local authorities and could be regarded as a forerunner in this regard.
- The Chairman drew the meeting's attention to the absence of any objections to the 2017 financial statements from any member of the public.

**RECEIVED**

**the 2016/17 Annual Audit Letter.**

**AUD/17/35 Audit Planning Report**

The Committee considered a report which provided Members with a basis to review the proposed audit approach and scope for the 2017/18 audit by the Council's external auditors, Ernst & Young LLP, and ensure that the audit was aligned with the Committee's service expectations.

Points and comments included:

- The Director of Resources reference to the benefits arising from the use of the Chartered Institute of Public Finance and Accountancy's (CIPFA's) closedown software tool (known as the 'Big Red Button') in the preparation of the statement of accounts. Whilst some initial problems had occurred and the software had required time and effort when first introduced last year, he was confident that any issues had been resolved and the shortened timescale for the production of the

statement of accounts would be met. He also referred to the delaying impact of the revaluation of the housing stock. A new process had been agreed which would avoid this happening again.

- The Director of Resources reference to the introduction of a client portal which had the aim of ensuring everyone had access to the same information.
- A Member's query under the 'Value for Money' section of the report regarding the financial impact of the emerging Local Plan on the Resources Directorate. The Director stated that the building of more homes within Central Bedfordshire would give rise to additional income in the form of council tax. Growth in business and in the numbers of jobs would increase business rate income. Both of these had been included within the financial model and had been taken into account as far as had been possible.
- Under 'Performance Materiality' in the 'Materiality' section the Committee noted that the reference to '75% of planning materiality' should be amended to read '2% of planning materiality'.
- The Ernst & Young Associate Partner explained under 'Our Audit Process and Strategy' section that there would be an increased use of data analysis tools to help meet deadlines in the audit process. He also referred to useful insights on data held by the Council and undertook to report on this to the Committee.
- The Ernst & Young Associate Partner briefly outlined the forthcoming changes which would impact over the new financial year.

## **NOTED**

**the external Audit Planning report for the year ending 31 March 2018.**

## **AT THE CONCLUSION OF ITEM 9 ABOVE MR N HARRIS AND MS C RYAN LEFT THE MEETING**

### **AUD/17/36 Update on Preparations for the General Data Protection Regulation (GDPR)**

The Committee considered a report which provided an update on preparations for the General Data Protection Regulation (GDPR) and the Council's plans for compliance. A table setting out the Council's position with regard to the actions recommended by the Information Commissioner's Office (ICO) was attached at Appendix A to the report.

Points and comments included:

- A GDPR Working Group composed of the Information Security Manager, LGSS Corporate Lawyer, Head of Internal Audit, Deputy Chief Information Officer, Records and Risk Officer and Information Request Officer had been formed.

- Briefings for all staff would take place in April. Guidance documents had been received from the ICO and guidance produced by the NHS had also been employed.
- The Corporate Lawyer stated that, although adoption of the GDPR was a legal requirement, some procedural issues which arose might require the Committee's consideration, for example in relation to the Constitution.
- A Member requested that the Committee consider how schools were handling the data they held on their children as companies appeared to be able to access this on a widespread basis. He referred to the concerns expressed to him by parents. The Member believed most schools were not compliant with existing data protection legislation and some would not be able to meet their obligations under the GDPR. In response the Corporate Layer explained that the Council was not responsible for data issues in schools though it was trying to assist them and would be providing briefings.
- A Member's reference to issues arising from councillors' use, retention and storage of Council and personal emails. Another Member commented that many councillors were not aware that they were their own Data Protection Officer and he wondered if they were knowledgeable enough to perform this role. He also expressed concern that the National Association of Local Councils (NALC) had only just began to respond to the demands arising from the introduction of the GDPR and that training would only commence in March. The Corporate Lawyer stated that, under the Information Commissioner, there was no allowance for non-compliance with the Regulation in any form. Both she and the Information Security Manager referred to the training and briefings which would be provided for all Members and employees and the measures which could be employed to ensure Members met the Regulation's requirements including the automatic display of a privacy notice on the bottom of Members' emails. The Committee noted that assistance would also be given to town and parish councils.
- A Member suggested that an update report be supplied to Members of the Committee on a monthly basis. Mindful of the timescale involved and the pressure on officers the Corporate Lawyer indicated that, where necessary, updates be included in the Members' Bulletin.

