

Minutes of a meeting of the Governance and Audit Committee held on Monday, 30 July 2018 in Committee Room 1 - City Hall, Bradford

Commenced 10.00 am
Concluded 11.30 am

Present – Councillors

CONSERVATIVE	LABOUR	LIBERAL DEMOCRAT
M Pollard	Johnson Thornton Swallow	Reid

Councillor Johnson in the Chair

8. DISCLOSURES OF INTEREST

- (1) In the interest of transparency all those who were Members of the West Yorkshire Pension Fund disclosed an interest.
- (2) Councillor Pollard disclosed an interest in Minute 12 as he was a governor of an academy.

Action: Interim City Solicitor

9. INSPECTION OF REPORTS AND BACKGROUND PAPERS

There were no appeals submitted by the public to review decisions to restrict documents.

10. REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) - LEVEL OF USE (QUARTERLY REVIEWS)

The Interim City Solicitor submitted **Document “E”** which provided information relating to:

- The number of authorised and approved covert surveillance operations by the Council for the periods 1st January 2018 to 31st March 2018 and 1st April 2018 to 30th June 2018.

- The Council uses of covert surveillance by its own officers or the use of its CCTV equipment by the Police or Department of Work and Pensions which must be lawfully authorised.

It was reported that the returns for Quarter 1 (1st January 2018 to 31st March 2018) and Quarter 2 (1st April 2018 to 30th June 2018) were set out in the report. A nil return was shown for all relevant departments which indicated that the enforcement services investigators were able to obtain evidence without the need for covert surveillance. Where not applicable appeared (N/A) the criminal offences investigated by the service did not fall within the definition of serious criminal offence under RIPA 2000 namely carrying a penalty of more than six months imprisonment.

In response to a Member's question it was reported that the Council owned a substantial CCTV system which assisted in the prevention and detection of crime within the City Centre and was used by the Police and Department of Work and Pensions (DWP) for which authorisation was required.

Members queried the total operations figure at section 2.4 (b) of Document "E".

Resolved-

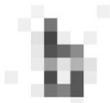
That the contents of the report (Document "E") and the Council's continued compliance with RIPA be noted.

11. INTERNAL AUDIT PEER REVIEW - JULY UPDATE

The Assistant Director Finance and Procurement submitted **Document "F"** which provided an update on the actions being taken to address the recommendations of the Internal Audit Peer Review reported at the March 2018 meeting of the Committee.

It was reported that positive progress was being made on most of the actions in the Internal Audit Peer Review Action Plan with outstanding work predominantly centred on documentation and procedural information that would be updated during the summer.

Members were informed that much of the focus of the peer review was on the Services level of resource; the background section to the report highlighted that budgetary resource had been identified to recruit to four posts; this process had now been completed; in terms of the Assistant Audit Manager post, an internal candidate from an existing Senior Auditor post was appointed following a competitive process, which was concluded at the end of April; this led to the Council going out to advert for four Senior Auditors; interviews for these posts were held during June and offers had been made to four high calibre individuals with an anticipated start date of 20 August; the Council had a duty to offer flexible working to new and existing employees and as a result, the four individuals will correspond to 3.3 FTE (full time equivalents); this left the Service 0.7 FTE short of



the budgeted structure with options around temporary staffing, apprenticeships or a further recruitment process currently being considered; future updates would provide feedback on progress in this area.

The Chair commended the progress being made in response to the Audit Peer Review Action Plan and the recruitment of 4 additional staff members.

In response to a Member's question clarification was given in relation to recommendation 3 of the action plan and who could deputise for the Chief Finance Officer.

Resolved-

That the latest update on progress against the key recommendations of the peer review and that the next written update will be presented at the Committees meeting in September 2018 be noted.

Action: Assistant Director, Finance and Procurement

12. WEST YORKSHIRE PENSION FUND REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2018

The Director of West Yorkshire Pension Fund submitted **Document "G"** which provided the West Yorkshire Pension Fund's financial position for the year ended 31 March 2018. The accounts had been prepared in accordance with:

- CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18
- CIPFA Guidance on Accounting for Local Government Pension Scheme Management Costs.
- Pensions Statement of Recommended Practice 2007
- International Financial Reporting Standards (IFRS), as amended for the UK public sector

It was reported that the value of the Fund as at 31 March 2018 was £13,566.6m, a net decrease of £65.7m, 0.5%, compared to the asset value at 31 March 2017 of £13,632.3m; the reduction in value was mainly due to a large scale bulk transfer in October 2017 of assets estimated at £450m to Greater Manchester Pension Fund (GMPF) for FirstGroup West Yorkshire; there was a corresponding transfer of liabilities (which do not appear on the balance sheet) estimated at £482m, the net impact was an improved funding position for WYPF.

