

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** 18 June 2015

## **NOTICE OF MEETING**

### **AUDIT COMMITTEE**

Date & Time

**Monday, 29 June 2015 10.00 a.m.**

Venue at

**Council Chamber, 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), P Downing,  
D J Lawrence, R Morris, D Shelvey and A Zerny

[Named Substitutes:

Cllrs N B Costin, F Firth, Ms A M W Graham and Mrs J G Lawrence]

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 30 March 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>Central Bedfordshire Statement of Accounts 2014/15</b>  To receive a presentation on the draft Statement of Accounts for 2014/15.	
8.	<b>Annual Audit and Certification Fees 2015-16</b>  To receive a letter from Ernst & Young LLP to the Chief Executive of Central Bedfordshire Council confirming the audit and certification work that the company proposes to undertake for the 2015-16 financial year and the related fees.	* 13 - 18

- |     |                                                                                                                                                                                              |             |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| 9.  | <b>Annual Governance Statement 2014/15</b>                                                                                                                                                   | * 19 - 40   |
|     | To consider the draft Annual Governance Statement for 2014/15.                                                                                                                               |             |
| 10. | <b>Annual Counter Benefit Fraud Update</b>                                                                                                                                                   | * 41 - 52   |
|     | To consider the annual update on counter fraud activity.                                                                                                                                     |             |
| 11. | <b>Local Government Pension Scheme Update</b>                                                                                                                                                | * 53 - 66   |
|     | To receive an update on the governance of the Local Government Pension Scheme.                                                                                                               |             |
| 12. | <b>2014-15 Internal Audit - Annual Audit Opinion</b>                                                                                                                                         | * 67 - 88   |
|     | To consider the annual report to those charged with governance on the overall adequacy and effectiveness of Central Bedfordshire Council's financial and other management internal controls. |             |
| 13. | <b>Tracking of Internal Audit Recommendations</b>                                                                                                                                            | * 89 - 100  |
|     | 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>                                                                                                                                                                        | * 101 - 104 |
|     | To consider the Audit Committee's work programme.                                                                                                                                            |             |

**CENTRAL BEDFORDSHIRE COUNCIL**

At a meeting of the **AUDIT COMMITTEE** held in Room 15, Priory House, Chicksands, Shefford on Monday, 30 March 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: Cllr R D Berry

Substitutes: Cllr Mrs J G Lawrence (In place of R D Berry)

Officers in Attendance: Mr L Manning Committee Services Officer  
Mr G Muskett Head of Revenues & Benefits  
Ms K Riches Head of Internal Audit & Risk  
Mr N Visram Financial Controller  
Mr C Warboys Chief Finance Officer

Others In Attendance: Mrs C O'Carroll Manager – Ernst & Young LLP  
Mr M West Director – Ernst & Young LLP

The Committee stood in silence in memory of Councillor A Shadbolt who had died on 23 March 2015.

A/14/40. **Minutes**

**RESOLVED**

**that the minutes of the meeting of the Audit Committee held on 12 January 2015 be confirmed and signed by the Chairman as a correct record.**

A/14/41. **Members' Interests**

None.

A/14/42. **Chairman's Announcements and Communications**

Aware that this meeting was the last in the current municipal year and the last before the forthcoming elections the Chairman took the opportunity to thank

both the Members and the officers for their contributions which, he felt, had resulted in the Committee carrying out its role in an effective and efficient manner.

A/14/43. **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/14/44. **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/14/45. **Audit Plan 2014/15**

Members considered a report from Ernst & Young LLP which provided the basis for the Audit Committee to review the company's proposed audit approach and scope for the 2014/15 audit. The audit approach and scope would be in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements and also to ensure that Ernst & Young's audit was aligned with the Committee's service expectations. The Audit Plan also summarised the company's initial assessment of the key risks which drove the development of an effective audit for the Council and outlined the company's planned audit strategy in response to those risks.

The Ernst & Young Director introduced the report and highlighted particular issues for Members' attention. Under 'Financial Statement Risks' he referred to accounting for schools and the viewpoint of the Chartered Institute of Public Finance and Accountancy (CIPFA), as contained in its Code of Practice on Local Authority Accounting in the United Kingdom 2014-15, on this matter. The Code required the recognition of schools' property, plant and equipment on local authority balance sheets and he emphasised that this change represented an accounting exercise only and would have no other impact. In response to a query by the Chairman the Chief Finance Officer stated that, although the CIPFA Code had clarified matters to a degree, some ambiguity remained and different external auditors had adopted a different stance on what should be included on local authority balance sheets.

The Ernst & Young Director reminded the meeting that the Audit Commission would cease to operate the following day though the external auditor contracts awarded would continue for at least a further two years and, possibly, up to five. He then referred to the agreed external audit fees and advised that the planned fee for 2014/15 remained the same as the actual fee for 2013/14 subject to an adjustment for business rates. The Ernst & Young Director also referred to the fee for the audit certification of the Teachers' Pensions return.

He explained that this work no longer fell within the Audit Commission's certification regime and, instead, was the outcome of a separate agreement with the Council. In response to a query by the Chairman the Ernst & Young Director emphasised that this was not consultancy work but audit work undertaken to meet a statutory requirement. Although the work could be carried out by any suitable auditor, it was simply more efficient for Ernst & Young to do so.

## **NOTED**

### **the Audit Plan for the year ending 31 March 2015.**

#### **A/14/46. External Audit Progress Report**

Members considered a report from Ernst & Young LLP which provided an update on the progress made by the company since the last meeting of the Audit Committee in carrying out the Council's 2014/15 audit. The report also included, as appendices, two briefing documents which covered 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 advised Members that the Audit Commission had now published the fees for 2015/16. The Commission's fee letter would be submitted to the next meeting of the Committee for consideration but, in the meantime, she was able to advise that the fee figure had been substantially reduced from £185,955 for 2014/15 to £139,466 for 2015/16.

Turning next to the local government audit committee briefing documents appended to the report, the Ernst & Young Manager first worked through the January briefing document highlighting matters of particular interest. Amongst the issues raised the meeting noted the fundamental change to the measurement basis for the transport infrastructure assets which would affect all highways and non-highways authorities with material transport infrastructure assets from 1 April 2016. It was estimated that the move to the use of depreciated replacement cost in place of the current depreciated historic cost would add at least £200 billion to the net worth of local authority balance sheets.

The Ernst & Young Manager then introduced the March briefing document and referred to the item on the good reporting of governance through the annual governance statement and the conclusion that continued focus should be put on making annual reports more helpful and understandable for stakeholders. The Executive Member for Corporate Resources reminded the meeting that the Chief Finance Officer and his team had already carried out work to make the accounts easier to understand and requested that this be formally recognised by the Committee.

**NOTED**

- 1 the report on the progress of External Audit work on the 2014/15 audit;**
- 2 the work undertaken by the Chief Finance Officer and his team to make the Council's accounts more accessible.**

A/14/47.

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

The Committee considered a report which set out a proposed new approach to verifying claims for Housing Benefit and Local Council Tax Support in the form of a Risk Based Verification (RBV) Policy and sought the Committee's approval of the new Policy.

The Chairman reminded Members that should they need to discuss the content of the exempt Appendix A to the report, which set out the Policy and defined the risk categories and the checks required for each, it would be necessary to exclude the press and public under section 100A of the Local Government Act 1972.

The Head of Revenues and Benefits introduced the report, Members noting that the current assessment process for Housing Benefit and Local Council Tax Support claims assumed all customers to be of the same risk level with regard to fraud or error. In contrast Risk Based Verification, which was already in use at a large number of other local authorities, used a complex mathematical model to calculate a risk profile for each customer and claims could be allocated a risk category (high, medium or low) prior to assessment and payment. This would allow the targeting of the Council's resources and a corresponding reduction in the time required to process applications and staffing requirements.

The Head of Revenues and Benefits added that, if adopted, the Policy would be monitored by both internal and external auditors to ensure its correct implementation and it was also proposed that the Policy be submitted to the Audit Committee for an annual refresh.

In response to Members' questions the Head of Revenues and Benefits explained that the system adapted to changes, for example in local demographics and the proportion of claimants in each risk category.

Some concern was expressed at the response to customers as the result of inaccuracies within the social security system that only became apparent as the result of a claim. In response the Chief Finance Officer assured Members that RBV identified error as well as fraud and that any response would therefore be proportionate.



**RESOLVED**

- 1 **that the Risk Based Verification Policy attached at exempt Appendix A to the report of the Chief Finance Officer be approved and adopted for Housing Benefit and Local Council Tax Support assessments;**
- 2 **that the proposed Audit Committee work programme for the municipal year 2015/16, as attached at Appendix A to the report of the Committee Services Manager and Committee Services Officer on this matter, be amended to include an annual refresh of the Risk Based Verification Policy for Housing Benefit and Local Council Tax Support assessments.**

(Note: Minutes A/14/52 and A/14/53 below also refer).

**A/14/48. 2015/16 Internal Audit Plan**

The Committee considered a report on the 2015/16 Internal Audit Plan. A copy of the Plan was attached at Appendix A to the report.

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

The Head of Internal Audit and Risk referred to the approach adopted in preparing the 2015/16 Internal Audit Plan and to the discussions with Ernst & Young LLP, the Council's external auditors, on the delivery of the fundamental systems audits. She also drew Members' attention to summary of the key changes for 2015/16 within the report.

Turning next to the formation of Corporate Fraud Team, initially discussed at the Committee's meeting on 22 September 2014 (minute A/14/20 refers), the Head of Internal Audit and Risk reported that an outline work programme for the first year had been developed and was included at Appendix B to the report. The work programme would be further developed once the Corporate Fraud Team was operational.

**RESOLVED**

**that the 2015/16 Internal Audit Plan, as set out at Appendix A to the report of the Chief Finance Officer, be approved.**

**A/14/49. Internal Audit Progress Report**

The Committee considered a report outlining the progress made on Internal Audit work against the 2014/15 Audit Plan up to the end of February 2015.

The following matters were considered:

- Background
- 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. She drew Members' attention to the postponement of the review of timesheets processed through Employee Self Service (ESS) until 2015/16 following discussions with Human Resources.

The Head of Internal Audit and Risk also referred to the analysis of the performance indicators and stated that they were generally consistent with the last financial year. She then referred to Performance Indicator KP104 which related to measuring the time taken for Internal Audit to receive a response from the auditee to the draft report and stated that, although the target fell below that achieved overall for 2013/14, the period up to the end of February 2015 represented an improvement on the position reported for the period as at the end of November 2014. The Head of Internal Audit and Risk stated that discussions were being held with directorates regarding improvements to their response times.

#### **NOTED**

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

A/14/50.

#### **Risk Update Report**

The Committee considered a report which provided an overview of the Council's risk position as at March 2015.

The Head of Internal Audit and Risk introduced the report, including the Risk Register Dashboard attached at Appendix A to the report. She drew Members' attention to the key revisions relating to the following:

- strategic risks
- operational risks
- emerging risks

The Committee noted that the Council's Risk Management Strategy would be reviewed during 2015/16 to ensure that it reflected current issues.

A Member referred to the addition of a top scoring risk within Children's Services relating to the risk of failing to manage and secure information leading to security alerts and privacy breaches and sought clarification as to why this

risk had been added. The Head of Internal Audit and Risk explained that such breaches had occurred and the risk had been added in response to these. In reply to the Member's request for further information the Chief Finance Officer undertook to supply him with details relating to the scale and nature of the breaches.

#### **NOTED**

**the strategic and operational risks facing Central Bedfordshire Council as set out in the Risk Register Dashboard attached at Appendix A to the report of the Chief Finance Officer and Head of Internal Audit and Risk.**

#### A/14/51. **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. The Head of Internal Audit and Risk drew Members' attention to the decreasing number of high priority recommendations that remained outstanding and referred in particular to the Information Technology Disaster Recovery which formed part of the 2009/10 SAP Access and Security audit. She advised that the incoming Chief Information Officer had undertaken to deliver a refreshed and renewed Disaster Recovery Plan by autumn 2015.

#### **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/14/52. **Work Programme**

Members considered a report which set out the Committee's work programme for today's meeting and the proposed work programme for the 2015/16 municipal year.

The Committee was aware that it had earlier agreed to amend the work programme by adding the annual review of the Risk Based Verification Policy (RBV) for Housing Benefit and Local Tax Support assessments to the meeting items for consideration on 11 January 2016 (minute A/14/47 above refers).

#### **RESOLVED**

**that the proposed Audit Committee work programme for the municipal year 2015/16, as attached at Appendix A of the report of the Committee Services Manager and Committee Services Officer and subsequently amended by the Committee to include an annual refresh of the Risk Based Verification Policy for Housing Benefit and Local Tax Support assessments, be approved.**

A/14/53. **Implementation of a Risk Based Verification (RBV) Policy for Housing Benefit and Local Council Tax Support Assessments**

Minute A/14/47 above refers.

A/14/54. **Financial Controller**

The Chief Finance Officer advised the meeting that the Council’s Financial Controller, Mr Nisar Visram, was leaving the Authority to take up a post at Wycombe District Council.

