

CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 15, Priory House, Monks Walk, Shefford on Monday, 31 March 2014

PRESENT

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

Cllrs R D Berry
N B Costin
D Jones

Cllrs D J Lawrence
A Zerny

Members in Attendance: Cllrs M R Jones
Mrs J G Lawrence
M A G Versallion

Officers in Attendance: Dr D Cox Chief Assets Officer
Mrs J Luckman Fraud, Welfare & Partnerships
Manager, Revenues and Benefits
Mr L Manning Committee Services Officer
Mr G Muskett Head of Revenues & Benefits
Ms K Riches Head of Internal Audit and Risk
Mr N Visram Financial Controller
Mr C Warboys Chief Finance Officer

Others In Attendance: Mrs C O'Carroll Manager – Ernst & Young LLP

A/13/85 **Minutes**

RESOLVED

that the minutes of the meeting of the Audit Committee held on 13 January 2014 be confirmed and signed by the Chairman as a correct record.

A/13/86 **Members' Interests**

None.

A/13/87 **Chairman's Announcements and Communications**

The Chairman drew attention to an error on the agenda which stated that Councillor Mrs B Coleman, instead of Councillor D Jones, was a member of the Committee.

The Chairman advised the meeting that a presentation on the outcome of the review of Council procedures relating to the employment of contractors and consultants would take at the end of item 11 (Internal Audit Progress Report). A copy of the slide pack was circulated to Members in preparation for the presentation.

(Note: Minute A/13/94 below also refers).

A/13/88 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/13/89 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/13/90 Audit Plan

The Committee considered a report from Ernst & Young LLP which set out how the company intended to carry out its responsibilities as the Council's external auditor. The report provided Members with a basis to review the company's proposed audit approach and scope for the 2014 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 also to ensure that Ernst & Young's audit was aligned with the Committee's service expectations. In addition the report summarised Ernst & Young's assessment of the key risks which drove the development of an effective audit for the Council and outlined the company's planned audit strategy in response to those risks.

The Ernst & Young representative introduced the report and highlighted particular issues for Members' attention. With reference to there no longer being a requirement to certify council tax benefits subsidy claims under the Audit Commission's certification arrangements the representative stated that the 2013/14 fee figure did not yet reflect any corresponding reduction. She stated that this certification work represented approximately 12% (£6k) of the fee.

The Chief Finance Officer referred to the changes in how councils accounted for business rates from 2013/14. This followed the localisation of the scheme under which councils had to account for the provision of appeals against rateable values. He advised that the Valuation Office Agency was experiencing a substantial backlog in processing the appeals and so, having taken advice and reviewed the outstanding appeals, the Council had made

what it believed to be suitable provision in the accounts should payments be required as a result of the appeal outcomes.

NOTED

the Audit Plan for the year ending 31 March 2014.

A/13/91

Audit Progress Report

The Committee considered a report from Ernst & Young LLP which provided an update on the progress made by the company in carrying out the Council's 2013/14 audit. The report also included, as an appendix, a briefing document on issues which might have an impact on the Council, the local government sector and audits undertaken by Ernst & Young.

The Ernst & Young representative introduced the report and updated Members on various issues. With regard to the value for money conclusion assessment she advised the meeting that interim feedback on the conclusion work would be reported to the Committee's meeting in June. Turning next to the results of work on the Council's 2012-13 claims and returns the Ernst & Young representative confirmed that the Department of Works and Pensions (DWP) had not required the Council to carry out additional work in respect of the qualification letter on the 2012/13 housing and council tax benefits claim. Last, with regard to the fees for 2014/15, the Ernst & Young representative stated that the fee would be reduced following the end of the requirement to certify the council tax benefits subsidy claims.

In response to a question by a Member on the impact of the Local Audit and Accountability Act 2014, which made provision for the Audit Commission to end on 31 March 2015, the Ernst & Young representative emphasised that there would be no impact on the Council. She explained that a transitional body would manage the current round of supplier contracts and when these had finished councils would be free to appoint their own auditors, though this would be overseen by an Independent Auditor Panel.

The Ernst & Young representative drew Members' attention to an article in the briefing document which set out the call for stronger audit committees. She pointed out that this actually referred to audit committees operating in the private sector business environment, and there was no requirement to review the membership and skills base of local authority audit committees. Nonetheless, discussion took place on the possible benefits of augmenting the Council's Audit Committee with independent members equipped with specialist skills and experience. The Executive Member for Corporate Resources undertook to consider this matter further.

