

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

**This meeting  
may be filmed.\***



**Central  
Bedfordshire**

**please ask for** Leslie Manning  
**direct line** 0300 300 5132  
**date** 19 March 2015

## **NOTICE OF MEETING**

### **AUDIT COMMITTEE**

Date & Time

**Monday, 30 March 2015 10.00 a.m.**

Venue at

**Room 15, Priory House, Chicksands, Shefford**

Richard Carr  
**Chief Executive**

To: The Chairman and Members of the AUDIT COMMITTEE:

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

[Named Substitutes:

Mrs J G Lawrence, A Shadbolt, N J Sheppard and I Shingler]

All other Members of the Council - on request

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

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# 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 12 January 2015 (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 set out in Annex 2 of Part A4 of the Constitution.

6. **Questions, Statements or Deputations**

To receive any questions, statements or 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

<b>Item</b>	<b>Subject</b>	<b>Page Nos.</b>
7.	<b>Audit Plan 2014/15</b>	* 25 - 50

To consider a report by Ernst & Young LLP which provides the basis for the Audit Committee to review the company's proposed audit approach and scope for the 2014/15 audit. The Audit Plan summarises Ernst & Young's assessment of the key risks which drive the development of an effective audit for the Council and outlines the company's planned audit strategy in response to those risks.

- |     |  |             |
|-----|--|-------------|
| 8.  | <b>External Audit Progress Report</b>  | * 51 - 82   |
|     | To consider a report from Ernst & Young LLP which provides an update on the progress made by the company since the last meeting of the Audit Committee in carrying out the Council's audit. The report also includes two briefing documents on issues which might have an impact on the Council, the local government sector and the audits undertaken by Ernst & Young. |             |
| 9.  | <b>Implementation of a Risk Based Verification (RBV) Policy for Housing Benefit and Local Council Tax Support Assessments</b>  | * 83 - 96   |
|     | To consider a report advising Members of the new approach to verifying claims for Housing Benefit and Local Council Tax Support and to seek approval of a Risk Based Verification Policy.  |             |
| 10. | <b>2015/16 Internal Audit Plan</b>   | * 97 - 112  |
|     | To consider a report which presents the 2015/16 Internal Audit Plan for review and approval.   |             |
| 11. | <b>Internal Audit Progress Report</b>  | * 113 - 122 |
|     | To consider an update on the progress of work by Internal Audit for 2014/15.   |             |
| 12. | <b>Risk Update Report</b>  | * 123 - 128 |
|     | To consider an overview of the Council's risk position as at March 2015.   |             |
| 13. | <b>Tracking of Internal Audit Recommendations</b>  | * 129 - 140 |
|     | To consider a summary of high priority recommendations arising from the Internal Audit reports together with the progress made in their implementation.  |             |
| 14. | <b>Work Programme</b>  | * 141 - 144 |
|     | To consider the Audit Committee's work programme.  |             |

**Exempt Appendix**

<i>Item</i>	<i>Subject</i>	<i>Exempt Para.</i>	<i>Page Nos.</i>
15.	<b>Implementation of a Risk Based Verification (RBV) Policy for Housing Benefit and Local Council Tax Support Assessments</b>	* 7	145 - 150

To receive the exempt appendix.

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**CENTRAL BEDFORDSHIRE COUNCIL**

At a meeting of the **AUDIT COMMITTEE** held in Room 15, Priory House, Chicksands, Shefford on Monday, 12 January 2015

**PRESENT**

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

Cllrs K M Collins  
N B Costin

Cllrs D J Lawrence  
A Zerny

Apologies for Absence: Cllrs R D Berry

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

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

Officers in Attendance: Mr R Gould                      Head of Financial Control  
Mr L Manning                      Committee Services Officer  
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/14/25.                      **Minutes**

**RESOLVED**

**that the minutes of the meeting of the Audit Committee held on 22 September 2014 be confirmed and signed by the Chairman as a correct record.**

A/14/26.                      **Members' Interests**

None.

A/14/27.                      **Chairman's Announcements and Communications**

None.

**A/14/28. 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/14/29. 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/14/30. Certification of Claims and Returns Annual Report 2013-14**

The Committee considered the annual report from Ernst & Young LLP which summarised the results of the certification work undertaken by the company on the Council's 2013-14 claims and returns. The report's four sections covered the following matters:

- Section 1 - summary of 2013-14 certification work (including any significant issues identified)
- Section 2 - 2013-14 certification fees
- Section 3 - looking forward (covering indicative certification fees for 2014-15 and related issues)
- Section 4 – summary of recommendations (highlighting the recommendations arising from the work carried out by Ernst & Young and the actions agreed).

The Ernst & Young Manager introduced the report and drew Members' attention to particular issues of interest. With regard to a statement in Section 1 of the report regarding a fall in the Council's performance on benefit assessment accuracy down from 94% in April 2014 to 87% in October 2014 the Chief Finance Officer explained that the sampling methods, which included a heavy focus on the work undertaken by new staff, skewed the results. He assured the meeting that the overall performance figure was actually at 90%. In connection with this issue the Chief Finance Officer advised the meeting that staff training had been increased and all errors found in the processing of claims were reported to the relevant member of staff and discussed with them. In addition any error trends were analysed and an internal bulletin containing the analysis circulated to staff. All errors were reported to team leaders to help monitoring. He concluded by comparing the average annual claw back figure of £480k from 2009-13 with the much improved figures of £54k and £51k for the last two years.

In response to a query regarding the level of staff turnover the Chief Finance Officer stated that turnover of permanent staff was low but there were high levels of sickness absence and temporary staff were used to fill the resulting gaps. He added that, unfortunately, the temporary staff, whilst experienced



through similar work at other local authorities, could interpret the benefit rules slightly differently as a result.

**NOTED**

**the annual certification report 2013-14.**

A/14/31. **Annual Audit Letter**

The Committee considered a report from Ernst & Young LLP which presented the 2013/14 Annual Audit Letter for Central Bedfordshire Council. The letter set out the key issues arising from the work undertaken by Ernst & Young as the Council's external auditors.

The Ernst & Young Manager reminded the meeting that a copy of the Annual Audit Letter had been circulated to all members of the Council at the end of October 2014.

**NOTED**

**the 2013/14 Annual Audit Letter.**

**RESOLVED**

**that the 2013/14 Annual Audit Letter be published on the Council's website.**

(Note: A copy of the 2013/14 Annual Audit Letter is attached at Appendix A to these minutes).

A/14/32. **2013/14 Audit Scale Fee - Late Variation**

The Committee considered a letter from Ernst & Young LLP which set out the revised final scale fee in respect of the 2013/14 audit. Members were reminded that Ernst and Young set out its 'final' audit fees in respect of the 2013/14 audit year in its Annual Audit Letter dated 6 October 2014. However, since that date the Audit Commission had applied a permanent variation of £1,070 to the base scale fee to reflect additional audit procedures required to gain sufficient audit assurance around business rate income and expenditure within the Collection Fund. The meeting noted that certification work on business rates had originally been withdrawn for 2013/14 and the grant certification scale fee reduced to reflect this. However the Audit Commission had now acknowledged that councils' external auditors were required to undertake these additional procedures and the base scale fee had been revised accordingly.

**NOTED**

**the permanent variation of £1,070 to the audit base scale fee.**

**A/14/33. External Audit Progress Report**

The Committee considered a report from Ernst & Young LLP which provided an overview of the stage reached 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 Manager introduced the report and drew Members' attention to the article in the briefing document entitled 'The Future of Local Audit'. Members noted that the article covered the government proposal to bring forward the dates for the accounts to be signed, approved and published and the Ernst & Young Manager stated that she believed compliance with the proposed timetable would prove challenging for both external auditors and local authorities (minute A/14/34 below also refers).

**NOTED**

**the report on the progress of External Audit work on the 2013/14 audit.**

**A/14/34. Final Accounts Process 2014/15**

The Committee considered a report which summarised the key changes in the Statement of Accounts for 2014/15 and internal procedures for producing the Statement of Accounts.

The meeting noted in particular the change in the 2014/15 CIPFA Code of Practice which related to accounting for schools and meant that the income, expenditure, assets and liabilities of all maintained schools were required to be consolidated within local authorities' accounts. Members were advised that the Council's valuations teams had been assessing school buildings within Central Bedfordshire to derive values and bring these assets on to the Council's books during the current financial year. It was expected that these assets would have a significant impact on the value of the assets held on the Council's balance sheet. However, and in response to a query by the Chairman, the Financial Controller explained that there would be no impact on local taxpayers as the required accounting entries ensured that there was no impact on the General Fund. In response to a further query regarding whether the increase in asset value would enable greater levels of borrowing the Chief Finance Officer explained that, unlike the private sector, the Council's borrowing capacity was determined through the use of prudential indicators and decisions in respect of financing capital expenditure. Changes in asset valuations and recognition of additional assets such as Foundation schools would not influence the Council's borrowing limits.

A Member referred to the Local Audit and Accountability Act 2014, which included updates to the Accounts and Audit Regulations 2011, and to the proposed changes to the deadlines for publication of councils' Statements of Accounts. Under the proposals the Chief Finance Officer would sign the draft accounts by 31 May (currently 30 June) and the audited accounts would have

to be approved by the Audit Committee by 31 July (currently 30 September). If the changes proceeded it was anticipated that they would be implemented from the 2017/18 financial year. In response to the Member's query the Chief Finance Officer stated that it would be difficult to meet the 31 May deadline without closing some accounts on the basis of estimates. Consideration would therefore be given to the use of more estimates (following consultation with External Audit). However, he indicated that a greater difficulty lay in auditing the accounts by 31 July as this represented a reduction of two months over the current deadline. Further, the problem would be compounded by the absence of any flexibility, as all local authorities would be required to meet the same timescales, and this would generate difficulties for the relatively small number of external auditors to complete their work on time.

The Ernst & Young LLP Manager stated that the four largest external auditors had all made representations against the proposal because the rescheduling of local authority work would lead to an overlap with the auditing of Health Service accounts. She added that, whilst no final decision had been taken on the proposal, she was of the opinion that it would be introduced and would, as a result, necessitate a change in the way the company undertook its auditing of council accounts, probably by undertaking the audit of month 12 accounts within the month (March) itself. With regard to the impact on the External Audit fees charged she stated that these would remain unaltered as only the timescales would change.

The Chief Finance Officer assured the Committee that the Council's officers would work in full co-operation with Ernst & Young, as the appointed External Auditor, to establish when it was acceptable to make use of estimates within the accounts and the process for reflecting the inevitable adjustments in the following financial year.

In conclusion the Committee expressed its dissatisfaction with the changes proposed to the audit deadlines by the Secretary of State as it was felt these would be disadvantageous to local authorities.

#### **NOTED**

**the key changes in the Statements of Accounts for 2014/15 and internal procedures for producing the Statement of Accounts.**

#### **RESOLVED**

- 1 that an interactive presentation on the unaudited accounts for 2014/15 be made to the Audit Committee at its meeting in June 2015;**
- 2 that all members of the Council be invited to attend the above presentation.**

**A/14/35. Local Government Pension Scheme Update**

The Committee considered a report which provided an update on recent developments with regard to the Local Government Pension Scheme (LGPS). The Head of Financial Control advised the meeting that a similar report had already been submitted to the General Purposes Committee (minute GPC/14/34 refers).

The report before Members provided information on the following:

- The development of mechanisms for cost capping across public service pension schemes
- The implementation of Local Pension Boards
- The Bedfordshire Pension Fund's asset management.

With regard to the Fund's asset management the Head of Financial Control referred to the implementation of an investment strategy and benchmark that sought, over time, to provide less volatile investment returns when compared to the average Local Authority Funds which tended to allocate a higher weighting to equities. Following an extended bull market in equities, comparing the Bedfordshire Fund to the average local authority would show the Fund to be performing below the local authority average. The Head of Financial Control stated that it was important to recognise that the role of the Bedford Borough Council's Pensions Fund Committee was to balance both risk and return by developing and implementing an appropriate investment strategy. He advised that the next update report on the LGPS to the General Purposes Committee and, eventually, the Audit Committee would include an explanation of the ways that the Bedford Borough Pension Fund Committee sought to manage the various risks that a funded defined benefit pension scheme faced.

A Member commented on the need to ask Bedford Borough Council to contact all major employers in the future to enable their participation in changes to the administration to the LGPS. The Head of Financial Control advised that the initial consultations in respect of changes to the LGPS were issued to all local authorities by the Department for Communities and Local Government (DCLG). Responses to the LGPS consultations were prepared by the pensions team at Bedford Borough Council for comment and approval by the members of the Bedford Borough Council Pension Fund Committee which included representatives of the major scheme employers. In respect of the introduction of the Pension Boards, the Pension Fund Committee had responded to the DCLG that the additional costs of introducing a further layer of governance required more justification. Whilst the degree of local authority influence on central government's proposed changes was sometimes limited the Pension Fund Committee had responded to consultations and had sought to engage with the various scheme employers. There were over 130 employers participating in the Bedfordshire LGPS and it had been an ongoing challenge for the Pension Fund Committee to facilitate engagement with all the employers. The Head of Financial Control would feedback the Committee's comments to the Head of Pensions at Bedford Borough Council.

The Member also referred to the need to take and manage risk in order to improve Fund performance together with a need for the correct skillsets and

attitudes to be in place to achieve this. In response the Head of Financial Control indicated that the Pension Fund Committee had in place a number of mechanisms to ensure an appropriate investment strategy was maintained and that the various skills and advice required for this purpose were available to the Pension Fund Committee. The next update report to the Audit Committee would explain how the various pension fund risks were managed and explore the investment issues in more detail alongside risks associated with the scheme's liabilities. The Head of Financial Control referred to the impact on the Fund's financial position of not just investment returns but also the unprecedented low levels of interest rates arising in part from the degree of quantitative easing by central banks which would have the effect of significantly increasing the valuation of the Pension Fund's liabilities.

The Chairman took the opportunity to remind the meeting that the Audit Committee's role focused on governance and it was the General Purposes Committee that considered the human resources aspects of the LGPS.

A Member referred to the forthcoming introduction of Local Pension Boards and, in view of their governance role, queried whether a mechanism should be introduced to enable the local Pension Board to report to the Audit Committee. However, this was felt to be unnecessary and the Head of Financial Control indicated that the Board's role was to assist the Bedford Borough Council Pension Fund Committee, in an advisory capacity, to secure best practice and it could not over rule the Pension Fund Committee. Its role would be similar to that of the existing national LGPS Pension Board. The Chief Finance Officer added that a member of the Audit Committee sat on the Bedford Borough Council Pension Fund Committee as Central Bedfordshire Council's representative. The Head of Financial Control stated that as there was still ongoing consultation in respect of the governance arrangements for Pension Boards he would be able to confirm the arrangements in the next update report.

#### **NOTED**

**the report of the Chief Finance Officer and Head of Financial Control on recent developments with regard to the Local Government Pension Scheme.**

A/14/36.

#### **Internal Audit Progress Report**

The Committee considered a report outlining the progress made on the Internal Audit work against the 2014/15 Audit Plan up to the end of November 2014.

The following matters were considered:

- Background
- Progress on the 2014/15 Audit Plan
- Fundamental Systems Audits
- Other Audit Work
- National Fraud Initiative (NFI)

- Fraud and Special Investigations
- Schools
- Performance Management

The Head of Internal Audit and Risk introduced the report following which a Member referred to the two special investigations completed since the last meeting with regard to the Children's Services and Social Care, Health and Housing Directorates. In response to his request for clarification on aspects of the investigations the Head of Internal Audit and Risk provided additional background information for Members' consideration.

#### **NOTED**

**the progress made against the 2014/15 Internal Audit Plan.**

A/14/37.

#### **Risk Update Report**

The Committee considered a report which provided an overview of the Council's risk position as at December 2014.

The Head of Internal Audit and Risk introduced the report and the Risk Summary Dashboard attached at Appendix A to the report. She drew Members' attention to the addition of the new strategic risk STR0027 relating to risks, including financial, associated with a failure to adopt a Community Infrastructure Levy (CIL) by 6 April 2015. It was anticipated that the CIL would be adopted in July/August 2015 following the adoption of the Development Strategy. The meeting considered the relationship with strategic risk STR0003 and the detrimental impact on growth as a result of a failure to adopt a 'sound' Development Strategy. Further discussion followed regarding the CIL and any interim arrangements.

A Member referred to the absence of information within the report relating to the highest rated strategic risk STR0019 and the failure to deliver effective and cohesive Health and Social Care to local residents. In response the Head of Internal Audit and Risk explained that this was because there had been no change since the risk had last been reported. The Member then sought information on what constituted the key risks for Health and Social Care and the Head of Internal Audit and Risk undertook to examine this matter, respond directly to the Member and copy the response to all members of the Committee.

#### **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 and Head of Internal Audit and Risk.**

A/14/38. **Tracking of Internal Audit Recommendations**

The Committee considered a report which summarised the high priority recommendations arising from Internal Audit reports. The report also outlined the progress made in implementing them.

**NOTED**

**the report setting out the high priority recommendations arising from Internal Audit reports and the progress made in implementing the recommendations to date.**

A/14/39. **Work Programme**

Members considered a report which set out the proposed work programme for the Committee for the remainder of the 2014/15 municipal year and the beginning of 2015/16.

**RESOLVED**

**that the proposed Audit Committee work programme for the remainder of 2014/15 and the beginning of 2015/16, as attached at Appendix A of the report of the Chief Legal and Democratic Services Officer, be approved.**

(Note: The meeting commenced at 10.00 a.m. and concluded at 11.24 a.m.)

Chairman .....

Dated .....

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APPENDIX A

# Annual Audit Letter

Central Bedfordshire Council

6 October 2014



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

6 October 2014

Dear Members,

## **Annual Audit Letter**

The purpose of this Annual Audit Letter is to communicate to the Members of Central Bedfordshire Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance, the Audit Committee, in our Audit Results Report dated 22 September 2014.

The matters reported here are the most significant for the Authority.

I would like to take this opportunity to thank the officers of Central Bedfordshire Council for their assistance during the course of our work.

Yours faithfully



Mick West  
Director  
For and behalf of Ernst & Young LLP  
Enc

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## Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 5 March 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements
- ▶ Reviewing the Annual Governance Statement
- ▶ Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources
- ▶ Undertaking any other work specified by the Audit Commission

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Central Bedfordshire Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 29 September 2014 we issued an unqualified audit opinion in respect of the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 29 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit Committee) communicating significant findings resulting from our audit.	On 22 September 2014 we issued our report in respect of the Authority.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 29 September 2014.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.

Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act 1988.

No issues to report

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Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

On 29 September 2014 we issued our audit completion certificate.

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Issue a report to those charged with governance of the Authority summarising the certification (of grant claims and returns) work that we have undertaken.

We issued our 2012-13 annual certification report on 19 December 2013.

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Key findings

## Key findings

### Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified auditor's report on 29 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good.

The main issues identified as part of our audit were:

**Significant risk : Risk of misstatement due to fraud and error as a result of management override**

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This is a general risk we consider for the public sector bodies we audit. We obtained assurance that the risk of material misstatement due to fraud and error had been mitigated

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**Other key findings: Changes in how the Council must account for business rates from 2013-14 following the localisation of the scheme**

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The calculation of the provision for unsettled appeals by business ratepayers did not include any provision for successful appeals which may be backdated. As a result the Collection Fund provision was increased by £1.9m to £3.2m.

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### Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013-14 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience
- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness

We issued an unqualified value for money conclusion on 29 September 2014. We noted the following issues as part of our audit.

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**Key finding: Financial Resilience**

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The Council has a good track record of financial management in terms of delivering planned savings and efficiencies and our review of recent budgetary reports confirms that the Council's performance is being maintained.

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**Key finding: Economy, efficiency and effectiveness**

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The Council's performance on the speed of processing benefits claims has improved significantly in the past year. To reduce the number of cases where benefits are assessed incorrectly, the Council has continued to provide training to benefits staff including some ad-hoc training for staff dealing with some of the more complex claims.

---

## **Whole of Government Accounts**

We reported to the National Audit office on 29 September 2014 the results of our work performed in relation the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government accounts. We did not identify any areas of concern.

## **Annual Governance Statement**

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. We completed this work and did not identify any areas of concern.

## **Certification of grants claims and returns**

We presented our Annual Certification Report for 2012-13 to the 13 January 2014 Audit Committee. We checked and certified one claim and three returns with a total value of £156m. We issued qualification letters drawing attention to errors in one claim and one return. We will issue the Annual Certification Report for 2013-14 in December 2014.

## Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we were required to communicate to those charged with governance at the Authority, the Audit Committee, significant deficiencies in internal control.

We found no deficiencies during the audit that were of sufficient importance to merit being reported.



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Ernst & Young LLP

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**Central Bedfordshire Council**

**Audit Committee**

30 March 2015

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**Audit Plan 2014/15**

Report of Ernst & Young LLP

Mick West, Director (m.west@uk.ey.com)

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**Purpose of this report**

The purpose of the report is to provide the basis for the Audit Committee to review Ernst & Young's proposed audit approach and scope for the 2014/15 audit. The Audit Plan summarises the company's assessment of the key risks which drive the development of an effective audit for the Council and outlines the company's planned audit strategy in response to those risks.

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# Central Bedfordshire Council

Year ending 31 March 2015

Audit Plan

4 March 2015



Building a better  
working world



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INVESTOR IN PEOPLE

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

4 March 2015

Dear Committee Members

## **Audit Plan**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2014-15 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, Standing Guidance, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this plan with you on 30 March 2015 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Mick West, Audit Director  
*For and behalf of Ernst & Young LLP*  
*Enc*

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' ('Statement of responsibilities'). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

**Our Complaints Procedure** - 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, you may take the issue up with your usual partner or director contact. 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. We can provide further information on how you may contact our professional institute.

# 1. Overview

## Context for the audit

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended
- ▶ A statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness – the value for money conclusion

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements
- ▶ Developments in financial reporting and auditing standards
- ▶ The quality of systems and processes
- ▶ Changes in the business and regulatory environment
- ▶ Management's views on all of the above

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

As part of our planning we identified:

- ▶ Management override as a significant risk based on the requirements of auditing standards, we identify and respond to this fraud risk on every audit engagement
- ▶ Accounting for schools following changes to the Code of practice and the issue of LAAP bulletin 101 as an area for audit attention in our financial statements work
- ▶ The continued financial pressures that the Council faces and how it manages its Medium Term Financial Plan as an area of focus as part of our value for money conclusion work

In parts three and four of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section five.

We will provide an update to the Audit Committee on the results of our work in these areas in our Annual Results Report scheduled for delivery in September 2015.

The Audit Plan also outlines our planned work on the certification of the housing benefits subsidy claim.



## **Our process and strategy**

### **Financial statement audit**

We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.

We aim to rely on the Council's internal controls in key processes to the fullest extent allowed by auditing standards. We identify the controls we consider important. Where control failures are identified we look for alternative assurance which may involve additional audit work. We report significant deficiencies in internal control to the Audit Committee.

To the fullest extent permissible by auditing standards, we will seek to place reliance on the work of internal audit wherever possible. Internal audit maintain documentation of key processes, and document and evaluate changes. We aim to rely on this work to confirm our understanding of the more significant financial systems. We also aim to rely on internal audit's testing of the controls we have identified as important.

There has been no change to the scope of our audit compared to previous audits.

### **Arrangements for securing economy, efficiency and effectiveness**

Our approach to the value for money conclusion for 2014-15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place within the Council for:

- ▶ Securing financial resilience
- ▶ Challenging how the Council secures economy, efficiency and effectiveness

We adopt an integrated audit approach, so our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

Further detail is included in section 4 of this Audit Plan.

## 2. The Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014 (the 2014 Act) closes the Audit Commission and repeals the Audit Commission Act 1998.

The 2014 Act requires the Comptroller and Auditor General to prepare a Code of Audit Practice. This must be laid before Parliament and approved before 1 April 2015.

Although this new Code will apply from 1 April 2015, transitional provisions within the 2014 Act provide for the Audit Commission's 2010 Code to continue to apply to audit work in respect of the 2014-15 financial year. This plan is therefore prepared on the basis of the continued application of the 2010 Code of Audit Practice throughout the 2014-15 audit.

### 3. Financial statement risks

We outline our assessment of the financial statement risks facing the Council, identified through our knowledge of the Council’s operations and discussions with those charged with governance and officers.

We assess the impact on our audit approach and set out below the key areas of focus for our audit of the financial statements. A significant risk is an identified assessed risk of material misstatement that, in an auditor’s judgement, requires special audit consideration. We identified one significant risk other than the general risk of management override.

At our meeting, we will seek to validate our assessment with you.

Significant risks (including fraud risks)	Our audit approach
<b>Accounting for schools</b>	
<p>CIPFA has set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 Appendix E its view on this issue. This is that, based on the indicators of control within IFRS 10, the balance of control lies with local authorities for all maintained schools. The definition of maintained schools includes community voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools.</p> <p>The Code requires the recognition of schools’ property, plant and equipment in line with relevant accounting standards.</p> <p>CIPFA has subsequently issued, in December 2014, LAAP Bulletin 101 ‘Accounting for Non-Current Assets Used by Local Authority Maintained Schools’. This suggests that where religious bodies provide buildings to voluntary aided and voluntary controlled schools, and these bodies are able to withdraw the buildings at any point, the buildings would not be an asset of the school. In this case they would therefore not be included in the Council’s balance sheet.</p> <p>The Council has in the past only included property plant and equipment of community schools in its accounts. In response to the update to the Code, the Council has asked its valuers to value school land and buildings that have previously not been included. Officers are currently determining, with reference to the Code and the LAAP bulletin 101, which schools should be included in the accounts.</p>	<p>We will review the Council’s arrangements for considering accounting for schools and for introducing changes in the accounting approach adopted.</p> <p>We will review the accounting presentation and supporting evidence for school non- current assets which will be reflected in the Council’s financial statements from 1 April 2013 onwards.</p>

As a change in accounting policy this would require the balance sheet as at 1 April 2013 to be restated to show the impact of the new policy together with the balance sheet at 31 March 2014.

**Risk of management override**

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Our approach will focus on:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- ▶ Reviewing accounting estimates for evidence of management bias
- ▶ Evaluating the business rationale for significant unusual transactions

**Respective responsibilities in relation to fraud and error**

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud. Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages
- ▶ Enquiry of management about risks of fraud and the controls to address those risks
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud
- ▶ Determining an appropriate strategy to address any identified risks of fraud
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks

We will consider the results of the National Fraud Initiative and may refer to it in our reporting to you.

## 4. Economy, efficiency and effectiveness

Our approach to the value for money conclusion for 2014-15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place at the Council for securing:

- ▶ Financial resilience
- ▶ Economy, efficiency and effectiveness in the use of resources

The Audit Commission *2014/15 auditor guidance on the conclusion on the arrangements to secure vfm* requires that auditors consider and assess the significant risks of giving a wrong conclusion and carry out as much work as is appropriate to enable them to give a safe conclusion on arrangements to secure value for money.

Our assessment of what is a significant risk is a matter of professional judgement, and is based on consideration of both quantitative and qualitative aspects of the subject matter in question.

For those significant risks identified by our risk assessment that are relevant to our value for money conclusion, where these risks will not be addressed by our financial statements audit work or work undertaken by the Council, Audit Commission or other review agency, we consider the need to undertake local value for money work.

At this stage we have not identified any significant risks. However, we have identified the following key areas that we will consider to support our value for money conclusion. We acknowledge the Council operates in a context of increasing financial pressure.

The table below provides a high-level summary of our risk assessment and our proposed response to those risks.

Other risks	Impacts arrangements for securing:	Our audit approach
<b>Managing Finances</b>		
<p>The Council's budget for 2014-15 includes £17.4m of savings. A further £13.7m has been identified as being required in 2015-16 together with £28.4m over the following three years.</p> <p>The current Medium Term Financial Plan is being updated against a backdrop of continued demand on services, particularly Adult Social Care and Children's services. This together with the pressures on funding mean that it will become more difficult to deliver the savings required while continuing to provide services efficiently.</p>	<p>Economy, efficiency and effectiveness</p> <p>Financial resilience</p>	<p>Our approach will focus on: Assessing the controls that the Council has in place to ensure financial resilience and reviewing the robustness of the Medium Term Financial Plan.</p>
<p>We will keep our risk assessment under review throughout our audit and communicate to the Audit Committee any revisions to the specific risks identified here and any additional local risk-based work we may need to undertake as a result.</p>		

## 5. Certification work for housing benefits

Certification work involves executing prescribed tests which are designed to give reasonable assurance that the Council's housing benefits claim is fairly stated and in accordance with specified terms and conditions. Certification work is not an audit.

The work necessary is determined by the Department of Works and Pensions.

Based on previous experience we expect to carry out extended testing, known as 40+ testing, on up to thirteen areas of the claim.

Where possible we integrate our benefits certification work with our opinion and other work. We also aim to rely on the work of internal audit and benefits staff where possible.

We will report to the Audit Committee the results of our benefits certification work.

The Audit Commission has set an indicative fee for benefits certification work for each body. The indicative fee is based on actual benefits certification fees for 2012-13.

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

## 6. Our audit process and strategy

### 6.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code') our principal objectives are to review and report on, the Council's:

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources

to the extent required by the relevant legislation and the requirements of the Code.

We issue a two-part audit report covering both of these objectives.

#### i) Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

#### ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our value for money conclusion, we will rely as far as possible on the reported results of the work of other statutory inspectorates on corporate or service performance.

In examining the Council's corporate performance management and financial management arrangements, we consider the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- ▶ Arrangements for securing economy, efficiency and effectiveness - whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.



## 6.2 Audit process overview

Our audit involves:

- ▶ Assessing the key internal controls in place and testing the operation of these controls
- ▶ Review and re-performance of the work of internal audit
- ▶ Reliance on the work of other auditors where appropriate
- ▶ Reliance on the work of experts in relation to areas such as pensions and valuations
- ▶ Substantive tests of detail of transactions and amounts.

### Processes

Our initial assessment across the Council has identified the following key processes where we will seek to test key controls:

- ▶ General ledger including journals
- ▶ Cash and bank
- ▶ Payroll
- ▶ Accounts payable
- ▶ Accounts receivable
- ▶ Housing benefits and council tax reduction
- ▶ Housing rents

We will carry out substantive testing on council tax, business rates (Non Domestic Rates), treasury management, Payroll, SWIFT (social care payments) and fixed assets as we consider this to be the most efficient approach for these processes.

### Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of payroll and journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- ▶ Give greater likelihood of identifying errors than random sampling techniques

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

### **Internal Audit**

As in prior years, we will review Internal Audit plans and the results of its work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

### **Use of experts**

We will use specialist EY resource as necessary to help us to form a view on judgments made in the financial statements. Our plan currently includes involving specialists in pensions and valuations.

### **Mandatory procedures required by auditing standards**

As well as the financial statement risks outlined in section three, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### ***Procedures required by standards***

- ▶ Addressing the risk of fraud and error
- ▶ Significant disclosures included in the financial statements
- ▶ Entity-wide controls
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements
- ▶ Auditor independence.

#### ***Procedures required by the Code***

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement,
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO
- ▶ Reviewing and examining, where appropriate, evidence relevant to the Council's corporate performance management and financial management arrangements, and its reporting on these arrangements

## **6.3 Materiality**

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. We have determined that overall materiality for the financial statements is £9.5m based on 2% of gross expenditure.

We will communicate uncorrected audit misstatements greater than £0.5m to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

## **6.4 Fees**

The Audit Commission has published a scale fee for all authorities. This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The scale fee for the audit is £185,955 together with an indicative fee of £33,210 for the certification of the housing benefits subsidy claim.

## **6.5 Your audit team**

The engagement team is led by Mick West, Director, who has significant experience on unitary authorities. Mick is supported by Cathy O'Carroll, Manager, who is responsible for the day-to-day direction of audit work and who is the key point of contact for the Chief Finance Officer.

## **6.6 Timetable of communication, deliverables and insights**

We have set out below a timetable showing the key stages of the audit, including the value for money work and the work on Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2014-15. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

<b>Audit phase</b>	<b>Timetable</b>	<b>Audit Committee timetable</b>	<b>Deliverables</b>
High level planning	<b>January 2015</b>		Audit Fee letter Progress Report
Risk assessment and setting of scopes	<b>January – February</b>	March Audit Committee	Audit Plan
Testing routine processes and controls	<b>February - April</b>	March Audit Committee	Progress Report
Year-end audit	<b>July – September</b>	September Audit Committee	
Completion of audit	<b>September</b>	September Audit Committee	Report to those charged with governance, the Audit Committee, via the Audit Results Report  Auditor’s report (including our opinion on the financial statements and overall value for money conclusion).  Audit completion certificate  Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	<b>December</b>	January Audit Committee	Annual Audit Letter
Grant claims	<b>December</b>	Annual certification work report	Grant claims

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

## 7. Independence

### 7.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review</li> <li>▶ The overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence</li> </ul>	<ul style="list-style-type: none"> <li>▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto</li> <li>▶ Written confirmation that we are independent</li> <li>▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission’s Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy</li> <li>▶ An opportunity to discuss auditor independence issues</li> </ul>

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

## **7.2 Relationships, services and related threats and safeguards**

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

### ***Self-interest threats***

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with the Audit Commission's Standing Guidance. We carried out certification work on the 2013-14 Teachers' Pensions return as non-audit work following instructions issued by Teachers' Pensions. The fee was £15,000.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 1:12. No additional safeguards are required.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

### ***Self-review threats***

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

### ***Management threats***

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

### ***Other threats***

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

### **Overall Assessment**

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Mick West, the audit engagement Director and the audit engagement team have not been compromised.

### **7.3 Other required communications**

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended 27 June 2014 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2014>

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned fee 2014-15 £	Actual fee 2013-14 £	Scale and planned fee 2013-14 £	Explanation
Code work covering the opinion audit and value for money conclusion	185,955	185,955	184,885	Includes £1,070 permanent addition to the scale fee applied by the Audit Commission to reflect the additional audit procedures required to gain sufficient audit assurance around business rate income and expenditure within the Collection Fund.
Certification of claims and returns *	33,210	36,463	41,463	Downward variation in the 2013-14 housing benefits certification scale fee of £5,000 agreed with the Audit Commission.
Non-audit work	15,000	0	0	Actual fee for the audit certification of the 2013-14 Teachers' Pensions return. This work is no longer within the Audit Commission's certification regime.

*All fees exclude VAT.*

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables
- ▶ The operating effectiveness of the internal controls for the key processes outlined in section 6.2 above
- ▶ We can rely on the work of internal audit as planned
- ▶ The Audit Commission making no significant changes to the use of resources criteria on which our conclusion will be based
- ▶ Our accounts opinion and use of resources conclusion being unqualified
- ▶ Appropriate quality of documentation is provided by the Council and queries raised are answered promptly and effectively
- ▶ The Council has an effective overall control environment



Fees

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission.

## Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> </ul>
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ significant difficulties, if any, encountered during the audit</li> <li>▶ significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ written representations that we are seeking</li> <li>▶ expected modifications to the audit report</li> <li>▶ other matters if any, significant to the oversight of the financial reporting process</li> </ul>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ uncorrected misstatements and their effect on our audit opinion</li> <li>▶ the effect of uncorrected misstatements related to prior periods</li> <li>▶ a request that any uncorrected misstatement be corrected</li> <li>▶ in writing, corrected misstatements that are significant</li> </ul>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ a discussion of any other matters related to fraud</li> </ul>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ non-disclosure by management</li> <li>▶ inappropriate authorisation and approval of transactions</li> <li>▶ disagreement over disclosures</li> <li>▶ non-compliance with laws and regulations</li> <li>▶ difficulty in identifying the party that ultimately controls the entity</li> </ul>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ management's refusal for us to request confirmations</li> <li>▶ inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be</li> </ul>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>

Required communication	Reference
aware of	
<b>Independence</b>	
Communication of all significant facts and matters that bear on EY's objectivity and independence	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Report to those charged with governance</li> </ul>
Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:	
<ul style="list-style-type: none"> <li>▶ the principal threats</li> <li>▶ safeguards adopted and their effectiveness</li> <li>▶ an overall assessment of threats and safeguards</li> <li>▶ information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	
<b>Going concern</b>	
Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<ul style="list-style-type: none"> <li>▶ whether the events or conditions constitute a material uncertainty</li> <li>▶ whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ the adequacy of related disclosures in the financial statements</li> </ul>	
<b>Significant deficiencies in internal controls identified during the audit</b>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<b>Fee Information</b>	
<ul style="list-style-type: none"> <li>▶ breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ breakdown of fee information at the completion of the audit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Report to those charged with governance</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>
<ul style="list-style-type: none"> <li>▶ Certification work Summary of certification work undertaken</li> </ul>	<ul style="list-style-type: none"> <li>▶ Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary.</li> </ul>

Independence

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**Central Bedfordshire Council**

**Audit Committee**

30 March 2015

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**External Audit Progress Report**

Report of Ernst & Young LLP

Mick West, Director (m.west@uk.ey.com)

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**Purpose of this report**

The purpose of the report is to provide an update on the progress made by Ernst & Young LLP since the last meeting of the Audit Committee in carrying out the Council's audit. The report also includes, as an appendix, briefing documents on issues which might have an impact on the Council, the local government sector and the audits undertaken by Ernst & Young.

