

## Minutes of a meeting of the Governance and Audit Committee held on Wednesday, 31 July 2019 in Committee Room 1 - City Hall, Bradford

Commenced 10.05 am  
Concluded 11.45 am

### Present – Councillors

LABOUR	CONSERVATIVE	LIBERAL DEMOCRAT
Swallow Johnson Watson	Pollard	Reid

### Councillor Johnson in the Chair

#### 8. DISCLOSURES OF INTEREST

In the interest of transparency all those who were Members of the West Yorkshire Pension Fund disclosed an interest.

Action: 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 REVIEW)

The 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 1 January 2019 to 31 March 2019 and 1 April 2019 to 30 June 2019.
- The Council’s use of covert surveillance by its own officers or the use of its CCTV equipment by the Police or Department of Work and Pensions

(DWP) which must be lawfully authorised.

It was reported that the returns for Quarter 1 (1<sup>st</sup> January 2019 to 31<sup>st</sup> March 2019) and Quarter 2 (1<sup>st</sup> April 2019 to 30<sup>th</sup> June 2019) were set out at paragraph 2.3 of 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 appears (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 and thus covert surveillance of such none serious crimes could not be authorised under RIPA.

Members were informed that the Council owned a substantial CCTV system which assisted in the prevention and detection of crime within the City Centre and was occasionally used by the Police or Department for Work and Pensions.

In response to a Member's question it was reported that the Council's use of RIPA was similar to other local authorities.

**Resolved-**

- (1) That the contents of the report be noted.**
- (2) That the Councils continued compliance with RIPA be noted.**

**11. INTERNAL AUDIT ANNUAL REPORT 2018/19**

The Director of Finance submitted **Document "F"** which reviewed the service Internal Audit had provided to the Council during the financial year 2018/19.

The purpose of the report was to inform members of the Committee about the service Internal Audit had provided to the Council during the financial year 2018/19.

In particular Members were advised of the following:-

- Internal Audit completed 93% of the 2018/19 audit plan which, was above the target of 90%.
- Internal Audit's Client satisfaction identified that 98% of the respondents said that the "recommendations were useful and realistic" and believed that the audit was "of benefit to management."
- 100% of all high priority recommendations made from the work undertaken were accepted by management.

It was reported that significant progress had been made in relation to the Internal Audit Peer Review which was highlighted in the actions

taken in the Internal Audit Quality Assurance Improvement Plan (Appendix “C” to Document “F”).

Members were informed that on going concerns included computer audits; no computer audits were performed in 2018/19; the service did not have a specialised computer auditor following the cessation, in October 2017, of the joint working arrangement with Wakefield Council. The lack of computer audit coverage and assurance in 2018/19 represented a risk exposure for the Council, which was being addressed in 2019/20, where Salford Council, who provide Computer Audit Services for a number of Councils and organisations in the North West, would be completing an Audit Needs assessment of Bradford’s ICT functionality. Once this had been completed a decision would be made how to fulfil this requirement in 2019/20. Salford Council had indicated they would be willing to provide Computer Audit Services for Bradford Council on a Service Level agreement or contractual basis.

Members were informed that the other significant concern related to the two follow up audits of Direct Payments reported in April 2018 and March 2019 as both gave an ineffective opinion. The March 2019 report acknowledged that some progress had occurred but repeated the same concerns and recommendations made in the April 2018 report for management to action as implementation had been delayed until October 2019. As a consequence the safeguarding and fraud vulnerabilities reported in the direct payments system had not yet been resolved and there was increased exposure to these risks since they were first reported to management in September 2016.

In relation to the significant concerns relating to direct payments the Assistant Director, Commissioning reported that:

- There were 1066 people in receipt of direct payments.
- Good progress was being made with actions from the follow up report.
- A new suspension and termination policy had been developed and was being embedded in practice.
- A new manager was now in place and trajectories to bring the backlog of audits to completion was being developed.
- A business case would be prepared if demand could not be met with current resources. Additional administrative support was now in place.
- A proportionate risk based matrix to determine frequency of audit, from Wakefield authority was being used and benchmarking was being undertaken.
- The Service needed to get to being 100% compliant with audit recommendations.
- Social Work Reviewing Timetable was being aligned with the audit timetable.
  
