At a meeting of the Audit Committee held in the Council Chamber, Priory House, Monks Walk, Chicksands, Shefford, SG17 5TQ on Wednesday, 31 July 2019, 10:00 a.m. - 11:44 a.m.

Present: Cllr M Blair (Chairman)  
Cllr R Morris (Vice-Chairman)  
Cllrs J Baker  
D Bowater  
Cllr D Shelvey  
Cllrs F Firth  
A Zerny  

Apologies: None  
Substitutes: None  
Absent: None  

Members in Attendance: Cllrs N Bunyan and G Perham  

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

1. Minutes  

RESOLVED  

that the minutes of the meeting of the Audit Committee held on 29 May 2019 be confirmed as a correct record and signed by the Chairman.  

2. Members' Interests  

Councillor Firth declared a non-pecuniary interest in item 12 as a local authority governor at St Swithun’s Primary School and Northill Lower School.
Councillor Morris declared a non-pecuniary interest in Item 12 as a local authority governor at Thomas Johnson Lower School.

3. **Chairman's Announcements and Communication**

The Chairman welcomed attendees to the meeting and advised that, due to technical issues, the meeting would not be webcast. He then asked attendees to turn off their mobile phones.

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.

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.

6. **External Audit Results Report - Year Ended 31 March 2019**

The Committee received a report from Ernst & Young LLP (EY), the Council’s external auditor, which summarised the company’s preliminary audit conclusion in relation to the Council’s audit for 2018/19.

Points and comments included:

- EY’s thanks to the Council’s officers for their co-operation, assistance and fulfillment of all their obligations in a timely fashion.
- Reference to the materiality level applied by EY when undertaking its audit procedures.
- That the audit had been substantially completed and, subject to the completion of outstanding matters, EY expected to issue an unqualified opinion on the Council’s financial statements. The company also needed to complete procedures required by the National Audit Office regarding the Whole of Government Accounts submission, the deadline for which was 13 September 2019.
- The valuation of Property, Plant and Equipment (PPE) had been identified as a ‘Significant Risk’ as management was required to make material judgement inputs and apply estimation techniques to calculate year-end balances. The Council’s general fund property portfolio included land and building assets valued on different bases, some of which were harder to value with less observable market data and thus with a higher degree of judgement/estimation required.
• The extensive procedures undertaken by EY to address the ‘Significant Risk’ regarding PPE, together with the company’s findings and conclusions which included recommended actions for the Council to adopt.
• That the issues relating to the Guaranteed Minimum Pension (GMP) had not been identified as a ‘Significant Risk’ by both the Council's actuary and EY and that there was no material impact. However, EY’s view was that the Council should continue to review the matter.
• The EY Associate Partner explained that queries had only just been raised by the company’s valuer arising from a report by the real estates team regarding assets. He stressed that it was necessary for this area to be fully concluded following examination by him before a final audit opinion could be given. Both the Chair of the Committee and the Director of Resources and Section 151 Officer had been briefed on the background for the delay. It was anticipated that any delay would be a matter of days and any issues resolved by next week.

NOTED

the External Audit Results Report for the year ended 31 March 2019 from Ernst & Young LLP.

7. CBC Audited Statement of Accounts 2018/19

The Committee considered a report by the Director of Resources and Section 151 Officer which presented the 2018/19 Statement of Accounts. Copies of the Statement of Accounts, a schedule of changes to the Statement of Accounts as certified by the Director of Resources and Section 151 Officer on 29 May 2019 and the draft Letter of Representation to Ernst & Young LLP (EY) as the Council’s external auditors, were attached at Appendices A, B and C respectively.

Further to minute 6 above the Director reiterated that it would not be possible to approve the Statement of Accounts at this stage, as had been intended, because of the questions raised by EY just prior to the deadline for completion of the external audit.

Points and comments included:

• The reference to the three key adjustments, identified during the audit (and set out in the schedule of changes at Appendix B). The Committee was advised that the changes impacted upon all of the main statements: Comprehensive Income and Expenditure Statement (CIES), Balance Sheet, Movement in Reserves Statement (MIRS) and the Cash Flow statement. The adjustments also impacted upon a large number of notes, in particular those which disclosed details relating to the Council’s Asset base and Pension assets/liabilities.
• A query regarding the revaluation of assets under construction. The Head of Corporate Finance explained that assets had not been included in the revaluation as they had not been in operation at the time the list had been compiled in September-October 2018. In future the regulations would be met by ensuring all assets were included in a rolling programme.
A Member challenged the claim in the Statement of Accounts that a new crematorium in Central Bedfordshire was required on the basis that that none currently existed in the authority and those in neighbouring councils were near capacity. He stated that Freedom of Information requests revealed that spare capacity still remained at crematoria in Bedford and Milton Keynes. The Chair advised that the issue was not one for the Committee to consider and should be taken up elsewhere (the Development Management Committee had been mentioned prior to the Chair’s response). He added that, from the reports he had seen, the issue was not only one of capacity.

A Member expressed concern at how officer remuneration was presented in Note 31 of the Statement of Accounts at Appendix A. He felt that a false impression was given with regard to the level of pension contributions and that the personal contributions made were not shown. The Director of Resources explained the type of information presented in the statement and advised that it conformed to the regulatory requirements. Whilst acknowledging that the information did meet the necessary requirements the Member felt that clarification was still required on what went into the personal pension fund.