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# Central Bedfordshire Council

Year ending 31 March 2015

Audit Progress Report

March 2015



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

11<sup>th</sup> March 2015

Dear Mike

## Audit progress report - 2014-15

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 2014-15 audit. Our report sets out the work we have undertaken since our last progress report to you in January 2015.

This report also includes, at Appendix 2, two sector briefings which cover issues which may have an impact on your Council, the local government sector and the audits that we undertake. These briefings are one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving. Two briefings have been issued since we last reported to the Audit Committee and therefore both have been included in this report.

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  
Enc



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## Work completed

### 2014-15 Audit Plan

The Audit Plan for 2014-15 is included in the agenda for this meeting of the Audit Committee. The plan sets out the financial statements and value for money conclusion risks that we had identified and our proposed response to those risks.

In addition to the general risk of management override we have identified one other significant risk. Following changes to the Code of Practice and the issue of LAAP bulletin 101 we have identified accounting for schools as an area for audit attention in our financial statements work.

### Completion of walkthroughs and tests of control

We are in the process of carrying out our walkthroughs and some controls testing of the Council's key financial systems, placing reliance on the work of internal audit where possible.

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 financial statements will take place from June to September 2015. We will report our findings in our Annual Results Report to the 28<sup>th</sup> September Audit Committee.

### Value for money conclusion assessment

We have completed our initial risk assessment for our value for money conclusion work against the Audit Commission's specified criteria and areas of focus. As set out in the Audit Plan for 2014-15 we have not identified any significant risks that we need to undertake additional local risk based work to address.

### Grant claim certification

The results of our work on Central Bedfordshire Council's 2013-14 claims and returns were reported to the January 2015 meeting of this Committee.

We have not yet started certification work for 2014-15 claims and returns, apart from our early planning work in respect of the housing and benefits subsidy claim. The DWP (Department of Works and Pensions) have not asked us to carry out any additional work in respect of our qualification letter on the 2014-15 housing and council tax benefits claim. The DWP did ask your officers to provide assurances that procedures have, or will be, put in place in order to reduce the possibility of the qualifications reported being repeated in future. This was provided by the due date of 26<sup>th</sup> February 2015.

### 2015-16 audit Fee

At the time of drafting this report the Audit Commission had yet to publish the final work programme and fees for 2015-16. They expect to do this in March 2015. The Audit Commission is proposing to reduce scale fees by a further 25 per cent from 2015-16, based on the scale fees applicable for 2014-15. They do not plan to make changes to the overall work programme. The fee reduction will apply to all principal bodies.

## Timetable

### Audit Committee timeline

The deliverables we have agreed to provide to you through the 2013-14 Audit Committee cycle are set out at Appendix 1.

## Appendix 1: Audit Progress on Deliverables

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*Progress against key deliverables*

Key deliverable	Timetable in plan	Status	Comments
Fee letter	June 2014	Completed	June 2014
Audit plan	March - April 2015	Completed	March 2015
Report to those charged with governance	September 2015		
Auditor's report (including opinion and value for money conclusion)	September 2015		
Audit completion certificate	September 2015		
Auditor's report on WGA return	September 2015		
Annual audit letter	October 2015		
Annual report on certification of claims and returns	December 2015		

APPENDIX 2  
JANUARY 2015

## Local government audit committee briefing

### Contents at a glance

**Government and economic news**

**Accounting, auditing and governance**

**Regulation news**

**Key questions for the audit committee**

**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 EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY'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, as well as some examples of areas where EY can provide support to Local Authority bodies. 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.



Building a better  
working world



## Government and economic news

### Autumn statement

In the Autumn Statement, released on 5 December 2014, the government announced a number of changes to the business rates regime, and employer's national insurance. The changes are summarised as follows:

#### Business rates

- ▶ Doubling of Small Business Rate Relief has been extended until April 2016
- ▶ The 2% cap on the RPI increase in the business rates multiplier has been extended until April 2016
- ▶ The discount for shops, pubs, cafes and restaurants with a rateable value of £50,000 or below has been increased from £1,000 to £1,500 in 2015/16
- ▶ The Government intends to carry out a review of the future structure of business rates, and will report by Budget 2016. Terms of reference will be published in due course
- ▶ Transitional arrangements for properties with a rateable value of £50,000 or below, and which would have faced significant increases in their business rates, have been extended from 1 April 2015 to 31 March 2017
- ▶ Backdating rules will be changed so that for VOA alterations before 1 April 2016 and ratepayers' appeals before 1 April 2015, changes to rateable value can only be backdated to the period between 1 April 2010 and 1 April 2015
- ▶ The Government has also published a discussion paper on business rates avoidance. The consultation on this, which closes on 28 February 2015, invites responses on methods and scale of avoidance as well as how it may be tackled

### National insurance

- ▶ From April 2016, the Government is abolishing employer National Insurance contributions on earnings up to the Upper Earnings Limit for apprentices under 25, in order to progress towards full employment and create a more highly skilled labour market
- ▶ From April 2015, employers will no longer have to pay National Insurance contributions for employees up to the age of 21, on earnings up to the Upper Earnings Limit

### Welfare reform

#### Funding

The Government has held a consultation on how local welfare provision should be funded in 2015/16. This consultation closed on 21 November 2014 and the results are expected early in 2015. Parts of the discretionary Social Fund were abolished by the Welfare Reform Act 2012, and following this, all of the available funding for the Community Care Grant and Crisis Loans elements were passed to upper tier English local authorities and the devolved administrations on the basis of historical demand and spend data. The funding for 2014/15 was adjusted to take account of predicted efficiency savings. It was intended that from April 2015, local welfare provision would be funded from the general grant, rather than ring-fenced, but this decision was recently challenged in judicial review and so the Government has



## Government and economic news

committed to making a new decision on how this should be funded. The three options the Government is considering are as follows:

- ▶ Funding local welfare provision from existing local budgets with no separately identified or ring-fenced provision
- ▶ A published figure showing how much of each local authority's Settlement Funding Assessment notionally relates to local welfare provision, with the total national figure decided by Government
- ▶ Topslice Revenue Support Grant to fund a section 31 grant, which would ring-fence the funding for local welfare provision, although the total amount of funding would not change

Although the consultation responses are still being analysed, the Provisional Local Government Settlement 2015/16 contains an amount separately identified, but not ring-fenced, for local welfare provision.

### Universal credit

Universal Credit is also rolling out to more areas, and is predicted to be available in a third of jobcentres by spring 2015. From November 2014, Universal Credit is being opened up to families on a phased basis, starting with six jobcentres in the North West. The last new claims to legacy benefits, including housing benefit, which is administered by local authorities, will be accepted during 2017, after which the number of remaining legacy claims will progressively decline and the remainder will be migrated to Universal Credit. This exercise is expected to be largely complete by 2019.

### Data sharing

The Government is also consulting on draft regulations to enable data sharing in relation to Universal Credit between DWP and local support providers. This would allow the sharing of data between DWP and local authorities, citizens advice bureaux, credit unions, social landlords and relevant registered charities, in order to identify Universal Credit claimants who need additional support and ensure this support is in place. This Universal Support programme is already being trialled in 11 partnership areas. The proposed changes would come into force from February 2015 and be implemented from March 2015.

### Financial sustainability of local authorities

The National Audit Office has published a report on the Financial Sustainability of Local Authorities following the reductions in funding implemented as part of the Government's plan to reduce the deficit. This report summarises the evidence of the impact of funding reductions on local authorities, assesses how well the Department for Communities and Local Government keeps itself informed of the risks and impacts of its funding changes, and assesses whether the Department is managing the risks that its funding reductions will lead to local authorities failing to deliver their statutory services. The key findings are that:

- ▶ In real terms, Government will reduce funding to local authorities by 37% between 2010/11 and 2015/16
- ▶ Local authorities have coped well with these reductions, with no financial failures so far





## Government and economic news

- ▶ There is evidence that reductions in funding have led to a fall in volumes of service, although local authorities have tried to protect funding in core areas such as social care
- ▶ In their data returns to the Audit Commission on financial resilience, local auditors report that 16% of single tier and county councils are not well placed to deliver their 2014/15 budgets, and that 52% of such authorities are not well placed to deliver their medium term financial strategies

Meanwhile, the Government has published a provisional Local Government finance settlement for 2015/16 setting out the distribution of Revenue Support Grant (RSG) and retained business rates income.

The provisional settlement includes:

- ▶ A reduction for each authority in the distribution of RSG by reducing each element in proportion to the reduction in the 2015/16 national control total for that element
- ▶ Funding for the Improvement and Development Agency for Local Government of £23.4mn
- ▶ An increase in the rural funding element of RSG from £11.5mn to £15.5mn
- ▶ An adjustment to funding for authorities which have fallen below the threshold for participation in the Carbon Reduction Commitment Energy Efficiency Scheme, to take account of the loss in tax revenue to the Treasury

- ▶ Protection against reduction in revenue spending power of more than 6.4% in 2015/16 through the Efficiency Support Grant

### **Council tax and business rates collection**

The Audit Commission have used information that they have collected from their Value for Money profiles to produce a briefing on council tax and business rates collection. This has identified that the collection rate for council tax has dropped by 0.4% from 2012/13, to 97% in 2013/14, whereas the collection rate for business rates has increased by 0.2% from 2012/13, to 97.9%. In real terms, the collection of both has increased; council tax by 2.7% and business rates by 1.8% from the previous year. The total amount of council tax arrears at 31 March 2014 was 6% higher than in the previous year, standing at £2.53bn. The collection rates for council tax vary by council type; districts had the highest in-year collection rate at 98.0% whereas Metropolitan districts had the lowest, averaging 95.6%. A similar pattern is seen for business rates.



## Accounting, auditing and governance

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### Future of local audit

In our last briefing, we told you about the Government's consultation on the Local Audit Regulations associated with the Local Audit and Accountability Act. This consultation has now concluded and the results have been published. The Government intends to lay finalised regulations before Parliament early in 2015. The consultation covered:

- ▶ Smaller Authorities' Regulations regarding transparency and the appointment of external audit
- ▶ Collective procurement of audit for local authorities, including the principle of a maximum length of appointment period
- ▶ The role of the Specified Person in auditor appointment
- ▶ The Accounts & Audit Regulations, including electronic publication of the accounts, standardisation of the inspection period, and compression of the audit timetable
- ▶ Transparency Code for Internal Drainage Boards, Charter Trustees and Port Health Authorities

A key area is that the Government has decided to retain the proposed approach of bringing forward the accounts deadline

to 31 May and the audit deadline to 31 July, from the 2017/18 accounts. The Government believes that this change will reduce the burden of the closure process, enabling finance staff to give more time to in-year financial management. This will clearly be a significant change for Local Authorities which will require early planning to ensure successful implementation.

The Local Audit and Accountability Act also enhances the role of the National Audit Office (NAO), which becomes responsible for preparation of the Code of Audit Practice; the document setting out what local auditors are required to do. The NAO have also started to augment their programme of Value for Money work, looking more explicitly at local services in areas including:

- ▶ Public health
- ▶ Adult care assessments
- ▶ Care for people with learning disabilities
- ▶ Children's services
- ▶ City deals
- ▶ Housing

## Accounting, auditing and governance

### Auditing the accounts

The Audit Commission has been publishing the Auditing the Accounts report since 2008/09, and the latest issue shows a considerable improvement in the number of principal bodies publishing their accounts by the deadline of 30 September. 506 out of 512 principal bodies met the statutory accounts publication requirements, and 16 of these published their audited accounts by 31 July. At five principal bodies, the responsible financial officer had not signed and certified the accounts by 30 June. No non-standard audit opinions had been issued by the date of publication, but there were nine bodies where the auditor had not been able to issue the opinion by 30 September. Of these nine, six had been issued by the end of October. The report also covers small bodies, including parish councils and Internal Drainage Boards.

The report identifies challenges for 2014/15 and beyond, including the following:

- ▶ Financial reporting timetable – the report notes that the timetable will be brought forward by two months from 2017/18; with audit bodies being required to submit draft accounts for audit one month earlier than at present

- ▶ Transport infrastructure assets – there will be a fundamental change to the measurement basis of these assets which will affect all Highways authorities and non-highway authorities with material transport infrastructure assets. Taking effect from 1 April 2016, depreciated replacement cost will be used instead of the current depreciated historic cost. It is conservatively estimated that this will add at least £200 billion to the net worth of local authority balance sheets. In 16/17 this will include disclosure of 14/15 asset values as part of the balance sheet

For both of these changes EY will be issuing Audit Committee Briefings and/or Technical Papers as well as carrying out preparedness reviews to assist client and non-clients to meet these challenges.



## Regulation news

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### **Consultation on changes to the Bellwin scheme of emergency financial assistance to authorities**

A review was set up in 2014 to assess any permanent changes which may be needed to the Bellwin scheme as a result of more frequent severe weather events. This review considered the existing terms of the scheme, including thresholds, grant rate and eligible spending criteria. The Government has held a consultation on suggested revised principles following this review. The consultation ended on 1 January 2015.

The Bellwin scheme covers only emergency spending incurred as a result of immediate action to safeguard life and property, or to prevent suffering or severe inconvenience as a result of a disaster or emergency in the local authority area. Funding for longer term recovery from emergencies will be considered separately. The Government's proposal intends to refocus the scheme on emergency response, rather than recovery.

Previously, the threshold requirement was 0.2% of a local authority's calculated annual revenue budget, and 85% of expenditure above this threshold was funded. From 2013/14, the thresholds were reduced by excluding education budgets for County and Unitary authorities, and 100% of costs above

this threshold were funded. The Government proposes to retain these revised thresholds, and to publish the value of each local authority's provisional threshold alongside the finance settlement each year.

The Government is proposing to limit the time period for eligible spending to one month from when the incident was agreed to have moved from response to recovery. Ministers would retain the choice over when to activate the scheme, and would have discretion over when the period ended. Local authorities would have a longer period of three months to collate costs and claim for reimbursement. The Government also intends to widen the range of activities covered by Bellwin funding, to include some forms of capital spending. However, although emergency highway clear-up costs would be covered, repair to the damaged surfaces of roads and highways will remain ineligible.

Illustrative Bellwin thresholds were published as part of the Provisional Local Government Settlement 2015/16 on 18 December 2014.



## Regulation news

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### **Better Care Fund**

The National Audit Office (NAO) has recently released a report on the Better Care Fund. The Fund, consisting of money reallocated from existing budgets, involves pooling £3.8bn from 2015/16 for health and social care services to work more closely together, with the ambition that integrated care would be the norm by 2018. All 151 local areas submitted plans by April 2014 but Ministers did not approve the plans as initially intended. This was because after analysing the plans, NHS England concluded that the savings estimates were not credible, that some of the over-optimism shown came from insufficient engagement with acute trusts in planning, and some aspects of the plans needed further development. From May to July 2014, the two departments involved (Department of Health and Department of Communities & Local Government) revised the conditions attached to the fund, as well as improving the governance and programme management of the Fund in July 2014. These changes reduced the time available for local planning, which would have started from

April 2014. However, of the revised plans submitted in September 2014, almost two thirds were approved with no or minor changes, and a third were approved with conditions. Five plans were not approved. Protection of social care services is identified to be the biggest risk area. The NAO's conclusion is that pausing and redesigning the scheme was the right thing to do.

EY have worked with a large number of CCGs and local authorities to help develop plans, or challenge their robustness and governance arrangements. For more information on how EY can support you, contact your engagement lead.





## Key questions for the audit committee

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### What questions should the Audit Committee be asking itself?

Will we be prepared for an earlier closedown for the 2017/18 accounts?

- ▶ Have we critically reviewed the accounts and identified areas where they can be streamlined?
- ▶ Have we identified any disclosures or other areas which could be prepared early?
- ▶ Do we engage in early discussions with our auditors over working paper requirements and any proposed amendments to the accounts compared to the prior year?
- ▶ Do we engage in early discussions with our auditors over key areas of judgement and technical accounting areas well before closedown?
- ▶ Is resourcing within finance teams sufficient? Are there any areas which will need additional support?
- ▶ Do we have plans in place to start producing interim financial statements at month 9 if this is something that we do not already do?

Are we prepared for the change to the measurement basis of transport infrastructure assets?

- ▶ Do we have material transport infrastructure assets?
- ▶ Have we reviewed the key actions and milestones within LAAP bulletin 100? Do we have a project plan in place with sufficient resources in place to deliver? Does our plan include sufficient input from both finance and highways officers?

## Find out more

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### Autumn statement

Read the Autumn Statement in full at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/382327/44695\\_Accessible.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382327/44695_Accessible.pdf)

### Welfare reform

Details of the consultation are at:

<https://www.gov.uk/government/consultations/local-welfare-provision-in-2015-to-2016>

### Financial sustainability of local authorities

You can find the NAO report at:

<http://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2014/>

The provisional local government finance settlement is available at:

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2015-to-2016#provisional-settlement-2015-to-2016>

The Government's '50 ways to save' guide can be accessed at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/39264/50\\_ways\\_2.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/39264/50_ways_2.pdf)

### Council Tax & Business Rates Collection

Read the Audit Commission press release at:

<http://www.audit-commission.gov.uk/2014/11/council-tax-and-business-rates-exceed-targets-despite-4-55-billion-uncollected/>

### Future of local audit

The consultation is available at:

<https://www.gov.uk/government/consultations/local-audit-regulations>

The NAO have detailed their new role in local audit at:

<http://www.nao.org.uk/report/the-naos-role-in-local-audit/>

### Auditing the accounts

Read the full report at:

<http://www.audit-commission.gov.uk/wp-content/uploads/2014/12/20141204-Auditing-the-Accounts-2013-14-LG-FINAL-FOR-WEB.pdf>

### Consultation on changes to the Bellwin scheme

When available the results of the consultation will be published at:

<https://www.gov.uk/government/consultations/bellwin-scheme-of-emergency-financial-assistance-to-local-authorities>

### Better care fund

Find the NAO's report on the better care fund at:

<http://www.nao.org.uk/wp-content/uploads/2014/11/Planning-for-the-better-care-fund-summary.pdf>

#### About EY

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APPENDIX 2  
MARCH 2015

## Local government audit committee briefing

### Contents at a glance

**Government and economic news**

**Accounting, auditing and governance**

**Regulation news**

**Key questions for the audit committee**

**Find out more**

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## Government and economic news

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### EY ITEM Club Winter Forecast 2014-15

The latest forecast by the EY Item Club for winter 2014-15 highlights the global oil price collapse, which is creating winners and losers worldwide – with the UK decisively a winner. It sees cheaper energy giving consumers a major shot in the arm and driving inflation as measured by the Consumer Prices Index (CPI) down to an average of zero this year. As a result EY Item Club has revised up its forecast for UK GDP growth in 2015 to 2.9% from 2.4% in October. With inflation averaging zero in 2015, this will effectively put any rise in base rates on hold until 2016. Together with stronger real income growth, a boost in housing activity is predicted.