NOTED

the Audit Progress Report on the 2013/14 audit.

A/13/92

Housing Benefit & Council Tax Support Fraud

The meeting considered a report by the Chief Finance Officer which updated the Committee on the work undertaken by the Council's Benefit Fraud Investigation Team (BFIT).

The Head of Revenues and Benefits advised that a typographical error had occurred in paragraph 1 of the report and stated that the Department for Work and Pensions (DWP) Administration Grant awarded to fund the BFIT was currently £1,280,000 and not £2,280,000 as stated.

The Head of Revenues and Benefits then introduced the report, Members noting the background information on the Council's BFIT together with the Council's fraud policies, Team performance information, sanctions available and case studies. The meeting then considered the planned implementation of a national Single Fraud Investigations Service (SFIS), incorporating the investigative capability of the DWP, BFIT and Her Majesty's Revenue and Customs (HMRC), led by the DWP and with the role of investigating all social security benefit fraud. The Head of Revenues and Benefits drew Members' attention to the start of the forthcoming SFIS roll out in October 2014. He added that it was expected that some of the Council's resources would be moved across to the new body though, as the investigation of council tax fraud appeared to be remaining under the remit of local authorities, some staff would still be required by the Council to undertake this role. Members expressed some concern that the implementation of the SFIS could lead to the focusing of efforts on a relatively small number of major frauds to the detriment of smaller, local offences.

Discussion followed on the performance status of the Central Bedfordshire BFIT in comparison with other, similar, local authorities. The Head of Revenues and Benefits stated that the Audit Commission was due to supply this information and he would circulate it to Members if required. Comment was also passed by a Member on the outcome of fraud prosecutions at another local council and the apparent absence of a consistent level of sentencing.

In conclusion the Chairman, on behalf of the Committee, thanked the Head of Revenues and Benefits and his team for the good work they were undertaking. The meeting also indicated that it would wish to receive regular updates on the Team's work.

RESOLVED

- 1 that the Audit Committee affirm its support for the counter benefit fraud work undertaken by the Council's Benefit Fraud Investigations Team;**
- 2 that an annual update report be submitted to the Committee on the counter benefit fraud work carried out in Central Bedfordshire.**
- 3 that comparative performance data relating to counter benefit fraud work undertaken by local authority Benefit Fraud Investigation**

Teams be circulated to members of the Audit Committee when made available by the Audit Commission.

A/13/93 **2014-15 Audit Plan**

The Committee considered a report by the Chief Finance Officer which set out the 2014/15 Audit Plan for review and approval.

The Head of Internal Audit and Risk introduced the report and reminded Members that the Committee had approved the Strategic Audit Plan covering the three years 2013/16 at its meeting on 8 April 2013 (minute A/13/45 refers). The Plan before Members represented the second year of the three year Plan which had been revisited and updated following discussion with senior officers.

The meeting was also aware that, previously, the Audit Plan had been supported by an Internal Audit Strategy which had set out the approach adopted to develop the Plan. However, the new Public Sector Internal Audit Standards required this information to be included within the Plan itself so the Plan for 2014/15 was presented as one document.

In response to a query on the progress made with the Council's Asset Register the Chief Finance Officer stated that he was content that the Register reflected all known assets. Discussion followed on the circumstances under which Central Bedfordshire Council would become aware of assets that were not already recorded and the Chief Finance Officer requested that Members inform him of any such assets so that he could investigate. Following further discussion the Council's Executive Member for Corporate Resources stated that, should additional resources be required to undertake the investigative work, the Corporate Resources Overview and Scrutiny Committee would consider the matter.

RESOLVED

that the 2014/15 Audit Plan, as set out at Appendix A to the report of the Chief Finance Officer, be approved.

A/13/94 **Internal Audit Progress Report**

The Committee considered a report by the Chief Finance Officer outlining the progress made against the 2013/14 Internal Audit Plan up to the end of February 2014. The Head of Internal Audit and Risk reminded Members that a presentation on the review of Council procedures relevant to the employment of contractors and consultants would take place at the conclusion of the report.

The Head of Internal Audit and Risk then introduced the following matters from the report for consideration:

- Fundamental Systems Audits
- Other Audit Work
- National Fraud Initiative (NFI)

- Fraud and Special Investigations
- Schools
- Performance Management

Following discussion the Head of Internal Audit and Risk and the Chief Assets Officer then introduced the presentation. The meeting was aware that the review had arisen out of the debate which had taken place on this issue at the Audit Committee held on 23 September 2013 (minute A/13/66 refers).