Members were informed that the actuarial valuation at 31 March 2016 determined that the funding level was 94% one of the highest funding levels within LGPS (Local Government Pension Scheme) in the last valuation; following the large transfer of assets and liabilities to GMPF, an updated funding report at 31 March 2018 was requested from Aon (professional services firm that provides risk, retirement and health consulting), which indicated that the fund was now 107%



funded; this improvement was principally due to the strong financial markets since the 2016 valuation; as this was merely an updated funding level, it would not provide any cashflow benefit to employers; if the markets remained steady to 31 March 2019 this should result in employers' contributions continuing at current levels, however investment markets may go up or down.

It was reported that the Fund continued to have a positive net cashflow of £309.1m (2017 was £240.8m), once the exceptional bulk transfer of £450m to GMPF was added back.

Members were informed that the 2017/18 annual cost of administering the West Yorkshire Pension Fund per member was £14.35, investment management cost per member was £21.11, oversight and governance cost per member was £1.91 and the total management cost per member was £37.37; these figures compared favourably with the average cost for authorities, West Yorkshire Pension Fund having the lowest cost per member.

In response to Members questions the Director of West Yorkshire Pension Fund reported that:

- Members were being encouraged to sign up to online communications to view their pension record statements, update personal details etc but the service would continue with paper based systems.
- Employer contributions came down if the value of the fund increased significantly; more safety needed to be built in before contributions were reduced.
- Employer contributions detailed in Section 5 of the report included deferred and retired member liability which had not been fully met.
- WYPF with other Local Authorities passed a resolution that certain companies publish their plans to meet the Paris Climate Change Agreement.

Resolved-

That the West Yorkshire Pension Fund Audited Report and Accounts for 2017/18 be approved.

(The above resolution was agreed after Members had considered the External Audits Audit Completion Report of West Yorkshire Pension Fund)

13. AUDIT COMPLETION REPORT 2017/18 - AUDIT OF WEST YORKSHIRE PENSION FUND

The External Auditor present **Document "H"** which summarises the findings of the audit of West Yorkshire Pension Fund's Financial Statements for the year ended 31 March 2018.

The External Auditor provided the following update on those matters that were



marked as outstanding within the Audit Completion Report:

<u>Matter</u>	<u>Conclusion Reached</u>
Review of the Pension Fund Annual Report	Information within the Pension Fund Annual Report was consistent with the financial statements within Bradford Council's Statement of Accounts.
Bank confirmation outstanding regarding a bank transfer where one side of the transaction occurred prior to the year end, and the other side occurred after the year end.	Confirmation received with no issues to note.
The audit of the cashflow information submitted to the actuary was on going.	External Audit had completed their work and had no issues to report.
Completion of External Audit's review procedures and checking the revised statement of accounts.	<p>External Audit had completed their work and a number of amendments had been made to the accounts which had been audited with no issues to report, one issue to note:</p> <p>Note 12 had been amended to include an estimate of the actuarial present value of promised retirement benefits as at 31 March 2018. Audit work had provided the required assurance that this estimate, which does not form part of the primary statements, had been prepared on a reasonable basis.</p> <p>Note 18 had been amended to include current assets of £84m (2017 £80m)</p>

In relation to the following significant risks it was reported that:

- Management override of controls – based on work completed to date, External Audit work had provided the assurance that was sought and had not highlighted any material issues to bring to the Committee's attention.



- Valuation of unquoted investments for which a market price was not readily available - External Audit work had provided the assurance that was sought and had not highlighted any material issues to bring to the Committee's attention.

Members were informed that External Audit had reviewed the Pension Fund's accounting policies and disclosures and concluded that they complied with the requirements of the Code of Practice on Local Authority Accounting (The Code).

It was reported that during the course of the audit External Audit did not encounter any significant difficulties and had the full cooperation of management.

Members were informed that as part of the audit, External Audit had identified that there were a number of journals, albeit a small percentage of total journals, containing no narrative description. In response to External Audit recommendations officers had reviewed journals and retrained staff to ensure that a narrative description was included for all journals.

Resolved-

That the Committee:

- **Considered the unadjusted misstatements schedule (Section 4); and**
- **Approved the letter of requested management representations (Appendix A) including the reasons for not amending the unadjusted misstatements.**

Action: External Auditor

14. STATEMENT OF ACCOUNTS 2017/18

The 2017-18 Statement of Accounts (SOA) had been externally audited and were now presented to Governance and Audit Committee for approval. The External Auditor (Mazars) had reported their findings in two separate Audit Completion Reports, one for the Council and another for the West Yorkshire Pension Fund. Members were asked to consider these before approving the SOA.

The Assistant Director, Finance and Procurement submitted **Document "J"** which provided an overview of the 2017-18 Statement of Accounts and included a response to the Council's Audit Completion Report.

It was reported that the accounts had to be produced two months earlier and at the last meeting of the Committee key points of the Statement of Accounts were highlighted such as:

- At 31 March 2018 the Council had £203m of useable reserves and balances of which £37.1m was held to fund capital expenditure; increased slightly due to the way debt repayments were rescheduled.



