

Central Bedfordshire
Council
Priory House
Monks Walk
Chicksands,
Shefford SG17 5TQ



please ask for Leslie Manning
direct line 0300 300 5132
date 13 June 2013

NOTICE OF MEETING

AUDIT COMMITTEE

Date & Time

Monday, 24 June 2013 1.30 p.m.

Venue at

Council Chamber, Priory House, Monks Walk, Shefford

Richard Carr
Chief Executive

PLEASE NOTE THE START TIME

To: The Chairman and Members of the AUDIT COMMITTEE:

Cllrs: M C Blair (Chairman), D Bowater (Vice-Chairman), R D Berry,
N B Costin, Mrs D B Green, D J Lawrence and A Zerny

[Named Substitutes:

Mrs J G Lawrence, A Shadbolt, M A Smith and N Warren]

All other Members of the Council - on request

***MEMBERS OF THE PRESS AND PUBLIC ARE WELCOME TO ATTEND THIS
MEETING***

AGENDA

1. **Apologies for Absence**

To receive apologies for absence and notification of substitute Members.

2. **Minutes**

To approve as a correct record the minutes of the meeting of the Audit Committee held on 8 April 2013 (copy attached).

3. **Members' Interests**

To receive from Members any declarations of interest.

4. **Chairman's Announcements and Communications**

To receive any announcements from the Chairman and any matters of communication.

5. **Petitions**

To receive petitions from members of the public in accordance with the Public Participation Procedure as set out in Annex 2 of Part A4 of the Constitution.

6. **Questions, Statements or Deputations**

To receive any questions, statements of deputations from members of the public in accordance with the Public Participation Procedure as set out in Annex 1 of Part A4 of the Constitution.

Reports

Item	Subject	Page Nos.
7	Central Bedfordshire Statement of Accounts 2012/13 To receive a presentation on the draft Statement of Accounts for 2012/13.	
8	Audit and Certification Fees 2013/14 To receive the Audit Fee letter from Ernst & Young LLP setting out the audit and certification fees for 2013/14.	* 13 - 16

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|----|---|-------------|
| 9 | Audit Progress Report | * 17 - 36 |
| | To receive a report from Ernst & Young LLP setting out both the progress made against the 2012/13 audit plan to date and key issues that may impact on the local government sector and which may be of interest to Members. | |
| 10 | Annual Governance Statement | + To Follow |
| | To consider the draft Annual Governance Statement. | |
| 11 | Internal Audit Annual Audit Opinion | * 37 - 60 |
| | To consider the annual report to those charged with governance on the overall adequacy and effectiveness of Central Bedfordshire Council's financial and other management internal controls. | |
| 12 | Tracking of Audit Recommendations | * 61 - 74 |
| | To consider a summary of the high risk recommendations arising from the Internal Audit reports together with the progress made in their implementation. | |

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CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 15, Priory House, Chicksands, Shefford on Monday, 8 April 2013

PRESENT

Cllr D Bowater (Chairman)
Cllr M C Blair (Vice-Chairman)

Cllrs N B Costin
Mrs D B Green

Cllrs D J Lawrence
A Zerny

Apologies for Absence: Cllr A Shadbolt

Substitutes: Cllr R D Berry (In place of A Shadbolt)

Members in Attendance: Cllr M R Jones

Officers in Attendance: Mr C Dillely Strategic Design Authority
Manager
Mr L Manning Committee Services Officer
Ms K Riches Head of Internal Audit and Risk
Mr M Scott Head of Information Assets
Mr N Visram Financial Controller
Mr C Warboys Chief Finance Officer

Others In Attendance: Mr M West Ernst & Young LLP

A/13/37 **Minutes**

RESOLVED

that the minutes of the meeting of the Audit Committee held on 7 January 2013 be confirmed as a correct record and signed by the Chairman as a correct record.

A/13/38 **Members' Interests**

Councillor Bowater declared an interest with regard to item 12 (Risk Update Report). The reason given for the declaration was that Councillor Bowater served as a Partnership Governor (Local Authority) on the Council of Governors for the South Essex Partnership University NHS Foundation Trust (SEPT).

A/13/39 Chairman's Announcements and Communications

The Chairman reminded Members that it had been agreed at the last meeting of the Committee (minute A/12/32 refers) that all Central Bedfordshire councillors should be invited to attend a presentation on the unaudited accounts at the meeting on 24 June. He advised that the invitation had been issued but that it had subsequently been established that the flag raising ceremony for Armed Forces Day was scheduled to take place at Priory House that same morning. Members' views were therefore sought on rescheduling the Committee so that it started during the early afternoon instead. In view of these circumstances Members fully concurred with the meeting starting at 1.30 p.m. on 24 June.

The Chairman welcomed Matt Scott (Head of Information Assets) and Clive Dilley (Strategic Design Authority Manager) to their first meeting of the Committee.

A/13/40 Petitions

No petitions were received from members of the public in accordance with the Public Participation Procedure as set out in Annex 2 of Part A4 of the Constitution.

A/13/41 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 Annex 1 of Part A4 of the Constitution.

A/13/42 Audit Plan

The Committee received a report by Ernst & Young LLP on the Audit Plan. The report was introduced by the Ernst & Young Director present. Members noted that the purpose of the report was to provide the Committee with a basis to review the proposed audit approach and scope for the 2012-2013 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements and, in addition, to ensure the audit was aligned with the Committee's service expectations.

In connection with the reference to scale fees within the report the Head of Internal Audit and Risk advised the meeting that the Audit Commission had refunded £19,560 to the Council.

NOTED

the Audit Plan for 2012/13.

A/13/43 Audit Progress Report

The Committee received the Audit Progress Report for the year ending 31 March 2013 from Ernst & Young LLP. The report, which was introduced by the Ernst & Young Director present, set out the work undertaken to date by the auditor since its appointment on 1 September 2012 and provided an overview of the stage reached by Ernst & Young in planning the Council's 2012/13 audit.

The following issues were covered by the report:

- Meetings (with key officers and other stakeholders)
- Identification of significant and other risks
- Completion of walk throughs and tests of control
- Value for money conclusion assessment
- Grant claim certification

In addition the report provided a timetable showing the key stages of the audit by Ernst & Young.

The meeting noted that, to date, no significant risks had been identified by the auditor.

NOTED**the Audit Progress Report.****A/13/44 Development of Disaster Recovery Plan**

The Committee considered a slide pack which provided an update on the Information Assets Disaster Recovery Plan. A revised slide pack, which included a list and explanation of the acronyms used within the pack, was circulated at the meeting.

Following a general introduction by the Head of Information Assets the Strategic Design Authority Manager worked through the slide pack, highlighting particular aspects for Members' information.

Members were first updated on developments in Information Assets (IA) disaster recovery which had taken place since September 2012 before receiving an outline of current activities which sought to provide greatly enhanced resilience and recovery measures in IA should a disaster occur. The Strategic Design Authority Manager then described future planned activities which focused on the migration of the production Data Centre from Bedford to a new co-location primary site, the migration of non-production servers from Watling House to a new co-location secondary site and, in the second half of 2013, a dry run Disaster Recovery test followed by an Active-Passive Disaster Recovery test.

Discussion followed during which the Strategic Design Authority Manager, in response to Members' queries, clarified aspects of the IA Disaster Recovery

Plan and related aspects of IT provision. He concluded by asking Members to contact him should they have any further queries.

NOTED

the Information Assets Disaster Recovery Plan update.

A/13/45

2013-14 Annual Audit Plan, Strategic Audit Plan and Internal Audit Strategy

The Committee considered a report by the Chief Finance Officer which presented the 2013/14 Annual Audit Plan and the Strategic Audit Plan for review and approval. The report also summarised the minor revisions made to the Internal Audit Strategy.

The meeting noted that the Internal Audit Plan was a high level statement of how the Internal Audit Service would be delivered in order to meet the requirements of the Accounts and Audit Regulations and the Public Sector Internal Audit Standards. A strategy had been prepared in April 2010 and had been updated regularly. The following revisions had been made for 2013/14:

- Reference to the new Public Sector Internal Auditing Standards
- The introduction of “assurance mapping” of key risks
- The Fighting Fraud Locally initiative, and
- The appointment of Ernst & Young LLP as the Council’s external auditors.

The Committee’s approval of the revisions was sought.

The meeting then turned to consider the 2013/14 Annual Audit Plan and Strategic Audit Plan. The meeting noted that the Public Sector Internal Audit Standards only required a detailed audit plan to cover a period of one year. However, a strategic plan had also been produced to demonstrate how the Internal Audit Service planned to provide assurance over the next three years in key areas. Members further noted that the plan would be reviewed, updated and expanded prior to the start of each financial year to provide more detail of the reviews to be undertaken. A copy of the Internal Audit Plan was attached at Appendix A to the report.

In response to a Member’s reference to assurance audits for Children’s Services and his comment regarding the threat of reputational risk the Head of Internal Audit and Risk stated that it would be possible to include assurance that action plans were being followed.

RESOLVED

that the proposed 2013/14 Annual Audit Plan and Strategic Audit Plan 2013/14-2015/16, together with the revised Internal Audit Strategy, be approved.

A/13/46

Internal Audit Progress Report

The Committee considered a report by the Chief Finance Officer which provided a progress update on the status of Internal Audit work for 2012/13 up to the end of February 2013.

The report set out progress on the 2012/13 Internal Audit Plan including:

- Managed Audits
- Other Audit Work
- National Fraud Initiative (NFI)
- Fraud and Special Investigations
- Schools
- Performance Management
- Internal Audit Charter

The Head of Internal Audit and Risk introduced the report, highlighting particular issues for Members' attention as she did so. With regard to Performance Management, and specifically to key performance indicator KP103 (percentage of audit reviews completed within the planned time budget), the Head of Internal Audit and Risk advised that consideration was being given to streamlining the reporting process for introduction in the new Financial Year. The Chief Finance Officer added that the proposed change would introduce a level of flexibility into the target figure.

A Member queried the timeliness of audit work in assisting those schools converting to Academies. In response the Head of Internal Audit and Risk stated that audit officers provided full support by attending school meetings which dealt with the conversion to Academy status and paid especial interest to pensions and payroll as these issues had a major impact on the smoothness of the transition. In response to a query the Head of Internal Audit and Risk indicated that the Council provided sufficient audit resources to offer effective support during the conversion process. The Chief Finance Officer stressed that a dedicated officer team monitored schools' financial position throughout the year and not just during the time of conversion.

The meeting was advised of revisions to the Council's Internal Audit Charter which include reference to the New Public Sector Internal Audit Standards and the appointment of Ernst and Young LLP as the Council's external auditors.

NOTED

the progress made against the 2012/13 Internal Audit Plan

RESOLVED

that the revisions to the Internal Audit Charter, as set out in the report of the Chief Finance Officer, be approved.

A/13/47

Risk Update Report

The Committee considered a report by the Chief Finance Officer which provided an overview of the Council's risk position as at March 2013. The Head of Internal Audit and Risk provided an introduction to the report and highlighted changes to the Strategic and Operational Risk matrices.

With reference to Strategic Risk STR0008 regarding the significant loss or ICT failure of core business systems including but not limited to: SAP, ECM, CCMS, Swift, Tribal, Accolaid, Open Revenues, QL Housing and Strategic Risk STR00016 regarding a core infrastructure failure of Datacentre Environment, SAN and/or CBC Network the Head of Internal Audit and Risk stated that she would be meeting with the Head of Information Assets and the Strategic Design Authority Manager Information Assets to discuss these items. She also advised the meeting that a workshop was to be held to consider what new emerging risks, if any, were apparent.

