

CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Council Chamber, Priory House, Monks Walk, Shefford on Monday, 30 July 2018

PRESENT

Cllr M C Blair (Chairman)

Cllrs N B Costin
P Downing
R Morris

Cllrs B J Spurr
A Zerny

Apologies for Absence: Cllrs D Bowater
D J Lawrence
D Shelvey

Members in Attendance: Cllrs A D Brown
I Dalgarno
E Ghent
C C Gomm
Mrs S A Goodchild
K C Matthews
Mrs T Stock
B Wells
R D Wenham
J N Young

Officers in Attendance: Mr D Galvin Assistant Director of Finance
Mr C Horne Head of Internal Audit and Risk
Mrs J Luckman Fraud, Welfare & Partnerships
Manager, Revenues and Benefits
Mr L Manning Committee Services Officer
Ms S Michael Head of Corporate Finance
Mr G Muskett Head of Revenues & Benefits
Ms S Pocock Financial Controller
Mr C Rushworth Legal Services Business Manager
Mr C Warboys Director of Resources and Section
151 Officer

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

AUD/18/1. Minutes

RESOLVED

that the minutes of the meeting of the Audit Committee held on 30 May 2018 be confirmed and signed by the Chairman as a correct record.

AUD/18/2. Members' Interests

None.

AUD/18/3. Chairman's Announcements and Communications

The Chairman asked Members to silence their mobile telephones. He also reminded the Committee that the meeting was being webcast.

AUD/18/4. Petitions

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

AUD/18/5. Questions, Statements or Deputations

No questions, statements or deputations were received from members of the public in accordance with the Public Participation Procedure set out in Part 4G of the Constitution.

AUD/18/6. Presentation on LGSS Law Ltd

The Committee received a presentation on LGSS Law Ltd. The presentation summarised the background to the current arrangements between that body and the Council and set out the benefits achieved so far. Whilst the main focus was on the services provided to the Council some information was also provided on the company's performance given that the Council was one of its shareholders.

Points and comments included:

- An introduction to the presentation by the Director of Resources.
- Full discussion on the organisation of LGSS Law, the financial costs of its operation and the level of savings actually achieved by the Council's use of that body, the level of debt across the whole of LGSS Law, together with staffing matters. The Director of Resources was not able to state the number of key staff who had left as he did not have the information at the meeting.

- The forecast expenditure for the next three years remained at the reduced level, incorporating the originally anticipated savings. Because of the increasing volume of work it was necessary to establish whether it was a sustainable figure or might result in continued overspends.
- In response to Members' concerns regarding LGSS Law's financial position, given the monies owed to it by both Northamptonshire and Cambridgeshire County Councils, the Director of Resources explained that the problem at Northamptonshire was one of expenditure control in the long term not one of cash flow. Northamptonshire County Council was able to pay legitimate invoices.
- Two or three district councils also used LGSS Law for planning services though Central Bedfordshire was the largest authority to do so. As a result there was a sharing of legal talent across the authorities.
- Members raised concerns regarding the quality of service provided and expressed doubt regarding the accuracy of the data obtained from the end of case surveys completed by clients. The Members suggested possible reasons for both the low level of response by clients and the apparent full satisfaction which, the survey results indicated, LGSS Law provided.
- The Committee noted the measures being taken by the Legal Services Business Manager to improve the accuracy of data, the role of the 'intelligent client', KPI's and efforts to ensure remedial action was carried out where necessary.
- The Committee indicated that it would wish to secure the attendance of representatives from LGSS Law in order to answer questions Members might have.
- In response to a Member's request seeking the submission of the Service Improvement Plan to the Committee the Director of Resources stated that internal management plans were not normally brought to public meetings but he would examine and determine if it was appropriate.
- The Chairman stated that, as shareholders, there were issues with which Members were dissatisfied but with the appointment of new staff and the other measures that had been taken there was a movement forward and it would be premature to judge the progress made.
- The Chairman thanked the Director of Resources for his presentation and his candour.

NOTED

the presentation on LGSS Law Ltd.

RESOLVED

- 1 that an update on LGSS Law Ltd on how the service improvement recommendations had been implemented be submitted to the Audit Committee at its meeting on 19 November 2018.**
- 2 that the Director of Resources discuss with LGSS Law Ltd the possible attendance by its employees at the Committee in order to respond to Members' queries.**

- 3 that the Children's Services Overview and Scrutiny Committee be requested to consider the efficiency of Children's Services in its commissioning of work by LGSS Law Ltd.**

THE MEETING ADJOURNED AT 11.35 A.M. AND RECONVENED AT 11.40 A.M.

AUD/18/7. External Audit Results Report 2017/18

Members considered a report from Ernst & Young LLP (EY), the Council's external auditor, which summarised the company's preliminary audit conclusion as at 24 July 2018 in relation to the audit of Central Bedfordshire Council for 2017/18.