RESOLVED

1. that authority be delegated to the Director of Resources as Central Bedfordshire Council’s Chief Financial Officer and Section 151 Officer, or his Deputy as required, in consultation with the Chair of the Audit Committee, to approve the 2018/19 Statement of Accounts, amended as necessary, following the completion of the external audit by Ernst & Young LLP;

2. that the Annual Governance Statement for 2018/19 be published together with the 2018/19 Statement of Accounts;

3. that the Chair of the Audit Committee and the Director of Resources and Section 151 Officer be authorised to sign the 2018/19 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.

8. Annual Audit 2019/20

The Committee considered a report which presented a letter from Ernst & Young LLP (EY) to the Chief Executive setting out the indicative fees and other information in relation to the audit which the company, as the Council’s external auditor, proposed to undertake for the 2019/20 financial year.

Points and comments included:

• That EY’s Audit Plan was expected to be issued in January 2020. This would communicate any significant financial statement and value for money risks identified, planned audit procedures to respond to those risks and the estimated fee implications of these additional procedures.
• Should EY need to make any significant amendments to the audit fee during the course of the audit, it would discuss this in the first instance with the Director of Resources and communicate the revised fee and the matters giving rise to any adjustments to the scale fee in its Audit Results Report to the Audit Committee.

• A Member’s reference to the substantially lower level of indicative fees to be charged which, he felt, reflected EY’s increased confidence in the Council’s internal audit regime.

NOTED

the 2019/20 annual audit and certification fee letter to the Chief Executive from Ernst & Young LLP.

Note: Mr N Harris and Ms C Ryan of Ernst & Young LLP left the meeting at this point in the proceedings.

Note: The meeting adjourned at 11.05 a.m. and re-convened at 11.11 a.m.

9. Annual Counter Fraud Update

The Committee considered an annual report which provided an update on the work of the Council’s Corporate Fraud Investigation Team (CFIT). Examples of some of the recent cases which had been investigated, and in some cases prosecuted, were provided.

Points and comments included:

• There were two emerging areas of anti-fraud activity: the first had arisen from increased interest from Registered Social Landlords (RSLs) for CFIT to investigate tenancy fraud. As a result CFIT had entered into a formal partnership with RSLs to tackle social housing fraud. The second area had arisen as a result of the recognition of the advantages of the Council’s CFIT working jointly with the Department of Work and Pensions Single Fraud and Investigation Service (SFIS) where there was a linked interest such as benefits fraud related to Local Council Tax Support. The DWP had therefore put in place a legal framework for joint working.

• The new investigation officer being recruited to CFIT was at no extra cost to the Council as two vacancies for such officers already existed. The Committee was advised that only one officer was being recruited because of a realignment of resources towards the two emerging areas of anti-fraud activity (as set out above) and the work levels had not yet been established. The Head of Revenues and Benefits confirmed that CFIT remained in full control of its workload demands.

• The need to prevent long term fraudulent activity and catch fraudsters faster than had been done so in the past was stressed.

NOTED

the update on the work of the Corporate Fraud Investigation Team for 2018/19.
10. Tracking of Internal Audit High Priority Recommendations/Agreed Actions

The Committee considered a report which summarised the high priority recommendations/agreed actions arising from Internal Audit reports and the progress made in their implantation as at the end of June 2019.

The Head of Internal Audit and Risk advised that the reference to ‘Appendix A’ in paragraph 5 of the report should read ‘Appendix B’.

Points and comments included:

- That the headteacher of Thomas Johnson Lower School had commented favourably on the very deep audit undertaken at the school by the Council and the associated high professional standards of the officers involved.
- An acknowledgement that the ‘total’ figures set out in Appendix B were, in the majority of cases, incorrect.

NOTED

the report setting out the high priority recommendations/agreed actions arising from Internal Audit reports and the progress made in implementing the recommendations at the end of June 2019.

11. Internal Audit Progress Report

The Committee considered a report which provided an update of the work by Internal Audit for 2019/20.

Points and comments included:

- The implementation of the SAP S4 Hanna programme could possibly lead to delays of approximately two months to the planned review programme (under KPI02).
- The need to improve the time taken by other Directorates to respond to draft reports within 10 available working days (under KPI04) given the substantial fall in the actual figure achieved when compared to the previous year. The Director of Resources advised that he would be raising this issue with his fellow Directors.
- There had been no report to the Committee on the Council’s IT Disaster Recovery Plan since 2017 and it was felt that an update was required. The Director of Resources undertook to make the arrangements for this to take place at the October meeting of the Committee.
- An explanation of the different levels of ‘opinion’ that could be passed by internal auditors once their work had been completed. It was noted that the judgements which led to an ‘opinion’ would be largely based on an auditor’s skills and experience and subject to a quality assurance process.
• That the ‘Limited’ opinion awarded to the IT Disaster Recovery Plan 2018/19 had been given by an external specialist auditor.
• The Director of Resources stressed that it was not the Committee’s function to approve the content or outcome of individual audit reports but to ensure that a satisfactory framework existed to enable such audits to take place.
• The Head of Internal Audit and Risk explained that the proposed amalgamation of the Internal Audit Progress Report with the Tracking of Internal Audit High Priority Recommendations/Agreed Actions was an attempt to achieve a balance between providing detail and summary to Members.

NOTED

the progress made against the 2019/20 Internal Audit Plan as at June 2019.

12. Work Programme

The Committee was aware that it had earlier agreed to the submission of an update on the ICT Disaster Recovery Plan to the October meeting (minute 11 above 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:

• confirmation by the Chairman of the need for the inclusion of an update on the operation of LGSS Law Ltd within Central Bedfordshire Council to the Committee on 29 October 2019.
• the addition of an update on the ICT Disaster Recovery Plan to the Committee on 29 October 2019.

Chairman………………………………………………

Dated …………………………………………………