A Member expressed concern regarding Strategic Risk STR0010 on the protection of children and to the new Operational Risk RES050008 which related to insufficient ICT staff resources/capacity to respond to incidents, changes and planned project work. The Committee felt that these Risks should be referred to the relevant overview and scrutiny committees for consideration.

Another Member also expressed concern regarding Operational Risks SCH0004, regarding insufficient staff resources resulting in the under or mis-direction of investment in the transformation of adult social care services, and SCH0008, regarding insufficient capacity, expertise and competency to deliver the Adult Social Care and Housing agenda. The Committee was of the opinion that these Risks should be referred to the Health and Wellbeing Board for consideration.

NOTED

the strategic and operational risks facing Central Bedfordshire Council as set out in the risk summary dashboard attached at Appendix A to the report of the Chief Finance Officer.

RESOLVED

- 1 that, in view of the Audit Committee's concern regarding the risk ratings of Strategic Risk STR0010 and Operational Risk RES050008, these Risks be referred to the Children's Services and Corporate Resources Overview and Scrutiny Committees respectively for consideration;**
- 2 that, in view of the Audit Committee's concern regarding the risk ratings of Operational Risks SCH0004 and SCH0008, these Risks be referred to the Health and Wellbeing Board for consideration.**

A/13/48

Tracking of Audit Recommendations

The Committee considered a report by the Chief Finance Officer which summarised the high risk recommendations arising from Internal Audit reports. The report also outlined how the recommendations would be monitored and progress made in implementing them as at the end of February 2013.

Particular consideration was given to the four outstanding recommendations made prior to April 2012 in relation to the following:

- Main Accounting System 2009-10
- Payroll 2009-10
- Teachers' Pensions
- SAP Access and Security (inc IT Disaster Recovery) 2009- 10

The meeting was of the opinion that should the tracking report to the next Committee reveal the absence of any improvement in the rates of slippage then the relevant overview and scrutiny committee(s) should be advised.

A Member used the opportunity to comment that there were areas of land which had no recorded ownership but which could belong to the Council. However, no attempt had been made to establish whether or not any of the land did belong to the Council which, if it did, could be included on the Council's Assets Register. He suggested that investigative action be taken. In response the Chief Finance Officer emphasised that everything belonging to the Council with a value was already included on the Register. The Chairman encouraged the Member to notify officers should he be aware of any unrecorded Council asset. The Committee expressed concern at the level of resources required to undertake the action suggested by the Member when the outcome was so uncertain.

NOTED

the report on the high risk recommendations arising from Internal Audit reports and the progress made in implementing these as at the end of February 2013.

RESOLVED

that should the tracking report to the next Committee reveal the absence of any improvement in the rates of slippage with regard to the four outstanding recommendations made prior to April 2012 then the relevant overview and scrutiny committee(s) be advised.

A/13/49

2013/14 Audit Committee Outline Work Programme

Members considered a report by the Chief Finance Officer which set out the proposed work programme for the Committee for the 2013/14 municipal year.

RESOLVED

that the proposed work programme for the Audit Committee for 2013/14, as set out at Appendix A to the Chief Finance Officer's report, be approved.

(Note: The meeting commenced at 9.30 a.m. and concluded at 10.55 a.m.)

Chairman

Dated

Richard Carr
Chief Executive
Central Bedfordshire Council
Priory House
Monks Walk
Chicksands
Shefford
Bedfordshire SG17 5TQ

17 April 2013

Ref: 27504922 2013-14

Direct line: 020 7951 2000

Email: MWest@uk.ey.com

Dear Richard

**Central Bedfordshire Council
Audit and certification fees 2013-14**

We are writing to confirm the 2013-14 audit and certification work we propose to undertake. The 2013-14 fees reflect the risk-based approach promoted by the Audit Commission for audit and certification work.

Planned audit fee

The audit fee covers the work we perform to provide our:

- ▶ Opinion on the financial statements
- ▶ Value for money conclusion
- ▶ Report to the National Audit Office on the Whole of Government Accounts

The Audit Commission has set scales of fees as part of its five year procurement exercise. It has indicated scale fees are not liable to increase in that period unless there is a change in scope. For 2013-14 the Audit Commission has set a scale fee for each audited body. The scale fee is based on certain assumptions, including:

- ▶ The overall level of risk in relation to the audit of the financial statements, Whole of Government Accounts and proper arrangements is not significantly different from that of the prior year
- ▶ Reliance can be placed on the work of internal audit to the maximum extent possible under auditing standards
- ▶ The financial statements will be available in line with the agreed timetable
- ▶ Working papers and records provided in support of the financial statements are of a good quality and are provided in line with the agreed timetable
- ▶ Prompt responses are provided to draft audit reports



Meeting these assumptions will help ensure the delivery of an audit at the audit scale fee.

We have set the planned audit fee at the scale fee level which assumes the overall level of risk in relation to the audit of the 2013-14 financial statements, Whole of Government Accounts and value for money conclusion is not significantly different from that of 2012-13. The 2012-13 audit is in progress. We will update our risk assessment and undertake more detailed planning for the 2013-14 audit after we complete the 2012-13 audit.

Certification fee

The Audit Commission has set a composite indicative fee for certification work for each audited body. The indicative fee is based on actual 2011-12 certification fees adjusted to reflect the fact that a number of schemes will no longer require auditor certification, and incorporating a 40 per cent reduction.

The composite indicative fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

The indicative certification fee for 2013-14 relates to work on grant claims and returns for the year ended 31 March 2014. We have set the certification fee at the composite indicative fee level which assumes the same level of work on claims and returns as 2011-12. We will update our risk assessment after we complete 2012-13 certification work and to reflect further changes in the Audit Commission's certification arrangements.

Summary of fees

	Planned fee 2013-14 £	Planned fee 2012-13 £	Actual fee 2011-12 £
Code audit fee	184,885	184,885	308,142
Certification fee	52,100	45,350	90,006
Non-audit work	0	0	0

The certification fee for 2011-12 includes £10,760 on follow up work on the 2010-11 housing and council tax benefit claim. In response to queries raised by the Department for Work and Pensions on the 2011-12 claim the Council is carrying out additional testing, the results of which we are required to review. The estimated fee for this additional certification work of £8,000 is not included above.

The planned audit and certification fees will be billed in quarterly instalments of £59,246.

Any additional work that we may agree to undertake (outside of the Audit Code of Practice) will be separately negotiated and agreed with you in advance. No non-audit work is planned at the date of this letter.



Audit plan

We will issue our 2013-14 audit plan for the audit of the financial statements, Whole of Government Accounts and proper arrangements in March 2014. This will detail the financial statement and value for money conclusion risks identified, planned audit procedures to respond to those risks, and any changes in fee. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Chief Finance Officer and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.

Audit team

The key members of the audit team for 2013-14 are:

Mick West
Director

Email address
MWest@uk.ey.com

Tel: 01582 643000

Cathy O'Carroll
Manager

Email address
cocarroll@uk.ey.com

Tel: 07967 624334

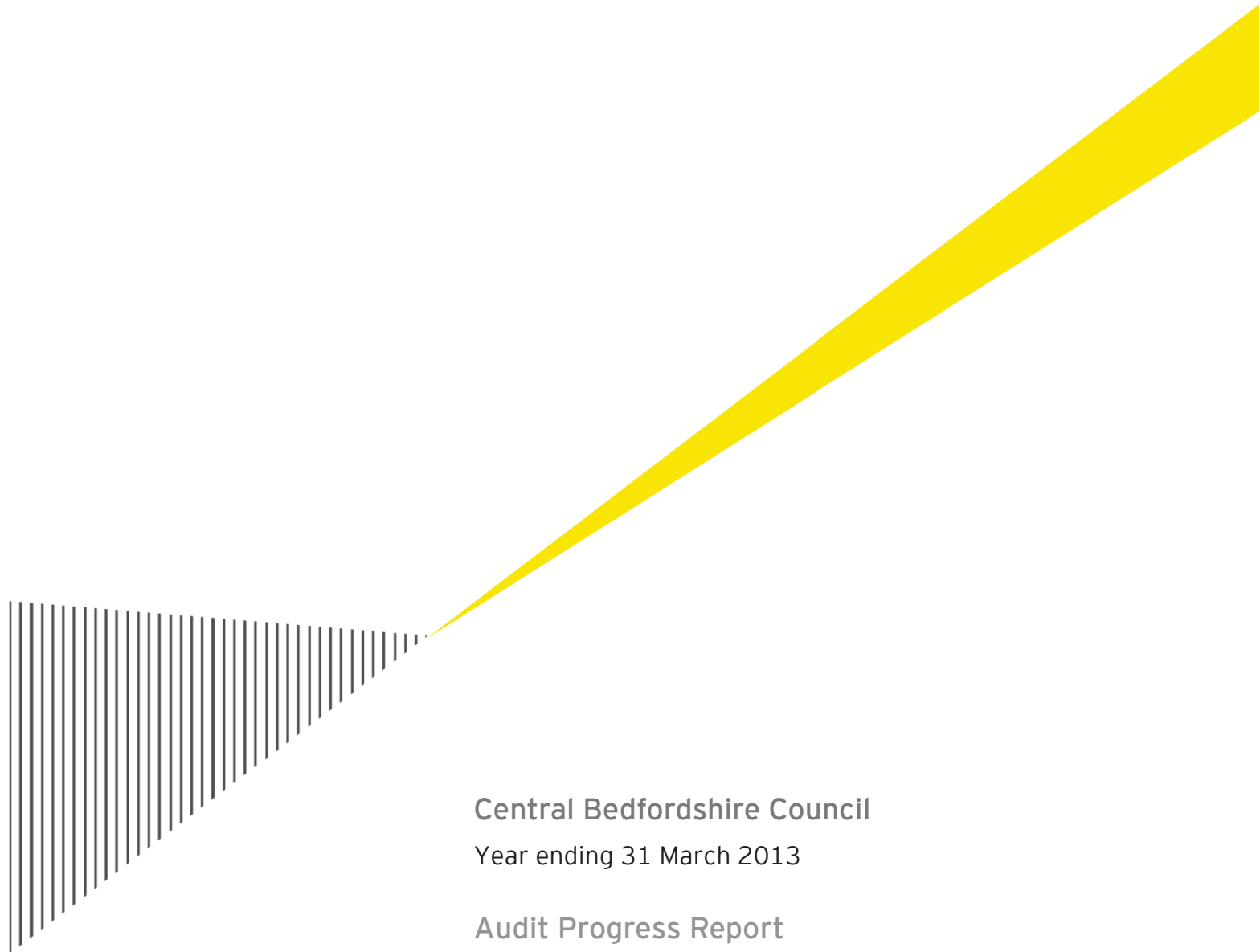
We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely

Mick West
Director
Ernst & Young LLP
United Kingdom

cc. Charles Warboys, Chief Finance Officer
Councillor David Bowater, Chairman of the Audit Committee

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Central Bedfordshire Council

Year ending 31 March 2013

Audit Progress Report

June 2013

Councillor Mike Blair
Chairman Audit Committee
Central Bedfordshire Council
Priory House
Monks Walk
Shefford
Bedfordshire SG17 5TQ

7th June 2013

Dear Mike

Audit progress report - 2012-13

We are pleased to attach our audit progress report.

The purpose of this report is to provide the Audit Committee with an overview of the stage we have reached in carrying out your 2012-13 audit. Our report sets out the work we have undertaken since our last progress report to you in April 2013.