**RESOLVED**

**that the thanks and appreciation of both the Audit Committee and the Chief Finance Officer for the work undertaken by Mr Visram as the Council’s Financial Controller be recorded.**

(Note: The meeting commenced at 10.00 a.m. and concluded at 11.03 a.m.)

Chairman .....

Dated .....

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**Meeting:** Audit Committee  
**Date:** 29 June 2015  
**Subject:** ANNUAL AUDIT AND CERTIFICATION FEES 2015-16  
**Report of:** Ernst & Young LLP  
**Summary:** The attached letter confirms the audit and certification work that Ernst & Young LLP intends to carry out for the 2015-16 financial year and sets out the related fees.

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**Contact:** Mick West, Director - Ernst & Young LLP  
**Public/Exempt:** Public  
**Wards Affected:** All  
**Function of:** Audit Committee

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

31 March 2015

Ref:  
Your ref:

Direct line: 07881 518875

Email: MWest@uk.ey.com

Dear Richard

## Annual Audit and Certification Fees 2015-16

We are writing to confirm the audit and certification work that we propose to undertake for the 2015-16 financial year at Central Bedfordshire Council.

Our 2015-16 audit is the first that we will undertake following the closure of the Audit Commission on 31 March 2015. Our contract will now be overseen by Public Sector Audit Appointments Ltd (PSAA), an independent company set up by the Local Government Association, until it ends in 2017 (or 2020 if extended by the Department of Communities and Local Government).

The responsibility for publishing the statutory Code of Audit Practice, under which we will conduct our audit work, has transferred to the National Audit Office.

### Indicative audit fee

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies, applying from 2015-16 audits.

The audit fee covers the:

- ▶ Audit of the financial statements
- ▶ Value for money conclusion
- ▶ Whole of Government accounts

For the 2015-16 financial year the Audit Commission has set the scale fee for each audited body prior to its closure. The scale fee is based on the fee initially set in the Audit Commission's 2012 procurement exercise, reduced by 25% following the further tendering of contracts in March 2014. It is not liable to increase during the remainder of our contract without a change in the scope of our audit responsibilities.

The 2015-16 scale fee is based on certain assumptions, including:

- ▶ The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year
- ▶ We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards



- ▶ The financial statements will be available to us in line with the agreed timetable
- ▶ Working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable
- ▶ Prompt responses are provided to our draft reports

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

We have set the Council’s planned fee at the scale fee level as the overall level of audit risk is not significantly different from that of the prior year.

As we have not yet completed our audit for 2014-15, our audit planning process for 2015-16 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

**Certification fee**

The Audit Commission has set an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee is based on the actual 2013-14 benefit certification fee and incorporating a 25 per cent reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2015-16 relates to work on the housing benefit subsidy claim for the year ended 31 March 2016. We have set the certification fee at the indicative fee level. We will update our risk assessment after we complete 2014-15 benefit certification work, and to reflect any further changes in the certification arrangements.

**Summary of fees**

	<b>Indicative fee 2015-16 £</b>	<b>Planned fee 2014-15 £</b>
Total Code audit fee	139,466	185,955
Certification of housing benefit subsidy claim	26,910	33,210
Non audit work		15,000

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance. You may ask us to certify the 2014-15 Teachers’ Pensions return. The 2014-15 non audit fee is for the work we undertook on the 2013-4 return.





## Billing

The indicative audit fee will be billed in 4 quarterly instalments of £41,594.

## Audit plan

We aim to issue our 2015-16 audit plan early in 2016. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Chief Finance Officer and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.

## Audit team

The key members of the audit team for the 2015-16 financial year are:

Mick West

**Director**

[mwest@uk.ey.com](mailto:mwest@uk.ey.com)

Tel: 07881 518875

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Cathy O'Carroll

**Manager**

[cocarroll@uk.ey.com](mailto:cocarroll@uk.ey.com)

Tel: 07967 624334

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

Yours faithfully

Mick West

Director

For and on behalf of Ernst & Young LLP

cc. Charles Warboys , Chief Finance Officer  
Councillor Mike Blair, Chairman of the Audit Committee

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Central Bedfordshire Council

AUDIT COMMITTEE

29 June 2015

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**ANNUAL GOVERNANCE STATEMENT 2014/15**

Report of the Chief Legal and Democratic Services Officer and Monitoring Officer ([melanie.clay@centralbedfordshire.gov.uk](mailto:melanie.clay@centralbedfordshire.gov.uk))

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**Purpose of this report:** The report seeks the Committee's approval to the draft Annual Governance Statement.

**RECOMMENDATIONS**

The Audit Committee is asked to:

1. Approve the draft Annual Governance Statement attached as Appendix A.

**CORPORATE IMPLICATIONS**

**Council Priorities:**

A sound system of corporate governance provides the framework and assurance within which the Council can deliver its priorities with confidence. Corporate governance is the means by which the Council ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. The Annual Governance Statement shows how the Council has complied with the Code in the relevant financial year, how the Council has monitored the effectiveness of its governance arrangements during the year and identified any planned changes.

**Financial:**

1. The Annual Governance Statement is an accompanying document to the Council's Statement of Accounts for 2014/15, but this report has no financial implications.

**Overview and Scrutiny Comments:**

2. The Audit committee is responsible for overseeing the production of the Annual Governance Statement and therefore this matter has not been considered by the Overview & Scrutiny Committees.

**Legal:**

3. The Accounts and Audit Regulations 2011 (as amended) require the Council to conduct an annual review of its systems of internal control. The preparation of an Annual Governance Statement forms part of that process. The most up-to-date thinking on good governance for the public sector is the new International Framework: Good Governance in the Public Sector (2014), developed jointly by CIPFA and the International Federation of Accountants (IFAC).
4. The International Framework states:
  - Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.
  - The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times.
  - Good governance is characterised by robust scrutiny, which places important pressures on improving public sector performance and tackling corruption.

**Risk Management:**

5. The Annual Governance Statement identifies any significant governance issues and, where appropriate, these have been identified in the Council's Corporate Risk Register, together with mitigating action to reduce the level of the risk.

**Background:**

6. The Audit Committee's terms of reference include responsibility for overseeing the production of the Council's Annual Governance Statement.
7. The Annual Governance Statement adopts an established format that has been effectively used by the Council over the preceding 4 years.
8. The Annual Governance Statement is intended to demonstrate how the Council has achieved the principles contained in the Code of Corporate Governance in the current financial year.

9. The draft Annual Governance Statement has been considered by CMT and identifies significant governance issues that the Council has had to manage during 2014/15. These are referred to in paragraph 5 of the Statement.
10. The Audit Committee is asked to consider whether the draft Annual Governance Statement accurately reflects the governance arrangements and the management of risk.

**Conclusion and next Steps**

11. If approved by the Audit Committee, the Statement will be submitted to the Leader and Chief Executive for formal sign off.

**Appendices**

Appendix A – Draft Annual Governance Statement 2014/15

**Background Papers:** (open to public inspection)

Code of Corporate Governance

**Location of papers:**

Priory House, Chicksands

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## **CENTRAL BEDFORDSHIRE COUNCIL**

### **ANNUAL GOVERNANCE STATEMENT 2014/15**

#### **1.0 SCOPE OF RESPONSIBILITY**

Central Bedfordshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvements in the way in which its functions are exercised having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

Central Bedfordshire Council has adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of this code is on our website [www.centralbedfordshire.gov.uk](http://www.centralbedfordshire.gov.uk).

This statement explains how the Council has complied with national good practice guidance and meets the requirements of the Accounts and Audit (England) Regulations 2011 in relation to the publication of a statement on internal control.

This statement should be read in conjunction with the Code of Corporate Governance. It explains how Central Bedfordshire Council has complied with the Code and how it has met the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011 which requires all relevant bodies to prepare an annual governance statement.

#### **2.0 THE GOVERNANCE FRAMEWORK**

##### **2.1 The purpose of the governance framework**

The governance framework is made up of the systems, processes, culture and values by which the authority directs and controls its activities and through which

it engages with and leads the community. The framework enables the authority to monitor the achievement of its strategic priorities and to consider whether those priorities have led to the delivery of appropriate services and value for money. The governance framework is described in the Code of Corporate Governance.

The system of internal control is a significant part of the corporate framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised and to manage them efficiently, effectively and economically.

The governance framework has been in place at Central Bedfordshire Council for the year ended 31 March 2015 and up to the date of the approval of the statement of accounts.

This section of the Annual Governance Statement describes the key elements of the systems and processes that make up the authority's governance arrangements.

## **2.2 Central Bedfordshire Council's Vision**

In June 2012 the Council adopted a medium term plan for the period 2012 – 2016 entitled "Delivering your Priorities". The Council's overall objective is to create Central Bedfordshire as a "great place to live and work" and the plan identifies the following priorities:

- Enhancing Central Bedfordshire – creating jobs, managing growth, protecting our countryside and enabling businesses to grow.
- Improved educational attainment.
- Promote health and wellbeing and protecting the vulnerable.
- Better infrastructure – improved roads, broadband reach and transport.
- Great universal services – bins, leisure and libraries.
- Value for money – freezing council tax.

Following the election of a new administration in May 2015, senior officers and members are developing a plan for the next five years that will set out areas of focus and actions to meet the council's continuing objective to make Central Bedfordshire a Great Place to Live and Work. This plan will go through the Executive decision-making process.

The Council's Budget and Policy Framework contains specific plans, policies and strategies driving delivery of the Council's priorities and key work programmes.



The Council has adopted a set of organisational values that describe the type of organisation we want to be and the principles that will guide us in achieving our priorities and vision. These set out the way the Council will work and interact with its customers, members and staff.

The Council's values are:

**Respect and Empowerment**

- we will treat people as individuals who matter to us.

**Stewardship and Efficiencies**

- we will make the best use of the resources available to us.

**Results Focused**

- we will focus on the outcomes that make a difference to people's lives, and

**Collaborative**

- we will work closely with our colleagues, partners and customers to deliver on these outcomes.

**2.3 Service quality**

The Council has used regular performance reporting to ensure a sustained focus on those things that matter most to local people. We have a focussed and disciplined approach to producing, reviewing and acting on this critical performance information and it has resulted in success in both delivering short and medium term priorities and in the continuing improvement in performance of our services.

At a strategic level, the Corporate Management Team (CMT) regularly reviews reports on the performance of the Council. Each month CMT considers "Making it Happen" (MIH), People, and Place scorecards comprising the key directorate and corporate health performance indicators. In addition, on a quarterly basis, CMT receive a MTP progress report. This report is presented to the Executive with any specific issues addressed through Overview & Scrutiny. At an operational level, performance data is populated on the Council's performance system (Inphase) by relevant Directorates. Each Director has responsibility for ensuring that relevant data and commentaries are published on the system. Directorate Management Teams also consider on a regular basis the key performance data of their Directorate, with associated commentary provided by Assistant Directors and/or Heads of Service as appropriate.

## 2.4 Key roles and responsibilities

The Council's Constitution sets out how the Council operates. It indicates clearly what matters are reserved for decision by the full Council itself and those powers which have been delegated to committees and officers. The powers of the Executive and those delegated to individual Executive Members are also defined. The Council has adopted a Constitution with separate chapters covering each of the main areas of operation (i.e. Council, Executive, Overview and Scrutiny, Officers, Joint Arrangements, Ethics and Standards). The Constitution is reviewed regularly. In the course of the year 2014/15, changes have been made to the Constitution under the Monitoring Officer's delegated authority to reflect legislative updates, and for points of clarity and transparency. Any significant changes proposed to the Constitution are considered by the General Purposes Committee for recommendation to Full Council.

The key policies of the Council are defined in the "Policy Framework" which forms part of the Budget and Policy Framework Procedure Rules within the Constitution. The Council reviews the Policy Framework periodically to ensure that it is fit for purpose and contains the most strategically important plans and those closely aligned to its corporate priorities.

The Constitution describes the role of the statutory officers (the Head of Paid Service, the Monitoring Officer and the Chief Finance Officer) as well as describing in the Scheme of Delegation those statutory duties for which officers are responsible. It also includes a Member/Officer protocol which sets out a framework to guide officers and members in their joint working. Role definitions covering the responsibilities and accountabilities of key member offices (e.g. Leader, Executive member, Overview and Scrutiny Chairman, Chairman of the Council) have also been developed to assist in understanding their respective roles and expectations.

The Head of Paid Service, Monitoring Officer and Chief Finance Officer meet on a regular basis as statutory officers to consider and address any corporate issues or matters of probity that may benefit from their collective input and approach.

The governance arrangements for the Chief Finance Officer are set out in the CIPFA statement on the Role of the Chief Finance Officer in Local Government (2010) and are as follows:

The Chief Finance Officer in a public service organisation:

- a) is a key member of the strategic management of the Council, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest;

- b) must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's financial strategy; and
- c) must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the Chief Finance Officer

- a) must lead and direct a finance function that is resourced to be fit for purpose; and
- b) must be professionally qualified and suitably experienced.