Against this, the negatives are risks which could arise, as opposed to existing ones. A lack of demand in the global economy is a factor reflected in the oil price and worries over the Eurozone are intensifying. Additionally, the consumer-led growth in the UK economy will leave it even more unbalanced and dependent on domestic consumption.

### 2015-16 Local Government settlement

Following the provisional settlement published in December 2014, the government has published its final 2015-16 settlement in February. The overall reduction in spending power has been calculated as 1.7%, with a maximum reduction of 6.4%.

An additional £74mn has been allocated to upper tier authorities to reduce pressures in areas including local welfare and health and social care budgets.

The government also announced £37mn being provided to Authorities in 2014-15 for the provision of additional support packages to prevent hospital admissions where possible, and ensure that support is available to enable patients to leave hospital when they are ready.

The Local Government Association (LGA) has produced a briefing on the final settlement which includes the following messages:

- ▶ Councils will have to make savings of £2.5bn in their budgets in 2015-16. Sixty percent of respondents to an LGA survey in 2014 were considering stopping at least some key local services in 2015 due to lack of funding, which demonstrates the future pressure on front line services unless savings and alternative income streams are identified, and existing income streams maximised.
- ▶ Services including social care for children are seeing reductions for the first time
- ▶ Reductions of the same magnitude are forecast by the Office for Budget Responsibility and the Institute for Fiscal Studies until 2020
- ▶ The LGA welcomes the announcement of an additional £74mn, but calculates a reduction in welfare funding of £100mn



## Accounting, auditing and governance

### Annual reports and accounts – lessons from the private sector

In its September 2014 report *Out with the old, in with the new* EY made observations from its review of 2013 annual reports in the FTSE 350. The issues and challenges addressed resonate strongly in the public sector. In this article, we consider some of the key messages from that report and how local government bodies can benefit from embracing those messages.

#### Does size matter?

It is a difficult balancing act to decide the optimum level of information reported to stakeholders. EY's report found that the best Annual Reports and Accounts were not necessarily the longest or the most detailed. Stakeholders want the annual report to present concise and relevant information in a way that helps them understand how their money is being spent and how their services are being managed, along with a clear description of the risks and challenges that lie ahead.

#### Think FBU – 'fair, balanced and understandable'

The annual report is a chance for bodies to tell the story of the last 12 months, and FBU is a helpful guiding concept. The focus of the report should be on the narrative – why we exist, our strategic priorities, how we have progressed over the last 12 months. Some of the best examples of transparent reporting explained 'what didn't go to plan' in key areas of the narrative. Reporting weaknesses, difficulties and challenges as well as successes, makes for a 'fair' and 'balanced' report and, over time, will help build trust with stakeholders. The best annual reports will have clear signposting between each section and will cross refer between sections.

Bodies should do more to integrate financial and non-financial reporting, for example, by highlighting the key financial

and non-financial strategic objectives and how chosen key performance indicators are truly driving value and achievement against these objectives. There should be a clear explanation of how risks impact the organisation and could impede the achievement of strategic objectives.

#### Good reporting of governance

The annual governance statement is particularly susceptible to repetition of boiler plate disclosures. The most important, interesting and valuable governance information is what the body actually did from a governance standpoint during the year and what changed. Be clear in what the messages are that need to be conveyed, including:

- ▶ Compliance with the CIPFA/SOLACE principles of good governance
- ▶ Key risks and challenges identified at the start and during the year
- ▶ Clear explanation of how these challenges were addressed
- ▶ Clear explanation of failings in governance
- ▶ Changes to governance arrangements made as a result
- ▶ Reports from those charged with governance describing what the board and its committees did in the year and a flavour of outcomes from their review of effectiveness

#### Conclusion

Good annual reporting should not be seen as a checklist exercise in disclosures. Continued focus should be put on making annual reports more helpful and understandable for stakeholders.

## Accounting, auditing and governance

### Highly paid off-payroll appointments

#### What's the issue?

There have been some high profile cases where Government departments engaged individuals who had controlling roles in large public funded organisations but who were not directly employed by the organisation.

As a result of these cases the Treasury requires public sector bodies to report arrangements whereby individuals are paid through their own companies (and so are responsible for their own tax and NI arrangements).

#### What should your organisation have done about it?

To avoid sanction from HMRC and adverse publicity all public sector bodies are required to:

- ▶ Identify all contracts over £220 per day, which are expected to last for more than six months
- ▶ Ensure those arrangements contain clauses allowing your organisation to request assurance that the individual is paying the right amount of tax
- ▶ Undertake a risk assessment of all off-payroll engagements to determine whether assurance needs to be sought that the individual is paying the right amount of tax and where necessary that assurance has been sought
- ▶ Monitor whether assurance has been provided by each individual and maintain evidence
- ▶ If no assurance has been provided by the individual consider terminating the contract or putting the individual onto the organisation's payroll
- ▶ Comply with the detailed additional disclosures required in your Annual Reports

### Local Government Association consultation – sector-led improvement

The Local Government Association (LGA) has issued a consultation on the future of sector-led improvement, with a closing date of 15 March 2015.

Following the abolition of the previous national performance framework, sector-led improvement was introduced, with the LGA taking the role of supporting the sector. It was based on the premise that Authorities are accountable and responsible for their own performance. This shifted the emphasis from national accountability to local accountability, however it also removed the obligation for Authorities to be involved which left external stakeholders unsure about the robustness of the approach.

The LGA are taking stock to identify whether or not the approach is suitable, and whether or not any changes to the approach are necessary. The consultation also gives the opportunity for comment on the inspection of children's services.

All Chief Executives and Leaders should have been sent a unique link to enable them to respond. Others wishing to respond can do so either by filling out the online form or by emailing the LGA.

### What makes a successful project in government?

Major government projects often hit the headlines for cost and time over-runs and but there are many examples of projects which are being delivered successfully.

As Authorities are increasingly facing funding pressures and looking for innovative ways to manage their finances, we are sharing some themes from the 2014 Successful Projects in Government conference. The conference was designed by the UK's Major Projects Authority, in cooperation with EY, the Ministry of Defence and the Nuclear Decommissioning Authority to share details of projects that had been delivered successfully due to the



## Accounting, auditing and governance

leadership talents and ingenuity of project teams in tackling the challenges that all major projects face.

It brought together senior colleagues from across UK government departments to illustrate that despite the negative picture often painted of project delivery in government, the reality is different.

According to Brian Gorman, UK GPS Advisory Leader, who led the initiative "There is no 'one size fits all' solution to project success. The skills and capabilities required for Infrastructure projects can be very different to the skills and capabilities required for service delivery projects. We need to recognise these differences more explicitly in how we conceive, design, plan and resource our projects if we are to deliver maximum value for our investment."

The 40 case studies and outputs from the event have now been captured in a publication, designed to be a practical tool and network resource for those planning to undertake projects in the future, both in the UK and globally.

To explore these attributes in real situations, the projects showcased have been split into three central themes: **service delivery, transformation and infrastructure**. Each project provided fresh insights and nuances into what it takes to be successful but five common themes emerged across them all:

- ▶ Strong leadership to inspire, challenge and champion
- ▶ Accountability through and across the project
- ▶ Clear line of sight to crisp policy intent
- ▶ Experienced team who know their business and the business
- ▶ Strong stakeholder management

### Audit Commission report on data quality

The Audit Commission has produced a report on data quality, entitled *Data quality matters*, which reflects on the past work of the Audit Commission and its appointed auditors in relation to data quality.

The report emphasises the importance of data quality, and notes that it is an essential part of robust governance arrangements for securing value for money; since flawed data can result in ineffective decision making.

The key lessons that the report seeks to draw out are:

- ▶ Governance will be most effective when it involves two-way dialogue with the front line, to communicate the importance of data quality
- ▶ The value of data quality needs to be communicated throughout organisations
- ▶ The front line should be engaged in ensuring data quality
- ▶ Data quality should be assured as close as possible to the point of capture



## Regulation news

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### **Local Audit and Accountability Act 2014**

The Local Audit and Accountability Act 2014 received Royal Assent on 30 January 2014. This officially makes it possible for the Audit Commission to effectively be wound down on 31 March 2015.

Several of the Audit Commission's key functions will continue after its closure. These are summarised below:

#### **Management of Audit Contracts:**

In order to continue with the management of audit contracts the Local Government Association has created an independent company to oversee the audit contracts. This independent organisation will be called Public Sector Audit Appointments Limited.

#### **National Fraud Initiative:**

The responsibility for managing, administering and reporting on the National Fraud Initiative (NFI) will pass to the Home Office with effect from 1 April 2015.

#### **Code of Audit Practice:**

Responsibility for producing and updating the Code of Audit Practice will pass to the National Audit Office with effect from 1 April 2015.

Section 32 of the Local Audit and Accountability Act 2014 gives the Secretary of State the power to make provision through regulations about the financial management, internal control, and annual accounts and audit procedures applying to relevant authorities. The Accounts and Audit Regulations 2015 were laid before Parliament on 17 February 2015 and reflect the requirements relating to annual published accounts and audit procedures applying to relevant authorities. The 2011 regulations will continue to apply for the completion of 2014/15 audits, with the 2015 regulations coming into effect for financial years beginning on or after 1 April 2015.

As noted in the January briefing, the Act introduces a compression of the audit timetable for Local Government accounts. This will require the publication of accounts, together with their audit opinion by the 31 July of the financial year immediately following the end of the financial year to which the statement relates. The explanatory memorandum accompanying the Act reiterates the Government's decision to defer this change until 2017/18 to allow a reasonable timescale for Local Government bodies and their auditors to adjust.



## Regulation news

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### NAO – draft Code of Audit Practice

The Local Audit and Accountability Act 2014 provides the legislative basis for the new framework for the audit of local public bodies which was announced by the Government in August 2010.

Previously, the Audit Commission was responsible for the preparation and maintenance of a Code of Audit Practice, which sets out the respective responsibilities of audited bodies and auditors; and explains what local auditors should do to meet their statutory responsibilities for the audit of local public bodies. The Local Audit and Accountability Act makes the Comptroller and Auditor General responsible for the preparation and maintenance of the Code of Audit Practice following the closure of the Audit Commission.

The National Audit Office (NAO) sought the public's views on the draft of its first Code in a consultation that ended at the end of October 2014, and published a final draft code in January 2015.

A key difference as compared to the Audit Commission codes, is that the NAO have taken the decision (which was supported by the majority of responses to the consultation) to produce a single code for all bodies within the new arrangements for local public audit.

The NAO have also pointed out that the Code is principles-based, and will be supported by detailed guidance to auditors which they will seek to provide with the aim of facilitating consistency whilst recognising that the same approach will not always be the most appropriate for all audited bodies.

Subject to Parliament's approval, the Code will take effect from 1 April 2015 for audit work relating to the 2015-16 financial year onwards.



## Key questions for the audit committee

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### What questions should the Audit Committee be asking itself?

- ▶ How have we satisfied ourselves that we are fully compliant with the HMRC requirements regarding our off-payroll staff members?
- ▶ Have our officers critically evaluated the closedown process to identify areas that could be streamlined or brought forward? Are we aware of the areas of the 2014-15 accounts that will contain a higher risk of error and therefore require closer scrutiny?
- ▶ What have our experiences of sector-led improvement been? Are we satisfied that our electorate are able to hold us accountable, and if not, what can we do to enhance local accountability?
- ▶ What can we learn from successfully implemented major projects and how can we apply them to our own initiatives to maximise our finances to ensure that they are effective?
- ▶ Have we monitored our data quality arrangements and adjusted them in the light of changing risks and priorities?
- ▶ Do our data quality arrangements remain robust and effective?



## Find out more

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### **EY Item Club**

Read more from the ITEM club at: <http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

### **2015-16 Local Government settlement**

Read about the final finance settlement at: <https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2015-to-2016>

The LGA briefing can be accessed at: <http://www.local.gov.uk/documents/10180/5533246/LGA+Briefing+-+Local+Government+Finance+Settlement+2015-16+-+House+of+Commons+-+10+02+15.pdf/bbd1db5b-4363-4582-937e-7b92dcf60e60>

### **Highly paid off-payroll appointments**

For further information see the HMRC guidance at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220745/tax\\_pay\\_appointees\\_review\\_230512.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220745/tax_pay_appointees_review_230512.pdf)

### **LGA consultation on the future of sector-led improvement**

See details of the consultation at the link below: <http://www.local.gov.uk/documents/10180/6869714/L14-551+Where+next+with+sector-led+improvement/99e45118-653f-4749-a9ae-01b83d796cf0>

### **What makes a successful project in government?**

For further details of the case studies presented at the conference, ask a member of your EY engagement team for a copy of the full publication.

### **Audit Commission report on data quality**

Find the report and supporting documents at: <http://www.audit-commission.gov.uk/2015/02/data-quality-matters/>

### **Local Audit and Accountability Act 2014**

The allocation of responsibilities is available at: [www.audit-commission.gov.uk/about-us/the-future-of-the-audit-commissions-functions/](http://www.audit-commission.gov.uk/about-us/the-future-of-the-audit-commissions-functions/)

The Accounts and Audit Regulations Act 2015 can be found at: <http://www.legislation.gov.uk/ukxi/2015/234/contents/made>

### **NAO – draft Code of Practice**

Read the final draft code in full at: [http://www.nao.org.uk/keep-in-touch/wp-content/uploads/sites/11/2014/09/Final\\_Draft\\_Code\\_of\\_Audit\\_Practice.pdf](http://www.nao.org.uk/keep-in-touch/wp-content/uploads/sites/11/2014/09/Final_Draft_Code_of_Audit_Practice.pdf)





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Central Bedfordshire Council

Audit Committee

30 March 2015

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**Implementation of a Risk Based Verification (RBV) Policy for Housing Benefit and Local Council Tax Support Assessments**

Advising Officers:

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**Purpose of this report**

To advise Members of the new approach to verifying claims for Housing Benefit and Local Council Tax Support and to seek approval of the Risk Based Verification Policy.

**RECOMMENDATION**

The Committee is asked to:

1. Consider for approval the Risk Based Verification Policy attached at Appendix A to this report.

**Overview and Scrutiny Comments/Recommendations**

1. This report has not been discussed by the Overview and Scrutiny Committee. The Department for Works and Pensions guidance states that it is good practice for Risk Based Verification Policies to be examined and approved by the authority's Audit Committee.

**Background**

2. Approximately 4,500 new Housing Benefit / Local Council Tax Support claims are processed in Central Bedfordshire each year. Legislation requires the local authority to be satisfied that it has sufficient information to be able to accurately assess entitlement. This is currently done, in most instances; by the provision of original documentation to support all aspects of a detailed means test e.g. pay slips.

3. Risk Based Verification is new technology that uses a complex mathematical model to calculate a risk profile for each customer. These risk profiles are determined by a propensity model that uses historical outcome data to establish the likelihood of fraud and error appearing in a given claim. The outcome of the process is the likelihood of risk expressed which can be high, medium or low risk.
4. The risk model is based on many years of experience and statistical information about what type of claim represents what type of risk. The higher the deemed risk, the higher amount of resources will be used to establish that the claim is genuine.
5. Each benefit claim is analysed by the software to identify if any of the characteristics associated with the occurrence of fraud and error are present. Each claim will be assessed at the point of claiming/notifying a change and will be categorised as low, medium or high risk according to the Risk Based Verification Policy at Appendix A.
6. Following successful pilots for Risk Based Verification (RBV) by the Department for Works and Pensions (DWP) and Local Authority partners in 2011, the process was opened up to all organisations responsible for administering Housing Benefit.
7. Housing Benefit and Local Council Tax Support has traditionally been claimed through hard copy claim forms which are then scanned and automatically loaded into the benefit assessment software. The implementation of electronic claims in April 2015 will allow new claims to be made online via an eform and this will be integrated with the RBV technology.

### **Issues for consideration**

8. The DWP have now developed and approved a new RBV policy which sets out the information and evidence required before assessing claims for Housing Benefit. This process can also be adopted for assessing claims for Local Council Tax Support. Risk Based Verification is a method of applying different levels of checks according to the risk of fraud associated with those categories of claims.
9. The Risk Based Verification policy (**Appendix A attached**) defines the risk categories and the checks required for each category. This information is system based so that claims are automatically allocated a risk category prior to assessment and payment. Claims are put into 1 of 3 categories of evidence required – **Low, Medium or High.**

### **Low Risk**

- Photocopies or original documentation to prove identity, National Insurance number and Student status.

### Medium Risk

- Must have the same checks as low risk plus
- Photocopies or original documentation to prove every type of declared income and capital.

### High Risk

- All high risk categorised cases must have original documentation to prove Identity, National Insurance number and Student status.
  - Original documentation only for proof of every type of declared income and capital.
  - “Verification plus” which may include some cases having a credit reference check completed to determine if there are any discrepancies between the information provided by the customer and the information available via the credit reference check.
10. Once the category is identified, individual claims can not be downgraded by the benefit processor to a lower risk group. They can however, exceptionally, be upgraded, with approval from a Senior Benefits Officer, if the processor has reasons to think this is appropriate. All cases which are upgraded will be recorded along with the reasons for doing so.
  11. In adopting RBV there is still the obligation to get all the facts and make an accurate assessment but there is not the need to gather documentary evidence in all cases.
  12. This in effect means being able to focus resources appropriately on those claims that pose the greatest risk and simplify and reduce the processing time for those that pose the least risk.
  13. In line with the Department of Work and Pensions guidance around 55% of cases will be Low Risk, 25% Medium and 20% High.
  14. The RBV Policy will be reviewed annually in accordance with the DWP instructions but must not be changed in-year as this would complicate the audit process.
  15. The introduction of RBV will bring about the following benefits:
    - Identify up to 25% more fraud and error, thus moving the emphasis from fraud detection to fraud prevention.
    - Reduce outgoing post and post received, thereby reducing postal costs, demands on the post and scanning team within Revenues and Benefits and decreasing administration duties within the benefits team.
    - Improve the time taken to process new claims for Housing benefit and Council Tax Support by up to 50% (currently 26

days), reducing customer contact and improving customer satisfaction.