This report also includes, at Appendix 2, a sector briefing which covers issues which may have an impact on your council, the local government sector and the audits that we undertake. This briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours sincerely

Mick West
Director
For and behalf of Ernst & Young LLP
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1. Work completed

2012-13 Audit Plan

The Audit Plan for 2012-13 was presented to the Audit Committee at its meeting in April 2013. The plan set out the financial statements and value for money conclusion risks that we had identified and our proposed response to those risks. Nothing has come to our attention since then that would require us to amend our plan.

Completion of walkthroughs and tests of control

We have completed our walkthroughs and controls testing with the exception of the asset management walkthrough. A number of the stages in this walkthrough relate to the financial year end and therefore this work will be completed as part of the audit of the financial statements. Our work to date has not identified any issues that we need to bring to your attention as those charged with governance.

Financial Statements

The detailed work on the statement of accounts will take place from July to September 2013. We will report our findings in the Annual Governance Report to the 24th September Audit Committee.

Value for money conclusion assessment

Our work on the value for money conclusion is largely complete. Our provisional conclusion, based on work completed to April 2013, is that the Council has proper arrangements in place to meet the two specified criteria. We will revisit this conclusion once the final outturn position for 2012-13 is known and report our conclusion in the Annual Governance Report.

Grant claim certification

We have just started work on the housing and council tax benefits subsidy claim for 2012-13. This is earlier than in previous years. This year the Council was able to submit the final claim for audit by the due date of 30th April, last year problems with CIVICA meant that a final claim could not be submitted for audit until 30th July. Work on the other claims to be certified will start in August.

In May 2013 we responded to the DWP (Department of Works and Pensions) on queries that had been raised with your officers, by the DWP, on our Qualification Letter on the 2011-12 housing and council tax benefits claim. The DWP had requested further information on the Council's arrangements for identifying cases that require a rent officer referral. We were able to confirm the arrangements that have been put in place for identifying such cases.

In addition your officers had carried out additional work on cells in the claim where we had reported extrapolated errors. We re-performed this work and were able to report revised extrapolations to the DWP. The Council has yet to receive a response from the DWP. The fee for this additional work will be £8,000 and was agreed with officers before we started the work.

2013-14 Audit Fee

The fee letter has been issued to officers and is included in the agenda for this meeting of the Audit Committee. The Audit Commission has set scales of fees as part of its five year procurement exercise. It has indicated scale fees are not liable to increase in that period unless there is a change in scope. We have therefore set the planned audit fee at the scale fee level which assumes the overall level of risk in relation to the audit of the 2013-14

Work completed

financial statements, Whole of Government Accounts and value for money conclusion is not significantly different from that of 2012-13. We will update our risk assessment and undertake more detailed planning for the 2013-14 audit after we complete the 2012-13 audit.

2. Timetable

Audit Committee timeline

The deliverables we have agreed to provide to you through the 2012-13 Audit Committee cycle are set out at Appendix 1.

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Appendix 1: Audit Progress on Deliverables

Progress against key deliverables

Key deliverable	Timetable in plan	Status	Comments
Fee letter	December 2012	Completed	December 2012
Audit plan	March - April 2013	Completed	April 2013
Report to those charged with governance	September 2013		
Auditor's report (including opinion and value for money conclusion)	September 2013		
Audit completion certificate	September 2013		
Auditor's report on WGA return	September 2013		
Annual audit letter	October 2013		
Annual report on certification of claims and returns	December 2013		

GPS assurance

Local Government Sector

Audit Committee briefing

Introduction

Contents at a glance

Government and economic news

**Health and local government
working together**

Regulation and inspection

Accounting and governance news

Find out more

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the local government sector and the audits that we undertake.

The public sector audit specialists who transferred from the Audit Commission form part of Ernst & Young's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by rich resource of wider expertise across Ernst & Young's UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.



Government and economic news

March 2013 budget

The Chancellor of the Exchequer delivered his Budget to Parliament on 20 March 2013, alongside the publication of the Office for Budget Responsibility's updated forecasts for growth and borrowing. In the budget he announced the Government will:

- ▶ Reduce departmental spending by £1.1bn in 2013-14 and £1.2bn in 2014-5. Schools and health budgets remain unchanged.
- ▶ Make savings from current spending of £11.5bn in the spending review for 2015-16. The themes of the spending review will be growth, efficiency and public service reform, including localism and fairness.
- ▶ Move funds from revenue to capital of £3bn a year from 2015-16.
- ▶ Exercise public sector pay restraint of one percent.
- ▶ Introduce a new funding model for adult social care based on the recommendations of the Dilnot Commission.
- ▶ Introduce housing measures aimed at increasing the supply of new housing through equity loans and mortgage guarantees.
- ▶ Introduce a firm limit on a significant proportion of Annually Managed Expenditure (AME) including areas of welfare reform.
- ▶ Reduce the main rate of corporation tax to 20 percent.
- ▶ Bring in a £5.4bn package of financial support for housing.
- ▶ Introduce a single-tier State Pension and implementing the £72,000 cap on social care costs from April 2016.

The ITEM Club, one of the UK's foremost independent economic forecasting groups, sponsored by Ernst & Young issued its response to the budget, concluding that:

- ▶ The shortfall in public spending was much larger than expected.
- ▶ The switch from current to capital spending would reduce the current deficit and help ease the pressure on the government's main fiscal target.

- ▶ The housing market package would be geared up so it has a major impact, in a sector that has a lot of pent up demand: and that this should stimulate construction and improve the consumer outlook.
- ▶ The reduction in the growth outlook means that businesses are likely to remain in 'wait and see mode'.

The Club has also issued its coming year economic forecasts to help with financial planning.

Final Local Government Finance Settlement 2013/14

On 4 February 2013, the Department for Communities and Local Government (DCLG) published the final 2013/14 Local Government Finance Settlement. Details of the provisional 2014/15 settlement were also issued.

The settlement shows a reduction in funding levels (after education and public health funding has been removed) of 3.7 percent. This has not impacted on all local authorities equally. The average reduction in individual local authority revenue spending power, not including the public health grant, is 1.7 percent.

The Institute of Fiscal Studies (IFS) has issued bleak forecasts of Local Government funding plans beyond 2014/15. It estimates that Local Government funding will reduce by an additional 3.2 percent in 2015/16 and 16.2 percent over the period 2015/16 to 2017/18.

Many authorities are now identifying significant gaps in their medium term financial plans, the need for more radical reforms to address these, including the likelihood that there will be cuts in front line services.

The National Audit Office (NAO) has published a report examining central government's approach to local authority funding. This highlights the increasing difficulties local authorities face in absorbing reductions in government funding without reducing services. It recommends the Department for Communities and Local Government (DCLG) works with other government departments to improve evaluation of the impact of decisions on local authority finances and services.

Whole-place community budgets

Community budgets work by bringing together public sector money and resources in local areas and giving public bodies the freedom to integrate their work and design services around the needs of people who use them. They mark a fundamental shift away from the traditional public sector method of funding services organisation by organisation and government department by government department.

Independent analysis from Ernst & Young, published by the Local Government Association (LGA) showed that more than £4 billion of public money could be saved every year by radically shaking up the way public services are provided and paid for in England; cutting unnecessary waste, duplication and red tape.

A year-long pilot of community budgets modelled to a national level by Ernst & Young, shows that devolving more decisions to local areas would provide better services and save between £9.4 billion and £20.6 billion over five years across local and central government.

The evidence from the pilots shows that:

- ▶ Better outcomes at reduced cost can be achieved through a replicable and scalable approach to community budgets.
- ▶ Success may require new forms of governance and new delivery and investment models for public services.
- ▶ There will be significant variation across areas in the benefits that may be realised as there are a range of local factors which will affect this.

The pilot report sets out what local and national factors need to be in place to achieve some of the potential benefits.

Following the development of whole-place business plans for community budgets in the four pilot areas, the Government confirmed in its budget that it will support other places to take similar approaches and that it is committed to extending the approach across the country as part of the 2015-16 spending round.

The Local Government Association (LGA) and the Government have jointly published 'The Community Budgets guide', intended to help other areas which aim to take a similar Community Budget approach to reforming services. The NAO has also published a review of the pilots of whole place community budgets, settling out key lessons.

The Government's response to the Heseltine review

On 8 March 2013 HM treasury published its response to Lord Heseltine's report 'No Stone Unturned'. The Government is accepting in full or in part 81 of Lord Heseltine's 89 recommendations to advance the process of decentralisation, promote the potential of local economies, strengthen partnerships with industry and foster economic growth. The March budget also specifically confirmed that government intends to take forward Lord Heseltine's recommendation on the creation of a Single Local Growth Fund.

The core proposition of Lord Heseltine's report is a de-centralised approach that breaks Whitehall's monopoly on resources and decision making, and empowers Local Enterprise Partnerships (LEPs) to drive forward growth in their local areas. Alongside this, Lord Heseltine makes a number of recommendations that strengthen the underpinnings of long-term growth, from changes to the way in which Whitehall supports growth, to strengthening partnerships between government and business and business education.

Draft Care and Support Bill update

In December 2012, the Department of Health (DH) published a summary of consultation responses on its Draft Care and Support Bill.

The draft Bill represents a major reform of care and support legislation. It proposes a single law for adult care and support and aims to transform the social care system to focus on prevention and the needs and goals of people requiring care.

In February 2013, the Government also announced new measures for funding care to ensure that the elderly and those with disabilities get the care they need without facing unlimited costs:

- ▶ From April 2015, no one will have to sell their home in their lifetime to pay for residential care. If people cannot afford their fees without selling their home, they will have the right to defer paying during their lifetime'.
- ▶ People will have clearer entitlements.
- ▶ A national minimum eligibility will make access to care more consistent around the country and carers will have a legal right to an assessment for care for the first time.

The new measures are based on the recommendations made in 2011 by the Dilnot Commission; an independent panel set up to look at the fairest and most sustainable way to fund care and support in England. The full changes are due to come into effect in April 2017.

A case for sustainable funding of adult social care published

In January 2013, a report by London Councils, supported by Ernst & Young was published on the scale of funding pressures on adult social care and the extent to which these could be mitigated through achieving greater efficiencies in the way that social care is managed, procured and delivered.

Adult social care is one of the largest spend areas for local authorities across the country. However, adult social care budgets have not kept pace with the growing demand for social care services.

The LGA found that social care is absorbing a rising proportion of the resources available to councils. They estimate that spending on other council services will drop by 66 percent in cash terms by the end of the decade to accommodate the rising costs of adult care. This is the equivalent of an 80 percent real terms cut.

The report sets out a series of recommendations for central government and four main options for local authorities to drive out additional savings:

- ▶ Greater health and social care integration.
- ▶ Implementation of alternative delivery models, moving away from in house provision to social enterprises or local authority trading companies.
- ▶ A more systematic approach to the procurement of goods and services.
- ▶ Using local government's new public health responsibilities to improve the health of communities and delay or prevent the need for health and social care.

However, the report still recognises that even if all potential savings were achieved from the above, there would still be a funding gap.

The report sets out further details about the challenges, the potential cost implications of implementing the proposed changes and ways in which local authorities could respond to the growing demand without compromising the quality or quantity of care that is available.





Health and local government working together

Public health

The responsibility for public health has transferred from the NHS to local authorities in April 2013. This has been backed by a ring-fenced public health grant and a specialist public health team, led by the director of public health. Each top tier and unitary authority will have a health and wellbeing board (HWB) which will have strategic influence over commissioning decisions across health, social care and public health.

A £5.45 billion two-year ring-fenced public health budget for local authorities was announced on 10 January 2013. From April 2013, public health budgets will be protected for the first time with local authorities taking the lead for improving the health of their local communities. This will help drive local efforts to improve health and wellbeing by tackling the wider determinants of poor health.