The Council's Chief Finance Officer is a member of the Council's Corporate Management Team (CMT) and he has access to the agenda, reports and minutes of CMT and attends CMT meetings.

The powers of officers are clearly defined in the Scheme of Delegation to Officers and the Scheme also sets out the circumstances in which delegations are not to be exercised and principles which should be taken into account by decision makers when taking decisions. High level Codes of Financial and Procurement Governance set out the constraints within which officers may work and these Codes are supported by more detailed procedure rules.

Internal systems are in place with the aim of ensuring that Members are presented with the appropriate information to make decisions, including corporate implications with advice on legal, risk and financial considerations. Member level decisions are made on the basis of reports and are recorded.

## **2.5 Codes of Conduct and standards of behaviour of Officers and Members**

Central Bedfordshire Council has adopted arrangements to promote high standards of ethical governance.

The Localism Act 2011 introduced new arrangements relating to standards in local authorities. In accordance with those arrangements, the Council adopted a new Code of Conduct in April 2012 based on the seven Nolan principles of public life. These arrangements came into effect on 1 July 2012 as required by the Act for principal Authorities and respective Town and Parish Councils.

The Council's General Purposes Committee is responsible for overseeing the arrangements. The Council collaborated with a number of neighbouring local authorities to appoint a panel of Independent Persons, as required by the

Localism Act who are available to advise as and when complaints are received relating to the Code of Conduct.

There is a system in place to deal with the investigation and determination of alleged breaches of the Members' Code of Conduct. This system is periodically reviewed to develop best practice, and was revised in 2014/15 to better reflect the issues that can be taken into account when considering a complaint, and whether an investigation is appropriate, or a local resolution is a more suitable outcome. Upon receipt, complaints are assessed by the Council's Monitoring Officer and, where necessary, complaints are considered and determined by the Standards Sub-Committee.

Training has been provided for Members of the Council on the new Code of Conduct and the rules relating to disclosable interests that were introduced under the Localism Act.

The Council also has in place a number of codes and protocols relating to various aspects of ethical governance including: a Code of Conduct for Officers, a Protocol for Members/Officer Relations, a Monitoring Officer Protocol and a Protocol regarding the use of ICT at Home. These codes and protocols are included in the Council's Constitution.

Additionally, there is an Ethical Handbook which contains further codes relating to Gifts and Hospitality, Planning and Licensing Good Practice, Confidential Reporting (Whistleblowing) and guidance for Members on Property and Transactions and Commercial Property Management.

The Council's Chief Legal & Democratic Services Officer is appointed as the Council's Monitoring Officer. Governance arrangements for the Monitoring Officer are set out in statute and in the Constitution. The Monitoring Officer has access to the agenda, reports and minutes of CMT and attends CMT meetings from time to time as appropriate.

## **2.6 Decisions, processes and controls**

The Scheme of Delegation to Officers sets out the powers which are delegated to the Chief Executive and Directors, as well as setting out the general principles governing the circumstances in which decisions may not be taken under delegation and considerations to be taken into account by a decision taker when making a decision, including the requirement to consult local councillors on matters that affect their wards. Procedures are in place to enable Directors to sub-delegate to other officers and to notify the Monitoring Officer if any such arrangements are made.

The Code of Financial Governance sets out the limits within which officers may make decisions on spending, within the budget approved by the Council. The

Code is supported by detailed procedure rules which are maintained on the Council's intranet.

The Code of Procurement Governance defines the procurement process and references the relevant levels of authority dependant upon financial thresholds. The Code is supported by detailed procedure rules which are maintained on the Council's intranet. The rules are promoted to staff through bespoke training courses. They are also embedded in a Procurement Tool Kit which is made available to all members of staff who are involved in procurement, and is available as an interactive version on the Intranet. A two page pictorial summary of the rules is also made available.

The Council's Risk Management Strategy and Policy Statement were approved by the Audit Committee in April 2012. This has remained relevant and therefore no revisions have been made since then. However, there are plans for this to be updated during 2015/16. The Strategic Risk register has been regularly reviewed and refreshed during the year. CMT endorsed the Risk Management Strategy and Policy Statement and have received regular risk reports during the year, which have also been presented to the Audit Committee.

Committee reports require officers to set out the risk management considerations in terms of current and potential risks and how they will be managed and mitigated.

## **2.7 Functions of the Audit Committee**

The terms of reference of the Audit Committee are set out in the Council's Constitution, and are broadly in accordance with the CIPFA guidance document. The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

## **2.8 Compliance with relevant laws and regulations**

The Council maintains an in-house team of professional legal staff with specialist knowledge of its functions who advise on relevant laws, regulations and constitutional issues to ensure that the Council acts lawfully. In June 2010, the Central Bedfordshire Legal Team achieved the Lexcel accreditation, a quality standard administered by the Law Society. This accreditation applies for three years with annual maintenance visits. The team continues to maintain this accreditation. Compliance with the Lexcel standard provides assurance that the in-house service provides a service in accordance best practice. There is a strong focus on continuous professional development to ensure that staff are

well-trained and have up-to-date knowledge of all the relevant specialist areas of law that govern the Council's activities.

Following an independent review of the Council's Legal Services in October 2012 the in-house team has been re-structured to provide increased range of areas of expertise and capacity. The Council also now has access to the EM LawShare Consortium for competitive rates for engaging external legal support as appropriate. All such support is required to be commissioned through the in-house legal team.

All reports that are considered by the Executive, the Council's regulatory committees and by overview and scrutiny committees include advice on the legal implications and risks of the proposed decisions. These reports are reviewed by a senior legal adviser to ensure that the legal implications have been accurately reflected.

The Monitoring Officer, or as appropriate, a senior lawyer attends meetings of the Council, the Executive and regulatory committees to advise on legal issues as they arise.

## **2.9 Whistle-blowing and complaints**

The Council introduced a whistle-blowing policy known as the Confidential Reporting Code in the Ethical Handbook section of the Constitution. This has been regularly reviewed and updated to reflect changes to roles and responsibilities, most recently by the Audit Committee in January 2012.

An Anti-Fraud and Corruption Strategy was also approved and is included in the Ethical Handbook of the Constitution. This was also updated by the Audit Committee in January 2012 to reflect the introduction of the Bribery Act 2010 and changes to reporting channels within the Council.

The Council welcomes feedback on its services and has a three stage complaints procedure for customers. There are timescales for remedying complaints. If more time is needed, the complainant will be informed.

The Three Stages of the Complaints Procedure:

Stage 1 Complaints – local resolution by a manager of the service. A response is required to be made within five working days.

Stage 2 Complaints – senior service level investigation. A response is required to be made within 15 working days.

Stage 3 Complaints – investigation by someone outside of the service area complained about. A report is to be produced within 15 working days. The service Director responds to the findings in the report.

There are separate procedures for Children's Services and Adult Social Care where complaints procedures are governed by Regulations. There are also formal processes for registering complaints in respect of housing landlord functions.

## **2.10 Development and training for Officers and Members**

The 360 degree feedback exercise has been repeated for the Senior Management Group (SMG) and extended to also include approximately 120 4<sup>th</sup> tier managers. Feedback is measured against a set of Leadership Qualities that have been developed by SMG. The results of the 360 feedback are then embedded into the annual performance development review and help identify individual development areas.

SMG completed a Leadership Development Programme during the year and the evaluation of this programme and the results of the 360 feedback exercise have been used to develop a Leadership Development Management Programme for 4<sup>th</sup> tier managers which commenced in July 2014. Other management training includes ILM3 and 5 accredited programmes.

Various Training and Development Programmes offer a wide range of activities linked to the Corporate Vision, Values and Priorities. These are designed to provide individuals with the skills to do their job and to support them and the organisation in meeting their objectives and statutory requirements in the context of the changing environment of local government.

The Member Development Programme has been developed to support all Members and provides essential updates and training sessions. It has been ratified by the Member Development Champion and Corporate Management Team.

## **2.11 Channels of communication**

Central Bedfordshire Council is committed to deliver planned, sustained and two way communications and engagement with the public, staff and other stakeholders.

Specifically, the council aims to:

- a) raise awareness and understanding of the vision, priorities and values of the council both internally and externally

- b) develop and improve its channels of direct communication with customers and stakeholders, in particular digital channels;
- c) prioritise core campaigns;
- d) enhance internal communications to facilitate change and increase staff engagement;
- e) enhance media relations to enable accurate reporting of the decision making and service developments of the council;
- f) support effective relationships with national and regional stakeholders.

Core channels for public communication include our community magazine, News Central, which is delivered to all households on a quarterly basis in line with Communities and Local Government guidance on Local Government Publicity. The magazine regularly includes information about all access routes to the Council, by phone, on line or face to face.

The magazine also includes features on policy and service developments, promotes consultations and invites feedback from customers. Copies of the magazine are available in alternative formats and it is published on line.

The Council's website is a critical communication channel which is available in both a conventional format and in a bespoke format for mobile devices. On line presence provides news and information to residents and other stakeholders. Customers are also able to log on to our portal to report issues such as potholes and apply for some of our services. Alternatively, they can use our mobile app to make reports.

Additional digital channels include email bulletins on a wide range of services, updates on Twitter and bespoke Facebook pages. In total, approximately 40,000 residents subscribe to these channels.

In order to strengthen our ability to engage with all elements of our community and particularly with younger people, the Council has developed a presence on line to embrace social media through sites such as Facebook and Twitter.

Proactive media relations services also ensure that Council decision making and service developments are effectively reported to the media, which continues to be a key communication channel to the public.

Staff communication mechanisms combine a series of face to face, on line and written media. These include regular staff briefings (the Chief Executive has twice yearly staff roadshows to update staff on corporate direction and priorities), weekly electronic bulletins, blogs and updated news on the intranet. Corporate communications are complemented by specific channels for service Directorates. Stakeholder communications channels, many of which relate to the activities of the Local Strategic Partnership, include a stakeholder ezine, regular face to face



fora and the publication of information on the Central Bedfordshire Together website, a bespoke site for the Local Strategic Partnership.

A weekly bulletin is sent to all Members to provide information about forthcoming events, meetings and to ensure that they are made aware of any significant issues.

In addition to programmed communication activities, the council regularly sends emails and briefings to update both Staff and Members on important topics.

## **2.12 Equality and Diversity**

Central Bedfordshire Council has a statutory duty to promote equality of opportunity, eliminate unlawful discrimination, harassment and victimisation and foster good relations. The Council wants to ensure that it provides services which address the needs of all members of the community and employs a workforce that at all levels is representative of the community it serves and which experiences fairness and equity of treatment.

As strategies, policies and services are developed, the Council conducts Equality Impact Assessments to:

- Consider issues relating to age, disability, sex, pregnancy and maternity, gender reassignment, marriage and civil partnerships, race, religion and belief and sexual orientation.
- Obtain a clearer understanding of how different groups may be affected.
- Identify changes which may need to be built into an initiative as it is developed.
- Comply with legislative requirements.
- Identify good practice.

The Council supports an Equality Forum (Central Bedfordshire Equality Forum) of voluntary sector representatives which acts as an advisory and consultative body to the Council on statutory service delivery and employment duties and issues relating to age, disability, gender re-assignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, sex and sexual orientation as they relate to Central Bedfordshire. The Core Functions of the Forum are:

- To provide a mechanism for consultation and liaison with community groups and other voluntary sector agencies.
- To advise on the overall development and implementation of the Council's Single Equality Scheme.
- To provide advice and feedback on the impact of new policies and functions.

- To consider and quality assure Equality Impact Assessments undertaken by the Council, or in conjunction with partners, relating to strategy, policy and service development. Recommendations are fed back to relevant services.
- To raise awareness within the Council of the potential barriers to inclusion and equality of opportunity experienced by vulnerable and disadvantaged groups.

The Equality Forum meets four times a year and quality assures all the significant Council Strategies and Policies and the accompanying equality impact assessments. The Forum has reviewed a number of key initiatives spanning all parts of the Council including that of the budget setting process.

### **2.13 Partnership governance**

The Council's Constitution includes a detailed Partnerships Protocol that sets out the arrangements and principles for established and future Public and Private Sector Partnerships. These are defined as:

**Public Sector Strategic Partnerships:** one or more public bodies, including voluntary organisations and charities that determine strategies for service delivery, but which have little or no resource management responsibilities;

**Public Sector Delivery Partnerships:** one or more public bodies, including voluntary organisations and charities that commission or deliver services on behalf of the partners and which have significant resource management responsibilities; and **Private Sector Partnerships:** private companies, either in their own right or as part of a public sector partnership entering into a contract with the Council for a considerable period.

The Partnerships Protocol was developed in line with the Audit Commission's report on partnership governance.

The Protocol prescribes the key requirements to ensure accountability (internally amongst partners and externally to communities), value for money, leadership, decision-making, scrutiny and risk management.

All partnerships are required to have detailed terms of reference that fully set out all of the arrangements and key partnerships review these on an annual basis to ensure they are fit for purpose and aligned to the Partnership's future work programme.