- A reduction of 2 benefits processing staff during 2015/16, thus delivering one of the efficiency savings built into the Medium Term Financial Plan.
- Reduce the number of contacts made by claimants to the Council.

**Reason: (For recommendation)**

16. Adopting a RBV Policy has the potential to identify more fraud and error before it enters the benefits system. It will reduce the necessity for benefit claimants to contact the Council through more expensive methods such as face to face contact, decrease the need to produce original documents to support claims, resulting in a reduction in the number of customer contacts, improve processing times for new benefit claims, reduce volumes of scanning and indexing within the Revenues and Benefits Administration Team; and result in fewer requests being made to claimants by the Housing Benefit service.

**Council Priorities**

17. The implementation of the RBV Policy will reduce the risk of fraud entering the Housing Benefit and Local Council Tax Support system. Furthermore it will deliver value for money due to a better use of resources (delivering efficiency savings) and reduced benefit processing times for new claims.

**Corporate Implications**

**Legal Implications**

18. Risk Based Verification (RBV) is voluntary but if an authority chooses to adopt it, it must have in place a RBV Policy setting out the risk profiles, and verification standards that will apply and the minimum number of claims to be checked. Such a policy must be approved by members and have the agreement of the authority's Section 151 Officer. Due to the nature of the content of the policy, it is not made publicly available. It is also expected that there is monthly monitoring of RBV to ensure it is effective and that there is reporting of this.
19. The use of RBV is supported by legislation, DWP circulars, guidance and local policy.

**Financial Implications**

20. Implementation and on-going costs of the RBV technology are contained within existing budgets; however this new approach to claim verification will improve the processing times for benefit claims, which



should reduce the likelihood of overpayments being made to claimants that then have to be recovered.

21. RBV will also enable the delivery of efficiency savings, as fewer benefit assessors will be required to deliver higher service levels that will result from its adoption.

### **Equalities Implications**

22. Pursuant to the Equality Act 2010 (“the Act”), the Council, in the exercise of its functions, has to have due regard to (i) eliminating discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; (ii) advancing equality of opportunity between those with a relevant protected characteristic and those without; and (iii) fostering good relations between those with a relevant protected characteristic and those without. The relevant protected characteristics are age, race, disability, gender reassignment, pregnancy and maternity, religion or belief, sex and sexual orientation. The duty also covers marriage and civil partnership, but to a limited extent.
23. RBV will apply to all New Claims for Housing Benefit and Localised council Tax Support. A mathematical model is used to determine the Risk score for any claim. This model does not take into account any of the protected characteristics dealt with by the Equalities Act.
24. The Risk score profiles are determined by a propensity model; a mathematical formula which uses historical outcome data to establish the likelihood of fraud and error appearing in any given claim. Each benefit claim is analysed by the risk score software to identify if any of the characteristics associated with the occurrence of fraud and error are present. Likelihood is expressed by a risk category of High, medium or low risk’.
25. The course of action to be taken in respect of the risk score is governed by this policy. As such there should not be any equalities impact.
26. It is possible that certain protected characteristics, may be over represented or under represented in any of the risk groups. As such monitoring will be carried out to ascertain whether this is the case. As this is a new approach to verifying benefit claims, there is no baseline monitoring we can use as a comparison.

### **Risk Management Implications**

27. The Risk Based Verification software package is delivered with reports that enable the scheme to be monitored. Blind-sampling is automated within the system to validate the process. This will move a sample of those cases identified as low and medium risk to high risk status and

therefore mitigate the risk of error in the allocation of the risk category. Furthermore benefit assessment officers are able to increase the risk category at any time should they have concerns about an individual case. However they must never reduce a risk rating. The Risk Based Verification procedure will detail when and how this will be carried out and monitored.

28. Monthly management reports will be produced to identify how much fraud and error has been established in each risk group.
29. Following implementation monitoring will be carried out on a regular basis to ensure that the Council are satisfied cases are being allocated to the correct risk group. We would expect no more than around 55% of claims to be assessed as low risk, with around 25% medium risk and 20% high risk. If this proves not to be the case we will revisit the risk profiles assigned to each claim.
30. Risk Based Verification reduces the risk of payment of Housing Benefit and Local Council Tax Support to fraudulent applicants as it allows targeting of resources toward high risk cases.
31. In circular HB/CTB S11/2011, the DWP has laid out the procedure required to implement Risk Based Verification to ensure local authorities meet auditing requirements. Central Bedfordshire Council is following these requirements and therefore reducing any risk to the Housing Benefit subsidy claim. The scheme has been piloted in other local authorities, and rolled out nationally from November 2011, allowing Central Bedfordshire Council to benefit from experiences of others.
32. The risk category assigned to each claim will automatically be flagged on the Civica software for the claim to enable our external auditors to identify and check the verification requirements of the claim have been correctly categorised and documentary evidence has been obtained in support of the claim as per our policy.

### **Conclusion and next Steps**

33. Following approval, the RBV technology will be implemented from 1 April 2015.

### **Appendices**

Appendix A - Risk Based Verification Policy (Exempt under paragraph 7 Part 1 of Schedule 12A to the Local Government Act 1972 as it contains information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime)

Appendix B – DWP Circular S11/2011

**Background Papers**

None

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APPENDIX B

## Housing Benefit and Council Tax Benefit Circular

Department for Work and Pensions

1<sup>st</sup> Floor, Caxton House, Tothill Street, London SW1H 9NA

# HB/CTB S11/2011

### SUBSIDY CIRCULAR

<b>WHO SHOULD READ</b>	All Housing Benefit (HB) and Council Tax Benefit (CTB) staff
<b>ACTION</b>	For information
<b>SUBJECT</b>	Risk-Based Verification of HB/CTB Claims Guidance

### Guidance Manual

The information in this circular does not affect the content of the HB/CTB Guidance Manual.

### Queries

If you

- want **extra copies of this circular/copies of previous circulars**, they can be found on the website at <http://www.dwp.gov.uk/local-authority-staff/housing-benefit/user-communications/hbctb-circulars/>
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## Risk-Based Verification of HB/CTB Claims Guidance

### Introduction

1. This guidance outlines the Department's policy on Risk-Based Verification (RBV) of Housing Benefit and Council Tax Benefit (HB/CTB) claims.

### Background

2. RBV allows more intense verification activity to be focussed on claims more prone to fraud and error. It is practiced on aspects of claims in Jobcentre Plus (JCP) and the Pension Disability and Carers Service (PDCS). Local authorities (LAs) have long argued that they should operate a similar system. It is the intention that RBV will be applied to all Universal Credit claims.
3. Given that RBV is practised in JCP and PDCS, the majority (up to 80%) of HB/CTB claims received in an LA may have been subject to some form of RBV. Already 16 LAs operate RBV. Results from these LAs have been impressive. In each case the % of fraud and error identified has increased against local baselines taken from cells 222 and 231 of the Single Housing Benefit Extract (SHBE). In addition, in common with the experience of JCP and PDCS there have been efficiencies in areas such as postage and storage and processing times have improved.
4. We therefore wish to extend RBV on a **voluntary basis** to all LAs from April 2012.

This guidance explains the following;

- What is RBV?
- How does RBV work?
- The requirements for LAs that adopt RBV
- How RBV claims will be certified
- What are the subsidy implications?

### What is RBV?

5. RBV is a method of applying different levels of checks to benefit claims according to the risk associated with those claims. LAs will still be required to comply with relevant legislation (Social Security Administration Act 1992, section 1 relating to production of National Insurance numbers to provide evidence of identity) while making maximum use of intelligence to target more extensive verification activity on those claims shown to be at greater risk of fraud or error.
6. LAs have to take into account HB Regulation 86 and Council Tax Benefit Regulation 72 when verifying claims. The former states:

*“a person who makes a claim, or a person to whom housing benefit has been awarded, shall furnish such certificates, documents, information and evidence in connection with the claim or the award, or any question arising out of the claim or the award, as may reasonably be required by the relevant authority in order to determine that person’s entitlement to, or continuing entitlement to housing benefit and shall do so within one month of being required to do so or such longer period as the relevant authority may consider reasonable.”*

Council Tax Benefit Regulation 72 is similar.

7. These Regulations do not impose a requirement on authorities in relation to what **specific** information and evidence they should obtain from a claimant. However, it does require an authority to have information which allows an **accurate assessment** of a claimant’s entitlement, both when a claim is first made and when the claim is reviewed. A test of reasonableness should be applied.

### **How does RBV work?**

8. RBV assigns a risk rating to each HB/CTB claim. This determines the level of verification required. Greater activity is therefore targeted toward checking those cases deemed to be at highest risk of involving fraud and/or error.
9. The classification of risk groups will be a matter for LAs to decide. For example, claims might be divided into 3 categories:
  - **Low Risk Claims:** Only essential checks are made, such as proof of identity. Consequently these claims are processed much faster than before and with significantly reduced effort from Benefit Officers without increasing the risk of fraud or error.
  - **Medium Risk Claims:** These are verified in the same way as all claims currently, with evidence of original documents required. As now, current arrangements may differ from LA to LA and it is up to LAs to ensure that they are minimising the risk to fraud and error through the approach taken.
  - **High Risk Claims:** Enhanced stringency is applied to verification. Individual LAs apply a variety of checking methods depending on local circumstances. This could include Credit Reference Agency checks, visits, increased documentation requirements etc. Resource that has been freed up from the streamlined approach to low risk claims can be focused on these high risk claims.
10. We would expect no more than around 55% of claims to be assessed as low risk, with around 25% medium risk and 20% high risk. These figures could vary from LA to LA according to the LA’s risk profiling. An additional expectation is that there should be more fraud and error detected in high risk claims when compared with medium risk claims and a greater % in medium risk than low risk. Where this proves not to be the case the risk profile should be revisited.
11. LAs may adopt different approaches to risk profile their claimants. Typically this will include the use of IT tools in support of their policy, however, the use of clerical systems is acceptable.



12. Some IT tools use a propensity model<sup>1</sup> which assesses against a number of components based on millions of claim assessments to classify the claim into one of the three categories above. Any IT system<sup>2</sup> must also ensure that the risk profiles include 'blind cases' where a sample of low or medium risk cases are allocated to a higher risk group, thus requiring heightened verification. This is done in order to test and refine the software assumptions.
13. Once the category is identified, individual claims cannot be downgraded by the benefit processor to a lower risk group. They can however, exceptionally, be upgraded if the processor has reasons to think this is appropriate.

### **The requirements for LAs that adopt RBV**

14. RBV will be voluntary. However, all LAs opting to apply RBV will be required to have in place a **RBV Policy** detailing the risk profiles, verification standards which will apply and the minimum number of claims to be checked. We consider it to be good practice for the Policy to be examined by the authority's Audit and Risk Committee or similar appropriate body if they exist. The Policy must be submitted for Members' approval and sign-off along with a covering report confirming the Section 151 Officer's (section 85 for Scotland) agreement/recommendation. The information held in the Policy, which would include the risk categories, should not be made public due to the sensitivity of its contents.
15. The Policy must allow Members, officers and external auditors to be clear about the levels of verification necessary. It must be reviewed annually but not changed in-year as this would complicate the audit process.
16. Every participating LA will need a robust baseline against which to record the impact of RBV. The source of this baseline is for the LA to determine. Some LAs carry out intensive activity (along the lines of the HB Review) to measure the stock of fraud and error in their locality. We suggest that the figures derived from cells 222 and 231 of SHBE would constitute a baseline of fraud and error currently identified by LAs.
17. Performance using RBV would need to be monitored monthly to ensure its effectiveness. Reporting, which must be part of the overall Policy, must, as a minimum, include the % of cases in each risk category and the levels of fraud and error detected in each.

### **How RBV claims will be certified?**

18. Auditors will check during the annual certification that the subsidy claim adheres to the LA's RBV Policy which will state the necessary level of verification needed to support the correct processing of each type of HB/CTB claim. The risk category will need to be recorded against each claim. Normally the LA's benefit IT/clerical system will allow this annotation.

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<sup>1</sup> Whilst DWP is of the opinion that the use of IT will support the success of RBV, it does not in anyway endorse any product or company

<sup>2</sup> The same safeguard must be applied to clerical systems

## Other considerations

19. The sample selection for HB/CTB cases will not change i.e. 20 cases will be selected for each headline cell on the claim form. The HB COUNT guidance used by the external auditors for certification will include instructions for how to deal with both non-RBV and RBV cases if selected in the sample. For non-RBV cases, the verification requirements will remain the same i.e. LAs will be expected to provide all the documentary evidence to support the claim.

## What are the subsidy implications?

20. Failure by a LA to apply verification standards to HB/CTB claims as stipulated in its RBV Policy will cause the expenditure to be treated as LA error. The auditor will identify this error and if deemed necessary extrapolate the extent and, where appropriate, issue a qualifying letter. In determining the subsidy implications, the extrapolation of this error will be based on the RBV cases where the error occurred. For this reason, it is important that RBV case information is routinely collected by ensuring that LA HB systems incorporate a flag to identify these RBV cases. If sub-populations on RBV cases can not be identified, extrapolations will have to be performed across the whole population in the particular cell in question.
21. We will now work with the respective audit bodies to incorporate this into the COUNT guidance. If you have any queries please contact Manny Ibiayo by e-mail [HBCTB.SUBSIDYQUERIES@DWP.GSI.GOV.UK](mailto:HBCTB.SUBSIDYQUERIES@DWP.GSI.GOV.UK)

**Central Bedfordshire Council**

**Audit Committee**

30 March 2015

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**2015-16 Internal Audit Plan**

**Advising Officers:**

Charles Warboys, Chief Finance Officer  
([charles.warboys@centralbedfordshire.gov.uk](mailto:charles.warboys@centralbedfordshire.gov.uk))

Kathy Riches, Head of Internal Audit and Risk  
([kathy.riches@centralbedfordshire.gov.uk](mailto:kathy.riches@centralbedfordshire.gov.uk))

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**Purpose of this report:**

The purpose of this report is to present the 2015/16 Audit Plan for review and approval.

**RECOMMENDATION**

The Committee is asked to:

1. Consider and approve the 2015-16 Internal Audit plan.

**Overview and Scrutiny Comments/Recommendations**

1. This report is not scheduled to be considered by Overview and Scrutiny, as it is a matter for the Audit Committee under the delegations of the Constitution.

**Background**

2. The Public Sector Internal Auditing Standards, effective from 1st April 2013, require the Head of Internal Audit to establish risk based plans to determine the priorities of internal audit activity, consistent with the organisation's goals. This should be supported by a documented risk assessment, giving consideration to the input of senior management.
3. The Audit Committee, at its meeting in April 2013, approved the Strategic Audit Plan covering the period 2013-2016.
4. 2015/16 represents the final year of the three year plan. The plan has been reconsidered and updated following discussion with senior officers.

## 2015/16 Internal Audit Plan

5. In preparing the audit plan, consideration has been given to the requirement for the Head of Internal Audit to deliver an annual internal audit opinion on the overall adequacy and effectiveness of the Councils framework of governance, risk management and control (as required by the Public Sector Internal Auditing Standards).
6. The updated plan has been informed through:
  - reference to the previous Audit Needs Assessment undertaken
  - consultation with senior management
  - Internal Audit's own analysis of risk areas
  - outcomes of previous audits
  - reference to the strategic and operational risk registers, and the outcome of the assurance mapping exercise on the risks documented within the Strategic Risk Register
7. In developing the audit plan, consideration has been given to ;
  - Providing assurance on the Council's fundamental systems
  - ICT assurance work
  - Grant claim sign off work
  - System reviews of key service activities
  - Follow up work, where appropriate
  - Consultancy and advice
  - Engagement in key transformation programmes and projects, as appropriate.
  - New Government initiatives
  - Local initiatives
  - The need to ensure that basic systems and controls are robust and being complied with at a time when the Council is refining a number of processes to improve service delivery and increase efficiencies.
8. It is important to recognise the need for flexibility in the approach to our audit work. The approach adopted recognises that organisational and business transformation changes are continuous within Central Bedfordshire and acknowledges that, as a result, the control environment is subject to change. A contingency has been included within the plan to ensure that Internal Audit can respond accordingly.
9. The approach to the delivery of the fundamental systems audits has been discussed with Ernst and Young, the Council's external auditors.
10. The main revisions to the 2015-16 Plan are indicated in grey in the attached Appendix, along with an explanatory comment, and the key changes for 2015/16 are summarised below:
  - Following discussions with the Chief Information Officer, two IT reviews have been removed and substituted with alternative IT reviews.

- The planned Emerging Health Agenda Information Governance review has been removed and relevant issues will be covered under Information Governance.
  - The Impact of Welfare Reform review has been removed as ongoing monitoring mechanisms are in place.
  - The Impact of the Community Right to Challenge review has been removed as there have been no challenges.
  - The programme of Finance audits now includes a VAT audit, grants audit, and a review of processes to support the NNDR 1 and 3 returns.
  - The programme of audits for Children's Services now includes Children's Centres, Troubled Families processes and Frameworkki.
  - The programme of Social Care, Health and Housing audits now includes Care Act/Better Care Fund integration and supporting the delivery of new housing (e.g. Priory View/ Houghton Regis).
  - A car parks audit has been added to the Community Services audit programme and the planned review of Flitwick Leisure Centre will now be broader to include a review of Leisure Centre outcomes.
  - The programme of Regeneration and Business Support audits now includes a review of the European Social Fund arrangements and a review of the mechanisms for alignment of the CIL/S106 processes.
  - Planned proactive anti fraud reviews now include a review of the financial assessment processes within Social Care Health and Housing and cash handling processes.
11. The Audit Committee, at its meeting on 22<sup>nd</sup> September 2014 considered a report outlining the proposal to establish a Corporate Fraud Team, which would work closely with Internal Audit to develop and deliver an annual Anti Fraud Work programme. Discussions have been held with the Fraud, Welfare and Partnership Manager and an outline work programme for the first year has been developed, and is included at Appendix B to this report. This will be further developed once the new Corporate Fraud Team is operational. The Internal Audit Plan includes the elements that are currently planned to be delivered by Internal Audit.
12. The plan has been discussed and agreed with the Corporate Management Team.
13. The Audit Plan is attached at Appendix A.