In February 2013, the Department of Health published guidance to local authorities on what health improvement activity they can charge for and what must be free at the point of delivery. It explains the two circumstances in which a local authority may charge for services and the type of activity it may charge for in those permitted circumstances:

- ▶ Where the activity relates to an organisation, not an individual – private companies, academic institutions, etc.
- ▶ Where the activity relates to an individual, but is not for the purpose of improving that individual's health – training an individual to provide public health advice, for example.

Health and Wellbeing Boards

The Local Authorities (Health and Wellbeing Boards and Health Scrutiny) Regulations 2013 were published by the Secretary of State for Health early in 2013. There are new obligations on both NHS bodies, relevant health service providers and local authorities around consultations on substantial developments or variations to services to aid transparency and local agreement on proposals.

The LGA and Association of Democratic Services Officers have published a joint guide to support local authorities in interpreting and implementing the constitutional and governance aspects of the Regulations 2013.

The NHS Confederation has published a report which looks at health and wellbeing boards' engagement with providers; drawing on the experiences and learning of local authorities, health providers and commissioners. It concludes health and wellbeing boards are unlikely to successfully deliver a Joint Health and Wellbeing Strategy unless they involve and engage local providers; many of which already have strong relationships with service users.

Local outcomes information for Clinical Commissioning Groups and local authorities

As well as publishing the financial allocations to Clinical Commissioning Groups (CCGs) for 2013/14 the NHS Commissioning Board has published CCG and local authority information packs on local outcomes which will support and inform planning and strategy development:

- ▶ The Local Authority level packs present high level comparative information on the NHS, the Adult Social Care and the Public Health Frameworks.
- ▶ The CCG level packs provide a more detailed analysis of NHS outcomes and other relevant indicators.

The purpose of these is to provide CCGs and health and well being partners with a quick and easy-to-use summary of their current position on outcomes as they take up their role; building on the data sets in the CCG outcomes indicators and other existing data sets.

The information is intended to be used alongside the local intelligence that is being collected to inform local Joint Strategic Needs Assessments (JSNAs) and it will support commissioners working together to set the priorities for the Joint Health and Wellbeing Strategy (JHWS).



Regulation and inspection

Draft Local Audit Bill update

On 17 January 2013, the Draft Local Audit Bill ad hoc Committee published its report 'Pre-Legislative Scrutiny of the Draft Local Audit Bill'. It recommended a new financial impact assessment be published alongside the Bill and highlighted a number of serious concerns regarding the practicability, workability and completeness of the proposals outlined in the draft Bill.

The Committee concluded that the Draft Bill:

- ▶ Would provide a more complex and fragmented audit regime than exists currently.
- ▶ Fails to provide adequate safeguards to guarantee the independence of audit.
- ▶ Falls short in addressing many of the technical aspects of audit and is silent on how high quality statutory local audit will be obtained and reviewed in the new regime.
- ▶ Contains a number of risks and gaps which require urgent attention.
- ▶ Provides insufficient safeguards to whistle-blowers that have drawn attention to serious governance failure.

A formal response from the Local Government Minister is expected in due course.

Tough times: councils' financial health in challenging times

On 22 November 2012 the Audit Commission published its second Tough Times report, looking at how councils are dealing with the spending review. It is relevant to council leadership teams, both members and officers in preparing future spending plans and allows comparison with the national picture.

The report highlights that Government funding to councils fell in real terms by £1.6 billion in 2012/13, compared to a cut of £3.4 billion in 2011/12. This two year reduction in funding of £5 billion is equivalent to 9.3 percent of councils 2011 revenue spending.

The report finds that in 2011/12, councils largely delivered their planned savings and in many cases added to reserves. However, auditors reported that signs of financial stress were visible. A sizeable minority of councils had to make additional in-year cuts, seek additional funding or restructure efficiency programmes in order to deliver their budgets.

The report says that auditors are concerned that 12 percent of councils are not well-placed to deliver their 2012/13 budgets. They feel that a further 25 percent will cope in 2012/13 but may struggle in the remaining years of the Spending Review period.

Auditing the accounts 2011/12

Audited accounts are the main way public bodies show accountability for managing public money. Publishing timely audited accounts is a fundamental feature of good governance.

The Audit Commission's Auditing the Accounts 2011/12 report summarises the results of auditors' opinion work for 2011/12. It covers the timeliness and quality of financial reporting. Overall, both principal and small bodies improved their standard of performance on financial reporting for 2011/12. This is a notable achievement given the continuing financial constraints facing local public bodies.

The report also summarises the key financial reporting and financial management challenges facing bodies for 2012/13:

- ▶ Continued financial uncertainty with 2012/13 being the second of four years of reductions in government funding announced in the 2010 Spending Review. Over this period, reductions in government funding to councils of 26 percent, fire and rescue authorities of 13 percent and police bodies of 20 percent, are planned.
- ▶ Significant changes for councils in respect of non-domestic rates and council tax benefit introduced by the Local Government Finance Act 2012.

- ▶ An increased focus on Whole of Government Accounts (WGA) with the Public Accounts Committee recommending the Treasury should ensure local bodies are obliged to prepare and provide transparent, timely and accurate information and that WGA is delivered earlier in the future.

The NAO has also highlighted the different approaches used by local and central government to valuing infrastructure assets and a lack of evidence supporting the completeness and valuation of schools' assets, in particular the omission of some local authority maintained schools and academies. The Financial Reporting Advisory Board and CIPFA/LAASAC are leading on addressing these and other technical accounting issues with a view to improving the consistency of future WGA. This work could result in changes to the Local Authority Code.

Not Just a Number: review of Homecare Services

In February 2013 Care Quality Commission (CQC) issued its report 'Not Just a Number: Review of Homecare Services'. The review looked at whether people receiving care at home are treated with dignity and respect, have a choice about the care they receive and benefit from effective systems to keep them safe.

The findings of the review of home care services show that good care is being delivered but a minority of people are affected by late or missed calls, lack of continuity of care workers, poor care planning and more.

CQC recommends that services must now work closer with commissioners to improve care, find solutions to these common problems and put systems in place to monitor the impact of missed or late visits.

Inequality of access and driving improvement: ofsted – annual report

Her Majesty's Chief Inspector (HMCI) Annual Report 2011/12 published in November 2012 drew national attention to the marked inequality of access by children and young people to a good school across the country and to the wide variation between areas. The Annual Report states that the role of local authorities has reduced in terms of the direct control they have over schools. However, local authorities have statutory responsibility as set out in section 13A of the Education Act 1996 and a range of powers they may use to drive school improvement.

Ofsted is consulting on its proposals to introduce a new framework for the inspection of local authority services for supporting improvement in schools and other providers. Consultation closed 19 March 2013.



Accounting and governance news

2012/13 CIPFA code of practice and updates

The key changes introduced by the Code and Code guidance notes for 2012/13 include:

- ▶ **Housing Revenue Account (HRA)** – from 2012/13 authorities will be expected to fund all HRA revenue and capital expenditure from existing resources such as rental income and debt finance. The level of rent collected and the depreciation or impairment of HRA assets will therefore have a real impact on the HRA surplus/deficit. DCLG has introduced transitional arrangements for the period 2012-2017, allowing authorities to defer the impact of the depreciation or impairment of HRA dwellings. This arrangement only applies to depreciation on dwellings.
- ▶ **Carbon Reduction Commitment** – IAS 37: Provisions, Contingent Liabilities and Contingent Assets will need to be considered in light of the scheme, where material.
- ▶ **Exit packages** – the 2012/13 Code guidance notes provide extended guidance on the disclosure requirements for exit packages.
- ▶ **Conceptual Framework** – the first phase of the IASB's new Conceptual Framework for Financial Reporting 2010 has been adopted by the 2012/13 Code. The definition of the users of financial statements moves from being 'stakeholders' to 'present and potential investors, lenders and other creditors, who use that information to make decisions about buying, selling or holding equity or debt instruments and providing or settling loans or other forms of credit'.
- ▶ **Financial Instruments** – guidance regarding the new disclosures required for transfers of financial assets has been added to the Financial Instruments section.

Updates to the 2012/13 Code of Practice and the 2012/13 Service Reporting Code of Practice have also been issued by CIPFA. Both updates apply for the 2012/13 financial year-end.

Closure of the 2012/13 accounts – LAAP bulletin 96

CIPFA have published LAAP96 – closure of the 2012/13 accounts and related matters. It aims to clarify any areas of uncertainty in the 2012/13 Code that will affect the 2012/13 accounts. It also includes clarification of a small number of issues relating to the 2012/13 Code Guidance Notes.

It provides a brief summary of the key reforms and other accounting issues that will face Local Government accounting in 2013/14 and which may require disclosure in the 2012/13 financial statements, particularly in relation to the non-domestic rate and public health reforms.

Local government pension scheme fund accounts 2012/13: example accounts and disclosure checklist

This recent CIPFA publication identifies and illustrates the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) in relation to accounting for pension funds. It applies to accounting periods commencing on or after 1 April 2012. The checklist is intended to help preparers to meet the requirements of the Code but is not a substitute for the Code.

Public sector accounting workshops

Ernst & Young have been running a series of workshops to help those preparing accounts for the 2012/13 year and over 150 delegates have attended these. The workshops highlight the following key areas for focus during the 2012/13 close down period:

- ▶ Non-current assets: valuation process and principles, assets held for sale, componentisation and de-recognition
- ▶ Joint Ventures (including pooling and groups)
- ▶ Financial Instruments
- ▶ Housing Revenue Account – Self Financing

The workshops also cover key changes in 2013/14 and beyond including:

- ▶ Possible changes to accounting for schools from 2014/15
- ▶ A proposed move away from accounting for transport infrastructure assets at depreciated historic cost from 2014/15. Councils will need to ensure infrastructure databases are robust
- ▶ Revaluating assets under IFRS 13. Specific exclusions to the general definition set out in IFRS13 are included in the Code
- ▶ Service concession arrangements (IPSAS 32). IFRIC12 on Service concession arrangements applies only to the operator. IPSAS 32 mirrors IFRIC 12 on relevant accounting issues from the grantor's point of view. CIPFA augments the Code by applying IPSAS 32
- ▶ Accounting for business rates retention and council tax support
- ▶ Employee benefits (IAS 19 update)

New UK Public Sector Internal Audit Standards

The UK Public Sector Internal Audit Standards (PSIAS) were published in December 2012. These set out definitions and principles for providing and evaluating internal audit services within the UK public sector and are based on the mandatory elements of the Institute of Internal Auditors (IIA) and International Professional Practices Framework (IPPF).

The Standards will apply across the whole of the public sector. The PSIAS replace the Code of Practice for Internal Audit in Local Government in the United Kingdom, last revised in 2006.

In local government, the PSIAS are mandatory for all principal local authorities, other relevant bodies, the Office of the Police and Crime Commissioner, constabularies, fire authorities, national park authorities, joint committees and joint boards in the United Kingdom.

The PSIAS are new and complex and CIPFA recognises the need to provide guidance for the bodies set out above in applying them and has produced an Application Note to provide that guidance.

National Fraud Initiative: the latest

The National Fraud Initiative reported on 8 March 2013 that it has now helped identify over £1 billion potentially lost to fraud, overpayment or error, across the UK since its inception in 1996. The outcomes, in England, from the most recent exercise include the prevention and detection of £103 million pension overpayments, £79 million council tax single person discounts incorrectly awarded and £42 million housing benefit overpayments. Others include:

- ▶ 164 employees identified as having no right to work in the UK
- ▶ 321 false applications removed from housing waiting lists
- ▶ 1,031 prosecutions, 921 of them for housing benefit fraud
- ▶ 32,633 blue badges and 52,635 concessionary travel passes cancelled

The NFI has introduced real-time and flexible matching alongside the traditional two-yearly national matching NFI exercise. The new modules align with the government's key policies focusing on protecting the UK economy from fraud.