- There was an action plan in place to respond to the outstanding audit recommendations.

- Further progress would be known by the end of September 2019.
- Performance was being managed through DMT.
- The safeguarding element was a priority; the focus was on Social Service and Direct Payment activity working together.

In response to a Member's question it was reported that it was good practice for Direct Payment reviews to be undertaken annually and that vulnerable people's needs were being met.

The Chair highlighted that the issue in relation to Direct Payments may have been considered by the Health and Social Care Overview and Scrutiny Committee but had not progressed and there continued to be delays in complying with the audit recommendations. He asked that as this was an operational matter had CMT been informed of the issues and had any actions been suggested?

In response it was reported that CMT received Internal Audit reports and the half year monitoring reports. It was suggested that Direct Payments be escalated to it being included in the Council's Risk Register.

A Member suggested that CMT should receive a report solely on direct payments rather than the issue being part of another report.

Members were informed that feedback on this matter would be reported in the Annual Internal Audit Report.

**Resolved-**

- (1) That the work carried out by Internal Audit during 2018/19 be recognised and supported.**
- (2) That the significant concerns relating to Direct Payments be included in the Council's Strategic Risk Register.**
- (3) That a report solely on the significant concerns relating to Direct Payments be reported to the Corporate Management Team as soon as possible.**

**Action: Strategic Director, Health and Wellbeing and Head of Internal Audit**

**12. EXCLUSION OF THE PUBLIC**

**Resolved –**

**That the public be excluded from the meeting during the consideration of the items relating to the minutes of the West Yorkshire Pension Fund Investment Advisory Panel meeting held on 25 April 2019 because the information to be considered is exempt information within paragraph 3 (Financial or Business Affairs) of Schedule 12A of the Local Government Act 1972. It is also considered that it is in the public interest to exclude public access to this item.**

**13. MINUTES OF WEST YORKSHIRE PENSION FUND (WYPF) INVESTMENT ADVISORY PANEL HELD ON 25 APRIL 2019**

The Council's Financial Regulations requires the minutes of meetings of the WYPF be submitted to this Committee.

In accordance with this requirement, the Director of West Yorkshire Pension Fund submitted **Not for Publication Document "G"** which reported on the minutes of the meeting of the WYPF Investment Advisory Panel held on 25 April 2019.

**Resolved –**

**That the minutes of the West Yorkshire Pension Fund Investment Advisory Panel held on 25 April 2019 were considered.**

**14. WEST YORKSHIRE PENSION FUND REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019**

The Director of West Yorkshire Pension Fund submitted **Document "H"** which provided the West Yorkshire Pension Fund's financial position for the year ended 31 March 2019. The accounts had been prepared in accordance with:

- CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19
- 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 increased from £13.6 billion in 2018/19 to £14.4 billion by end of 2019/20. The increase in value was the result of positive market movement during 2018/19.
- During the 2018/19 financial year a large scale bulk transfer of assets for First Bus West Yorkshire of £492.1m (estimate of £450m was used in the

2017/18 account) to Greater Manchester Fund was completed. The increase was due to favourable investment performance during 2018/19.