### **Available Resources**

14. It is estimated that there will be 1,260 productive audit days available for 2015/16.

### **Council Priorities**

15. 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.

**Corporate Implications**

**Legal Implications**

16. None directly from this report.

**Financial Implications**

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

**Equalities Implications**

18. None directly from this report.

**Conclusion and next Steps**

19. Approval by the Audit Committee of the revisions to the Internal Audit Plan will ensure that Internal Audit can progress its work in line with an agreed approach.

20. The Audit Committee can then use the final plan to monitor the work of internal audit to ensure that appropriate assurance is provided on the Council's systems.

**Appendices:**

Appendix A – Internal Audit Plan 2015-2016

Appendix B – Corporate Fraud Team Outline Work Programme

**Background Papers:**

None

Appendix A

# **Internal Audit & Risk 2015-16 Audit Plan**

March 2015



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3	AUDIT NEEDS ASSESSMENT .....	2
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## Internal Audit Plan 2015-16

### 1 Background

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit and Risk to establish risk based audit plans to determine the priorities for internal audit work, consistent with the Council's objectives. In preparing this plan, the Head of Internal Audit and Risk is required to take account of the Council's :
- Risk management framework, and relative risk maturity of the organisation,
  - Assurance framework,
  - Vision, objectives and priorities and,
  - How the work will address local and national issues and risks.
- 1.2 The Head of Internal Audit and Risk is required to provide an annual opinion to the Council and to the Chief Finance Officer, through the Audit Committee, on the adequacy and the effectiveness of the internal control system for the whole Council. The plan, therefore, needs to be sufficient to enable this opinion to be issued. In addition the results of Internal Audit's reviews will help inform the Annual Governance Statement.
- 1.3 The audit plan has been agreed with senior management and was approved by the Audit Committee on XXXX
- 1.4 The plan will be subject to periodic review by the Head of Internal Audit and Risk, in consultation with senior management and significant revisions will be presented to the Audit Committee for approval. Revisions made would be in response to changes in the Council's business, risks, operations, programs, systems or controls.
- 1.5 The plan will be delivered in accordance with the Internal Audit Charter and Internal Audit Engagement Protocol.

### 2 Strategic Aims and Objectives

- 2.1 Internal Audit supports the Council in its vision and strategic priorities, which sets the Council's focus over the coming years.
- 2.2 Internal Audit strives to provide a high quality service that gives management reasonable assurance on the effectiveness of the Council's internal control environment and acts as an agent for change by making recommendations for continual improvement. The service aims to be flexible, pragmatic and deliver a service in collaboration with management to suit organisational needs. Through a risk based approach, the service will aim to make a positive contribution to corporate governance arrangements and assist management in developing a framework for achieving objectives within acceptable levels of risk. Within the team, it is intended to provide a work environment that is both supportive and challenging to facilitate the development and retention of high calibre staff.

### 3 Audit Needs Assessment

- 3.1 The Audit Committee in April 2013 approved a three year strategic audit plan. This was prepared following an audit needs assessment.
- 3.2 The audit needs assessment focuses internal audit work on key risk areas whilst ensuring comprehensive coverage by prioritising its work and considering;
- previous audit needs assessments undertaken
  - consultation with senior management
  - Internal Audit's own analysis of risk areas
  - outcomes of previous audits
  - known areas of concern
  - reference to the strategic and operational risk registers, and
  - the outcome of the assurance mapping exercise on the risks documented within the Strategic Risk Register
- 3.3 In developing the audit plan, consideration has also been given to;
- Providing assurance on the Council's fundamental systems
  - ICT assurance work
  - Grant claim sign off work
  - Anti Fraud activity, having regard to the National Fraud Authority's (NFA) Fighting Fraud locally initiative
  - System reviews of key service activities, including governance arrangements
  - Follow up work, where appropriate
  - Key contracts and partnership arrangements
  - Consultancy and advice
  - Special investigations
  - Engagement in key transformation programmes and projects, as appropriate
  - New Government initiatives, such as Local Welfare Reform
  - Local initiatives, including the Medium Term Plan
  - The need to ensure that basic systems and controls are robust and being complied with at a time when the Council is going through a period of significant change
- 3.4 2015/16 represents the final year of the three year plan. It has been reviewed and refreshed following discussion with senior management and the updated plan is attached at Appendix A. Revisions to the original plan are indicated in grey.
- 3.5 In addition to delivering the agreed audit plan, Internal Audit also carry out special reviews or assignments where requested by management, which fall outside the approved work plan and for which a contingency is included within the audit plan.

### 4 Priorities for Internal Audit Work

- 4.1 When preparing the audit plan, the following list represents the classification within which audits are considered:
- Audits in progress from previous year,
  - Fundamental system assurance work,
  - Follow up of "No assurance" audits or audits where on going risks have been identified,
  - Audits to mitigate key control weaknesses identified in the risk registers,
  - New developments
  - Unplanned work (contingency).

## 5 Auditor Independence

- 5.1 Internal Audit will remain independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.
- 5.2 Internal auditors are required to declare any personal interests which may impact on their objectivity and these are factored into audit planning.
- 5.3 Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee. To maintain independence, any audit staff involved in significant consulting activity will not be directly involved in the audit of that area for at least 12 months, or their involvement will be managed by someone independent of the consultancy activity.

## 6 Internal Audit Resources

- 6.1 Internal Audit will be appropriately staffed in terms of numbers, qualifications and experience, having regard to its objectives and to the standards within which it is required to operate.
- 6.2 The Head of Internal Audit and Risk is responsible for ensuring that the resources of the Internal Audit section are sufficient to meet its responsibilities and achieve its objectives. They will also ensure that the appropriate mix of qualifications, experience and audit skills exist within the unit.
- 6.3 If a situation arose whereby Internal Audit resources were insufficient, the Head of Internal Audit and Risk would discuss this with the Chief Finance Officer.
- 6.4 Internal Auditors will maintain their professional competence through an appropriate ongoing development programme.
- 6.5 It may be necessary, from time to time, to buy in either agency staff or sub-contractors, of a suitable quality.

## 7 Reporting

- 7.1 Reporting will be in accordance with the Internal Audit Charter.
- 7.2 As required by the PSIAS any significant consulting activity not already included in the Audit Plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee.

**Appendix A**

2015-16 Internal Audit Plan

Priority	Audit Title	2015/16	2015/16	Comments
		Original	Revised	
		Days	Days	2015/16
<b>Fundamental Systems</b>				
H	Accounts Payable/Purchase Ledger ( including feeder systems)	35	35	
H	Accounts Receivable/Sales Ledger	30	30	
H	Asset Management (incl. Asset Register)/Capital Accounting	30	30	
H	Council Tax (including Council Tax Support Scheme)	35	35	
H	Housing Benefits	40	40	
H	Main Accounting Systems (MAS)	30	30	
H	National Non Domestic Rates NNDR	35	35	
H	Payroll	35	35	
H	SWIFT Financials	15	15	
H	Treasury Management	25	25	
H	Housing Rents including tenant arrears	25	25	
H	Cash And Banking (Non Invoiced Income)	20	20	
<b>Total - Fundamental Systems</b>		<b>355</b>	<b>355</b>	
<b>Assurance Audits - Improvement and Corporate Services</b>				
M	Data Quality	15	15	
H	Information Governance - application of framework	15	15	
M	Corporate Governance Reviews	15	15	
M	Application Reviews	15	0	Removed as specific reviews covered under other audits e.g SWIFT, Framework!
H	IT Disaster Recovery	10	10	
H	SAP Access and Security	10	10	
n/a	Third Party Hosting	15	15	
n/a	IT activities delivered outside IT	15	0	Removed. Relevant issues to be covered by the IT Governance audit follow up.
n/a	Emerging Health Agenda - Information Governance, Integration and Technology Standards	15	0	Removed. Relevant issues to be covered by the information Governance reviews.
n/a	IT Network Management and Security	0	15	This audit supports the PSN assurance requirements.
M	IT Governance Follow Up Audit	0	15	
<b>Total-Improvement and Corporate Services</b>		<b>125</b>	<b>110</b>	

**Appendix A**

2015-16 Internal Audit Plan

Priority	Audit Title	2015/16	2015/16	Comments
		Original	Revised	
		Days	Days	2015/16
<b>Assurance Audits - Finance</b>				
H	Impact of Welfare Reform	15	0	Removed from plan as ongoing monitoring mechanisms are in place.
M	Adherence to Financial / Procurement Procedures	15	15	
L	NNDR 1 and 3 return - processes for assurance on compilation	0	5	Additional review to provide assurance on processes to support compilation
M	VAT audit	0	10	Additional review
M	Grants audit	0	10	Additional review
<b>Total - Finance</b>		<b>30</b>	<b>40</b>	
<b>Assurance Audits - Children's Services</b>				
M	Children's Centres	0	10	Additional review
M	Schools General - School Improvement	80	80	
H	Troubled Families Grant	0	10	Additional review
n/a	Framework i	0	10	This has been included as it is now a material system
<b>Total - Children's Services</b>		<b>80</b>	<b>110</b>	
<b>Assurance Audits - Social Care, Health and Housing</b>				
M	Housing Repairs	20	20	
M	Residential Care Homes	20	20	Additional review
M	Supporting delivery of new housing	0	15	Additional review
M	Care Act/Better Care Fund Integration	0	15	Additional review
<b>Total - Social Care, Health and Housing</b>		<b>40</b>	<b>70</b>	

**Appendix A**

2015-16 Internal Audit Plan

Priority	Audit Title	2015/16	2015/16	Comments
		Original	Revised	
		Days	Days	2015/16
<b>Assurance Audits - Community Services</b>				
<b>M</b>	Car Parks	0	15	Additional review
<b>n/a</b>	Review of Leisure Centre outcomes	15	15	Review revised to focus on delivery of Leisure Centre Outcomes
<b>Total - Community Services</b>		<b>15</b>	<b>30</b>	
<b>Assurance Audits - Regeneration and Business Support</b>				
<b>M</b>	European Social Fund	0	15	Additional review
<b>n/a</b>	CIL/S106 -review of mechanisms for alignment	15	15	Review revised to focus on mechanisms for alignment.
<b>Total - Regeneration and Business Support</b>		<b>15</b>	<b>30</b>	
<b>Assurance Audits - Contracts and Partnerships</b>				
<b>M</b>	Contracts Management	20	20	
<b>n/a</b>	Impact of Community Right To Challenge	15	0	Removed.
<b>n/a</b>	Partnership Governance	15	0	Will focus on Better Care Fund. Now Included under SCHH.
<b>Total - Contracts and Partnerships</b>		<b>50</b>	<b>20</b>	
<b>Assurance Audits - Public Health</b>				
<b>M</b>	Public Health compliance with best practice	15	15	
<b>Total - Public Health</b>		<b>15</b>	<b>15</b>	
<b>Special Investigations</b>				
<b>M</b>	National Fraud Initiative (NFI)	20	20	
<b>M</b>	Special Investigations and supporting the Corporate Fraud Team	40	40	
Pro Active Anti Fraud:				
<b>M</b>	Financial assessment processes SCHH	0	10	Added to support Care Act Implementation
<b>M</b>	Cash income	0	10	Additional review. Will include library cash handling
<b>n/a</b>	Bank Accounts and Bank Imprests	10	10	
<b>n/a</b>	Use of Purchasing Cards	10	10	
<b>Total - Special investigations</b>		<b>80</b>	<b>100</b>	

**Appendix A**

2015-16 Internal Audit Plan

Priority	Audit Title	2015/16	2015/16	Comments
		Original	Revised	
		Days	Days	2015/16
<b>Ad Hoc Consultancy etc.,</b>				
H	Risk Management Activities	35	35	
M	Major projects - Consultancy	40	40	
M	Supporting Annual Governance Statement	5	5	
M	Audit of Individual Grants	20	20	
M	General Advice	20	20	
M	Head of Audit Chargeable Against Plan	60	60	
M	Assurance Mapping Review	5	5	
M	Benchmarking Exercise	5	5	
L	Contingency	145	70	
<b>Total - Ad Hoc Consultancy etc.</b>		<b>335</b>	<b>260</b>	
<b>Carry over Work</b>				
H	Completion of reviews in progress as at 31st March	120	120	
<b>Total - Carry over Work</b>		<b>120</b>	<b>120</b>	
<b>TOTAL CHARGEABLE DAYS REQUIRED</b>		<b>1260</b>	<b>1260</b>	

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**Appendix B**

<b>Corporate Fraud Team – Outline Work Programme 2015-16</b>
<b>Counter Fraud Arrangements:</b>
Develop and refine the processes and systems within the Corporate Fraud Team, including the referral processes and risk assessments.
Develop and refine arrangements for collaborative working with other areas within Council (e.g. Internal Audit, Financial Investigations Unit).
Ensure all relevant staff are adequately trained.
<b>Policies and Procedures</b>
Work with colleagues across Council to review and refresh anti fraud policies and procedures.
<b>Raising Awareness</b>
Engage and liaise with members, managers and key staff to raise awareness of anti fraud policies and the activity of the Corporate Fraud Team.
Undertake a publicity campaign to raise awareness externally.
<b>Targeted Reviews</b>
Undertake a fraud risk assessment to determine the key areas to focus on, which will include: Council Tax Support fraud Council Tax Single Person Discount fraud National Non Domestic Rate fraud Housing Tenancy fraud.
Undertake fraud investigations.
Work with service areas to improve quality of claim forms in use.

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**Central Bedfordshire Council**

**Audit Committee**

30 March 2015

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**Internal Audit Progress Report**

Advising Officers:

Charles Warboys, Chief Finance Officer  
(charles.warboys@centralbedfordshire.gov.uk)

Kathy Riches, Head of Internal Audit and Risk  
(kathy.riches@centralbedfordshire.gov.uk)

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**Purpose of this report:**

This report provides a progress update on the status of Internal Audit work for 2014/15.

**RECOMMENDATIONS**

The Committee is asked to:

1. Consider and comment on the contents of the report.

**Overview and Scrutiny Comments/Recommendations**

1. This report is not scheduled to be considered by Overview and Scrutiny, as it is the responsibility of the Audit Committee.

**Background**

2. Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal audit reviews, appraises and reports on the efficiency, effectiveness and economy of financial and other management controls.
3. The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.
4. The Audit Committee approved the 2014/15 Audit Plan in March 2014. This report provides an update on progress made against the plan up to the end of February 2015.

## **Progress on the 2014/15 Audit Plan**

### **Fundamental System Audits**

5. Work is progressing on the 2014/15 fundamental system audit reviews and the progress made to date is summarised in Appendix A. Final Phase 1 reports have been issued for the majority of the key systems. Work is in progress for Asset Management and SWIFT Financials.
6. The primary focus of the work undertaken to date has been to document the systems in detail, identifying the key controls and undertaking walkthrough testing to confirm whether the key controls identified are operating effectively. Where appropriate, substantive testing has been undertaken covering the period April – October (Phase 1 testing). Each of the fundamental system reviews finalised has received an adequate audit opinion.
7. During discussions with the external auditors it has been agreed that some further substantive testing to cover the whole year will be required and the opinions may be revised once the substantive testing for the whole year has been undertaken.
8. The reviews have taken account of new Government initiatives, such as the Council Tax Support Scheme and Localised Business Rates and also internal system changes, designed to deliver service improvement.

### **Other Audit Work**

9. Internal Audit has continued to be engaged in several projects, in order to provide advice and guidance on the control environment during project implementation, including the change in provider for agency staff and the Highways contract retender.
10. A number of other reviews are currently progressing, and these are also shown within Appendix A. The outcomes will be reported to a future committee.
11. Following discussions with HR colleagues, the review of timesheets processed through Employee Self Service (ESS) will be postponed until 2015/16. Although the work has been scoped, the service area has requested the review be deferred, due to their resourcing issues.

### **National Fraud Initiative (NFI)**

12. We continue to complete work around the National Fraud Initiative (NFI). This involves supplying data to the Audit Commission for matching purposes and then investigating any of the positive matches.
13. The 2014/15 matches were made available for review at the end of January 2015 and work is in progress to review and investigate the

matches. To date, savings of £12,194.15 have been identified and recovered relating to a duplicate payment.

### **Fraud and Special Investigations**

14. No investigations supported by Internal Audit have been finalised since the last Committee. One investigation is in progress.

### **Schools**

15. The rolling programme of school audit visits has continued. To date this year 9 school reports have been finalised, 1 draft report has been issued and 4 further visits have been completed with reports currently being finalised.

### **Performance Management**

16. The Internal Audit Charter requires Internal Audit to report its progress on some key performance indicators. The indicators include both CBC audit activities and school audit activity.

**Activities for 1 April 2014 – 28 February 2015**

KPI	Definition	Current Year		Previous Year	Annual target
		Actual	Target	Actual	
KPI01	Percentage of total audit days completed.	83%	73%	85%	80%
KPI02	Percentage of the number of planned reviews completed.	65%	66%	64%	80%
KPI03	Percentage of audit reviews completed within the planned time budget, or within a 1 day tolerance.	81%	75%	73%	75%
KPI04	Time taken to respond to draft reports: Percentage of reviews where the first final draft report was returned within 10 available working days of receipt of the report from the Auditor.	63%	80%	79%	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.	96%	80%	100%	80%
KPI06	Overall customer satisfaction.	91%	80%	86%	80%

17. Analysis of indicators:

- KPI01 - As at the end of February, Internal Audit has delivered a total of 1040 productive audit days against a total of 1260 planned days for the year. This is above target for the period and consistent with the previous year.
- KPI02 - This KPI measures final reports issued to date. 65% of the planned reviews have been completed to final report stage along with milestones reached for fundamental systems audit work. This is consistent with the previous year. In addition, a number of reviews have been completed to draft report stage.
- KPI03 - 81% of planned reviews have been completed either within the planned time budgets, or within a 1 day tolerance. This is above the target agreed for the year.
- KPI04 - This indicator measures the time taken for Internal Audit to receive a response from the auditee to the draft report. During the period up to the end of February 63 % of draft reports were responded to within the target set. Although this is below target, it does represent an improvement on the position reported as at the end of November, which was 50%. As reported to the January Committee, Internal Audit has raised this issue with the director of relevant service areas to try to improve response times.
- KPI05 - This indicator measures the time taken by Internal Audit to issue the final report upon receipt of an agreed response from the auditee, and continues to be positive.
- KPI06 - 23 surveys have been returned this year. The overall satisfaction is 91%, which is positive.

**Council Priorities**

18. 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.