The Health and Wellbeing Board was established in shadow form in 2012, and Terms of Reference for the substantive Board were subsequently approved and appointments made to this new statutory committee at the Council's Annual

Meeting in April 2013. The Council assumed responsibility for certain public health functions under the Health and Social Care Act 2012. This involved a complex transfer of functions from various NHS bodies to the Council, which was undertaken successfully, including incorporation of appropriate budgets into the Council Budget approved in February 2013.

Going forward the Health and Wellbeing Board has the strategic overview of the Better Care Fund Plan. This Plan sets out a shared vision for the delivery of integrated and locality based health and social care provision in Central Bedfordshire. A Joint Commissioning Board for the Better Care Fund, made up of relevant multi agency senior officers, will report directly to the Health and Wellbeing Board, ensuring that the pooled budgets are targeted at delivering the outcomes set out in the Plan.

### **3.0 REVIEW OF EFFECTIVENESS**

Central Bedfordshire Council has responsibility for conducting, at least annually, a review of effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Corporate Management Team, which has responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular, the Council has adopted the CIPFA/SOLACE framework, "Delivering Good Governance in Local Government" and continues to learn from experiences and makes necessary changes to improve its local code of governance. The Council's review process uses the Key Roles and Core Principles included in this guidance and this Statement sets out how the Council meets these roles and principles in its control and governance arrangements.

The Council's review of the effectiveness of the system of internal control is informed by:

- Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports.
- the work undertaken by Internal Audit during the year.
- the work undertaken by the external auditor reported in their annual audit and inspection letter.
- other work undertaken by independent inspection bodies.

The arrangements for the provision of internal audit are contained within the Council's Code of Financial Governance which is included within the Constitution.

The Chief Finance Officer is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control, as required by the Accounts and Audit Regulations 2011. The internal audit provision is managed, independently, by the Head of Internal Audit and Risk who reports to the Chief Finance Officer on an administrative basis, and operated in accordance with Public Sector Internal Audit Standards (PSIAS) during 2014/15.

The Internal Audit plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk and the Council's corporate governance arrangements, including risk management. The resulting work plan is discussed and agreed with the Directors and the Audit Committee and shared with the Council's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. All Internal Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any identified weaknesses. These are submitted to Members, Directors and Head Teachers as appropriate.

The internal audit function is monitored and reviewed regularly by the Audit Committee. The Committee also reviews progress in implementing high risk recommendations made in audit reports.

A self assessment review is undertaken annually by the Head of Internal Audit and Risk on the effectiveness of the Internal Audit function in addition to a similar exercise carried out by the Audit Commission during 2009/10. No issues of concern were raised as a result of these reviews. An independent external assessment is planned to be undertaken during 2015/16, in compliance with the Public Sector Internal Audit Standards.

The Council has established Overview and Scrutiny Committees which receive reports on key issues including budget monitoring, performance and efficiency information.

The Council's performance is monitored on a quarterly basis by the Executive and Overview and Scrutiny Committees. Directorate and service plans contain a variety of performance indicators and targets that are regularly reviewed.

The Council's information governance performance is reported and monitored on a quarterly basis by the Information Assurance Group (IAG) and reviewed by CMT as appropriate. IAG seeks to promote effective information governance and compliance across the Council and is developing information sharing protocols with Partner Organisations, including working towards the better use of information and technology to transform health and social care services in line with government strategy.

The IAG is chaired by the Senior Information Risk Owner (SIRO) to the Council or their nominated representative.

#### **4.0 ANNUAL AUDIT REPORT FOR 2014/15**

The Council's Head of Internal Audit submitted her opinion on the overall adequacy and effectiveness of the Council's internal control environment to the Audit Committee on 29 June 2015. The Internal Audit work programme included reviews of the fundamental financial systems and other assurance work on other non fundamental systems.

The Head of Internal Audit reported that her opinion was that overall the Council's system of internal control, governance framework and risk management arrangements were adequate. In general, the key controls in place were adequate and effective such that reasonable assurance can be placed on the operation of the Council's functions.

Each of the fundamental system reviews finalised has received an adequate audit opinion, however, the change of provider for agency staff effective from November 2014 has resulted in interim control procedures being introduced with a reduction in the control environment for a significant area of activity. Management action is being taken to address this issue by September 2015.

The audit reviews of ICT Governance, Teachers Pensions', SAP Access and Security and Section 278 Agreements identified weaknesses in the current processes and management have agreed actions to address these issues.

Internal Audit has continued to track the implementation of high recommendations. This work has identified that, although progress was made during 2014/15 to develop a comprehensive IT Disaster Recovery Plan, the incoming Chief Information Officer has commenced a review of the existing data centre provisioning at CBC and it is anticipated that, 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. The Audit Committee has received regular updates on this during the year.

#### **5.0 SIGNIFICANT GOVERNANCE ISSUES**

In previous Annual Governance Statements certain significant governance issues have been identified, together with the measures that the Council intends to take to manage the risks associated with these issues. Such issues are identified in the Council's Corporate Risk Register, which also identifies the mitigating action to be taken. The Risk Register is monitored regularly by CMT.

The following governance issues were of significance during 2014/15:

- Effective delivery on the requirements of the Care Act 2014.
- Implementation of revised Contract Procedures Rules and Toolkit to meet new EU Regulation requirements and minimise risk of potential challenge to major procurements.

The Strategic Risk Register also identifies the following risks which have an impact on governance:

- Information Management: a lack of consistent information management and data accuracy across the organisation leading to non compliance with the Data Protection Act and breaches of information security.
- 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.
- Fragility of partners/Failure of partnerships: all partners are experiencing significant changes and pressures. There is an increased risk that services may be compromised and costs fall to the Council. 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.

## **6.0 COMPLIANCE WITH CIPFA CODE OF PRACTICE ON MANAGING THE RISK OF FRAUD AND CORRUPTION**

To help Councils recognise and address their fraud risks, CIPFA published a Code of Practice on Managing the Risk of Fraud and Corruption in December 2014. This sets out five principles that organisations should adhere to:

- Acknowledge responsibility
- Identify risks
- Develop a Strategy
- Provide resources
- Take action

The Code includes a requirement for organisations to include a statement within their Annual Governance Statement about their adherence to this Code. A detailed review of the Council's arrangements against the Code is currently in progress and action will be taken to address any gaps identified. An updated Anti-Fraud and Corruption Strategy is currently being developed to support compliance with the Code.

Having considered all the principles, we are satisfied that, subject to the actions identified below, the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Actions to be taken to manage the risk of fraud:

<b>Action:</b>	<b>Responsibility:</b>	<b>Target Date:</b>
To finalise the review the Council's current arrangements against the Code, identify gaps and make arrangements to address these.	Chief Finance Officer	End October 2015

**7.0 CONCLUSION**

This statement has been produced as a result of a review of the effectiveness of the governance framework in place during 2014/15 and has been approved by the Council's Audit Committee.

The Council proposes to take steps over the coming year to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of our next annual review.

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**J JAMIESON**  
**LEADER OF THE COUNCIL**

**R CARR**  
**CHIEF EXECUTIVE**

**Dated**

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**Meeting:** Audit Committee  
**Date:** 29 June 2015  
**Subject:** ANNUAL COUNTER BENEFIT FRAUD UPDATE  
**Report of:** Charles Warboys, Chief Finance Officer  
**Summary:** This report provides the Committee with an update on the work of the recently formed Corporate Fraud Investigation Team.

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**Advising Officer:** Charles Warboys, Chief Finance Officer  
**Contact Officer:** Gary Muskett, Head of Revenues & Benefits  
**Public/Exempt:** Public  
**Wards Affected:** All  
**Function of:** Not applicable

#### **CORPORATE IMPLICATIONS**

##### **Council Priorities:**

##### **Financial:**

1. The costs of the Corporate Fraud Investigation Team (CFIT) are met from the DWP Administration Grant and DCLG Localised Council Tax Support Administration Grant (currently £1,050,192 in total). These grants are used to offset the costs of assessing Housing Benefit and Local Council Tax Support, which are approximately £2m. The elements of the grants for fraud administration are not separately identifiable. The grants are likely to reduce as Universal Credit claims increase and Housing Benefit is phased out. The staffing costs of the CFIT amount to approximately £150k.

##### **Legal:**

2. No implications arising from this report

##### **Risk Management:**

3. Reductions in the grant funding mentioned above will place some pressure on the current levels of staffing but early indications of the success of the team mean that compensating savings will be found. This will enable the Council to maintain its ability to detect and investigate suspected fraud. The Council will also have assurance that it is fully meeting its statutory responsibility to protect the public purse.

##### **Staffing (including Trades Unions):**

4. No implications arising from this report

##### **Equalities/Human Rights:**

5. No implications arising from this report

**Public Health:**

6. No implications arising from this report

**Community Safety:**

7. No implications arising from this report

**Sustainability:**

8. No implications arising from this report

**Procurement:**

9. No implications arising from this report

**RECOMMENDATION(S):**

**The Committee is asked to:**

1. Consider and comment on the implications of the issues raised in this report.

**Background**

10. As previously reported to this committee in March 2014, the DWP were to announce a time table in May 2014 for the transfer of local authority housing benefit investigators to the DWP. Within this timetable Central Bedfordshire Council was given a transfer date of 1<sup>st</sup> May 2015.
11. Council officers worked with DWP staff to facilitate the transfer and ensure that both human resource and operational aspects of the transfer were properly managed.
12. The transfer took place on 1<sup>st</sup> May 2015 as planned, which resulted in two members of staff transferring to the DWP. Four staff have been retained as part of the newly formed Corporate Fraud Investigation Team (CFIT).
13. The CFIT is based within the Revenues and Benefits service and the officers appointed to this team are all from the pre-existing Benefits Fraud Investigation Team.
14. The team is already working closely with our Housing Department on both fraud awareness and investigations, particularly in relation to tenancy fraud and Right To Buy fraud. Statistics produced by the Audit Commission in 2013 indicate that 2% of council tenancies outside of London maybe fraudulent. If this is true it would apply to about 100 tenancies in Central Bedfordshire. Tenancy fraud will therefore remain a priority for the team.

15. An annual work programme for the team has been developed. Work includes:
- Updating policies and procedures to ensure they remain relevant and reflect current best practice
  - Raising fraud awareness across the Council, including maintained schools
  - Continuing to investigate Council Tax and other fraud areas not transferred to the SFIS
  - Targeted pro active anti fraud reviews, such as Council Tax Single Person Discounts
  - Reactive work where potential fraud has been identified
  - Data matching exercises, such as the National Fraud Initiative (NFI)
  - Advice and Liaison

As reported to the Audit Committee in March this year, the work programme will be jointly delivered by the Corporate Fraud Investigation Team and Internal Audit, with work assigned to staff with relevant skills.

16. An annual report on the outcome of the work programme will be prepared for senior management and the Audit Committee. The conclusions reached will be reflected in the Annual Governance Statement, as appropriate.

### **Emerging Frauds**

17. There are a number of areas where nationally fraud risks have been identified but this Council has not yet identified any losses or received significant allegations. These include:-
- **Personal Budgets (Direct Payments) Fraud** - Abuse of this system can occur as an overstatement of needs, by multiple claims across authorities and from third party abuse, for example posthumously - where the service user has died and payments continue to be fraudulently collected. Counter fraud arrangements in this area are particularly important as this type of fraud may directly impact on vulnerable members of the community. Internal Audit are currently undertaking an audit of this area of work.
  - **Business Rates** - This area has been identified as an emerging risk and the CFIT have started to receive referrals of this nature particularly relating to fake tenancies. Business Rates retention arrangements mean that any fraud losses now have a direct impact on this Council's finances.
  - **Right to Buy** - The Right to Buy discount was increased to £75,000 from 1st April 2012 creating a significant financial incentive to purchase a council property. The Corporate Fraud Team have received a small number of referrals of this nature since it was set up and are currently investigating two potential frauds.
  - **Schools** – Individual schools may have multi-million pound budgets and a great deal of local autonomy. Although most schools have good financial governance nationally some schools have suffered losses running into hundreds of thousands of pounds. As part of the rolling programme of audits carried out by our Internal Audit Team, schools will be routinely audited.

### **Proactive Counter Fraud Work**

18. There is currently an ongoing Council Tax Single Person Discount review with a third party supplier, using data matching which compares our data against Credit Reference Agency data. Full details of this review are explained in the slide presentation attached to this report at Appendix 1.
19. Registered Landlords within Central Bedfordshire have expressed an interest in joint working on housing tenancy fraud and these discussions are ongoing.
20. The work of the CFIT will be widely publicised across the Council later this year.
21. The Council continues to be a member of the Housing Benefit Matching Service (HBMS), which cross checks our benefit claims against data held by other government agencies. Its aim is to show duplicate claims and any source of undeclared income. The council is also a member of the National Fraud Initiative (NFI) administered by the Cabinet Office, which allows comparison of housing benefit data against many other data sources such as pensions and payroll data.