Fighting Fraud Locally: 2012 review

December saw the publication of Fighting Fraud Locally (FFL) 2012 Review. FFL is the sector led local government counter fraud strategy initially launched in December 2011. The 2012 Review updates progress on delivery of the strategy, identifies a series of good practice case studies and outlines strategic delivery areas for 2013.



Find out more

To find out more on any other above areas please follow the links below.

The March 2013 budget

To see LGA's reaction and summary go to:

http://www.local.gov.uk/web/guest/briefings-and-responses/-/journal_content/56/10171/3924610/ARTICLE-TEMPLATE

To read the full details of the Ernst & Young's ITEM Club's Budget Reaction go to:

<http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy>

The ITEM Club holds regular events locally and are keen to increase representation from local public services to maximise the opportunities for networking, partnership working, cross sector learning and to secure improved outcomes for local communities. For further information about these events contact your local audit team.

Final Local Government Finance Settlement 2013/14

For more details of the settlement go to:

<http://www.local.communities.gov.uk/finance/1314/settle.htm>

To read the NAO report on the financial sustainability of local authorities go to:
www.nao.org.uk/.../local-services-financial-sustainability-of-local-authorities/

Whole-Place community budgets

Read more about the pilots at:

http://www.local.gov.uk/c/document_library/get_file?uuid=3e06dd05-6204-4ae8-9b41-81f516cb9a5b&groupId=10171

Access the LGA Guide at:

<http://www.local.gov.uk/community-budgets>

See the NAO report at

<http://www.nao.org.uk/wp-content/uploads/2013/03/Whole-Place-Community-Budgets-Executive-summary.pdf>

The Government's response to the Heseltine Review

Read more about the government response at:

http://www.hm-treasury.gov.uk/ukecon_heseltinereview_index.htm

Draft Care and Support Bill update

Read more about the proposals at:

<https://www.gov.uk/government/publications/policy-statement-on-care-and-support-funding-reform>

A case for sustainable funding of adult social care published

Read more about the report on sustainable funding at:

<http://www.londoncouncils.gov.uk/policylobbying/healthadulthoodservices/socialcare/fundingadulthoodcare.htm>

Public health

Read more at on public health budgets at:

<https://www.gov.uk/government/publications/baseline-spending-estimates-for-the-new-nhs-and-public-health-commissioning-architecture>

Read more on Public health charging at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/141386/local-authority-charging-for-public-health-activity.pdf

Health and Wellbeing Boards

Read more at:

<http://healthandcare.dh.gov.uk/hwbs-health-scrutiny-regulations-2013/>.

Access the LGA and Association of Democratic Services Officers guide on interpreting and implementing the constitutional and governance aspects of the Regulations 2013 at:

http://www.local.gov.uk/c/document_library/get_file?uuid=ca8437aa-742c-4209-827c-996afa9583ca&groupId=10171

Access the NHS Confederation report 'Stronger together: How health and wellbeing boards can work effectively with local providers' at:

<http://www.nhsconfed.org/Publications/reports/Pages/Stronger-together.aspx>

Local outcomes information for Clinical Commissioning Groups and local authorities

Access outcome information for your council at

<http://www.commissioningboard.nhs.uk/la-ccg-data/#la-info>

Draft Local Audit Bill update

Access the pre legislative report at

<http://www.publications.parliament.uk/pa/cm201213/cmselect/cmdraftloaudit/696/69602.htm>

Tough times: councils' financial health in challenging times

Read the report at:

<http://www.audit-commission.gov.uk/2012/11/tough-times-2012/>

Auditing the accounts 2011/12

Read the report at:

<http://www.audit-commission.gov.uk/audit-regime/codes-of-audit-practice/auditing-the-accounts/>

Not just a number: review of homecare services

Read the report at:

http://www.cqc.org.uk/sites/default/files/media/documents/9331-cqc-home_care_report-web_0.pdf

Inequality of access and driving improvement: ofsted – annual report

Read more at:

<http://www.ofsted.gov.uk/resources/good-education-for-all-inspection-of-local-authority-services>

Code of practice on local Authority Accounting in the United Kingdom 2012/13

The 2012/13 Code Update can be found at:

<http://www.cipfa.org/-/media/files/policy%20and%20guidance/panels/lasaac/201213%20code%20update%20including%20tracked%20amendments.pdf>

The 2012/13 Service Reporting Code of Practice for Local Authorities Update can be found at:

www.cipfa.org/Policy-and-Guidance/Technical-Panels-and-Boards/Local-Authority-Accounting-Panel/Update-to-the-201213-Service-Reporting-Code-of-Practice

New UK Public Sector Internal Audit Standards

Read about the new standards at:

<http://www.cipfa.org/Policy-and-Guidance/Publications/L/Local-Government-Application-Note-for-the-United-Kingdom-Public-Sector-Internal-Audit-Standards-Book>

National Fraud Initiative-the latest

The Audit Commission NFI update is at:

<http://www.audit-commission.gov.uk/2013/03/1-billion-of-fraud-found/>

Fighting Fraud Locally: 2012 Review

Read more at:

<http://www.fightinglocalfraud.co.uk/>

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Meeting: Audit Committee
Date: 24 June 2013
Subject: Internal Audit Annual Audit Opinion
Report of: Chief Finance Officer
Summary: This is the annual report of the Head of Internal Audit and Risk to those charged with governance on the overall adequacy and effectiveness of Central Bedfordshire Council's financial and other management internal controls.

Advising Officer: Chief Finance Officer
Contact Officer: Kathy Riches , Head of Internal Audit and Risk
Public/Exempt: Public
Wards Affected: All
Function of: Audit Committee

CORPORATE IMPLICATIONS

Council Priorities:

The activities of Internal Audit are crucial to the governance arrangements of the organisation and as such are supporting all of the priorities of the Council.

Financial:

1. None directly from this report. However, sound systems assist in preventing loss of resources (by other wastage or fraud), thereby improving effectiveness and efficiency.

Legal:

2. None directly from this report.

Risk Management:

3. No risk management implications come directly from this report but the Audit Plan was produced using a risk based approach, following the completion of a detailed Audit Needs Assessment which took into account strategic and service area risks.

Staffing (including Trades Unions):

4. None directly from this report.

Equalities/Human Rights:

5. None directly from this report.

Public Health

6. None directly from this report.

Community Safety:

7. None directly from this report.

Sustainability:

8. None directly from this report.

Procurement:

9. None directly from this report.

RECOMMENDATION:

The Committee is asked to consider and comment on the contents of the report.

Background

10. The Accounts and Audit Regulations 2011 require the Council to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices. The applicable standard for 2012/13 was the CIPFA Code of Practice for Internal Audit in Local Government 2006 (the Code). In accordance with the Code, the Head of Internal Audit is required to provide a written report to those charged with governance, timed to support the Annual Governance Statement, which should include an opinion on the overall adequacy and effectiveness of the Council's control environment.
- 11 This report:
- Presents an opinion on the overall adequacy and effectiveness of Central Bedfordshire's internal control environment, along with any qualifications to that opinion
 - Summarises audit work undertaken from which that opinion is derived
 - Highlights significant issues identified as part of Internal Audit's work, including those that are particularly relevant to the Annual Governance Statement
 - Compares the Internal Audit work actually undertaken with the work that was planned and summarises the performance of the internal audit function against its performance measures and criteria.

Responsibilities

12. It is a management responsibility to develop and maintain the internal control framework and to ensure compliance. It is the responsibility of Internal Audit to form an independent opinion on the adequacy of the system of internal control.

Internal Control Environment

13. The Code defines the control environment as comprising the Council's systems of governance, risk management and internal control.
14. In order to form an opinion on the overall adequacy and effectiveness of the control environment, the internal audit activity is planned to provide coverage of financial controls through review of the key financial systems, and internal controls through a range of operating activity both within directorates and cross cutting, using a risk based approach. The work undertaken by Internal Audit helps inform the Annual Governance Statement.

The Audit Methodology

15. During 2012/13 Internal Audit complied with the CIPFA Code of Practice. There are documented Terms of Reference, as set out in the Internal Audit Charter, that specify the objectives and scope of Internal Audit. The Head of Internal Audit and Risk has undertaken a self assessment of compliance with the Code. In accordance with the requirements of the Accounts and Audit Regulations 2011 the Chief Finance Officer has carried out a review of the effectiveness of the System of Internal Audit. The scope of the review covered compliance with the CIPFA Code of Practice for Internal Audit 2006, and reporting on performance and outcomes to the Audit Committee.
16. The Internal Audit Strategy and Plan for 2012/13 was approved by the Audit Committee in April 2012.
17. The Internal Audit Plan identified the individual audit assignments. The activity was undertaken using a systematic risk based approach. The objectives for each activity were determined and risks in the processes that supported that activity were identified and set down in terms of reference that outlined the objectives and scope for each audit. The work was planned and performed so as to obtain all the information and explanations necessary to provide sufficient evidence in forming an overall opinion on the adequacy of the internal control framework.
18. Internal Audit reports provide an overall conclusion on the control environment for each system reviewed. A summary of the conclusions for each audit is attached as Appendix A to this report. The definitions of each conclusion are attached as Appendix B.

19. To provide quality assurance over the audit output, audit assignments are allocated to staff according to their skills and experience. Each auditor has a designated Audit Manager to perform quality reviews at four stages of the audit assignment: the audit brief (terms of reference), file review, draft report and final report stages. In addition, the Head of Internal Audit and Risk reviews all reports.
20. In addition to this annual report, the Audit Committee receive regular progress reports throughout the year.

The Internal Audit Team

21. During 2012/13 the Internal Audit Service was delivered by a team of suitably qualified auditors, supported by external contractors. Each member of the team undertakes a regular Performance Development Review (PDR) and participates in Continuing Professional Development (CPD) as appropriate.

Head of Internal Audit's Opinion on the System of Internal Control

22. The CIPFA Code of Practice on Internal Audit requires the Head of Internal Audit to provide an overall opinion on the adequacy and effectiveness of the Authority's internal control environment.
23. The Internal Audit work undertaken during the year has enabled Internal Audit to provide an objective assessment of whether systems and controls are operating effectively. In giving an audit opinion, however, it should be noted that assurance can never be absolute. However, the scope of the activity undertaken is sufficient for reasonable assurance to be placed on the work.
24. Ernst and Young, as the Council's external auditors, have reviewed the work undertaken by Internal Audit on the managed audits and have been able to place reliance on the work, and have been in agreement with the audit opinions given.
25. A summary of the work undertaken during the year, forming the basis of the audit opinion on the control environment, is shown at Appendix A of this report.
26. The opinion on the Council's System of Internal Control is that overall it continues to be adequate. In general the key controls in place are adequate and effective such that reasonable assurance can be placed on the operation of the Council's functions.