A copy of the slide pack is attached at Appendix A to these minutes.

The meeting noted the various issues identified by the review together with the remedial action which had been taken in response. The Chief Assets Officer stated that, whilst no issues had emerged regarding the quality of work undertaken by the consultant, it had become apparent that there were weaknesses in the Council's procurement process. As a result mechanisms had been put in place to prevent a future reoccurrence; these included the introduction of more project specific tender specifications, a single point of accountability and responsibility for the life of a contract and the requirement for declarations of interest by interim as well as permanent staff. The Head of Internal Audit and Risk added that the review's findings were of relevance across the Council as a whole, not only for the Technical Consultancy Services Framework contract, and the Procurement Team were currently examining the adoption of a procurement tool to ensure that, in future, the correct procedures were consistently followed throughout the authority.

The Chief Finance Officer advised that the Council had significantly reduced the level of resources employed from the consultant and the value for money risk had therefore been reduced.

However, despite the officers' assurances, a Member was critical of the time taken to undertake the review and expressed concern at its findings. He then sought clarification on the responsibilities of individual finance officers, including their role in the monitoring of the contract, and queried why the information relating to the review had not been included within the body of a report but given to the Committee in the form of a separate presentation.

In response to these comments the Chairman suggested that the time taken in undertaking the review reflected the officers' thoroughness. The Chief Finance Officer then reminded the Committee that it had been he who had suggested that the review take place, that it was a review not an audit and that it had been decided to submit the information as a presentation in order to maximise transparency. He stressed that the review was open about the shortcomings which had been found and no attempt had been made to deny that mistakes had occurred. Further, action had been taken immediately to address the shortcomings which had been found. He also advised that the responsibility for the management of individual contracts lay in the relevant Directorate and not with the Head of Internal Audit and Risk.

Nonetheless, the Member made clear that he was dissatisfied with both the extent of the review and its conclusions and, following discussion, indicated

that he would raise his issues of concern with the Council's external auditor, Ernst & Young LLP.

In conclusion the Chief Finance Officer responded further to points raised by the Member.

NOTED

- 1 the progress made against the 2013/14 Internal Audit Plan;**
- 2 the content of the presentation entitled 'A review of Council procedures relevant to the employment of contractors and consultants'.**

A/13/95

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 2014. The Head of Internal Audit and Risk introduced the report and drew Members' attention to the key revisions which had taken place since the Committee's last meeting (minute A/13/83 refers).

To assist Members in their discussions the text from the Risk Summary Dashboard which set out the assessment of likelihood and impact was reproduced in a larger format and circulated at the meeting.

With regard to the forthcoming transfer of responsibility for the management of the Council's residential care homes a Member highlighted that the transfer, which was due to take place before the next meeting of the Committee took place, should be recognised as a high risk on the Dashboard until it had been implemented. In response the Head of Internal Audit and Risk reminded the meeting that the report recognised that future arrangements for the management of the care homes were a strategic risk even though the risk was not currently included on the Dashboard itself.

The Council's Executive Member for Children's Services referred to strategic risk STR0010 and the risk of there being a failure to respond to the increasing number of childcare cases and implement child protection procedures due to insufficient resources and a professional/skilled workforce. He queried whether the impact would be any greater to Central Bedfordshire Council than to neighbouring authorities because of the Council's reliance on agency staff. He also queried the apparent absence of mitigation against the risk. In reply the Head of Internal Audit and Risk explained that the description/score used within the Dashboard originated from Children's Services as the client service. She advised the meeting that the Dashboard was supported by a more detailed document which recorded the mitigation measures and she was therefore able to reassure the meeting that any mitigation was fully recognised. The Head of Internal Audit and Risk added that this issue was included on the Dashboard because it represented a national problem whatever action was implemented locally.

The Executive Member for Children's Services stressed that there was an extremely low chance of failing to respond because the Council used agency staff to fill any shortfall in its workforce. The Chief Finance Officer also reminded the meeting that the Council had taken action in the budget to make additional resources available to mitigate this risk.

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.

A/13/96 **Tracking of Audit Recommendations**

The Committee considered a report by the Chief Finance Officer which summarised the high priority recommendations arising from Internal Audit reports and the progress made in implementing them.

NOTED

the report on the high risk recommendations arising from Internal Audit reports and the progress made in implementing the recommendations to date.