### **Appendices:**

Appendix A – Single Person Discount Review - Slide presentation

**Background Papers:** None

**Location of papers:** Watling House, Dunstable, Bedfordshire

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Appendix A



# Council Tax Single Person Discount Review

Audit Committee 29<sup>th</sup> June 2015  
Gary Muskett

# The Legislation

- CTAX is fundamentally a property tax but it differs from a pure property tax by allowing personal discounts for people who live alone.
- Sec 11 LGFA 1992 allows a discount if the number of residents is less than 2
- If only 1 resident in a dwelling 25% discount applied
- Councils are required to take “reasonable steps” to ascertain entitlement to discount as per Reg.14 of the CTAX (Administration & Enforcement) Regulations 1992
- No specified method of obtaining information about discounts.

# Some CBC context

- We have about 114,000 properties registered for CTAX
- About 36,000 properties attract a SPD (32%)
- The total value of SPD discounts in 2015/16 = £13m
- Average SPD award = £360
- Ampthill band A = £288, band D = £432, band H = £865
- The last SPD review carried out in 2012/13.

# What we used to do

- Historically reviewing SPD's was a paper based exercise which was costly and labour intensive.
- Review forms were posted to every household
- Residents would be required to confirm their circumstances had not changed or when another resident had moved into the property and from what date.
- We would generally have to take the residents word for whatever they said on the returned review form.
- The process was reasonably successful with removal rates of 3% to 4% of discounts.
- The reviews have been conducted on an ad-hoc basis.



# Our 2015/16 SPD review

- In Jan 15 we tendered for an “end to end” review of our SPD discounts using credit reference data.
- The successful supplier would be required to conduct the review and update our CTAX records remotely.
- The tender price is based on a cost to remove each SPD discount i.e. paper, postage & staff time.
- 3 bids received ranging from £18 to £14.75 per removal
- Previous market rates had been £21 per removal
- Contract awarded to Capacity Grid with a start date of May 2015 for 12 months.

# The Capacity Grid Review

- We passed a secure data file of our SPD caseload to Capacity Grid in May
- Our records were cross matched to the Credit Reference Agency (CRA) data for Call Credit to identify credit activity for anybody not on our data file.
- Approx. 3,000 or 9% of the cases identified a “mismatch”
- Canvass forms were posted to 2,800 residents, the remaining 200 are benefit claimants who we will review
- Residents are asked to log onto a secure website and complete an “intelligent form” using access codes
- The form will present the “mismatched” credit data to the resident and ask for clarification of their circs.

# The Review continued

- The resident will be required to provide evidence to explain why CRA data for somebody else at their property exists.
- The evidence will be challenged if necessary by telephone call or letter back to the resident.
- Trained Capacity Grid staff will securely access the CBC Civica database to amend CTAX accounts and revised bills will be issued.
- We forecast a 4.5% removal rate of SPD's, so approx. 1,500 removals
- Additional full year CTAX revenue circa £500k  $1,500 \times £363$

# Moving Forward

- If the review is successful we will look to review all new SPD discounts on a 4 monthly basis.
- It takes about 3 months for somebody to create a credit footprint at a property e.g. mobile phone, credit card.
- We will pass a monthly file to Capacity Grid of all new SPD awards which will be matched to CRA data.
- This process will be advertised to deter fraudulent claims.
- Fraudulent claimants will be prosecuted, but any prosecution will be based on the level of evidence available and whether it is in the public interest to do so.

Central Bedfordshire Council

AUDIT COMMITTEE

29 June 2015

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**LOCAL GOVERNMENT PENSION SCHEME UPDATE**

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

Contact Officer: Ralph Gould, Head of Financial Control  
([ralph.gould@centralbedfordshire.gov.uk](mailto:ralph.gould@centralbedfordshire.gov.uk))

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**Purpose of this report**

1. To provide an update on the governance of the Local Government Pension Scheme.

**RECOMMENDATION**

That the Committee is asked to:

1. Note the report

**Overview and Scrutiny Comments/Recommendations**

1. This report is for information only and has not been made to any Overview and Scrutiny Committee. A report will be made to the Audit Committee reflecting the responsibility of that Committee to scrutinise financial performance and risk.

**Background**

2. The Local Government Pension Scheme (LGPS) in England and Wales is a funded public sector pension scheme with approximately 4.6 million members.
3. The regulations for the scheme are determined by parliament and developed by the Department of Communities and Local Government. The scheme is administered locally for participating employers by eighty nine funds across England and Wales.
4. The Bedfordshire Pension Fund, administered by Bedford Borough Council, is responsible for the pensions of Local Government employees across Bedfordshire, including Luton Borough Council and Central Bedfordshire Council.
5. Participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services such as academy schools, contractors, housing associations and charities.

6. Currently in excess of 130 scheme employers participate in the Bedfordshire LGPS. The actual Bedfordshire scheme membership numbers at March 2013 and 2014 are shown in Table 1 below. Following a number of years where active membership had declined the introduction of auto enrolment (whereby the default position for new employees is that they are included in the scheme and have to opt out if they do not wish to be included) has contributed to an increase in active members for the Fund as a whole.

<b>Table 1 LGPS Bedfordshire and CBC Membership at 31/3/13 and 31/3/14</b>				
	<b>Fund</b>	<b>Fund</b>	<b>CBC</b>	<b>CBC</b>
	<b>31 March 2013</b>	<b>31 March 2014</b>	<b>31 March 2013</b>	<b>31 March 2014</b>
<b>Active</b>	17,442	18,766	3,975	4,025
<b>Deferred</b>	21,142	22,821	6,755	7,144
<b>Pensioners</b>	13,158	13,841	4,131	4,276
<b>Total</b>	<b>51,742</b>	<b>55,428</b>	<b>14,861</b>	<b>15,445</b>

7. The LGPS is administered within a statutory and best practice framework of regulation and governance. The various administering authorities apply important policies and strategies that are developed and reviewed with independent specialist advice and in consultation with participating employers. The main areas are governance arrangements, funding, investment and communication strategies, all of which can be accessed at the Bedfordshire Pension Fund website ([www.bedspensionfund.org](http://www.bedspensionfund.org)).
8. The purpose of this report is to update the Committee on any changes or proposed changes to the regulations and governance of the scheme that have arisen since the previous report to this Committee and provide information in respect of the latest reported investment performance of the Fund. This report also provides some commentary on the risk management arrangements for the scheme.

### **Governance and Regulatory Changes**

9. All LGPS Administering Authorities were required to establish Pension Boards from 1 April 2015. The purpose of a Pension Board is to assist the Pension Committee to secure compliance with regulations and to ensure the effective and efficient governance and administration of the LGPS. A Local Pension Board must include an equal number of employer and member representatives with a minimum requirement of no less than four in total. The current membership of the Bedford Pension Board was appointed at the Bedford Borough Annual Council meeting on 20<sup>th</sup> May 2015 :

**Scheme Employer Representatives – 2 vacancies**

Councillor Stephen Moon - Bedford Borough Council

Councillor James Jamieson - Central Bedfordshire Council

**Scheme Member Representatives – 1 vacancy**

Mr Stewart Briggs - Bedford Borough Council

Mr Cliff Anderson - GMB Union (Luton Branch)

Mr Liam McKeating - UNISON (Bedford Branch)

10. No officer or councillor of an Administering Authority who is responsible for the discharge of any function under the LGPS Regulations (apart from any function relating to Local Pension Boards or the Scheme Advisory Board) may be a member of a Local Pension Board. The first meeting of the Board is to be held on 25 June 2015.
11. The Central Bedfordshire Council meeting on 21<sup>st</sup> May 2015 approved the appointment to the Bedford Borough Council Pension Committee of Councillor Richard Wenham and Councillor Kevin Collins as respectively, the voting member and substitute voting member.

**Fund Management**

12. The Fund has implemented an investment strategy and benchmark that seeks to provide less volatile returns compared to those Funds with a greater weighting to equities. In periods when equity markets are very strong the Fund is likely to underperform the average local authority fund which tends to have greater allocation to equities. Conversely when equity markets are weak the Fund would be expected to outperform the average local authority fund.
13. At the Bedford Borough Council Pensions Committee meeting on 2 March 2015 the Fund Administrator reported on the Pension Fund Performance over the nine month period ending 31<sup>st</sup> December 2014. The market value of the Fund and cash holdings as at 31<sup>st</sup> December 2014 was £1,622.1 million (Table 2) reflecting an increase of £184 million since 31 March 2014. This positive performance had primarily derived from the equities asset class.

<b>Table 2 Bedfordshire Fund Investment Asset classes and values at 31 December 2014</b>			
<b>Asset class</b>	<b>31 Dec-2014</b>	<b>31 Dec-2014</b>	<b>Bench mark</b>
	<b>£M</b>	<b>%</b>	<b>%</b>
UK Equities	306.2	18.9	19
Overseas Equities	519.6	32.0	31
<b>Total Equities</b>	<b>825.8</b>	<b>50.9</b>	<b>50</b>
UK Gilts	71.0	4.4	
UK Index Linked Gilts	100.5	6.2	
Absolute return Bonds	134.5	8.3	
<b>Total Bonds</b>	<b>306</b>	<b>18.9</b>	<b>18</b>
Property – (Indirect))	156.9	9.7	10
Multi Asset Absolute Return	222.3	13.7	20
Cash	111.1	6.8	2
<b>Total Fund</b>	<b>1,622.1</b>	<b>100</b>	<b>100</b>

14. The Bedfordshire Pension Fund investment return for the quarter ending 1 December 2014 was 2.5% which was ahead of the benchmark return of 2.3% and behind the estimated WM Local Authority average of 3.1%. Over 12 months the Fund returned 7.1% in line with the benchmark. Over three years the Fund has returned 9.3% p.a. compared to a benchmark return of 8.5% p.a.
15. Following a change in the management arrangements for the Fund's allocation to Multi Asset Absolute Return portfolios a final allocation of £75 million was made to a new manager on 19 January 2015. The cash position above benchmark at 31 December 2014 reflects the timing of the final allocation to the additional Multi Asset Manager. The aim of Multi Asset Absolute Return portfolios is to achieve a return over the long term that exceeds inflation and cash but with a low level of volatility (risk). The managers prioritise capital preservation and are not constrained to specific asset classes and investment strategies.

### **Risk Management**

16. This part of the report provides information about the risk management arrangements for the Bedfordshire LGPS. Many of the Fund's policy documents, referred to at paragraph 7, deal with specific risks and their management. The Bedfordshire Funding Strategy Statement (revised February 2014) summarises four key risk areas:



- i. Financial
- ii. Demographic
- iii. Regulatory; and
- iv. Governance.

17. Appendix C of the Funding Strategy Statement (reproduced at Appendix A of this report) details the Scheme’s key risks and the control mechanisms in place to manage those risks. To illustrate the Pension Committee’s approach to risk management an explanation of the strategic and operational management of the Fund’s significant asset pool is outlined below.

18. The Fund’s Statement of Investment Principles (approved November 2014) sets out in detail the investment management arrangements. The Pension Committee has set the following long term objectives for the Fund which are to:

- a. maintain a portfolio of secure and sufficiently liquid assets, which, together with new contributions from active members of the fund and employing bodies will generate sufficient income and capital growth to meet the cost of current and future benefits that the Fund provides;
- b. minimise the long term costs of the Fund by maximising the return on the assets whilst having regard to the objectives shown under (a) above;
- c. ensure that employer contributions rates are set at a level to attain and maintain solvency, as certified by the Fund’s Actuary, whilst keeping the employer contribution rate as stable as possible.

19. To deliver the objectives the Pension Committee approve and keep under review a Strategic Asset Allocation (Table 3) for the Fund. The Strategic Asset Allocation decision is informed by detailed modelling of asset and liability forecasts conducted after the triennial Actuarial Valuation.

<b>Table 3 Strategic Asset Allocation</b>		
UK equities	19%	Range 40%- 60%
Global / Overseas Equities	31%	
UK Gilts	8%	Range 13%-23%
Absolute Return Bonds	10%	
Absolute Return Multi Asset	20%	Range 15%-25%
Property	10%	Range 5%-15%
Cash/Opportunistic	2%	Opportunistic Range 0%-4% Cash Range 0%-10%

20. An investment benchmark is determined for each asset class (Table 4) and the Fund's overall performance target is the weighted average of the asset allocation and the asset allocation performance index. The Fund's overall benchmark will vary over time with the level of indices, interest rates and inflation. Over the three years ended 31 December 2014 the annualised Fund Benchmark was 8.5%.

<b>Table 4 – Asset Class Investment Benchmarks</b>	
<b>Asset Class</b>	<b>Investment Benchmarks</b>
UK Equities	FTSE All Share Index
Overseas Equities	45% - FTSE America 35% - FTSE Developed Europe ex UK 15% - FTSE Japan 5% - FTSE Developed Pacific ex Japan
Global Equities	RPI + 5%*
UK Gilts	42 % - FTSE A All Stocks Gilt Index 58 % - FTSE A Index-Linked Index (all stocks)
Absolute Return Bonds	LIBID + 2%
Absolute Return Multi Asset	RPI +5% & 3 month LIBOR + 5% & 1 month LIBOR + 4%
Property	IPD Index

**Key**

IPD Investment Property Databank Ltd  
 FTSE Financial Times/ Stock Exchange  
 RPI Retail Price Index  
 LIBOR London Interbank Offer Rate  
 LIBID London Interbank Bid Rate

\* In the short term the MSCI All world index is also referred to.