27. This conclusion is based on the following:
- A Code of Financial Governance is in place, and is incorporated within the Constitution.
 - Financial Procedures support the Code of Financial Governance and these have been refreshed and updated during the year.
 - A Financial Scheme of Management is in place.
 - Procedures and processes have been documented in a number of key areas.
 - Adequate controls were found to be in place in a number of areas.
 - Progress has been made in addressing many of the high risk Internal Audit recommendations made.
 - There has been a stable senior finance management structure in place during the year,
 - Assurances on key strategic risks have been mapped during the year.
 - Internal audit work on the fundamental systems has generally shown a positive direction of travel, and
 - Full assurance opinions were given to both the Council Tax and National Non Domestic Rates (NNDR) managed audit reviews.
28. It should be noted that most audits undertaken have resulted in reports identifying areas for improvement which have been well received by managers, and actions agreed to address weaknesses in control. The implementation of these actions is tracked by Internal Audit and the progress against the implementation of high recommendations is regularly reported to the Audit Committee.
29. In arriving at the opinion the following has been taken into account:
- The results of the audits undertaken as part of the 2012/13 plan
 - The results of follow up action in respect of previous audits
 - Whether or not any limitations have been placed on the scope of Internal Audit – of which there have been none.
30. The following key concerns were identified and these have been reflected in the Annual Governance Statement:
- Some key controls are not operating effectively in the payroll systems resulting in a limited assurance opinion. Controls in this area need to be strengthened. Some improvements on last year have been noted, however, further action is required to fully address the control weaknesses identified. The payroll service was brought back in house from 1st April 2012. This resulted in a review of processes. A SAP Optimisation project is in progress, and this will be further developed during 2013/14.
 - Significant progress was made during 2012/13 to develop a comprehensive IT Disaster Recovery Plan. Further work is currently in progress. The Audit Committee has received regular updates on this during the year.

Delivery of the 2012/13 Internal Audit Plan

31. The operation of the key financial systems is a key part of the internal control environment. The table at Appendix A sets out the outcome of the reviews of these systems, and indicates whether the opinions are final or provisional, as some of the work is still ongoing. The opinions given during 2011/12 are included for comparison. The appendix also summarises other reviews undertaken during the year.
32. The reviews of the key financial systems (Managed Audits) help inform the Annual Governance Statement. From the review of 11 key systems for which an opinion has been determined, 2 have given full assurance, 8 were “adequate”, 1 was “limited” and none were “unsatisfactory”. There has been an improvement in the opinion awarded to both the National Non Domestic Rates (NDR) and Council Tax systems. It should be noted that the opinions given reflect the controls in place across the whole year. Although several of the Phase 2 reports have still to be finalised, no new key issues of concern have been identified.
33. Audit work is not just limited to implementing the audit plan. Internal Audit is involved in other areas advising on systems development and using their skills to provide other general advice to service areas. Internal Audit has participated in a number of projects, providing advice on controls required. These projects include the Children’s Case Management System (CCMS), the Local Welfare Provision Board, SAP Optimisation, SWIFT Disaggregation and the Payment Card Industry Data Security Standard Scheme (PCIDSS). In addition, individual grant claims have been audited, where required.

National Fraud Initiative (NFI)

34. During 2012/13, we continued to complete work on the National Fraud Initiative (NFI). This involves supplying data to the Audit Commission for matching purposes. Work on investigating the resulting positive matches is ongoing. Work includes matches on pension payments to registered deaths, matching payrolls between authorities, and other matches including UK visas, blue badges, private residential care and Housing Benefits.
35. The Internal Audit team has also assisted other authorities undertake their NFI enquiries by providing information to support their investigations.

Anti Fraud Work and Special Investigations

36. Internal Audit finalised work on one investigation during the year. The outcome of this was reported to the January Audit Committee.
37. Internal Audit continues to operate the Fraud Hotline. None of the calls received have resulted in an audit investigation. In all cases, the calls received have related either to fraud in other organisations or allegations of Housing Benefit Fraud and the information has been forwarded appropriately.

Schools

38. The rolling programme of school audits has continued during 2012/13. During the year final reports were issued to 16 schools. The opinions given for the finalised reviews are set out at Appendix A.

Performance Management

39. The Internal Audit Charter approved by the Audit Committee in April 2012 requires Internal Audit to report its progress on some Key Performance Indicators (KPI). Overall, performance has been positive and where targets have not been met, action will be taken aimed at improving performance. The table below summarises the results for the year, and also includes the previous year's indicators, for comparative purposes.
40. The indicators include both CBC audit activities and school activity.

41. **Activities for 1 April 2012 – 31 March 2013**

KPI	Definition	2012/13		2011/12	
		How we performed	Our target	How we performed	Our target
KPI01	Percentage of total audit days completed.	100%	80%	94%	80%
KPI02	Percentage of the number of planned reviews completed to final report stage.	80%	80%	80%	80%
KPI03	Percentage of audit reviews completed within the planned time budget.	60%	80%	59%	80%
KPI04	Time taken to draft reports: Percentage of reviews where the first final draft report was returned by auditee within 10 available working days of receipt of the report from the Auditor.	76%	80%	58%	80%
KPI05	Time taken to issue a final report: Percentage of reviews where the final report was issued within 10 available working days of receipt of the response agreeing to the formal report.	85%	80%	100%	80%
KPI06	Overall customer satisfaction.	93%	80%	83%	80%

42. **Analysis of indicators:**

KPI01 – During the year we delivered a total of 1,297 productive audit days against a total of 1,300 planned days for the year. This exceeds our target for the period.

KPI02 – This KPI measures final reports issued as at 31 March 2013. 80% of the planned reviews had been completed to final report stage, which was in line with the target. However, this excludes work on the second phase of the managed audits which was in progress as at 31st March. Performance was consistent with the previous year.

KPI03 – Only 60% of planned reviews have been completed within the planned time budgets. As agreed at the April Audit Committee this performance measure has been reviewed. Following discussions with the Chief Finance Officer, for 2013/14, the target will measure the percentage of reviews that have been completed within a one day tolerance of the planned time budget, and a target of 75% has been set.

KPI04 - This indicator measures the time taken for Internal Audit to receive a response from the auditee to the draft report. During 2012/13, 76% of draft reports were responded to within the target set. This represents a significant improvement over the previous year. Internal Audit will continue to work with departments to encourage a prompt response.

KPI05 - This indicator measures the time taken by Internal Audit to issue the final report upon receipt of an agreed response from the auditee. The reduction in performance compared to last year is due to sickness absence within the Internal Audit Team.

KPI06 – A total of 26 surveys have been sent out. 19 responses have been received to date. The responses received have been positive, and demonstrate an improvement over the previous year.

Review of the Effectiveness of Internal Audit and the Effectiveness of the Systems of Internal Control

Background (Accounts and Audit Regulations 2011)

43. All councils are required to publish an Annual Governance Statement (AGS) to accompany their Statement of Accounts, in accordance with the 2011 Accounts and Audit Regulations. Assessments of the Effectiveness of Internal Audit and the Effectiveness of Systems of Internal Control are two key aspects of the AGS. Central Bedfordshire Council has reviewed both systems for 2012/13 and the findings are incorporated into the Annual Audit opinion and subsequently into the AGS.

Review of the Effectiveness of Internal Audit.

44. As referred to in paragraph 15 above, a review of the Effectiveness of Internal Audit was undertaken by the Chief Finance Officer.

Review of the Effectiveness of the Systems of Internal Control

45. The Council's review of the effectiveness of the system of internal control is informed by:
- Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports
 - the work undertaken by Internal Audit during the year
 - the work undertaken by the external auditor reported in their annual audit and inspection letter
 - other work undertaken by independent inspection bodies.
46. The Head of Internal Audit and Risk has supported the Head of Legal Services (Monitoring Officer) to collect evidence required for the production of the AGS.
47. Directors have been requested to sign statements on the Effectiveness of Internal Control for 2012/13, confirming that during the year they were:
- Ensuring that there are arrangements in place for establishing Directorate objectives and compliance to corporate priorities;
 - Ensuring compliance to the Council's governance arrangements (Constitution, Ethical Framework, and Policies & Regulations);
 - Ensuring arrangements for sound budgetary controls;
 - Effectively monitoring and managing performance;
 - Reporting to the appropriate Member Committees;
 - Responding promptly to internal & external audits & inspections;
 - Continuously managing business risks and service continuity arrangements.
48. The work undertaken by Internal Audit on the systems of internal control disclosed that generally they were effective during 2012/13. However, some areas of concern were identified and these are summarised in paragraph 30 above, and are reflected in the Annual Governance Statement.

Conclusion and Next Steps

49. The work undertaken by Internal Audit has enabled the team to advise management of some of the control weaknesses identified at an early stage, and make recommendations designed to enhance and strengthen controls and mitigate risks.
50. The internal control environment operated adequately during 2012/13, although some areas of concern identified in the AGS must be addressed promptly.

Appendices:

Appendix A – Summary of Internal Audit Activity 2012/13

Appendix B – Definition of Internal Audit Opinions

Background Papers:

None.

Location of papers:

N/A

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APPENDIX A

Internal Audit Activity during 2012/13

The table below provides a summary of audit activity during 2012/13.

Review Title	Progress	Audit Opinion 2012/13	Audit Opinion 2011/12
2012/13 Managed Audits		(*indicates provisional Opinion)	
Accounts Payable	Final Phase 1 report issued. Draft Phase 2 report in preparation.	Adequate	Adequate
Accounts Receivable	Final Phase 1 report issued. Draft Phase 2 report in preparation.	Adequate	Adequate
Main Accounting System	Final Phase 1 report issued. Draft Phase 2 report in preparation.	Adequate	Adequate
Cash and Banking	Final Phase 1 report issued. No Phase 2 testing required.	Adequate	Adequate Full
Payroll	Final Phase 1 report issued. Phase 2 report being drafted.	Limited	Limited Limited
Asset Management	Final Phase 1 report issued. Work on Phase 2 is ongoing and will be finalised following the year end accounts closure process.	Adequate	Adequate.
SWIFT Financials	Draft report in preparation.	To be determined.	Limited

Review Title	Progress	Audit Opinion 2012/13	Audit Opinion 2011/12
Housing Rents	Final phase 1 report issued.	Adequate.	Adequate
	No Phase 2 testing required.		Adequate
SAP Access and Security	Work is currently ongoing and a draft report will be issued shortly.	To be determined.	Adequate
IT Disaster Recovery (including Back Up and Restore Arrangements)	Work is currently ongoing and a draft report will be issued shortly.	To be determined.	Limited.
Treasury Management	Final Phase 1 report issued.	Adequate	Adequate
	Phase 2 report being drafted.		Adequate
Council Tax	Final Phase 1 report issued.	Full	Adequate
	Final Phase 2 report issued.	Full	Adequate
NNDR	Final Phase 1 report issued.	Full	Adequate
	Final Phase 2 report issued.	Full	Adequate
Housing and Council Tax Benefits	Final Phase 1 report issued.	Adequate	Adequate
	Draft Phase 2 report prepared.		Adequate

Other Audit Reviews Completed	Progress	Opinion (*indicates provisional Opinion)
Children's Services		
Commissioning/Out of Authority Placements	Final report issued	Adequate
Social Care, Health and Housing		
Linsell House	Final report issued	Adequate
Local Management of Establishments – Ampt Hill Day Centre	Final report issued	Adequate
Village Care Scheme	Final report issued	Full
Association of Directors of Adult Social Services Workbook (ADASS) – self assessment model for car providers	Final report issued	Full
Assurance on Client Charging	Final report issued	Adequate
Sustainable Communities		
Leighton Buzzard Theatre Follow Up	Final report issued	Satisfactory Progress
Section 106 Follow Up	Final report issued	Satisfactory Progress
Governance		
Ethical Governance	Draft report issued	Adequate*
Corporate Services		
Budget Management	Final report issued	Adequate
Debt Collection Arrangements	Final report issued	Adequate
Contracts		
Contract Management	Final report issued	Limited
Service Level Agreements (SLA) Follow Up	Draft report issued	Satisfactory Progress
Pro Active Anti Fraud Reviews		
Petty Cash Imprests	Final report issued	n/a
Cash Income	Final report issued	n/a
Appendix E Payments	Final report issued	n/a
Grant Claims:		
Local Transport Capital Block Funding	Work completed	n/a
Luton and South Bedfordshire Partnership	Work completed	n/a
NHS Grant 2011/12	Work completed	n/a
Re-enablement Grant	Work completed	n/a
Winter Pressures Grant	Work completed	n/a
School Audits		
Caldecote Lower	Final report issued	Limited
Derwent Lower	Final report issued	Limited
Downside Lower	Final report issued	Limited
Dunton Lower and Wrestlingworth Lower (combined visit)	Final report issued	Adequate

Edward Peake Middle	Final report issued	Adequate
Hillcrest	Final report issued	Adequate
Hockliffe Lower	Final report issued	Adequate
Kensworth Lower	Final report issued	Adequate
Ivel Valley Lower	Final report issued	Adequate
LInslade Lower	Final report issued	Adequate
Oakbank	Final report issued	Limited
Russell Lower	Final report issued	Limited
Sandy Upper	Final report issued	No assurance
St Mary's Lower, Caddington	Final report issued	Adequate
Watling Lower Follow Up	Final report issued	Satisfactory Progress

Key Issues arising from completed reviews

1. 2012/13 Accounts Payable

This review covered policies and procedures, and the Accounts Payable processes, including ordering, goods receipting, authorisation of invoices, reconciliations and controls over master data. The overall audit opinion was adequate.