A/13/97 **Audit Committee - Work Programme for 2014/15**

Members considered a report by the Chief Legal and Democratic Services Officer which set out the proposed Work Programme for the Committee for the 2014/15 municipal year.

The meeting was aware that it had earlier approved the submission of an annual report on counter benefit fraud (minute A/13/92 refers).

RESOLVED

that the proposed Audit Committee Work Programme for the municipal year 2014/15, as attached at Appendix A of the report of the Chief Legal and Democratic Services Officer, be approved subject to including an annual counter benefit fraud update to the meeting scheduled for 30 March 2015.

(Note: The meeting commenced at 9.30 a.m. and concluded at 11.14 a.m.)

Chairman

Dated

A review of Council procedures relevant to the employment of contractors and consultants

- Overview
- Overall Conclusion
- Strengths
- Learning Points
- Management Actions
- Summary

Overview

- A “cradle to grave” review of the procurement and management of the Technical Consultancy Services Framework contract comparing against relevant policies and procurement rules
- No evidence of wrongdoing by any officer or interim member of staff was discovered
- This conclusion is based upon the information that was provided to Internal Audit during the course of the review
- As a consequence of the original lead officer and other key officers having left the Council, in many instances there was a lack of documentary evidence for review and analysis

Overall Conclusion

- The review identified that the arrangements in place at the time of the review did not demonstrate transparency or enable a conclusion to be reached about achieving value for money. A number of recommendations have been made to address this.
- Internal Audit have worked with relevant officers across the Council to address the issues identified.
- Immediate prompt action has been taken by officers to resolve these issues.

Strengths

- Contract specification followed the standard CBC format covering
 - Sustainability, H&S, and Equality and Diversity
 - Financial stability
 - Technical ability to deliver
 - Capacity to deliver
 - References for similar work elsewhere

- Suppliers were taken from the Government Procurement Scheme (GPS), an executive agency of the Cabinet Office
 - Overall priority to provide procurement savings to public sector
 - Essentially buys services in bulk using specialised procurement skills to get most cost-effective price possible

Learning points 1

- Procurement records and documentation were not maintained and retained by the primary service area (Assets) leading to an inability to demonstrate in a transparent manner that the **steps prior to letting the contract** and **contract management** were robust and to enable a conclusion about achieving value for money to be reached.
- Overall governance, budget management, and contract management of the framework agreement was impaired. This may have led to poor value for money through a lack of general oversight and joined up approach i.e. Assets and Housing, and individual projects.
- No completed declaration of interests forms were made available during the course of the review. However it was noted that potential conflicts of interest had been declared by interim managers associated with the framework for other projects (Joint Venture Working Group). The requirements for interim staff to make declarations of interests is unclear.

Learning Points 2

- The procurement exercise was undertaken within a very short time frame, with a start date of 5 November 2012 and submission return date of 30 November 2012. Only 2 suppliers submitted bids. The short timescales may have excluded potential suppliers but this can only be conjecture.
- The adequacy and relevance of the tender specification in terms of value of money could not be determined as no anticipated list of call off projects was available to measure against.

Management Actions

- Immediate action has already been taken to address the issues identified as detailed below.

Assets

- Governance arrangements have already been improved and will continue to be so for life of the contract with the main focus ensuring that a single point of accountability and responsibility is put in place.
- Contract arrangements will be reviewed.
- In future, adequate Procurement records and documentation will be maintained and retained by the primary service area (Assets)
- Tender specifications and evaluations will be clearly linked to business cases and steps prior to letting of future contracts to ensure that the original requirements of the exercise will be measured and monitored.
- Declaration of interests forms will be completed and reviewed by senior management for all officers involved or participating in the Technical Services Framework contract.

Management Actions

Council-wide monitoring and oversight of procurement exercises

- Effective Council-wide oversight and monitoring of procurement exercises will be facilitated by the introduction of a e-procurement and contract management tool that will provide automated governance and adequate audit trails.
- The Procurement Team will facilitate training and development for officers participating in procurement exercises throughout the Council to ensure that appropriate timescales are considered as part of all tender exercises.
- Consideration will be given to updating Section 4 of the 'Guidance on the Code of Conduct for Officers' document to incorporate declaration of interests requirements for interim staff.

Summary

The review found:

- No evidence of wrongdoing by any officer or interim member of staff was discovered.
- A number of areas of improvements (learning points) were identified.
- Immediate management has already been taken.

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