- Statement of accounts showed a negative net worth due to the way the valuation of the pension fund was calculated; had to produce a valuation that was an extremely cautious.
- Pension experts had changed their mind on the valuation of the pension fund and had increased the pension fund deficit by an additional £30 million; page 372 of the papers showed total reserves of 265 million which had changed to 295 million; this did not change the other valuations; cost in the medium financial plan was exactly the same.
- The collection fund position was worse than what was expected, this deficit was set aside by using reserves.
- Page 430 included further details of all the different Boards the Council had a financial relationship in 2017/18; their assets and liabilities were not included in the Council's accounts.

It was reported that

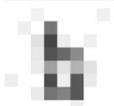
- There are no matters to bring to Members' attention in connection with the significant risks and key judgements set out in the 2017-18 Audit Strategy Memorandum.
- The Council would seek to finalise the prior year internal audit recommendations relating to IT controls for leavers and contingency planning.
- The Council would review the input of journals with no narrative description, to identify whether those identified by external audit were exceptional and whether controls can be strengthened. The Council would review related party transactions earlier in future years.
- There were two adjusting misstatements on the main statements. One grant stream was misclassified. One journal was incorrectly allocated against creditors rather than the bad debt provision. There were also another five amendments on the disclosure notes.
- All the changes have been adjusted for in the Statement of Accounts. None of these changes impacted on the Council's useable balances or reserves.

It was reported that producing the accounts two months earlier was challenging as it gave less time to review the accounts, but officers were pleased that the target of producing accounts by the end of July had been met. Processes would be reviewed to make it better next time including working with actuaries to give information on time and improving the way the accounts were closed down.

The Chair congratulated the Finance team for meeting the targets in the production of the accounts.

In response to a Member's question it was reported that the valuation used for the pension fund was heavily prescribed by a particular model, assumptions looked forward rather than at the current position; the actuary employed models that looked forward, which changed the overall outcome.

It was confirmed that the pension deficit related to Bradford and not the whole of



the West Yorkshire Pension Fund.

In response to a Member's question it was reported that the valuation of investment properties was undertaken by expert in-house valuers which was reviewed at 31 March 2018.

An explanation was provided to Members on potential contingent losses in relation to certain outstanding matters which could not be estimated accurately or considered sufficiently certain.

Resolved-

That the 2017-18 Statement of Accounts be approved and signed by the Chair of the Committee.

Action: Assistant Director, Finance and Procurement

(The above resolution was agreed after Members had considered the External Audits Audit Completion Report of City of Bradford Metropolitan District Council)

15. AUDIT COMPLETION REPORT 2017/18 - AUDIT OF CITY OF BRADFORD METROPOLITAN DISTRICT COUNCIL

The External Auditor presented **Document "I"** which summarised the findings from the audit of the City of Bradford Metropolitan District Council for the year ended 31 March 2018.

Members were informed that all the work (detailed on page 317) had been satisfactorily completed and External Audit would be able to:

- issue an unqualified opinion on the statement of accounts; and
- conclude that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

It was reported that whole of government returns were not due until 31 August 2018 but was likely to be completed by the end of this week or next week.

Members were informed of the following in relation to significant risks highlighted in section 2 of the report:

Management override of controls – based on the work completed to date External Audit had not identified any indication of management override of controls and had no matters to bring to the Committee's attention.

Revenue Recognition, fees and charges - there were no matters to bring to the Committee's attention as External Audit had not identified any indication of revenue being recognised in the wrong year.

Property, plant and equipment valuation – there were no matters to bring to the Committee's attention.



Defined benefit liability valuation – External Audit had no indication of material estimation error in respect of the defined benefit liability valuation and had no matters to bring to the Committee’s attention.

Revision to Minimum Revenue Provision Calculation – the audit work had provided the assurance that was sought and had not identified any material issues to bring to your attention.

Useful asset lives and depreciation of property, plant and equipment – there were no significant findings arising from the work on the key management judgement of useful asset lives and depreciation.

It was reported that External Audit had reviewed the Council’s accounting policies and disclosures and concluded that they complied with the requirements of the Code of Practice on Local Council Accounting (the Code). In line with External Audit expectations, there had been no significant changes to accounting policies for the year ended 31 March 2018.

Members were informed that during the course of the audit External Audit did not encounter any significant difficulties and had the full co-operation of management.

It was reported that a number of minor misstatements relating to expenditure (members allowances and senior officers remuneration and termination payment disclosures) for which Management had amended. All amendments would be incorporated in the final version of the accounts and External Audit would issue a final audit letter tomorrow.

Members were informed that the Council needed to ensure that declaration of interests from management were sought in a timely basis both throughout the year and in advance of preparation of the statement of accounts. The Council had agreed to review related party transactions earlier in future years.

In response to a Member’s question it was reported that the minor misstatements such as the members allowances note would be included in the follow up letter.

A Member requested further information in relation to IT disaster recovery and business continuity.

Resolved-

(1) That the Committee:

- **noted the contents of the Audit Completion Report prior to approving the Statement of Accounts including consideration of the summary of misstatements at Appendix A; and**
- **approved the letter of representations requested at Appendix B.**

(2) That a further report be presented to the Committee on business continuity and IT disaster recovery systems.

Action: External Auditor (1)/Assistant Director Finance and Procurement (2)