- In 2018/19 the Fund made a total of £0.91 billion return on investments, this was made up of investment income of £0.48 billion and increase in market value of £0.43 billion. Investment performance for the year was 7%, this was provided in a report by Portfolio Evaluation Ltd (PEL) an independent investment analytic firm. This was 1% above the benchmark target of 6%.
- The actuarial valuation at 31 March 2016 determined that WYPF funding level was 94% one of the highest funding levels within LGPS in the last valuation. The latest update provided by Aon gave a funding level of 108%. This improvement is due to the strong financial markets since the 2016 valuation. As this was merely an updated funding level, it would not provide any cash flow benefit to employers. 2019 was a valuation year and work was in progress with Aon to provide the latest funding result for WYPF.
- Membership numbers increased by a moderate figure from 286.5k to 291.5k an increase of 2%. Employer number increased by 2 from 471 to 473. Whilst there were moderate increases in member and employer numbers, pension administration workload continued to increase due to new regulations, covenant work and changes in employers profiles especially new academies and academies merging to form new groups.
- The cash flow position was positive; assets were not being sold to pay pensions this position would continue for another 10 years; the fund was quite robust.
- The latest cost of services data collected across the UK for 2017/18 showed the Fund to have the lowest costs again, WYPF total cost was £36.45. The comparative figure for 2018/19 for WYPF was £34.16 a small reduction. Putting the service and cost performance together showed that the Fund delivered a very high level of value for money for members and employers.
- 20 key performance indicators had been selected from a list of services delivered to WYPF members in 2018/19 to report in the account, the following five performance indicators were important, all having met the target timescale in over 90% of cases:

Payment of pensioners on time - 100%

Transfer in quote 99%

Pension estimates 93%

Retirement actual 95%

Death grant payments 92%

Change of address 95%

- Change of address was very important due to the data protection impact, pension communications, letters and statements could communicate significant financial information. Therefore, the Fund was always looking at refining the address change processes to manage data protection impacts, all identified wrong addresses were listed as “lost contact”, until correct addresses were provided.
- Whilst, it had been a positive year in terms of performance and costs, like any organisation the Fund faced same challenges of increasing regulations and workload. Managing systems and processes to remain compliant, the

biggest challenge was maintaining and sustaining a specialist pensions and investment workforce in Bradford.

Members commented on the following:

- Did the pension fund purchase all of its own investments or did it use other fund managers?
- Was advice given to Members who wanted to move their pension savings from WYPF to private pensions?
- Need to ensure experienced staff were retained.

In response to Members questions it was reported that:

- The pension fund purchased its own investments in principal markets; there were small markets where third party fund managers were used; but policy was to focus investment in better regulated markets.
- WYPF was not allowed to provide financial advice to Members. Members who wanted to transfer their pension savings had to demonstrate to WYPF that they had been given pension advice where significant sums were involved; regular articles were placed in the newsletter about the risks, but this did not stop Members wanting to invest in private pensions.
- WYPF used all available resources to retain experienced staff and were increasing the number of trainees and apprentices as part of succession planning.

**Resolved-**

**That the West Yorkshire Pension Fund Audited Report and Accounts for 2018/19 be approved.**

**Action: Director of West Yorkshire Pension Fund**

**15. AUDIT COMPLETION REPORT 2018/19 - AUDIT OF WEST YORKSHIRE PENSION FUND**

The External Auditor presented **Document “I”** which summarised the findings of the audit of West Yorkshire Pension Fund’s Financial Statements for the year ended 31 March 2019.

It was reported that the audit work had been substantially completed and, subject to satisfactory completion of the outstanding work, at the time of issuing the report External Audit had:

- Anticipated issuing an unqualified opinion, without modification on the financial statements.
- Anticipated concluding that the Pension Fund Financial Statement’s within the Pension Funds Annual Report were consistent with the Pension Fund financial statements within the Statement of Accounts of the Council.
- The 2014 Act required External Audit to give an elector or any representative of the elector, the opportunity to question External Audit about the accounting records of the Pension Fund and to consider any

objection made to the accounts. No questions had been received.

An update on the outstanding matters was reported as follows:

- The review of material journals was complete there were no issues to report.
- Work on unquoted investments was complete and there were no issues to report.
- IAS19 Assurance letter had now been issued.
- Information within the Pension Fund Annual Report was consistent with the financial statements within Bradford Council's Statement of Accounts.
- Work had been completed with a number of disclosure amendments.

Members were informed that the Committee would receive an outstanding matters follow up letter prior to signing the auditor's report. None were issued by the auditor.

In relation to Disclosure amendments:

- Note 15: The fair value of hedge funds and property funds had been classified between quoted and unquoted in the current and prior year. There was previously one balance for hedge funds and property.
- Note 18: Sensitivity of assets at level 3: Comparative table amended to correctly reflect level 3 property funds.
- Note 18 Valuation hierarchy: Comparative table amended to correctly reflect property funds between levels.
- Note 19 Financial Instruments: Amended to remove direct property of £7,250,000 from disclosures.