21. The investment objectives are subject to the strategy being carried out within acceptable levels of risk:

- a. Risk associated with investments is controlled through the diversification between asset classes and Investment Managers. Monitoring of performance targets is intended to ensure that the Fund's investments are adequately diversified. In addition, the investment restrictions aim to ensure that, at a stock selection level, the Fund avoids undue concentration.
- b. The risk within each investment portfolio is monitored and managed by the Investment Managers. A detailed set of performance targets and restrictions are agreed with each Manager.
- c. Benchmark risk (e.g. the risk that the Fund's returns from UK equities do not match the Benchmark FTSE Index return) is controlled by allocating a

proportion of the Fund's assets to portfolios managed to replicate index returns (passive management).

22. The strategic asset allocation is implemented through the appointment of specialist investment managers. The current management arrangements are set out in Table 5 below.

<b>Table 5 - Bedfordshire Fund Investment Managers</b>		
<b>Manager</b>	<b>Asset Class</b>	<b>Performance Target</b>
BlackRock Advisers UK Ltd	Passive Equities and Bonds	To track appropriate benchmark indices as follows within a benchmark tolerance of +/-0.5%. - UK Equities – FTSE Actuaries All Share Index - Overseas Equities – FTSE America FTSE Europe ex UK FTSE Japan FTSE Pacific ex Japan MSCI Emerging Markets Index - UK Gilts – FTSE A All stocks Gilt Index - UK Index-Linked– FTSE A Index Linked Index (all stocks)
CBRE Global Investors	Indirect UK Property	0.5% p.a. above the AREF/IPD UK QPFI All Balanced Property Fund Index <sup>1</sup> , net of fees and costs, on a rolling three year basis.
Insight	Active Absolute return Bonds	50% LIBID + 2% 50% LIBID + 4%
Invesco Perpetual	Active Absolute Return Multi Asset	3 Month LIBOR +5%
Lazard Asset Management	Active Global Equities	To achieve a return of at least the benchmark return (net of fees) over rolling five-year periods. Performance Benchmark – RPI + 5%
Legal and General Investment Management	Passive Equities	To track the appropriate benchmark indices within a tolerance of +/-0.5%.
Newton	Active Absolute Return Multi Asset	1 Month LIBOR +4%
Pyrford	Active Absolute Return Multi Asset	RPI +5%
Trilogy Global Advisors	Active Global Equities	To achieve a return of at least the benchmark return (net of fees) over rolling seven-year periods. Performance Benchmark – RPI + 5%

23. The Fund's objectives are subject to formal annual review by the Pension Committee and triennial review following the completion of the actuarial valuation and review of the relative value of the assets and liabilities. Appropriate external advice is obtained from the appointed investment consultant, independent investment adviser and independent Actuary. Manager performance and overall asset allocations are monitored by officers on a monthly basis and quarterly by the Pension Committee. The Committee, in conjunction with the Investment Consultant, will normally review on at least an annual basis the allocation of assets between the passive and specialist portfolios, property and other asset classes. The Investment Managers' appointments, whilst subject to monitoring, would generally be reviewed over rolling 3 year periods, in line with their performance benchmarks
24. The assets of the Fund are held by an independent custodian, Northern Trust, and the key advisory appointments are subject to regular review, specifically
- i. Actuary (Hymans Robertson) every 6 years
  - ii. Independent Consultant (Hymans Robertson) every 5 years
  - iii. Independent Investment Adviser (Leslie Robb) every 3 years

### **Council Priorities**

25. This report provides information about the Local Government Pension (LGPS). The LGPS has been subject to significant changes over recent years as central government strives to ensure that public sector pension schemes provide value for money. This objective is in line with the Council's own value for money priority.

### **Corporate Implications**

### **Legal Implications**

26. There are no specific legal implications as this report is made for information purposes. The LGPS in England and Wales is operated in line with various regulations made by the Secretary of State for Communities and Local Government in exercise of the powers conferred by the Superannuation Act 1972 and the Public Service Pensions Act 2013.

### **Financial Implications**

27. There are no specific financial implications as this report is made for information purposes. The most recent Bedfordshire LGPS triennial actuarial valuation at 31 March 2013 disclosed Central Bedfordshire Council's liability of £550m compared to assets of £361m. It is planned to address the funding deficit of £189m (36%) over a twenty year period whilst stabilising the overall employer's contribution rate. In the current financial year 2015/16, employer contributions of 14% of pensionable pay are paid to the Bedfordshire Fund (approximately £8m p.a. including schools non-teaching staff) along with an additional lump sum of £7.212m towards the funding deficit.

28. The Council's share of the Assets and Liabilities of the LGPS are significant values and as a result the governance and performance of the scheme merits regular monitoring by this Committee.

### **Equalities Implications**

29. There are no specific implications for equalities as this report is made for information purposes.

### **Conclusion**

30. Funded Index linked Final salary pension schemes have to address a wide range of risks. Given the importance of such pension arrangements to scheme members and employers the governance requirements are significant. Since the Mirror Group pension scandal of 1991, regulation and best practice guidance has increased considerably in the private sector. The LGPS, since its inception in 1922, has differed from most public sector schemes as a fund of assets has been maintained to meet future pension obligations. The Bedfordshire LGPS, in common with similar schemes, has to manage the risks associated with both the assets and liabilities of the scheme.

31. Considerable governance documentation is available on the Bedfordshire Pension Fund website. The various strategies and policies outline in detail the ongoing management of the Fund as it responds to the wide range of challenges facing pension schemes. An updated Risk Register is available with the strategies and policies at the website link below.

[http://www.bedspensionfund.org/fund\\_information/policies\\_and\\_documents.aspx](http://www.bedspensionfund.org/fund_information/policies_and_documents.aspx)

### **Appendices**

The following Appendix is attached

Appendix A - Extract of Appendix C from Bedfordshire Pension Fund – Funding Strategy Statement – March 2014

### **Background Papers**

None

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**Appendix A - Extract of Appendix C from Bedfordshire Pension Fund – Funding Strategy Statement – March 2014**

Appendix C – Key risks and controls

**C1 Types of risk**

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

**C2 Financial risks**

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.

### C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases.  For other employers, review of contributions is permitted in general between valuations and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

### C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.



**C5 Governance risks**

<b>C5 Governance risks Risk</b>	<b>Summary of Control Mechanisms</b>
<p>Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.</p>	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions may be expressed as monetary amounts.</p>
<p>Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way</p>	<p>The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.</p>
<p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.</p>	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible. Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals. Reviewing contributions well ahead of cessation if thought appropriate.</p>



**Central Bedfordshire Council**

**AUDIT COMMITTEE**

29 June 2015

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**2014-15 INTERNAL AUDIT - ANNUAL AUDIT OPINION**

Report of Charles Warboys, Chief Finance Officer  
charles.warboys@centralbedfordshire.gov.uk

Advising Officer: Kathy Riches, Head of Internal Audit and Risk  
kathy.riches@centralbedfordshire.gov.uk

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**Purpose of this report:**

This is the annual report of the Head of Internal Audit and Risk to those charged with governance on the overall adequacy and effectiveness of Central Bedfordshire Council's financial and other management internal controls.

**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 a matter for the Audit Committee under the delegations of the Constitution.

**Background**

2. The Accounts and Audit Regulations 2011 require the Council to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices. The applicable standards for 2014/15 were the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1st April 2013. In accordance with the standards, the Head of Internal Audit and Risk is required to deliver a report to those charged with governance, timed to support the Annual Governance Statement, which must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

3. This report:
  - Presents an opinion on the overall adequacy and effectiveness of Central Bedfordshire's framework of governance, risk management and control for the 2014/15 financial year,
  - Summarises audit work undertaken that supports that opinion
  - Highlights significant issues identified as part of Internal Audit's work, including those that are particularly relevant to the Annual Governance Statement
  - Compares the Internal Audit work actually undertaken with the work that was planned and summarises the performance of the internal audit function against its performance measures and criteria, and
  - Includes a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

### **Responsibilities**

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

### **Independence and Accountabilities**

5. Internal Audit remains 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.
6. In addition, the Head of Internal Audit and Risk has direct free and unfettered access and freedom to report in his/her own name and without fear or favour to all officers and members, particularly to those charged with governance (including the Chief Executive and the Chair of the Audit Committee).

### **Internal Control Environment**

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

## The Audit Methodology and Basis of Assurance

9. During 2014/15 Internal Audit was bound by the Public Sector Internal Audit Standards. The purpose, authority and responsibility of the internal audit service is set out in the Internal Audit Charter, approved by the Audit Committee in January 2014.
10. In order to ensure that the Internal Audit Service operates in accordance with the PSIAS, the Head of Internal Audit and Risk undertook a self assessment of compliance with the standards. This has been regularly reviewed and updated during 2014/15. In accordance with the requirements of the Accounts and Audit Regulations 2011 the Chief Finance Officer has also carried out a review of the effectiveness of the System of Internal Audit in June 2014. The scope of the review covered compliance with the PSIAS, and reporting on performance and outcomes to the Audit Committee. The Chair of the Audit Committee also contributed to the Chief Finance Officer's assessment. The PSIAS require the Annual Audit opinion to include a statement of conformance with the standard, and this is set out later in the report.
11. The internal audit work undertaken during the year has been conducted in accordance with the mandatory standards and good practice.
12. The Internal Audit Plan for 2014/15, approved by the Audit Committee in March 2015, was compiled using a risk based approach and was informed through:
  - reference to the previous Audit Needs Assessment undertaken
  - consultation with senior management
  - Internal Audit's own analysis of risk areas
  - 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.
13. The Internal Audit Plan identified the individual audit assignments. The activity was undertaken using a systematic risk based approach. The objectives for each activity were determined and risks in the processes that supported that activity were identified and set down in terms of reference that outlined the objectives and scope for each audit. The work was planned and performed so as to obtain all the information and explanations necessary to provide sufficient evidence in forming an overall opinion on the adequacy of the internal control framework.
14. Internal Audit reports provide an overall conclusion on the control environment for each system reviewed. A summary of the conclusions for each audit is attached as Appendix A to this report. The definitions of each conclusion are attached as Appendix B.
15. The overall annual audit opinion is derived from the work undertaken during the year, as determined by the Audit Plan. However, it is also

recognised that there is a risk management assurance framework in place that provides reasonable assurance that other significant risks have been identified and are managed effectively.

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

### **The Internal Audit Team**

18. During 2014/15 the Internal Audit Service was delivered by a team of suitably qualified auditors. Each member of the team undertakes a regular Performance Development Review (PDR) and participates in Continuing Professional Development (CPD) as appropriate.

### **Head of Internal Audit's Annual Opinion Statement**

19. The Internal Audit work undertaken during the year has enabled Internal Audit to provide an objective assessment of whether systems and controls are operating effectively. In giving an audit opinion, however, it should be noted that assurance can never be absolute. However, the scope of the activity undertaken is sufficient for reasonable assurance to be placed on the work.
20. Ernst and Young, as the Council's external auditors, have reviewed the work undertaken by Internal Audit on the fundamental system audits and have been able to place reliance on the work, and have been in agreement with the audit opinions given.
21. A summary of the work undertaken during the year, forming the basis of the audit opinion on the control environment, is shown at Appendix A of this report.

The opinion on the Council's Internal Control environment is that overall it continues to be adequate. In general the key controls in place are adequate and effective such that reasonable assurance can be placed on the operation of the Council's functions.

22. This conclusion is based on the following:

Framework of governance:

- A Code of Financial Governance is in place, and is incorporated within the Constitution.
- Financial Procedures support the Code of Financial Governance. These are regularly refreshed and updated.
- A Financial Scheme of Management is in place.
- Procedures and processes have been documented in a number of key areas.
- Outcome of governance audits.

Risk Management Arrangements:

- Assurances on key strategic risks have been mapped during the year. Assurances considered include a range of management controls, corporate functions and third party assurances.
- A risk management framework is in place, including a documented strategy, risk co-ordinators within directorates, a Risk Matters Group and regular monitoring and reporting on strategic risks to senior management and the Audit Committee.

Internal Control:

- Each of the fundamental system reviews finalised has received an adequate audit opinion.
- Adequate controls were found to be in place in a number of other areas
- Progress has been made in addressing many of the high priority Internal Audit recommendations made, and
- There has been a stable senior finance management structure in place during the year.

23. It should be noted that most audits undertaken have resulted in reports identifying areas for improvement which have been well received by managers, and actions agreed to address weaknesses in control. The implementation of these actions is tracked by Internal Audit and the progress against the implementation of high recommendations is regularly reported to the Audit Committee.

24. In arriving at the opinion the following has been taken into account:

- The results of the audits undertaken as part of the 2014/15 plan
- The results of follow up action in respect of previous audits
- Whether or not any limitations have been placed on the scope of Internal Audit – of which there have been none.