2. 2012/13 Accounts Receivable

This review covered policies and procedures, and the Accounts Receivable processes, including invoicing, amendments, accounting arrangements, debt monitoring and write offs. The overall audit opinion was adequate.

3. 2012/13 Main Accounting System

This review covered policies and procedures, accounting for financial transactions, transfers from feeder systems, controls to ensure accuracy, and reporting mechanisms. The overall opinion was adequate.

4. 2012/13 Cash and Banking

This review covered policies and procedures and the processes for ensuring transactions are recorded and supported by appropriate documentation. It also reviewed the access controls and the contract for the provision of the Capita income system. The audit opinion for the Phase 1 review was adequate and no Phase 2 work was required.

5. 2012/13 Payroll

The review covered policies and procedures, controls over standing data, the accuracy of payments and deductions, controls over payments to and received from statutory agencies, the accurate posting of data, and compliance with legislative requirements. The audit opinion for Phase 1 was limited, which was also the opinion given in 2011/12. Some improvements have been noted at Phase 2 but these are unlikely to impact on the opinion given at Phase 1.

6. 2012/13 Asset Management

The review covered policies and procedures, capital expenditure, depreciation, disposals, impairments and security of assets. The audit opinion for Phase 1 was adequate. Phase 2 will be undertaken after the closure of accounts has been finalised.

7. 2012/13 SWIFT Financials

SWIFT financials provides key accounting functionality to directorates providing social care services. This review covered the security of the system including passwords and access rights, input processing and output controls, data back up arrangements, and the audit trail. A number of control issues were identified.

8. 2012/13 Housing Rents

This review covered policies and procedures and the processes to support the calculation, receipt and recording of amounts due. The audit opinion was adequate for Phase 1 and no Phase 2 work was required.

9. 2012/13 SAP Access and Security

This review forms part of the managed audit process and focuses upon SAP Access and Security arrangements and included rudimentary testing of the SAP landscape/environment. There are a number of fundamental systems including Main Accounting System, Payroll, Accounts Payable, Accounts Receivable, Asset Management, Council Tax, NNDR and Housing Rents which rely on the robustness of the underlying SAP infrastructure.

10. 2012/13 IT DR (Disaster Recovery) – including Backup and Restore

This review forms part of the managed audit process and focuses upon IT Disaster Recovery arrangements. There are a number of fundamental systems including Main Accounting, Payroll, Accounts Payable, Accounts Receivable, Asset Management, Council Tax, NNDR and Housing Rents which rely upon the robustness of the underlying IT infrastructure. Progress is being made to develop a comprehensive IT Disaster Recovery Plan. Further work is currently in progress. The Audit Committee has received regular updates on this during the year.

11. 2012/13 Treasury Management

This review covered policies and procedures, compliance with existing statutory and best practice guidance, performance monitoring, authorisations, accounting treatment, cash flow, investment and borrowing controls and separation of duties. The overall audit opinion for Phase 1 was adequate and this is not expected to change for the Phase 2 work.

12. 2012/13 Council Tax

The scope of this review was similar to the above, but covering Council Tax. The overall audit opinion was full assurance. In arriving at this opinion, it is recognised that the majority of key controls are in place.

13. 2012/13 NNDR

This review covered the NNDR processes including the identification and recording of commercial properties, amendments to accounts, discount and exemption processes, overdue account monitoring and recovery action, the recording of transactions within the authority's accounts, billing processes and business continuity procedures. The overall audit opinion was full assurance. In arriving at this opinion, it is recognised that the majority of key controls are in place.

14. 2012/13 Housing and Council Tax Benefits

This review covered processes from the receipt of correspondence, assessment of claims, supporting evidence, payment processes, fraud detection, system security arrangements, compliance with DWP requirements and performance management. The overall audit opinion for Phase 1 was adequate. Phase 2 testing has focussed on controls and processes relating to the annual Housing Benefit Subsidy Claim as well as following up outstanding recommendations from Phase 1.

15. Commissioning/Out of Authority Placements

This review covered Out of Authority Placements. These are used where a young person's requirements as set out in their Statement of Special Education Needs either cannot be met locally or where the Council has been instructed via a tribunal. The overall audit opinion was adequate.

16. Linsell House

This audit reviewed the controls around policies and procedures, security of income and residents' funds as well as controls over payroll and purchasing expenditure. In addition the controls around unofficial (amenity) funds were tested. The overall opinion was adequate.

17. Local Management of Establishments – Ampthill Day Centre

This audit reviewed the controls around policies and procedures, security of income, controls over payroll and purchasing expenditure and amenity funds. The overall opinion was adequate.

18. Village Care Scheme

This review covered Village Care Schemes. These are groups set up and run by local residents to provide a structured "good neighbour" service to fellow residents without close family or friends living nearby. Central Bedfordshire Council has a contract with Bedfordshire Rural Communities Charity (BRCC) to provide these services on behalf of the Council. The review gave a full assurance opinion.

19. Association of Directors of Adult Social Services Workbook (ADASS) – self assessment model for care providers

This review covered the ADASS Self Assessment Workbook. The Care Quality Commission stopped awarding quality ratings ('star ratings') under the Care Standards Act 2000 in 2010 and, as a result of this, the Association of Directors of Adult Social Care (ADASS) implemented a self assessment process made up of 130 questions over 5 outcome areas. This exercise reviewed self assessment returns from providers and confirmed that Council Contract/Compliance officers had undertaken additional work to review the returns and request further information as appropriate. The review gave a full assurance opinion.

20. Assurance on Client Charging

This audit reviewed the controls over charging of clients using Adult Social Care services. A sample of clients across various service areas was selected and checked to provide assurance that they had received a financial assessment, that the assessment had been completed accurately and that they had been billed for any contributions due. The overall opinion was adequate.

21. Leighton Buzzard Theatre Follow Up

This review was an exercise to follow up the recommendations made in the original audit, undertaken during 2010/11, which had received a limited assurance opinion. Satisfactory progress had been made in implementing recommendations made.

22. Section 106 Follow Up

This review was an exercise to follow up the recommendations made in the original audit, undertaken during 2010/11, which had received a limited assurance opinion. Satisfactory progress had been made in implementing recommendations made.

23. Ethical Governance

This audit reviewed the arrangements and guidance for Members acting in an official, and unofficial, capacity on bodies external to the Council.

24. Budget Management

The purpose of the audit was to provide assurance to management that key controls associated with budget management are operating effectively and in doing so examined roles and responsibilities, adequacy of skills and training, budget management information and considered the extent key factors influencing individual budgets by Budget Managers and Finance Managers were considered and challenged. The overall opinion was adequate.

25. Debt Collection Arrangements

This review covered policies, procedures and other arrangements to ensure debts are collected promptly and in doing so debtors are treated appropriately and proportionately. The overall opinion was adequate.

26. Contract Management

This review focussed on the central guidance for Contract Management, the supporting documentation for a sample of the Council's key contracts and the processes for review and approval of contract extensions. A limited audit opinion was given, and the high recommendation arising has been regularly tracked by the Audit Committee.

27. Service Level Agreements (SLA) Follow Up

This follow up review sought to confirm the implementation of the recommendations arising from the original audit of SLAs in 2010-11. Overall given the reduction in the number of shared services since the original review and the actions taken by management following the original review, the follow up concluded that satisfactory progress had been made.

28. Pro Active Anti Fraud Review- Petty Cash Imprests

This review covered policies, procedures and other arrangements to ensure Petty Cash/imprest Bank Account Administration was operating effectively. No significant issues of concern were identified.

29. Pro Active Anti Fraud Review – Cash Income

This review covered policies, procedures and other arrangements to ensure cash is managed, recorded, and reported correctly. This audit focussed upon the areas of Library Services and Registration and Coroner Services. No significant issues of concern were identified.

30. Pro Active Anti Fraud Review – Appendix E Payments

The primary focus of this proactive anti fraud review was to examine the excess travel costs reimbursed to employees for potential fraudulent claims. It also considered the extent to which the assessed risks are being managed by Budget Managers and Human Resources (HR) and reviewed compliance with the Council's own agreed policies and procedures. No significant issues of concern were identified.

31. School Audits

The audit reviews for schools focus on the main systems, including purchasing, financial management, payroll, financial returns, governance, asset management and data management, bank accounts and the administration of the school fund. Consideration is also given to any concerns raised by the Schools Finance Team, or the Head Teacher.

Following each audit, an action plan is prepared and agreed with the school. Where any significant weaknesses are identified, a follow up audit visit is undertaken to provide assurance that the agreed actions have been implemented.

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APPENDIX B

Audit Opinions

Full Assurance	Adequate Assurance	Limited Assurance	No Assurance
Good controls	Adequate controls	Limited controls	Inadequate controls
Low risk of not meeting objectives	Medium/Low risk of not meeting objectives	Medium risk of not meeting objectives	High risk of not meeting objectives
Low risk of fraud, negligence, loss, damage to reputation	Medium/Low risk of fraud, negligence, loss, damage to reputation	Medium risk of fraud, negligence, loss, damage to reputation	High risk of fraud, negligence, loss, damage to reputation
<i>Level of Assurance: High</i>	<i>Level of Assurance: Medium</i>	<i>Level of Assurance: Medium/Low</i>	<i>Level of Assurance: Low</i>

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Meeting: Audit Committee
Date: 24 June 2013
Subject: Tracking of Audit Recommendations
Report of: Chief Finance Officer
Summary: This report summarises the high risk recommendations arising from Internal Audit reports and sets out the progress made in their implementation.

Advising Officer: Charles Warboys, Chief Finance Officer
Contact Officer: Kathy Riches , Head of Internal Audit and Risk
Public/Exempt: Public
Wards Affected: All
Function of: Audit Committee

CORPORATE IMPLICATIONS

Council Priorities:

An effective internal audit function will indirectly contribute to all of the Council's priorities.

Financial:

1. Although there are no direct financial risks from the issues identified in the report, the outcome of implementing audit recommendations is for the Council to enhance internal control, and better manage its risks, thereby increasing protection from adverse events.