In response to a Members' question it was reported that the new User Management forms and workflow to be launched later in 2019 by Bradford ICT would improve the closure and withdrawal of access to systems for staff who exit the Council's employment.

**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 Audit**

**16. AUDIT COMPLETION REPORT 2018/19 - AUDIT OF CITY OF BRADFORD METROPOLITAN DISTRICT COUNCIL**

The External Auditor will present **Document "J"** which summarised the findings

from the audit of the City of Bradford Metropolitan District Council for the year ended 31 March 2019.

It was reported that subject to the satisfactory completion of the outstanding work which was almost complete and areas of work completed to date, External Audit had the following conclusion:

- Anticipated issuing an unqualified opinion, without modification, on the financial statements.
- Anticipated concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources, except for the areas assessed as inadequate by Ofsted in their report on children's social care services in October 2018.
- Anticipated completing the work on Whole of Government Accounts submission, in line with the group instructions issued by the National Audit Office, by the deadline of 13 September 2019. External Audit anticipated reporting that the Whole of Government Accounts submission was consistent with the audited financial statements.
- The 2014 Act required External Audit to give an elector, or any representative of the elector, the opportunity to question on the accounting records of the Council and to consider any objections made to the accounts. No objections had been received in respect of the 2018/19 statement of accounts.

Members were provided with an update on the matters outstanding in the report which included:

- In completing the work on Property, Plant and Equipment (including Investment Property) the following matters had been identified and had been adjusted for by management: the revaluation of 3 secondary schools was based on building indices as at 1 April 2018 rather than 31 March 2019. This required an amendment of £2.302m to the in year land and building revaluation figure and the revaluation reserve; the valuation movement for 4 swimming pool buildings had correctly included the revalued amount for land and as such the land element had been double counted, resulting in assets being overstated by £1,039K; there were no other matters in relation to this to bring to Members attention.
- Pensions work had been completed and there were no matters to bring to Members attention.
- Work had been completed on the physical verification/existence testing of a sample of heritage assets and there were no matters to bring to Members attention.
- Work on cash and cash equivalents had been completed and there were no matters to bring to Members attention.
- Work had been completed on expenditure and remuneration disclosures had been completed and there were no matters to bring to Members attention.
- Work had been completed on non material notes to the financial statements and there were no matters to bring to Members attention.
- Work on the Council's Whole Government Accounts remained in progress,

as reported in the Audit Completion Report. External Audit anticipated completing the work by the National Audit's Deadline of 13 September 2019.

- The final versions of the Annual Government Statement and amended financial statements had been completed and there were no matters to bring to Members attention.
- Final post balance sheet events review had been completed and there were no matters to bring to Members attention.
- Final review and closure procedures had been completed and management had made a small number of presentational changes. None of these changes required specific mention.

Members were informed that further to the above, an additional matter had been raised with management in relation to the Collection Fund reconciliations between the ledger and the Council Tax and Non Domestic Rates system where outstanding reconciliation differences had been identified. Whilst these differences were trivial in nature, External Audit were content that they did not mask more significant differences, management were encouraged to clear any such reconciliation differences going forward.

**Resolved-**

**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 Section 4; and**
- **approved the letter of representations requested at Appendix A.**

**Action: External Audit**

## **17. STATEMENT OF ACCOUNTS 2018/19**

The 2018-19 Statement of Accounts (SOA) had been externally audited and were now presented to the 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 Director of Finance submit **Document "K"** which presented the 2018-19 audited Statement of Accounts (Appendix A) and summarised the key financial points.