25. The following key concerns were identified and these have been reflected in the Annual Governance Statement:

- The change of provider for agency staff effective from November 2014 has resulted in interim control procedures being introduced with a reduction in the control environment for a significant area of

activity. Management action is being taken to address this issue by September 2015.

- The audit reviews of ICT Governance, Teachers Pensions', SAP Access and Security and Section 278 Agreements identified weaknesses in the current processes and management have agreed actions to address these issues.
- Internal Audit has continued to track the implementation of high priority recommendations. This work has identified that although progress was made during 2014/15 to develop a comprehensive IT Disaster Recovery Plan the incoming Chief Information Officer has commenced a review of the existing data centre provisioning at CBC and it is anticipated that, 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. The Audit Committee has received regular updates on this during the year.

#### **Delivery of the 2014/15 Internal Audit Plan**

26. The operation of the key financial systems is a key part of the internal control environment. The table at Appendix A sets out the outcome of the reviews of these systems, and indicates where the work is still ongoing. The appendix also summarises other reviews undertaken during the year.
27. The reviews of the key fundamental systems help inform the Annual Governance Statement. Each of the 10 key systems finalised has received an adequate audit opinion. It should be noted that the opinions given reflect the controls in place across the whole year. Although several of the Phase 2 reports have still to be finalised, with the exception of the issue relating to the change in agency provider referred to in paragraph 25 above, no new key issues of concern have been identified.
28. Audit work is not just limited to implementing the audit plan. Internal Audit is involved in other areas advising on systems development and using their skills to provide other general advice to service areas. Internal Audit has participated in a number of projects, providing advice on controls required. These projects include supporting the highways contract tender and the change in provider of agency staff. In addition, individual grant claims have been audited, where required.
29. Work has either been finalised or nearing completion for the majority of the audits in the plan, however, no work has yet started on 4 reviews originally planned for 2014-15. An explanation for each slippage is set out below:



- The review of timesheets processed through Employee Self Service (ESS) will be postponed until 2015/16, as reported to the March 2015 Committee. Although the work has been scoped, the service area has requested the review be deferred, due to their resourcing issues.
- The timing of the Housing Repairs audit is subject to the completion of work on the SAP/QL interface. This issue is considered in more detail elsewhere on this agenda, within the Tracking of Internal Audit Recommendations report.
- The Corporate Asset Management Strategy is still in draft form and therefore this review has been postponed.
- Finally, no work has commenced on the Internet and Email system audit. A range of IT policies have been the subject of recent review and the audit has been postponed pending the finalisation of these policies.

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

30. During 2014/15, we continued to complete work on the National Fraud Initiative (NFI). This involves supplying data to the Audit Commission for matching purposes. Work on investigating the resulting positive matches is ongoing. Work includes matches on pension payments to registered deaths, matching payrolls between authorities, and other matches including UK visas, blue badges, private residential care and Housing Benefits. Savings of £12,194.15 identified and recovered relating to a duplicate payment were reported to the January Audit Committee. No further savings have been identified to date.
31. The Internal Audit team has also assisted other authorities undertake their NFI enquiries by providing information to support their investigations.

### **Anti Fraud Work and Special Investigations**

32. Internal Audit undertook three investigations during the year. The outcome of two were reported to the January 2015 Audit Committee. A further investigation is currently being finalised this will be reported to a future Committee.
33. During the year, Internal Audit has worked closely with colleagues within Revenues and Benefits on reviewing existing counter fraud arrangements and giving consideration to the approach to counter fraud activity across the Council following the transfer of CBC staff to the Department for Work and Pensions (DWP). This included the proposal to establish a Corporate Fraud Team, which was considered and endorsed by the Committee.

### **Adding Value**

34. Although Internal Audit is primarily an assurance function, internal audit activity should also add value to the Council. The opportunities to add value are included at the planning stage for all audit activity and service areas are requested to consider how internal audit can assist. The audit reports have included areas for process improvement and have highlighted specific areas where value for money could be improved.

### **Schools**

35. The rolling programme of school audits has continued during 2014/15. During the year final reports were issued to 10 schools. The opinions given for the finalised reviews are set out at Appendix A. Two schools received a limited audit opinion.

### **Performance Management**

36. The Audit Committee has agreed some Key Performance Indicators (KPI), which are regularly reported to the Committee. Overall, performance has been positive and where targets have not been met, action will be taken aimed at improving performance. The table below summarises the results for the year, and also includes the previous year's indicators, for comparative purposes.
37. The indicators include both CBC audit activities and school activity.

**Activities for 1 April 2014 – 31 March 2015**

KPI	Definition	2014/15	2013/14	Our target
		How we performed	How we performed	
KPI01	Percentage of total audit days completed.	93%	97%	80%
KPI02	Percentage of the number of planned reviews completed to final report stage.	76%	75%	80%
KPI03	Percentage of audit reviews completed within the planned time budget, or within a 1 day tolerance.	81%	74%	75%
KPI04	Time taken to draft reports: Percentage of reviews where the first final draft report was returned by auditee within 10 available working days of receipt of the report from the Auditor.	64%	80%	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%	100%	80%
KPI06	Overall customer satisfaction.	92%	90%	80%

**38. Analysis of indicators:**

KPI01 – During the year we delivered a total of 1167 productive audit days against a total of 1260 planned days for the year. This exceeds our target for the period.

KPI02 – This KPI measures final reports issued as at 31 March 2015. 76% of the planned reviews had been completed to final report stage, which is below the target but consistent with the previous year. Work is progressing on the outstanding reviews.

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, and represents an improvement on the previous year.

KPI04 - This indicator measures the time taken for Internal Audit to receive a response from the auditee to the draft report. During 2014/15, 64% 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 previous Committees, 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.

KPI06 – A total of 41 surveys have been sent out. 28 responses have been received to date. The responses received have been positive. The overall response rate was 68%, which represents an improvement on the 45% response rate for 2013/14.

### **Conformance with the Public Sector Internal Audit Standards**

39. The Public Sector Internal Audit Standards require the Annual Internal Audit Opinion to include a statement on conformance with the PSIAS and also the results of the quality assurance and improvement programme.
40. The January 2014 Audit Committee received a report on PSIAS which included the outcome of an initial self assessment against the standards undertaken using the guidance and checklist provided by CIPFA in the recently published Local Application Note. The self assessment demonstrated that Internal Audit substantially complied with the new standards, and an action plan was produced. During 2014/15 further action has been taken to move towards compliance. Minor revisions to the Internal Audit Charter have been made. These are not significant enough to require the Charter to be reconsidered by the Committee.
41. A Quality Assurance Improvement Programme (QAIP) has also been developed. Following the cycle of Personal Development Reviews (PDR) a comprehensive training plan for the internal audit service was collated and incorporated within the QAIP. This programme is intended to ensure that the internal audit service continues to develop and improve. As such, it is envisaged that work will be on going in this area.
42. The self assessment did not identify any significant areas of non compliance. Areas which require further action include:
  - Making provision for external as well as internal assessment of Internal Audit. This is planned for year ending March 2016.
  - Further developing assurance mapping to ensure appropriate account is taken of other sources of assurance when providing overall assurance to the Council. Currently, strategic risks have been mapped and it is intended to also map key operational risks. Although a number of operational risks have been mapped further work is required in this area.

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

### **Background (Accounts and Audit Regulations 2011)**

43. All councils are required to publish an Annual Governance Statement (AGS) to accompany their Statement of Accounts, in accordance with the 2011 Accounts and Audit Regulations. Assessments of the Effectiveness of Internal Audit and the Effectiveness of Systems of Internal Control are two key aspects of the AGS. Central Bedfordshire Council has reviewed both systems for 2014/15 and the findings are incorporated into the Annual Audit Opinion and subsequently into the AGS.

### **Review of the Effectiveness of Internal Audit**

44. As referred to in paragraph 10 above, a review of the Effectiveness of Internal Audit was undertaken by the Chief Finance Officer.

### **Review of the Effectiveness of the Systems of Internal Control**

45. The Council's review of the effectiveness of the system of internal control is informed by:
- Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports
  - the work undertaken by Internal Audit during the year
  - the work undertaken by the external auditor reported in their annual audit and inspection letter
  - other work undertaken by independent inspection bodies
46. The Head of Internal Audit and Risk has supported the Chief Legal and Democratic Services Officer (Monitoring Officer) to collect evidence required for the production of the AGS.
47. Directors have been requested to sign statements on the Effectiveness of Internal Control for 2014/15, confirming that during the year they were:
- Ensuring that there are arrangements in place for establishing Directorate objectives and compliance to corporate priorities;
  - Ensuring compliance to the Council's governance arrangements (Constitution, Ethical Framework, and Policies & Regulations);
  - Ensuring arrangements for sound budgetary controls;
  - Effectively monitoring and managing performance;
  - Reporting to the appropriate Member Committees;
  - Responding promptly to internal & external audits & inspections;
  - Continuously managing business risks and service continuity arrangements.

48. The work undertaken by Internal Audit on the systems of internal control disclosed that generally they were effective during 2014/15. However, some areas of concern were identified and these are summarised in paragraph 25 above, and are reflected in the Annual Governance Statement.

### **Corporate Implications**

### **Legal Implications**

49. None directly from this report.

### **Financial Implications**

50. 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**

51. None directly from this report.

### **Conclusion and next Steps**

52. The work undertaken by Internal Audit has enabled the team to advise management of some of the control weaknesses identified at an early stage, and make recommendations designed to enhance and strengthen controls and mitigate risks.

53. The internal control environment operated adequately during 2014/15, although some areas of concern identified in the AGS must be addressed promptly.

### **Appendices:**

Appendix A – Summary of Internal Audit Activity 2014-15

Appendix B – Audit Opinion Definitions

### **Background Papers:**

None.

**APPENDIX A**

**Internal Audit Activity during 2014/15**

The table below provides a summary of audit activity during 2014/15.

<u>Audit Title</u>	<u>Position of Review</u>	<u>Opinion</u>
<b>Carry Over Work:</b>		
<b>Completion of reviews in progress as at 31<sup>st</sup> March 2014</b>		
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
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	Final report issued	Adequate
Domiciliary Care Framework Agreement	Fieldwork completed	
SCHH Financial Management	Final report issued.	Adequate
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	n/a
Lawnside Lower School	Final report issued	Adequate
Arlesey Nursery	Final report issued	Adequate
<b>2014-15 Plan</b>		
<b>Fundamental Systems</b>		
Accounts Payable/Purchase Ledger (including feeder systems)	Final report issued	Adequate
Accounts Receivable/Sales Ledger	Final report issued	Adequate
Asset Management (incl. Asset Register)/Capital Accounting	Fieldwork completed	
Council Tax (including Council Tax Support Scheme)	Final report issued	Adequate
Housing Benefits	Final report issued	Adequate
Main Accounting Systems (MAS)	Final report issued	Adequate
National Non Domestic Rates NNDR	Final report issued	Adequate
Payroll	Final report issued	Adequate
SWIFT Financials	Draft report issued	Adequate*
Treasury Management	Final report issued	Adequate

\* indicates provisional opinion

<b><u>Audit Title</u></b>	<b><u>Position of Review</u></b>	<b><u>Opinion</u></b>
Housing Rents including tenant arrears	Final report issued	Adequate
Cash And Banking (Non Invoiced Income)	Final report issued	Adequate
<b>Improvement and Corporate Services</b>		
Data Quality – Visits to Libraries	Final report issued	Adequate
Information Governance - application of framework	Report being drafted	
Corporate Governance Reviews	Fieldwork in progress	
Public Health data - assurance on Information Management	Work completed	n/a
Application Reviews (framework i)	Fieldwork in progress	
Customer First Information Security	Fieldwork in progress	
SAP Master Data Maintenance post ESS/MSS	Testing incorporated within ESS expense claims review	n/a
IT Disaster Recovery	Fieldwork in progress	
SAP Access and Security	Final report issued	Limited
Corporate Asset Management Strategy	Review postponed	n/a
Compliance- Assets	Fieldwork in progress	
Asset Management System	Fieldwork completed	
<b>Corporate Services/Finance</b>		
Impact of Welfare Reform	Removed - see Jan Committee report.	n/a
Adherence to Procurement Procedures	Budget used to support Framework I review	n/a
Sickness Absence Pool	Final Report Issued	Adequate
<b>Children's Services</b>		
Caldecote Lower School Follow Up	Final Report Issued	Satisfactory Progress
Heathwood Lower School	Final Report Issued	Adequate
Laburnum Lower School	Final Report Issued	Adequate
Streetfield Middle School	Final Report Issued	Adequate
Ashton Middle School	Final Report Issued	Limited
Flitwick Lower School Follow Up	Final Report Issued	Satisfactory Progress
Greenleas Lower School	Final Report Issued	Limited
Thomas Whitehead Lower School Follow Up	Final Report Issued	Satisfactory Progress
School Transport	Scoping in progress	
Troubled Families Grant	Grant claim work completed	n/a
<b>Social Care, Health and Housing</b>		
Housing Repairs	Timing of review subject to completion of SAP/QL interface	
Direct Payments	Fieldwork completed	
Housing Tenancy Management	Draft report issued	Adequate*
Residential Care Homes - Supporting Transfer	Finalised	n/a
Residential Care Homes - Review opening balances on clients' funds	Fieldwork completed	
Residential Care Homes - Payroll Due Diligence	Fieldwork completed	n/a
Care Homes - Accreditation Scheme for	Fieldwork in progress	