Points and comments included:

- The context of the preparation of the accounts, which involved an accelerated closure and the related pressures on personnel in both the Council and the external auditors.
- The EY audit had been concluded and its opinion would be issued before the statutory deadline. This reflected well on the work undertaken by both the Council's finance team and the company's own audit team.
- The EY audit opinion on the Council's accounts would be an unqualified audit opinion as the accounts represented a true and fair view of the Council's financial performance.
- EY would also be issuing an unqualified value for money conclusion to say the Council had secured adequate arrangements for value for money.
- The materiality level that was applied by EY when auditing the Council's primary financial statements was £12m, which represented 2% of the Council's gross revenue expenditure. Items above what EY regarded as its 'trivial' level of £600k were reported.
- All outstanding items listed in the report had now been completed apart from the Council's own consideration of the management representation letter and of the accounts. Once they had been concluded EY would be able to issue its opinion.
- In the accounts prepared the Council received information from the actuary setting out a number of assumptions about the Council's share of the Pension Fund assets and liabilities within the Bedfordshire Pension Fund. Whilst actuaries tended to prepare information based on data available at the end of December and then estimate up to the financial year end the Fund's auditors had access to more up to date estimate. In addition there could be almost daily variations in a pension fund's value and liabilities. EY had taken a strict interpretation of any differences in estimates between one point in time and another, had held discussions with relevant parties and made use of its own experience as a pension fund auditor. In the Audit Results report it was stated that there could be a difference of up to £2m in the Council's share of any difference in the market valuation of the Fund's assets.

However, a new actuary report showed that the difference could actually be up to £6m. Any judgemental difference was well below EY's level of materiality and the Fund's auditor had said that there was no concern with the control environment operated round the Fund. The movement in the estimate was within a reasonable range and that, in effect, was just a technical difference between an estimate at one point in time and another. EY recommended that the Council updated its actuarial results and adjust its accounts but the Council did not have to do so and the amount involved would not impact on EY's audit opinion.

- The Dunstable leisure centre was going through a significant programme of refurbishment and had been valued in the accounts on a particular basis. Further work had been carried out to ensure that the valuation was within an appropriate range and classified and disclosed appropriately in the accounts.
- On the value for money conclusion there were no matters that the Committee needed to be made aware of by EY or any matters of concern. There were no other concerns regarding the Council's arrangements for value for money for the financial year.
- There were no other matters EY needed to report in line with its statutory responsibilities nor any concerns around the company's independence.
- There were no plans to alter the audit fee set by the Public Sector Audit Appointments Ltd (PSAA).
- The EY Associate Partner thanked the officers of the Council for their co-operation and assistance during the audit process.
- EY was required to undertake a piece of work to inform how the Council's accounts consolidate into the whole of government accounts. The deadline set by the government for returns was the end of August and this would be met. However, it meant it was not possible to certify closure of the audit until the work was concluded. It would not affect the signing of the letter of representation.

NOTED

the External Audit Results Report from Ernst & Young LLP.

AUD/18/8. CBC Audited Statement of Accounts 2017/18

The Committee considered a report by the Director of Resources and Section 151 Officer which presented the 2017/18 Statement of Accounts for approval. A copy of the Statement was attached at Appendix A to the report, a schedule of changes to the draft Statement of Accounts, certified by the Chief Finance Officer on 30 May 2018, was attached at Appendix B and the Management Representation Letter was attached at Appendix C.

Points and comments included:

- Members' attention was drawn to the adjustment in the accounts relating to the building of Lower Wilbury Farm School. That item formed the main audit difference. Attention was also drawn to the reference in the

officer report and the Management Representation Letter (at Appendix A) to the Bedfordshire Pension Fund and how the Council's proportion of the revised asset position now stood at approximately £6m. The copy of the Letter to be signed had been amended to reflect this change.

- Reference was made to the Annual Governance Statement and that, since approval at the May meeting, two additional paragraphs had been inserted into section 6.
- Appendix B detailed six pages of changes between the draft version of the Accounts and the final version including reference to the Lower Wilbury Farm School. This had arisen because it had not been recognised that the School would be a Council asset and the resulting changes, which effectively reversed the previous accounting treatment, impacted on the Accounts in a number of places. The remainder of the changes were presentational in nature but, for the purposes of transparency, had been disclosed.
- None of the changes impacted on the bottom line as reported in the management accounts. The underspend and position on reserves had not changed.
- The circumstances and resulting impact surrounding the Lower Wilbury Farm School were unique and that situation had not occurred before. Nonetheless, the officers would be alert to those circumstances arising again.

On behalf of the Committee the Chairman thanked the officers and the external auditors for their efforts.