**Corporate Implications**

**Legal Implications**

19. None directly from this report.

**Financial Implications**

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

### **Equalities Implications**

21. None directly from this report.

### **Conclusion and next Steps**

22. Internal Audit has continued to support the drive to strengthen internal control within Central Bedfordshire Council. Work is progressing to deliver the agreed plan by the year end.

23. An update on audit progress will be presented to the next Audit Committee.

### **Appendices**

Appendix A – Progress on Audit Activity

### **Background Papers**

None



Priority	Audit Title	2014/15 Days	Position as at end February	Opinion
	<b>Carry Over Work</b>			
	<b>Completion of Reviews in Progress as at 31 March 2014</b>	120		
	2013-14 Accounts Payable Phase 2		Final report issued	Adequate
	2013-14 Council Tax Phase 2		Final report issued	Adequate
	2013-14 NDR Phase 2		Final report issued	Adequate
	2013-14 Asset Management/Capital Accounting		Final report issued	Adequate
	2013-14 Main Accounting System Phase 2		Final report issued	Adequate
	2013-14 Payroll Phase 2		Final report issued	Adequate
	2013-14 SWIFT Financials		Final report issued	Adequate
	ICT Contract Management		Fieldwork completed	
	Recruitment Controls (including vetting)		Final report issued	Adequate
	Data Quality- Customer Satisfaction for Roads and Pavements		Final report issued	Adequate
	Data Quality- Invitations to Health Screening		Final report issued	Limited
	Data Quality- Visits to Libraries		Draft report issued	
	Teachers' Pensions		Final report issued.	Limited
	Officers Hospitality and Gifts - Follow Up		Final report issued	Unsatisfactory progress
	Members Hospitality and Gifts - Follow Up		Final report issued	Satisfactory progress
	ICT Governance Phase 2		Final report issued	Limited
	Corporate Financial Management		Draft report issued	
	Domiciliary Care Framework Agreement		Fieldwork in progress	
	SCHH Financial Management		Draft report issued	
	Section 278 Agreements		Final report issued	Limited
	Pro Active Anti Fraud- Expense Claims		Fieldwork in progress	
	Pro Active Anti Fraud - Timesheets		Postponed to 15/16	
	Lawnside Lower School		Final report issued	Adequate
	Arlesey Nursery		Final report issued	Adequate
	<b>Total - Carry Over Work</b>	<b>120</b>		
	<b>Fundamental Systems</b>			
H	Accounts Payable/Purchase Ledger (including feeder systems)	35	Final report issued	Adequate
H	Accounts Receivable/Sales Ledger	30	Final report issued	Adequate
H	Asset Management (incl. Asset Register)/Capital Accounting	30	Fieldwork in progress	
H	Council Tax (including Council Tax Support Scheme)	35	Final report issued	Adequate
H	Housing Benefits	40	Final report issued	Adequate
H	Main Accounting Systems (MAS)	30	Final report issued	Adequate
H	National Non Domestic Rates NNDR	35	Final report issued	Adequate
H	Payroll	35	Final report issued	Adequate
H	SWIFT Financials	15	Fieldwork in progress	
H	Treasury Management	25	Final report issued	Adequate

<b>Priority</b>	<b>Audit Title</b>	<b>2014/15</b>	<b>Position as at end February</b>	<b>Opinion</b>
		<b>Days</b>		
H	Housing Rents including tenant arrears	25	Final report issued	Adequate
H	Cash And Banking (Non Invoiced Income)	20	Final report issued	Adequate
<b>Total - Fundamental Systems</b>		<b>355</b>		
<b>Assurance Audits - Improvement and Corporate Services</b>				
M	Data Quality	15	Scoping in progress	
H	Information Governance - application of framework	15	Report being drafted	
M	Corporate Governance Reviews	15	Scoping in progress	
M	Public Health data - assurance on Information Management	15	Scoping in progress	
M	Application Reviews	15	Fieldwork in progress	
M	Customer First Information Security	15	Scoping in progress	
H	SAP Master Data Maintenance post ESS/MSS	15	Fieldwork in progress	
H	IT Disaster Recovery	10	Fieldwork in progress	
H	SAP Access and Security	10	Report drafted	
M	Corporate Asset Management Strategy	15	Scoping in progress	
H	Compliance- Assets	15	Scoping in progress	
M	Asset Management System	15	Fieldwork in progress	
<b>Total- Improvement and Corporate Services</b>		<b>170</b>		
<b>Assurance Audits - Finance</b>				
H	Impact of Welfare Reform	15	Removed - see Jan Committee report.	
M	Adherence to Procurement Procedures		Fieldwork in progress	
L	Sickness Absence Pool	5	Report drafted	
<b>Total - Finance</b>		<b>20</b>		
<b>Assurance Audits - Children's Services</b>				
M	Schools General - School Improvement	80	Ongoing throughout year.	See par 14 of report.
H	School Transport	15	Scoping in progress	
H	Troubled Families Grant	15	Fieldwork completed	
<b>Total - Children's Services</b>		<b>110</b>		
<b>Assurance Audits - Social Care, Health and Housing</b>				
M	Housing Repairs	20	Timing of review subject to completion of SAP/QL interface	
H	Direct Payments	15	Scoping in progress	
M	Housing Tenancy Management	15	Report drafted	
M	Residential Care Homes - Supporting Transfer	5	Finalised	n/a
M	Residential Care Homes - Review opening balances on clients' funds	10	Fieldwork in progress	
M	Residential Care Homes - Payroll Due Diligence	5	Fieldwork in progress	

Priority	Audit Title	2014/15 Days	Position as at end February	Opinion
M	Care Homes - Accreditation Scheme for Dementia	10	Not yet started	
<b>Total - Social Care, Health and Housing</b>		<b>80</b>		
<b>Assurance Audits - Contracts and Partnerships</b>				
M	Contract Management	20	Not yet started	
<b>Total - Contracts and Partnerships</b>		<b>20</b>		
<b>Assurance Audits - Public Health</b>				
M	Public Health compliance with best practice	15	Fieldwork in progress	
<b>Total - Public Health</b>		<b>15</b>		
<b>Special Investigations</b>				
M	National Fraud Initiative (NFI)	20	Ongoing throughout year	n/a
M	Special Investigations	40	Ongoing throughout year.	Two investigations completed. Outcomes reported to January Committee
Pro Active Anti Fraud:				
M	Internet and Email systems	10	Scoping in progress	
M	Voluntary funds	10	Fieldwork in progress	
M	Cash income	10	Report drafted	
<b>Total - Special investigations</b>		<b>90</b>		
<b>Ad Hoc Consultancy etc.,</b>				
H	Risk Management Activities	35	Ongoing throughout year	
M	Major projects - Consultancy	40	Ongoing throughout year	
M	Supporting Annual Governance Statement	5	2013/14 statement drafted.	n/a
M	Audit of Individual Grants	20	Ongoing throughout year	Troubled Families, Winter Pressures and Reablement grants reviews finalised.
M	General Advice	20	Ongoing throughout year	
M	Head of Audit Chargeable Against Plan	60	Ongoing throughout year	n/a
M	Assurance Mapping Review	5	Ongoing throughout year	n/a
M	Benchmarking Exercise	5	Completed	n/a
L	Contingency	75		n/a
<b>Total - Ad Hoc Consultancy etc.</b>		<b>265</b>		
<b>TOTAL CHARGEABLE DAYS REQUIRED</b>		<b>1245</b>		

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**Central Bedfordshire Council**

**AUDIT COMMITTEE**

30 March 2015

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**Risk Update Report**

Advising Officers:

Charles Warboys, Chief Finance Officer  
(charles.warboys@centralbedfordshire.gov.uk)

Kathy Riches, Head of Internal Audit and Risk  
(kathy.riches@centralbedfordshire.gov.uk)

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**Purpose of this report:**

The purpose of this report is to give an overview of the Council's risk position as at March 2015.

**RECOMMENDATIONS**

The Committee is asked to:

1. Consider and comment on the contents of the report.

**Overview and Scrutiny Comments/Recommendations**

1. This report is not scheduled to be considered by Overview and Scrutiny, as this is the responsibility of the Audit Committee.

**Background**

2. The Terms of Reference of the Audit Committee include the monitoring of the operation of the Risk Management Strategy. This report is the regular update report to assist the Committee in discharging its responsibilities.
3. The purpose of this report is to give an overview of the Council's risk position as at March 2015.

**Strategic Risks**

4. The Strategic Risk Register has been reviewed and updated in consultation with the Directorate Risk Co-ordinators.
5. The March 2015 risk register dashboard is attached at Appendix A. The report contains 13 strategic risks, each with a residual score of 9 or more.

A score of 9 or more generally represents an unacceptable risk exposure, with further mitigation required.

6. The risks have been reconsidered and the key revisions are set out below.
7. (STR0001) relating to the risks associated with significant reduction or redirection of funding has been updated to reflect the financial risks associated with the general uncertainty around future government policies in the light of the impending elections. There has been no change to the residual risk score.
8. Due to likely delays to the adoption of the Development Strategy the Growth strategic risk (STR0003) is currently under review in order to reassess the risk implications to the Council. As a result of the Planning Inspector's recent conclusion that the Council had not fulfilled its Duty to Co-operate over its Development Strategy the residual likelihood score has increased from 3 to 4, giving an overall residual risk score of 16.
9. The mitigating actions for the Procurement risk (STR0022) have been updated, and reflect the actions planned to review and update procurement rules, tools and guidance following the introduction of new procurement legislation in 2015. New procurement training is planned. There has been no change to the residual risk score.
10. The risk relating to the potential loss of revenue/income generation within the Assets Disposal programme (STR0024) has been reviewed and the mitigating actions updated, including the re-profiling of the asset disposal programme, and the option of slowing down the delivery of the capital programme. There has been no change to the residual risk score.
11. Risk STR0025, relating to the failure of the effective transfer of the BUPA managed care homes to the Council, has been removed from the strategic risk register, as it is now considered to be an operational issue.
12. The risk of failing to adopt a Community Infrastructure Levy (CIL) (STR0027) has been reviewed. It is now anticipated that the CIL will be adopted in October/November 2015. The residual likelihood score has been revised from 5 to 4, resulting in an overall residual risk score of 16.
13. The implementation of the Care Act 2014 will place significant pressures on the Council and this has been recognised as a strategic risk and added to the risk register, referenced STR0028. A Programme Board is in place to manage this risk. In considering this risk a distinction has been made between compliance with the legislative requirements for April 2015 (Phase 1) and the risks associated with the financial impact of the Council needing to support a greater than anticipated number of residents and their carers (Phase 2). The majority of the risk is associated with Phase 2. The inherent likelihood risk score is 4 and the impact score is 5, resulting in an inherent risk of 20. The residual

likelihood risk score is 3 and the impact score is 4, resulting in a residual risk score of 12.

14. STR0008 – Disruption of core IT infrastructure and STR0013 – Information Management and Data Protection are currently under review.

15. There are no revisions to the remaining strategic risks.

### **Operational Risks**

16. The risk report also highlights the key operational risks facing the Council. These have been drawn directly from Directorate risk registers as uploaded onto the JCAD risk management system.

17. The dashboard has listed the 8 operational risks with a risk score of 15 or above.

18. Within Children's Services, the risk of failing to manage and secure information leading to security alerts and privacy breaches has been added as a top scoring risk. The residual risk score is 15.

### **Emerging Risks**

19. No additional strategic risks have been identified. Senior managers regularly consider emerging risks and the register will be revised and updated to reflect any significant issues identified as a result of these reviews.

### **Risk Management Strategy**

20. The Council's Risk Management Strategy will be reviewed during 2015/16 to ensure that it reflects current issues, such as the recently published CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

### **Council Priorities**

21. Good risk management enables delivery of the Council's aims and objectives. Good risk management ensures that we adopt a planned and systematic approach to the identification and control of the risks that threaten the delivery of objectives, protection of assets, or the financial wellbeing of the Council.

### **Corporate Implications**

### **Legal Implications**

22. None directly from this report.

**Financial Implications**

23. None directly from this report.

**Equalities Implications**

24. None directly from this report.

**Conclusion and next Steps**

25. Internal Audit and Risk will continue to coordinate and update the Strategic Risk register and an update will be presented to the next Audit Committee.

**Appendices**

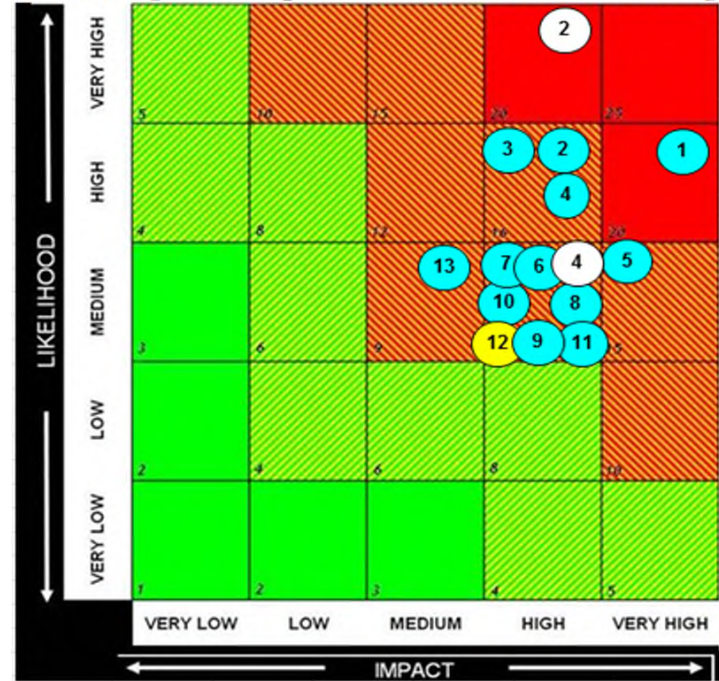
Appendix A – March 2015 Risk summary dashboard.

**Background Papers**

None



**CBC Strategic Risk Register Matrix - Residual Risk Rating**



#	Reference	Nature of Risk	Key												
			2012/13				2013/14				2014/15				
			June	Aug	Nov	Mar	Dec	Mar	Sept	Dec	Mar	June	Aug	Nov	Mar
1	STR0019	Failure to deliver effective and cohesive Health and Social Care to local residents.		15	15	15	15	15	15	20	20	20	20	20	
2	STR0027	Failure to adopt a Community Infrastructure Levy (CIL) .													16
3	STR0009	Failure of partnerships as a result of conflicting priorities: there is a risk that the Council is unable to develop and manage effective partnerships and influence the activities of the partnerships.	8	8	8	8	8	8	8	8	8	16	16	16	16
4	STR0003	Growth: a risk that failure to adopt a 'sound' Development Strategy and subsequently deliver the levels of housing, jobs or infrastructure proposed for growth and regeneration of the area in a planned way.	12	12	12	16	16	16	16	16	16	12	12	12	16
5	STR0010	Failure to recruit and retain professional and qualified social workers and discharge the Council's statutory children's safeguarding responsibilities.	9	9	12	12	12	15	15	15	15	15	15	15	15
6	STR0024	Assets Disposal Programme - Failure to achieve capital receipts.								20	12	12	12	12	12
7	STR0006	Health & Safety: a risk that failure of members, managers and employees to recognise their responsibilities to fully comply with health and safety legislation.	12	12	12	12	12	15	15	12	12	12	12	12	12
8	STR0008	Failure or disruption to key elements of core infrastructure (data centre, environment and networks) leading to no functionality for more than 24 hours.					16	15	12	12	12	12	12	12	12
9	STR0013	Information Management: a lack of consistent information management and data accuracy across the organisation leading to non compliance with the Data Protection Act and a breach of information security.	12	12	12	12	15	15	12	12	12	12	12	12	12
10	STR0001	Continuing significant reduction in or redirection of funding due to Central Government cuts, or loss of grant or other funding e.g. Health funding, Schools' Finance Regulations.	12	12	12	10	12	12	12	12	12	12	12	12	12
11	STR0022	Failure to adhere to Procurement Rules.							12	12	12	12	12	12	12
12	STR0028	Failure to deliver the requirements of the Care Act 2014													12
13	STR0026	Deprivation of liberty safeguards: a failure to ensure that vulnerable peoples' liberty is not										9	9	9	9

**Overview of Risk Position - March 2015**

The risk with the highest residual score is: STR0019 - Failure to deliver effective and cohesive Health and Social Care to residents

The following risks have been rescored: STR0027 - Failure to adopt a CIL levy STR0003 - Growth

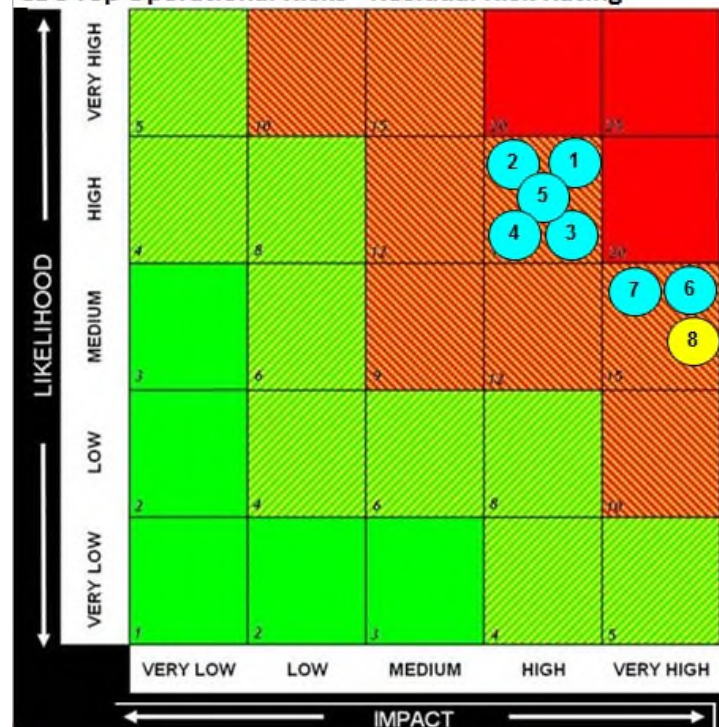
The following risk has been added: STR0028 - Failure to deliver the requirements of the Care Act 2014

The following risk has been removed: STR0025 - Transfer of BUPA managed care homes

Revisions to the descriptions or mitigating actions have been made to the following risks: STR0001 - Continuing significant reduction or redirection of funding STR0003 - Growth STR0022 - Procurement STR0024 - Asset Disposal programme

The matrix also highlights the most noteworthy operational risks facing CBC. The risk of failing to manage and secure information leading to security alert and privacy breaches within Children's Services has been added.