#### **NOTED**

**the update on the preparations for the General Data Protection Regulation (GDPR) and the Council's plans for compliance.**

#### **AUD/17/37 Statement of Accounts 2017/18**

The Committee considered a report by the Director of Resources which outlined the key changes required to the Council's statutory Statement of Accounts for 2017/18.

Points and comments included:

- That with regard to English local authorities the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for 2017/18 had relatively limited changes compared to 2016/17.
- A main area of change arose out of the Accounts and Audit Regulations 2015 and related to the presentation of the financial statements and the introduction of a requirement to produce a Narrative Statement which provided an acceptable guide to the most significant matters reported in the accounts.
- Another main change arose out of the Housing Revenue Account (HRA) self-financing settlement in 2012 related to the accounting treatment of capital assets. A five year transitional period had been put in place and provisions had been effective from 1 April 2017.
- There were no changes to accounting standards that impacted on the Statement of Accounts 2017/18.
- The Committee was reminded that the Accounts and Audit Regulations 2015 required local authorities to approve and publish their accounts by 31 May and 31 July respectively with effect from the accounts for 2017/18. A trial run had taken place in 2017 with the Statement of Accounts for the year 2016/17.
- It was proposed to present the 2017/18 accounting statements in a similar manner to those made to the Committee over the previous five years. The presentation would be made to the meeting on 30 May 2018 with the usual open invitation to all Council Members to attend.
- The Accounts and Audit Regulations had extended the period for the exercise of Public Rights (which included rights of objection, inspection of the local authority accounting documentation and questioning of the External Auditor) to 30 working days.

#### **NOTED**

**the changes required in the preparation of the Council's statutory Statement of Accounts for 2017/18.**

#### **AUD/17/38 Local Government Pension Scheme Update**

The Committee considered an update on the governance of the Local Government Pension Scheme.

Points and comments included:

- Reference by the Assistant Director of Finance to opportunistic investment in the form of private debt. Although high risk in nature, private debt also presented a better long term investment as it might

become more attractive in the future as the interest rate was floating. The Committee noted that the Pension Fund was able to invest up to 2% in opportunistic investments, 1% of which had been allocated to the Standard Life SOF III. The Fund Administrator had therefore advised that there was still the opportunity for a further 1% opportunistic investment and two Fund managers had been invited to a meeting later in January when a decision would be made on whether to proceed with this type of investment.

- The Border to Coast Pension Partnership (BCPP), of which the Bedfordshire Pension Fund was a member, would be located in Leeds. Leeds had been chosen because of its proximity to some of the other Partnership members, its strong governance and the presence of suitably qualified staff. Unfortunately, there would be overheads as a result of the relocation but they would reflect the market rate.
- The Vice-Chairman raised the possibility that its monies could be used to invest in infrastructure projects; an earlier suggestion to do so having been rejected on the grounds of a financial conflict of interest. In response the Assistant Director Finance explained that any decision on such a proposal would need to be taken by the Fund which would need to be convinced that it represented the best use of the available resources. The Assistant Director Finance added that the creation of pooled investment could reduce the influence of individual pension funds.

## **NOTED**

### **the Local Government Pension Scheme update.**

## **AUD/17/39 Risk Update Report**

The Committee considered a report which provided an overview of the Council's risk position as at November 2017.