RESOLVED

- 1 that the 2017/18 Statement of Accounts for Central Bedfordshire Council, as set out at Appendix A to the report of the Director of Resources and Section 151 Officer and incorporating those changes set out in the Schedule of Changes at Appendix B to the report, be approved;**
- 2 that the Annual Governance Statement for 2017/18 be published together with the 2017/18 Statement of Accounts;**
- 3 that the Chairman of the Audit Committee and the Director of Resources and Section 151 Officer be authorised to sign the 2017/18 draft Letter of Representation to the Council's external auditor, Ernst & Young LLP, as set out at Appendix C to the report of the Director of Resources and Section 151 Officer.**

AUD/18/9. Annual Audit and Certification Fees 2018/19

The Committee received a letter from the Council's external auditors, Ernst & Young LLP (EY), to the Chief Executive. The letter confirmed the audit work that the company proposed to undertake for the financial year 2018/19, the indicative audit fee, summary of fees, associated billing arrangements and briefly outlined the aim of the forthcoming Audit Plan.

Points and comments included:

- The letter was indicative and a detailed Audit Plan would be submitted to the Committee later in the year.
- Public Sector Audit Appointments Ltd had reduced the 2018/19 scale audit fee by 23% from the fees applicable for 2017/18.
- Although the certification of housing benefit subsidy claim, teachers' pensions and the pooling of housing capital receipts were shown as 'not applicable' in the letter it was anticipated that EY would carry out all of those tasks.

NOTED

the 2018/19 annual audit and certification fees letter to the Chief Executive from Ernst & Young LLP.

AUD/18/10 Annual Counter Fraud Update

The Committee considered a report which provided an update on the work of the Council's Corporate Fraud Investigation Team (CFIT). The report included case studies where prosecutions had been undertaken.

Points and comments included:

- The value of the CFIT in both investigating and deterring fraud.
- Use of the Team's expertise by Registered Social Landlord housing organisations because the latter did not have the powers to undertake investigations themselves.
- A request had been made for a trainee to join the Team as it was anticipated that additional fraud referrals would be made.
- Liaison with Bedfordshire Police was positive.
- All associated legal action was undertaken internally by LGSS Law Ltd.

NOTED

the update on the work of the Corporate Fraud Investigation Team for 2017/18.

AUD/18/11 Local Government Pension Scheme Update

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

Points and comments included:

- Although delays had occurred on such issues as exit payment reforms none had impacted on the formation of the Border to Coast Pensions Partnership Ltd. or its forthcoming operation. At present the Council's

funds were still being actively managed through the Bedfordshire Pension Fund.

- Table 2 in the report revealed a significant increase in the Pension Fund net assets in 2016/17 and a significant decrease in 2017/18. This was because in 2016/17 all asset classes performed at 18.5% overall, driven by equities. However, in 2017/18 the overall performance was 2.3% due to a downturn in capital markets.

NOTED

the Local Government Pension Scheme update.

AUD/18/12 Internal Audit Progress Report

The Committee considered a report outlining the progress made on Internal Audit work against the Internal Audit Plan for 2018/19 up to the end of June 2018.

NOTED

the progress made against the 2018/19 Internal Audit Plan.

AUD/18/13 Tracking of Internal Audit Recommendations

The Committee considered a report on the tracking of outstanding Internal Audit recommendations.

Points and comments included:

- There was no update as there were no new high priority actions had become due in the time since the last meeting.
- Those actions previously reported now had agreed future target implementation date.
- There were fewer high priority actions being shown in the audits arising from Internal Audit work. Therefore, Internal Audit proposed to undertake the routine follow up of all audit recommendation/action plans going forward.
- The Head of Internal Audit and Risk suggested that detailed progress updates on high priority actions should continue and that he introduce at summary level a breakdown of implementation by category.
- The Chairman asked for any suggestions regarding the streamlining or presentation of information to be passed to him so they could be discussed at his forthcoming meeting with the Head of Internal Audit and Risk.

NOTED

the tracking of update report on the tracking of outstanding Internal Audit recommendations.

AUD/18/14.Work Programme

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

The Assistant Director Finance requested that the Local Government Pension Scheme update scheduled for consideration on 19 November be deferred until the meeting on 11 March 2019. By that date the transfer of assets to the Border to Coast Pension Partnership Ltd would have taken place (in October) and the half year position would also be available.

The Committee was aware that it had earlier agreed to the submission of an update on LGSS Law to the November meeting (minute AUD/18/6 refers).

RESOLVED

that the proposed Audit Committee work programme, as set out at Appendix A to the report of the Committee Services Officer, be approved subject to the following amendments:

- **19 November 2018 - Defer the Local Government Pension Scheme Update until 11 March 2019.**
- **19 November 2018 – Add the following items:**
 - **Update presentation on LGSS Law Ltd**
 - **Update to Internal Audit Charter**

(Note: The meeting commenced at 10.08 a.m. and concluded at 12.28 p.m.)

Chairman

Dated