Legal:

2. None arising directly from the report.

Risk Management:

3. None arising directly from the report. However, the Audit Committee has a role in providing independent assurance on the adequacy of the risk management framework and associated control environment, in line with the Corporate Risk Management Strategy.

Staffing (including Trades Unions):

4. None directly from this report.

Equalities/Human Rights:

5. None directly from this report.

Public Health:

6. None directly from this report.

Community Safety:

7. None directly from this report.

Sustainability:

8. None directly from this report.

Procurement:

9. None directly from this report.

RECOMMENDATION:

The Committee is asked to consider and comment on the updates as presented.

Background

10. One of the purposes of the Audit Committee is to provide independent assurance on the adequacy of the risk management framework and the associated control environment.
11. To further strengthen the Audit Committee's role in monitoring the internal control environment within the Council, Internal Audit has developed a system for monitoring and reporting progress against high risk recommendations arising from internal audit inspections.
12. This paper represents the regular summary of high risk recommendations made to date, along with the progress made against implementation of those recommendations.

Tracking High Risk Recommendations

13. This report sets out the position as at the end of May 2013. In order to distinguish between the more recent recommendations made during 2012/13 and older outstanding recommendations, the tracking has been presented as two tables – one summarising the reports issued prior to April 2012 and captured in previous monitoring reports to the Committee and the second table summarising reports containing high risk recommendations issued since the April 2012 Committee.

14. Appendix A provides detail of progress made to date in addressing high risk recommendations contained in reports issued prior to April 2012 and previously reported to the Committee.

15. Appendix C provides details of the remaining 2 high risk recommendations where implementation of the recommendation is running behind planned completion dates. The Appendix includes the rationale behind the audit recommendation and an explanation for the deferred implementation.

16. **Table 1 – Summary of outstanding recommendations made prior to April 2012**

Review	Number of Outstanding Recommendations
Payroll 2009-10	1
SAP Access and Security (incl IT DTR) 2009/10	1
Total	2

17. Since the last Committee two high recommendations have been addressed. These relate to the Main Accounting System and Teachers' Pensions. A full audit review of both these areas is included within the 2013/14 Audit Plan, to provide assurance that the revised procedures are robust.

18. Appendix B sets out the reports issued since the April 2012 Audit Committee that contain further high risk recommendations. The table below provides a summary by Directorate. Three reports containing high risk recommendations have been issued since the last update.

19. **Table 2 - Summary of Additional High Priority Recommendations Made Since April 2012 Audit Committee**

	Corporate Resources/ ACE People and Organisation	Children's Services	Sustainable Communities	Social Care Health and Housing	Total	%
No. of Reports containing high recs.	3	0	0	3	6	
Recs:						
Completed GREEN	5	0	0	5	10	63
Ongoing- On schedule for completion within timescales GREEN	4	0	0	0	4	25
No work started Within target GREEN	0	0	0	0	0	0
Ongoing with deadline missed AMBER	1	0	0	1	2	12
No work started Deadline missed RED	0	0	0	0	0	0
Total Recs.	10	0	0	6	16	100

20. Appendix D provides the details of the 2 recommendations contained in Table 2 where implementation of the recommendation is running behind planned completion dates.
21. Wherever possible evidence has been obtained to verify the implementation of recommendations. However, in some instances, verbal assurance has been obtained. Where this is the case, further evidence will be obtained to support the assurances given.
22. Progress will continue to be monitored. The follow up of audit recommendations forms an integral part of the managed audit reviews.

Future Monitoring

23. Officers responsible for the implementation of recommendations will be contacted regularly to provide updates on progress made. Evidence will be required to support progress made. Where recommendations are still being implemented these will continue to be monitored.

Conclusion

24. In total there are now only 4 recommendations that are now amber (underway, with deadline missed). No additional amber recommendations have been added since the last report to the Committee. The number of high priority recommendations being made has reduced, which reflects the embedding of controls within the key financial systems as the authority has developed.
25. Further work is required to ensure that the outstanding recommendations are implemented and to monitor additional recommendations made during the year.
26. This continuous tracking and reporting of progress on Internal Audit inspections to the Audit Committee ensures that the Committee has the means to monitor how effectively the high risk recommendations have been implemented.

Appendices:

Appendix A – Details of monitoring of High Priority Internal Audit recommendations - Reports issued prior to April 2012

Appendix B - Details of monitoring of High Priority Internal Audit recommendations - Reports issued since April 2012

Appendix C - Details on those recommendations made prior to April 2012 that remain outstanding

Appendix D - Details on those recommendations made since April 2012 Audit Committee that remain outstanding

Background Papers:

None

Location of papers:

N/A

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**Details of Monitoring of High Risk Internal Audit recommendations as at End May 2013
Reports issued during 2011/12 and earlier**

**CORPORATE RESOURCES/ACE
PEOPLE AND ORGANISATION**

Name	Date of Report	Original Expected completion of all Recommendations (Where identified)	Number of Recs	Completed GREEN	Ongoing - On schedule for completion with set timescales GREEN	Ongoing - with deadline missed AMBER	No work started - within target GREEN	No work started - target missed RED	App 3 ref
Payroll 2009-10	26/07/10	30/09/10	10	9	0	1	0	0	See R1
SAP Access and Security (incl IT DTR) 2009/10	11/10/10	31/12/10	3	2	0	1	0	0	See R2
Total			13	11	0	2	0	0	

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Details of Monitoring of High Risk Internal Audit recommendations as at End May 2013 Reports issued during 2012/13

CORPORATE RESOURCES/ ACE PEOPLE AND ORGANISATION

Name	Date of Report	Original Expected completion of all Recommendations (Where identified)	Number of Recs	Completed GREEN	Ongoing - On schedule for completion with set timescales GREEN	Ongoing - with deadline missed AMBER	No work started - within target GREEN	No work started - target missed RED	App 4 ref
Contract Management	01/08/12	end Sept 2012	1	0	0	1	0	0	See R1
SWIFT Financials 2011-12	13/08/12	end June 2012	4	4	0	0	0	0	
Payroll 2012-13 Phase 1	27/02/13	end December 2013	5	1	4	0	0	0	
Total			10	5	4	1	0	0	

SOCIAL CARE, HEALTH & HOUSING

Name	Date of Report	Original Expected completion of all Recommendations (Where identified)	Number of Recs	Completed GREEN	Ongoing - On schedule for completion with set timescales GREEN	Ongoing - with deadline missed AMBER	No work started - within target GREEN	No work started - target missed RED	App 4 ref
Housing Rents 2011-12 Phase 2	20/07/12	end April 2012	1	0	0	1	0	0	See R2
Assurance on Client Charging 2011-12	08/02/13	end Nov 2012	2	2	0	0	0	0	
Ampthill Day Centre	28/02/13	end Jan 2013	3	3	0	0	0	0	
Total			6	5	0	1	0	0	

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Appendix C

**Details on those recommendations outstanding
Status – all Amber (Ongoing with deadline missed)**

Corporate Resources/ACE People and Organisations

Payroll 2009/10

<p>Recommendation R1: It should be ensured that timesheets and travel claims are appropriately approved prior to payment.</p>
<p>Rationale for Recommendation: The authorised signatory list of managers is incomplete, which hinders the ability to check the authorisations on expenses and travel claims thoroughly.</p>
<p>Target Dates: August 2010 September 2011(revised) March 2012(revised) June 2012 (revised) End December 2012 (revised) End April 2013 (revised) End June 2013 End September 2013</p>
<p>Current Position and Explanation for Slippage:</p> <p>Slippage in the implementation of this recommendation has occurred as the processing of travel and expense claims became part of the ESS/MSS implementation project. This project enables claims to be completed and authorised on-line with the authorisation of claims being a line manager responsibility based on the organisation structure. Travel claims went “live” on 25th February 2013 and timesheets are expected to follow in June 2013. The new system will be audited during the 2013/14 Payroll audit. The manual completion and authorisation of claim forms is expected to continue in some service areas for the next year due to restricted access to the necessary ICT; however an authorised signatory listing is planned to be in place for all areas not using ESS/MSS by September 2013.</p>

SAP Access and Security (incl. IT DR) Managed Audit

Recommendation R2:

A Disaster Recovery Plan should be developed and approved. As a minimum, this should include;

- the identification and prioritisation of key IT systems
- the roles and responsibilities of relevant officers and third party suppliers
- a set of IT procedures which should be executed initially to react to crises/disaster
- escalation procedures
- salvage procedures that deal with retrieval of items from affected sites
- the recovery and reconfiguration of all IT and communication systems
- details of additional accounts where monies may be sourced to aid recovery efforts
- a schedule in respect of the testing of the plan

Rationale for Recommendation:

During 2009/10, there was no Disaster Recovery Plan. Recovery from the server failures in February 2010 gave highest priority to restoration of the IT infrastructure. Meetings and telephone conversations with Heads of Services and Directors were held to agree the recovery plan / priorities and time scales. No IT Disaster Recovery Strategy was found to be documented to describe the role and development of a Disaster Recovery Plan and to improve the recovery options of IT systems.

Target Dates:

December 2010.
December 2011 (revised).
September 2012 (revised)
October 2012 (revised)
March 2013 (revised)
March 2014 (provisional – subject to approval of plan by CMT and updating of Business Impact Assessments – to be carried out by the Emergency Planning and Business Continuity Team).

Current Position and Explanation for Slippage:

A presentation was made on behalf of the Head of Information Assets to the last committee. Following this meeting the Disaster Recovery Plan has been updated and a current draft contains details of the current operational capacity and a roadmap for planned architectural developments during 2013-14. The plan demonstrates a positive direction of travel going forward for 2013/14 and it will be developed further to take account of revised Business Impact Assessments being carried out by the Emergency Planning and Business Continuity Team. The draft plan is subject to approval by the Head of Information Assets.

Appendix D

**Details on those recommendations outstanding
Status – all Amber (Ongoing with deadline missed)**

Corporate Services

Contract Management

<p>Recommendation R1: The suite of documents that constitute the Procurement rules and guidance should be fully reviewed, updated and reissued to incorporate the detailed findings of this report.</p>
<p>Rationale for Recommendation: The existing guidance relating to procurement and contract management needs to be updated and clarified, and reissued for the use by relevant officers in order to promote better management of contracts across the Council.</p>
<p>Target Dates: End September 2012 (revised) End November 2012 (revised) End February 2013 (revised) End July 2013</p>
<p>Current Position and Explanation for Slippage: Many of the guidance documents have been updated to reflect the audit findings; however the publication of these documents has been delayed due to the current processes around the restructure of the Procurement Team. The publication of the revised guidance documents is now subject to discussions with the Recovery Board in June 2013 to confirm the next steps.</p> <p>(See also Risk Update report – linked to Strategic risk STR0007, and operational risks RES020006, and RES020005).</p>

Social Care, Health & Housing

Housing Rents

<p>Recommendation R2: Regular reconciliations of the Housing Rents system to SAP should be completed by Finance staff.</p>
<p>Rationale for Recommendation: There is a risk that SAP as a central financial record maybe inaccurate, and the use of SAP for budget monitoring purposes may be compromised.</p>
<p>Target Dates: 30th April 2012 (revised) 31st August 2012 (revised) 30th September 2012 (revised) 31st January 2013 30th June 2013 (revised) 31st July 2013</p>
<p>Current Position and Explanation for Slippage:</p>

The first reconciliation to the 2012/13 financial year was completed on 15/03/2013. The two systems were reconciled up to the end of February 2013, but the reconciliation has yet to be completed regularly on a quarterly basis. The first quarterly reconciliation will be completed in early July 2013 for the period April – June 2013.