Points and comments included:

- Many strategic risks had been updated with regard to their 'Description', 'Mitigating Actions Already Underway' and 'Further Action Planned' fields. The changes were shown as tracked changes on Appendix B to the report of the Director of Resources.
- Each Directorate was to determine its own key operational risks at Directorate Management Team (DMT) level. The top risks would contribute to the quarterly update for Operational risk to the Committee.
- A Member's suggestion that Strategic Risk STR0027 (Failure to adopt a Local Plan and Community Infrastructure Levy (CIL)) be moved from High to Very High as a result of the likely detrimental financial impact which would arise should the Council fail to adopt a CIL. In response the Director of Resources stated that the Strategic Risk contained two distinct matters, these being the Local Plan and the CIL. There was no major strategic risk to the Council of a failure to adopt a CIL, nor was the

Council dependent on it to function. He suggested its deletion from the Risk description so that the focus was entirely on the impact of a failure to adopt a Local Plan.

## **NOTED**

**the Strategic Risks facing Central Bedfordshire Council as set out in the Risk Register Dashboard and Strategic Risk Register attached at Appendices A and B respectively to the report of the Director of Resources.**

### **AUD/17/40 Internal Audit Progress Report**

The Committee considered a report outlining the progress made on Internal Audit work against the 2017/19 Internal Audit Plan up to the end of November 2017.

Points and comments included:

- The Fundamental System audits for Accounts Receivable, Main Accounting Systems and Housing Benefits were at draft report stage and all had obtained Adequate Assurance opinions.
- That all the other Fundamental System audits apart from Swift Financials were nearing completion and no significant issues had been identified. The Swift Financials audit would start shortly.
- That a light touch approach had been employed for the reviews for several years so more detailed substantive testing had been adopted for each audit on a prioritised risk basis. Any previous recommendations had also been followed up.
- That Internal Audit continued to be engaged in several projects in order to provide advice and guidance on the control environment during project implementation. In addition to the Fundamental System audit reviews a number of other audits had been completed since the last update and other reviews were progressing.
- That whilst no further school audits had been carried out since the last update initial preparations had been made for several audits during February/March 2018. The audits would pilot Internal Audit's new approach which included a reduced amount of time 'on-site'.
- That a new Senior Auditor had been appointed and had joined the team in October. A new Audit Manager had also been appointed though a start date had yet to be agreed.
- Consideration was being given to bringing in specialist external expertise to support ICT audit work with some specific reviews.
- Ernst and Young LLP had been confirmed as the Council's External Auditor from 2018/19.
- The remaining Audit Plan had been reprioritised in view of Internal Audit's remaining capacity and relevant business/risk factors with a number of planned audits either being cancelled or deferred to 2018/19.

The Head of Internal Audit and Risk assured the Committee that the cancelled audits would still form part of the assessment.

- The Head of Internal Audit and Risk advised that each Council Directorate would determine its own key risks at Directorate Management Team (DMT) level.
- In response to a Member's query regarding progress at Sandy Upper School the Assistant Director of Finance, who also sat on the school's governing body as the local authority governor, outlined the unique circumstances and advised that the situation had improved and continued to do so.

#### **NOTED**

**the progress made against the 2017/19 Internal Audit Plan.**

#### **AUD/17/41.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 Head of Internal Audit and Risk updated the meeting with regard to the adoption of a Corporate Landlord model, the implementation of this function and a review of health and safety compliance in the Council's non-housing estate (Recommendation R3 in Appendix A to the report refers).

#### **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/17/42.Work Programme**

Members considered a report which set out the Committee's work programme.

Following comments by a Member the Committee discussed the possible submission of update reports on the General Data Protection Regulation (GDPR) to future meetings. However, and whilst fully recognising the importance of ensuring compliance with the requirements of the GDPR, the Chairman was of the opinion that the Council's response, as presented by the Chief Information Officer, was as comprehensive as it could be. He suggested that further updates should only be submitted if issues arose that required the Committee's attention.

**RESOLVED**

- 1 that the proposed Audit Committee work programme, as attached at Appendix A to the report of the Committee Services Officer, be approved;**
- 2 that should any issues arise with regard to the Council's compliance with the requirements of the General Data Protection Regulation the Chief Information Officer submit an update report to the Committee.**

(Note: The meeting commenced at 9.30 a.m. and concluded at 11.36 a.m.)

Chairman .....

Dated .....