The key financial implications as at 31 March 2019 from the 2018-19 statement of accounts were summarised:

- The General Fund Balance ended the year at £15m and earmarked reserves on £166m. Both these amounts represented cash funds, but which could be spent once only. The General Fund Balance was held in accordance with statute; the purpose was as a safety net against unexpected variations in the Council's annual expenditure – which was £1.1 billion as shown in the cost of services in the Comprehensive Income and Expenditure Statement. The earmarked reserves were held to protect against specific risks and commitments. For example, this included the increasing volatility of the Council's funding as Government grants reduce.
- The Council spent £84m on long term infrastructure, as part of its Capital Programme. £31m of this spend was financed by borrowing. £5m was financed by receipts from the sale of property. £43m was financed by grants, with the remainder from miscellaneous sources.
- At the end of the year, the Council also held £47m of grants provided by external public sector bodies, which would be used in the future to finance the Capital Programme.
- Working capital was positive with short-term debtors and available cash higher than short-term creditors.
- The Council had £700m of borrowing for infrastructure spend. £220m was temporarily borrowed from the Council's own cash held in earmarked reserves in order to reduce interest payments. £4m relates to miscellaneous historical debt. £314m was actual borrowing from the Public Works Loan Board. £162m was in the form of contractual Private Finance Initiative liabilities. This last part of the borrowing was funded by an annual revenue grant from the Government, so currently there was no cost to the Council. However, this grant would be used up over a shorter period than was being used to repay the borrowing, so eventually there would be an annual cost arising from Private Finance Initiative Liabilities.
- Borrowing was in line with projections. Amounts previously set aside to pay for it were estimated at a higher proportion than outstanding usage on related land and buildings. As a result, the Council paid back to itself £23m in 2018-19 from these amounts set aside, transferring the cash amount into earmarked reserves. This followed a transfer for a similar amount in the 2017-18 financial year.
- Against the £700m of borrowing, the Council had £1,050m of land, buildings, equipment and other infrastructure. The value of the Council's long-term property was therefore significantly higher than the outstanding debt relating to it.
- Other considerations in any comparison between borrowing and infrastructure were that the Council's schools were converting to academies: accounting rules meant that as these academies were independent, their buildings could no longer be shown in the Council's accounts. For instance, 17 schools converted to academies in 2018-19, removing land and buildings to the value of £40m from the Council's balance sheet. Another consideration, though, was that borrowing would be expected to be lower than the Council's infrastructure because it had been partially financed by grants.
- The Council's estimated pension fund deficit had increased to £1,007m, based on an estimate made in accordance with accounting rules. However, this estimate was theoretical and was based on an extrapolation, looking

into the future. It compared promised pension benefits to employees with the investments set aside to pay for them. Pension experts regard the assumptions used in the extrapolation as cautious. In reality, the actual cost of funding employees' pensions was determined by a different valuation, the results of which were already factored into the Council's Medium Term Financial Strategy. This separate valuation also suggested the current value of the balance between pension benefits and investments was nearer breakeven.

- The Council maintained a separate fund for Business Rates and Council Tax, from which it distributes pre-agreed shares to itself, the Government, West Yorkshire Fire and Rescue Authority and the Police and Crime Commissioner. Overall the fund ended 2018-19 close to a break even position for both Business Rates and Council Tax. However, the Council's own share was a £1.1m surplus on Business Rates, with the Government holding a £1.1m deficit. This arose due to differences in the ratios of the amounts to be distributed between the Council and the Government in previous years. The Council's surplus would help support the budget in future years.

It was reported that this was the second year in which the Statement of Accounts were prepared and audited in line with the earlier timetable. The Council continued to streamline its processes to improve and develop the production of its accounts.

All misstatements in the draft accounts had been adjusted for. The most significant adjustment was in relation to the recalculation of the Council's pension liability. This arose due to recent court judgements and the outcome of professional discussions about how to reflect these in Local Authority's accounting statements.

The Head of Financial Accounting and Systems thanked External Audit for the work they had completed and the professional manner in which the audit was conducted.

In response to a Members' question it was reported that officers were working on a comprehensive investment strategy. A new prudential framework was being developed to stop authorities making unsound decisions on investments.

#### **Resolved-**

**That the 2018-19 Statement of Accounts be approved and signed by the Chair of the Committee.**

**Action:        Director of Finance**