**CBC Top Operational Risks - Residual Risk Rating**



#	Reference	Nature of Risk	Key												
			2012/13				2013/14				2014/15				
			June	Aug	Nov	Mar	Dec	Mar	Sept	Dec	Mar	June	Aug	Nov	Mar
1	SCH0004	Insufficient staff resources resulting in under or mis-direction of investment in the transformation of adult social care services.	16	16	16	16	16	16	16	16	16	16	16	16	16
2	SCH0007	Partnerships: failure to establish a common vision with health and the delivery of joint commissioning strategies.	16	16	16	16	16	16	16	16	16	16	16	16	16
3	SCH0008	Insufficient capacity, expertise and competency to deliver Adult Social Care and Housing agenda.	16	16	16	16	16	16	16	16	16	16	16	16	16
4	SCH0005	Failure to develop a social care market to deliver positive outcomes and choices for people.	16	16	16	16	16	16	16	16	16	16	16	16	16
5	CHS0005	Failure to retain and recruit staff within Children's Services.								16	16	16	16	16	16
6	RES0018	Failure to meet legal requirements: Ability to respond to changes in legislation affecting finances i.e. NDR, CT, Public Health.	15	15	15	15	15	15	15	15	15	15	15	15	15
7	LEG0001	Failure to provide effective legal support in respect of vulnerable children owing to lack of specialist staff.							15	15	15	15	15	15	15
8	CHS0023	Failure to manage and secure information leading to security alert and privacy breach.													15

**Key**

New Risk (Yellow circle)  
 Current Position (Blue circle)  
 Previous Position (White circle)

Impact Score	Impact Title	Example Description
5	Catastrophic	Total system dysfunction, total shutdown of operations, financial loss over £5m, key person resignation/removal, sustained adverse publicity in national media, fatality or permanent disability
4	Severe	All operational areas of a location compromised, other locations may be affected, financial loss up to £5m, sustained adverse publicity in national media, greater than 6 months absence for more than 5 people (single event)
3	Major	Disruption to a number of operational areas within a location and possible flow on to other locations, financial loss up to £1m, significant adverse publicity national media, greater than 20 days absence for more than 5 people (single event)
2	Reasonable	Some disruption manageable by altered operational routine, financial loss up to £250k, significant adverse publicity in local media, short term absence for up to 5 people (single event)
1	Low	Minimal interruption to service, financial loss up to £100k, Minor adverse publicity in local media, short term absence for up to 5 people (single event)

Scale	Description	Likelihood of Occurrence
5	Almost Certain	Likely to occur each year/over 60% chance of occurrence
4	Likely	Likely to occur every 3 years/up to a 60% chance of occurrence
3	Possible	Likely to occur every 5 years/up to a 40% chance of occurrence
2	Unlikely	Likely to occur every 10 years/up to a 20% chance of occurrence
1	Rare	Likely to occur every 10+ years/up to a 10% chance of occurrence

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**Central Bedfordshire Council**

**Audit Committee**

30 March 2015

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**Tracking of Internal Audit Recommendations**

**Advising Officers:**

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Kathy Riches, Head of Internal Audit and Risk  
(kathy.riches@centralbedfordshire.gov.uk)

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**Purpose of this report:**

This report summarises the high priority recommendations arising from Internal Audit reports and sets out the progress made in their implementation.

**RECOMMENDATIONS**

The Committee is asked to:

1. Consider and comment on the updates, as presented.

**Overview and Scrutiny Comments/Recommendations**

1. This report is not scheduled to be considered by Overview and Scrutiny, as this is the responsibility of the Audit Committee.

**Background**

2. 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.
3. 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 priority recommendations arising from internal audit inspections.
4. This paper represents the regular summary of high priority recommendations made to date, along with the progress made against implementation of those recommendations.

## Tracking High Priority Recommendations

5. At the time of the last Audit Committee only one high priority recommendation made prior to April 2012 remained outstanding. This related to the 2009/10 SAP Access and Security (including IT Disaster Recovery) audit.
6. Although progress had been made to address this recommendation, the incoming Chief Information Officer has advised that, starting in March 2015, the existing data centre provisioning at CBC will be thoroughly reviewed and, it is believed, as a result there will be significant changes made in the technologies in use and how they are supported. This will require a fundamentally new approach to Disaster Recovery (DR) and a new DR plan. As part of the development work on the data centre, ICT undertakes to deliver a refreshed and renewed DR plan by the autumn of 2015. During this development programme, CBC Internal Audit and other interested parties will be invited to advise on the development of that plan. It will contain:
  - Essential components identified through previous internal audit work
  - Identification of key systems
  - Identification of key responsible officers and third party supplier responsibilities
  - A DR escalation plan
  - A DR recovery plan for each of the key components
  - A DR testing programme
  - Identification of key assets required to assist IT in the recovery of services
7. There are no outstanding audit recommendations relating to reports issued during 2010/11, 2011/12 or 2012/13.
8. Thirteen reports containing high priority recommendations were issued during 2013/14. These are summarised in Appendix A. Twenty high priority recommendations were made. Appendix B provides the details of the two recommendations that are running behind planned completion dates.
9. Since 1st April 2014 five reports have been issued containing high priority recommendations. Fourteen high priority recommendations have been made. These are summarised at Appendix C. Two recommendations are running behind the planned implementation date and the details of these are set out in Appendix D.
10. 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.

11. Progress will continue to be monitored. The follow up of audit recommendations forms an integral part of the fundamental system audit reviews.

### **Future Monitoring**

12. 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.

### **Council Priorities**

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

### **Corporate Implications**

#### **Legal Implications**

14. None directly from this report.

#### **Financial Implications**

15. 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.

#### **Equalities Implications**

16. None directly from this report.

### **Conclusion and next Steps**

17. In total there are currently five high priority recommendations that are amber (underway, with deadline missed).
18. Further work is required to ensure that the outstanding recommendations are implemented and to monitor additional recommendations made during the year.
19. 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 priority recommendations have been implemented.

**Appendices**

Appendix A – Summary of monitoring of High Priority Internal Audit Recommendations - Reports issued during 2013/14

Appendix B - Details of recommendations made during 2013/14 that remain outstanding

Appendix C – Summary of monitoring of High Priority Internal Audit recommendations - Reports issued during 2014/15

Appendix D - Details of recommendation made during 2014/15 that remains outstanding

**Background Papers**

None

## Details of Monitoring of High Risk Internal Audit recommendations as at End February 2015 Reports issued during 2013/14

### FINANCE

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 B ref
Grants Claim System	23/08/2013	30/12/2013	1	1	0	0	0	0	
Housing Benefits Phase 2 2012-13	25/07/2013	30/04/2013	1	1	0	0	0	0	
Council Tax Phase 1 2013-14	12/02/2014	31/03/2014	1	1	0	0	0	0	
Main Accounting System Phase 1 2013-14	06/02/2014	31/03/2014	1	1	0	0	0	0	
<b>Total</b>			<b>4</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	

### 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 B ref
Houghton Regis Day Centre	24/06/2013	31/07/2013	2	2	0	0	0	0	
Domiciliary Care Units 12-13	23/09/2013	31/10/2013	3	3	0	0	0	0	
Biggleswade OPPD Day Centre 12-13	24/10/2013	31/01/2014	2	2	0	0	0	0	
Housing Rents Phase 1 13-14	07/02/2014	31/03/2014	1	1	0	0	0	0	
Leighton Buzzard OPPD Day Centre 12-13	24/10/2013	31/01/2014	1	1	0	0	0	0	
Housing Repairs Commissioning 2013-14	24/03/2014	30/09/2014	1	0	0	1	0	0	Rec 1
<b>Total</b>			<b>10</b>	<b>9</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	

**Details of Monitoring of High Risk Internal Audit recommendations as at End February 2015  
Reports issued during 2013/14**

**IMPROVEMENT AND CORPORATE SERVICES**

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 B ref
SAP Access and Security 2012-13	04/11/2013	30/04/2014	2	2	0	0	0	0	
Payroll Phase 1 13-14	20/02/2014	30/04/2014	1	1	0	0	0	0	
VfM Review of External Legal Services	11/02/2014	31/05/2014	3	2	0	1	0	0	Rec 2
<b>Total</b>			<b>6</b>	<b>5</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	



**Appendix B**

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

**Social Care, Health and Housing**

**Housing Repairs Commissioning**

<p><b>Recommendation R1:</b> Housing Repairs expenditure in QL and SAP should be regularly reconciled.</p>
<p><b>Rationale for Recommendation:</b> There is no reconciliation between Housing Repairs expenditure in QL and SAP.</p> <p>Actions to resolve this are defined within an invoice review process. Three specific objectives are to be achieved:</p> <ol style="list-style-type: none"> <li>1) A robust interface between the SAP system and the QL system, so that these systems effectively function as one system within the Invoice Process.</li> <li>2) A business process that includes pre-payment on account (subject to reconciliation) related to invoicing where work supplied is goods receipted and approved for payment, concurrent with the contractors process to provide an invoice for payment.</li> <li>3) Updated procedures which define management accountability, including delegation of task related authority, to ensure that a robust reconciliation of Repairs works to invoices takes place.</li> </ol>
<p><b>Target Dates:</b> End September 2014 End March 2015 (revised) End June 2015 (revised)</p>
<p><b>Current Position and Explanation for Slippage:</b></p> <p>The project was more challenging than expected and the solutions developed created problems that would not be acceptable in the operational environment. These problems could not have been foreseen, although there are lessons to be learned to be applied to similar projects in future. There is no alternative but to develop a 'fit for purpose' solution, to incorporate learning from the testing and development work undertaken to date. All concerned with the project believe a 'fit for purpose' SAP/QL link will be fully operational by June 2015, enabling reconciliation to take place from Q2 onwards.</p>

**Improvement and Corporate Services**

**Value for Money Review of External Legal Services**

**Recommendation R2:**

The Service Level Agreements between Legal Services and each Directorate should be updated to reflect the current Directorate structure, revised to reflect the specific requirements of the corporate approach to external procurement of legal services and a 'business partner' approach, and then formally agreed with each Directorate.

**Rationale for Recommendation:**

The SLAs between Legal Services and service areas are a mechanism for formalising the support required from Legal Services by service areas; the SLA previously drafted is comprehensive in respect of the service level to be delivered, but is out of date in respect of the Directorate structure and the SLAs do not expressly state the expectation that the procurement of all legal services should be through Legal Services.

**Target Dates:**

End March 2014 (revised)  
End August 2014 (revised)  
End November 2014 (revised)  
End March 2015

**Current Position and Explanation for Slippage:**

With the corporate directive to become more commercial Legal are working on a slimmed down version of the SLA that can be used corporately with our CBC clients as well as being used with potential external clients. This SLA will be used in conjunction with a suit of documents that provide evidence of instructions and authorisation (instructions proforma) and our confirmation of what service we are going to provide (client care letter/memo). The intention is for this to have been completed by the financial year end. Recent discussions with Finance have informed the early stages of this mechanism.

## Details of Monitoring of High Risk Internal Audit recommendations as at End February 2015

### Reports issued during 2014/15

#### 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 D ref
Direct Payments Proactive Anti- fraud	15/04/2014	01/04/2015	1	0	1	0	0	0	
<b>Total</b>			<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	

#### IMPROVEMENT AND CORPORATE SERVICES

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 D ref
A review of Council procedures relevant to the employment of contractors and consultants	17/04/2014	31/07/2014	8	8	0	0	0	0	
Teachers Pensions	28/08/2014	30/09/2014	2	0	0	2	0	0	Rec 1 &2
ICT Governance Phase 2	18/11/2014	31/03/2015	1	0	1	0	0	0	
<b>Total</b>			<b>11</b>	<b>8</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>0</b>	

## Details of Monitoring of High Risk Internal Audit recommendations as at End February 2015

### Reports issued during 2014/15

#### COMMUNITY SERVICES

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 D ref
Section 278 Agreements	11/12/2014	31/03/2015	2	2	0	0	0	0	
<b>Total</b>			<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	

**Appendix D**

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

**Improvement and Corporate Services/Finance**

**Teachers Pensions 2013/14**

<p><b>Recommendation R1:</b> To develop a set of robust processes to ensure that schools/ payroll providers supply the Council with the necessary information required by Teachers Pensions; to confirm the accuracy of the underlying payroll records provided by payroll providers and for the Council; and to confirm the accuracy of data provided as part of the Annual Service Return.</p>
<p><b>Rationale for Recommendation:</b> Supporting payroll reports provided to the Council by payroll providers were not submitted in a timely manner in line with documented procedures. This data, along with the Council's own data was also not checked for accuracy. Furthermore, there was no reconciliation of data submitted on the Annual Service Return to the deductions of individuals and forms received.</p>
<p><b>Target Dates:</b> 30<sup>th</sup> September 2014 Ongoing work on developing the procedures with engagement from TPA - June 2015 (certificate date)</p>
<p><b>Current Position and Explanation for Slippage:</b> The procedures for preparing and validating the Teachers Pensions End of Year Certificate in respect of 2013/14 were revised during 2014. The submission for 2013/14 represented a significant improvement on previous years with a difference between the Council's return and the declared TPA records of £382,886.  Reconciliation issues with the EOYC are a national issue and the national audit certification process has been revised for 2013/14. The Teachers Pensions Agency has been requested to provide sufficient detail from their own records to allow a complete reconciliation with Council records. At this point in time the Council has taken reasonable measures to provide assurance on the TPA EOYC.  There is ongoing work on developing the procedures with engagement from TPA it is anticipated that material differences should be addressed for 2014/15.</p>

<b>Recommendation R2:</b> Payroll data should be transmitted securely.
<b>Rationale for Recommendation:</b> Payroll data (emailed from payroll providers in respect of school employees) is transmitted to the Council in an insecure manner i.e. files are not password protected or encrypted.
<b>Target Dates:</b> 30th September 2014 Revised - January 2015 for remaining providers Revised – June 2015 for remaining providers
<b>Current Position and Explanation for Slippage:</b> Each payroll provider as the ' data controller is responsible sending data in a secure manner. As a recipient Central Bedfordshire Council cannot enforce the method the schools or payroll provider transfers this data but is able to advise/recommend a secure method of transfer. Since the last update there have been some changes to payroll providers.  In ongoing dialogue with each the payroll provider, out of the 8 providers, 4 are transferring data in a secure manner, 2 we remain in dialogue with and we are working with the 2 new providers to provide their first data return securely.

**Central Bedfordshire Council**

**AUDIT COMMITTEE**

30 March 2015

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**WORK PROGRAMME**

Advising Officers:

Mel Peaston, Committee Services Manager  
(mel.peaston@centralbedfordshire.gov.uk)

Leslie Manning, Committee Services Officer  
(leslie.manning@centralbedfordshire.gov.uk)

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**Purpose of this report**

The purpose of this report is to assist the Audit Committee in discharging its responsibilities by providing a proposed work programme for consideration.

**RECOMMENDATION**

**That the Committee considers the proposed work programme attached at Appendix A.**

**Overview and Scrutiny Comments/Recommendations**

1. This report is not scheduled to be considered by Overview and Scrutiny as the Audit Committee provides independent scrutiny of the Authority's financial performance.

**Background**

2. To assist the Audit Committee a work programme is attached at Appendix A to this report. The work programme contains the known agenda items that the Committee will need to consider.
3. Additional items will be identified as the municipal year progresses. The work programme is therefore subject to change.

**Council Priorities**

4. The activities of the Audit Committee are crucial to the governance arrangements of the organisation.

**Corporate Implications**

**Legal Implications**

5. There are no legal implications.

**Financial Implications**

6. There are no financial implications.

**Equalities Implications**

7. There are no equalities implications.

**Conclusion and next Steps**

8. This report will assist the Audit Committee in discharging its responsibilities. Any amendments approved by the Committee will be incorporated in the work programme.

**Appendices**

Appendix A – Audit Committee Work Programme

**Background Papers**

None



Appendix A

**Audit Committee Work Programme**

<b>2014/15 Municipal Year</b>	
30 March 2015	<ul style="list-style-type: none"> <li>• Audit Plan 2014/15 (MW)</li> <li>• External Audit Progress Report (MW)</li> <li>• Risk Update Report (KR)</li> <li>• Tracking of Audit Recommendations (KR)</li> <li>• Internal Audit Progress Report (KR)</li> <li>• 2015/16 Internal Audit Plan (KR)</li> <li>• Risk Based Verification Policy (RBV) (GM)</li> <li>• Work Programme (LM)</li> </ul>
<b>2015/16 Municipal Year</b>	
29 June 2015	<ul style="list-style-type: none"> <li>• Statement of Accounts 2014/15 (presentation) (NV/RG)</li> <li>• Annual Audit and Certification Fees 2015/16 (MW)</li> <li>• Annual Governance Statement 2014/15 (MC)</li> <li>• Local Government Pension Scheme Update (RG)</li> <li>• Annual Counter Benefit Fraud Update (GM)</li> <li>• Internal Audit Annual Audit Opinion (KR)</li> <li>• Tracking of Audit Recommendations (KR)</li> <li>• Work Programme (LM)</li> </ul>
28 September 2015	<ul style="list-style-type: none"> <li>• Statement of Accounts 2014/15 (CW)</li> <li>• Audit Results Report 2014/15 (MW)</li> <li>• EY Local Government Audit Committee Briefings (MW)</li> <li>• Risk Update Report (KR)</li> <li>• Tracking of Audit Recommendations (KR)</li> <li>• Internal Audit Progress Report (KR)</li> <li>• Work Programme (LM)</li> </ul>
11 January 2016	<ul style="list-style-type: none"> <li>• Certification of Claims and Returns Annual Report 2014/15 (MW)</li> <li>• Annual Audit Letter 2014/15 (MW)</li> <li>• External Audit Progress Report (MW)</li> <li>• Local Government Pension Scheme Update (RG)</li> <li>• Final Accounts Process 2015/16 (NV)</li> <li>• Risk Update Report (KR)</li> <li>• Tracking of Audit Recommendations (KR)</li> <li>• Internal Audit Progress Report (KR)</li> <li>• Work Programme (LM)</li> </ul>

Appendix A

4 April 2016	<ul style="list-style-type: none"><li>• Audit Plan 2015/16 (MW)</li><li>• External Audit Progress Report (MW)</li><li>• Annual Counter Benefit Fraud Update (GM)</li><li>• Risk Update Report (KR)</li><li>• Tracking of Audit Recommendations (KR)</li><li>• Internal Audit Progress Report (KR)</li><li>• 2016/17 Internal Audit Plan (KR)</li><li>• Work Programme (LM)</li></ul>
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By virtue of paragraph(s) 7 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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