\* indicates provisional opinion



<u>Audit Title</u>	<u>Position of Review</u>	<u>Opinion</u>
Dementia		
<b>Contracts and Partnerships</b>		
Contract Management	Fieldwork completed	
<b>Public Health</b>		
Public Health compliance with best practice	Fieldwork completed	
<b>Special Investigations</b>		
National Fraud Initiative (NFI)	On-going throughout year	n/a
Special Investigations	Four investigations finalised during year	n/a
Pro Active Anti Fraud:		
Internet and Email systems	Review postponed	
Voluntary funds	Fieldwork completed	
Cash income	Final report issued	Adequate
<b>Consultancy etc.</b>		
Major projects - Consultancy	Work undertaken includes supporting the Highways retender and the change in provider for agency staff	n/a
Risk Management Activities	On-going throughout year	n/a
Supporting Annual Governance Statement	13/14 AGS finalised 14/15 to be presented to June Audit Committee	n/a
Audit of Individual Grants	On-going throughout year	n/a
General Advice	On-going throughout year	n/a
Head of Audit Chargeable Against Plan	On-going throughout year	n/a
Benchmarking Exercise	Completed	n/a
Contingency	This has been used to supplement the general advice and consultancy budget	n/a

**Key Issues arising from finalised reviews (for reviews not previously reported to Committee)**

**1. 2014/15 Accounts Payable**

This review covered policies and procedures, and the Accounts Payable processes, including ordering, goods receipting, authorisation of invoices, reconciliations and controls over master data. The review also considered material supporting systems, covering agency recruitment, Amey, Waste Services and a review of the pilot scheme for project bank accounts. Although the overall audit opinion was adequate, the change of provider for agency staff effective from November 2014 has resulted in interim control procedures being introduced with a reduction in the control environment for a significant area of activity. Management action is being taken to address this issue by September 2015. Work on Phase 2 is in progress.

**2. 2014/15 Accounts Receivable**

This review covered policies and procedures, and the Accounts Receivable processes, including invoicing, amendments, accounting arrangements, debt monitoring and write offs. The overall audit opinion was adequate. Phase 2 work has been finalised and no significant issues were identified.

**3. 2014/15 Main Accounting System**

This review covered policies and procedures, accounting for financial transactions, journal entry controls, transfers from feeder systems, controls to ensure accuracy, and reporting mechanisms. The overall opinion was adequate. Phase 2 work has been finalised and no significant issues were identified.

**4. 2014/15 Cash and Banking**

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

**5. 2014/15 Payroll**

The review covered policies and procedures, controls over standing data, the accuracy of payments and deductions, controls over payments to and received from statutory agencies, the accurate posting of data, and compliance with legislative requirements. The overall audit opinion was adequate. Work on Phase 2 is in progress; however, there are no significant findings to date.

**6. 2014/15 Housing Rents**

This review covered policies and procedures and the processes to support the calculation, receipt and recording of amounts due, including tenant arrears. The audit opinion was adequate. Phase 2 work has been finalised and no significant issues were identified.

**7. 2014/15 Treasury Management**

This review covered policies and procedures, compliance with existing statutory and best practice guidance, performance monitoring, authorisations, accounting treatment, cash flow, investment and borrowing controls and separation of duties. The overall audit opinion was adequate. No Phase 2 testing was required.

**8. 2014/15 NDR**

This review covered the NDR processes including the identification and recording of commercial properties, amendments to accounts, discount and exemption processes, overdue account monitoring and recovery action, write offs, the recording of transactions within the authority's accounts, billing processes and business continuity procedures. The overall audit opinion was adequate. Phase 2 work has been finalised and no significant issues were identified.

**9. 2014/15 Council Tax (including Council Tax Support Scheme)**

The scope of this review was similar to the above, but covering Council Tax and therefore domestic properties. The review included a review of the Council Tax Support Scheme controls. The overall audit opinion was adequate assurance. Phase 2 work has been finalised and no significant issues were identified.

**10. 2014/15 Housing Benefits**

This review covered processes from the receipt of correspondence, assessment of claims, supporting evidence, payment processes, fraud detection, system security arrangements and compliance with DWP requirements. It also gave assurance on the resolution of issues that were raised by external auditors in relation to the Council's Housing Benefit Subsidy Claim. The overall audit opinion was adequate. Phase 2 work has been finalised and no significant issues were identified.

**11. 2014/15 SWIFT Financials**

SWIFT financials provides key accounting functionality to directorates providing social care services. This review covered input processing and output controls, data back up arrangements, and the audit trail. The overall opinion was adequate (draft report). No Phase 2 testing is planned.

**12. Asset Management**

The review covered policies and procedures, capital expenditure, depreciation, disposals, impairments and security of assets. Although the report has not yet been finalised, no significant issues of concern have been identified.

**13. Recruitment Controls (including vetting)**

This review considered the systems in place to confirm references, qualifications, right to work in the UK, DBS (Disclosure and Barring Service) clearances and medical clearances. The review covered policies and procedures and checking and verification controls. The review excluded agency staff and school staff. The overall audit opinion was adequate.

- 14. Data Quality – Customer Satisfaction for Roads and Pavements**  
The scope of this review covered the collection and reporting of data in relation to customer satisfaction for roads and pavements. The overall opinion was adequate.
- 15. Data Quality – Invitations to Health Screening**  
The scope of this review covered the collection and reporting of data in relation to invitations to health screening. The overall opinion was adequate.
- 16. Teachers’ Pensions**  
This review considered the controls in place to ensure the accurate completion of the annual Teachers pensions Return to the Teachers Pensions Agency (TPA). The review included policies and procedures, the processes for ensuring accurate and complete data is held by the Authority, and the processes to ensure that the return is accurate and complete. The audit identified a number of areas for improvement and the overall audit opinion was limited.
- 17. ICT Governance Phase 2**  
This review covered the IT governance framework, including IT strategy, management of IT resources, IT standards and policies, IT support services, user requirements, responsibilities and reporting lines. A number of areas for improvement were identified, and the overall audit opinion was limited. Since the audit was undertaken work has progressed on developing an up to date IT Strategy.
- 18. Corporate Financial Management (Schools)**  
The purpose of the audit was to provide assurance to management that key controls associated with Corporate Financial Management (Schools Financial Returns) are operating effectively and in doing so examined the arrangements in place for the control and proper use of public funds allocated to schools, and the accuracy, timeliness and completeness of financial reporting by schools, to allow the authority to monitor and intervene where necessary. The overall audit opinion was adequate.
- 19. Social Care, Health and Housing Financial Management**  
This review focussed on the Adult Social Care budget management arrangements via the SWIDT/SAP interface. (The SWIFT system accounts for the provision of adult social care packages and payments). The overall opinion was adequate.
- 20. Section 278 Agreements**  
This audit reviewed the key controls associated with the collection of income from developers for work in respect of S278 agreements (Highways). It considered both historic and current processes. The overall opinion given was limited assurance. It should be noted that, since the audit was undertaken, significant progress has been made in recovering historic debt.
- 21. Data Quality – Visits to Libraries**  
The scope of this review covered the collection and reporting of data in relation to visits to libraries. The overall opinion was adequate.

**22. SAP Access and Security**

The purpose of the audit was to provide assurance that key controls associated with SAP Access & Security are operating effectively. There are a number of fundamental systems including Main Accounting, Payroll, Accounts Payable, Accounts Receivable, Asset Management, Council Tax, NDR and Housing Rents which rely upon the robustness of the underlying SAP infrastructure. The overall audit opinion given was limited.

**23. Sickness Absence Pool**

The purpose of the audit was to provide assurance to management that key controls associated with the Long Term Absence and Maternity Pool are operating effectively and in doing so examined the systems and process for managing and administering the Pool including the setting and collecting of charges and the payment of claims. The overall audit opinion was adequate.

**24. Pro Active Anti Fraud – Cash Income**

This review considered the cash handling arrangements within Day centre, Day Care Centres, Supported living Units and the Employment and Life Unit at Silsoe. The recently transferred Older People's Care Homes were excluded. The arrangements for managing trading income and supporting expenditure for tea/coffee shops, stewardship of residents/clients' monies, service provision and the administration of imprests and amenity funds were considered. The overall audit opinion was adequate.

**25. Public Health Data – Assurance on Information Management**

A review of information management for the Teenage Pregnancy Support Pathway service was undertaken and a briefing note was issued. No significant issues were identified.

**26. Troubled Families**

Initial audit work included reviewing and certifying grant claims at the start of the programme. At this stage all claims were manually processed. A revised process which included automated data analysis was subsequently implemented enabling an increase in the number and expediency of claims. Internal Audit undertook a walkthrough test of the revised process. No significant issues were identified.

**27. Residential Care Homes – Payroll Due Diligence**

Ongoing assurance work has been undertaken on the records and data transferred relating to Older People's Care Homes. Internal audit have been working with Human Resources to resolve any outstanding issues. No significant issues were identified.

**28. School Audits**

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

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

**APPENDIX B**

**Audit Opinions**

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

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**Central Bedfordshire Council**

**AUDIT COMMITTEE**

29 June 2015

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**TRACKING OF INTERNAL AUDIT RECOMMENDATIONS**

Report of Charles Warboys, Chief Finance Officer  
charles.warboys@centralbedfordshire.gov.uk

Advising Officer: 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. As reported to the March 2015 Committee, a thorough review of the existing data centre provisioning at CBC is in progress. It is anticipated that there will be significant changes made in the technologies in use and how they are supported. ICT undertakes to deliver a refreshed and renewed DR plan by the autumn of 2015.
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 single recommendation that is running behind its planned completion date.
9. Seven reports containing high priority recommendations were issued during 2014/15. These are summarised in Appendix C. Sixteen high priority recommendations were made. Appendix D provides the details of the two recommendations that are running behind their planned completion dates.
10. No high priority recommendations have been issued during 2015/16 to date.
11. 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.
12. Progress will continue to be monitored. The follow up of audit recommendations forms an integral part of the fundamental system audit reviews.

### **Future Monitoring**

13. 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**

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

### **Corporate Implications**

### **Legal Implications**

15. None directly from this report.

### **Financial Implications**

16. 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**

17. None directly from this report.

### **Conclusion and next Steps**

18. In total there are currently four high priority recommendations that are amber (underway, with deadline missed).
19. Further work is required to ensure that the outstanding recommendations are implemented and to monitor additional recommendations made during the year.
20. 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.

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**Details of Monitoring of High Risk Internal Audit recommendations as at End May  
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 May  
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	3	0	0	0	0	
<b>Total</b>			<b>6</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</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) October 2015 (revised, self billing)</p>
<p><b>Current Position and Explanation for Slippage:</b></p> <p>The QL/SAP interface is in place and has been working since the beginning of March. From this date new order information held on SAP and QL should mirror and be up to date. A reconciliation test between SAP and QL will be taking place in June against Q1 orders raised. The Q2 reconciliation will be a much more accurate update as a number of finance codes are being changed and extensive data cleansing is taking place to ensure data integrity and reports are at the highest standard going forward. It is critical that the data cleansing is completed by the QL team and the Finance Team run a comprehensive reconciliation. Finance will endeavour to reconcile QL/SAP by the end of June, subject to any issues arising from the reconciliation process.</p> <p>The project has delivered a much more robust method of managing the order process and has identified many business as usual process improvements that needed to be made, not only to support implementation but provide a much more transparent audit trail. The implementation of self billing which forms part of this project will greater still improve process efficiency and a rollout plan for the 3 largest volume contractors is in place for delivery by the end of October. For those contractors not on the QL/SAP link, a manual reconciliation on QL and invoices paid from SAP should be possible. This is dependent on users entering the correct codes on the system. The codes list has been reissued to all users and managers are ensuring that operationally they are all aware of this and the repercussions were they not to code correctly.</p>

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## Details of Monitoring of High Risk Internal Audit recommendations as at End May 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	1	0	0	0	0	
<b>Total</b>			<b>1</b>	<b>1</b>	<b>0</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
2013/14 Council Tax Phase 2	25/07/2014	30/06/2014	1	1	0	0	0	0	
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	1	0	0	0	0	
2014/15 Main Accounting System Phase 1	05/01/2015	31/03/2015	1	1	0	0	0	0	
<b>Total</b>			<b>13</b>	<b>11</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>0</b>	

## Details of Monitoring of High Risk Internal Audit recommendations as at End May 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 - October 2015</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. 2014/15 showed a further improvement with the difference reducing to approximately £125k.</p> <p>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.</p> <p>At this point in time the Council has taken reasonable measures to provide assurance on the TPA EOYC for 2014/15.</p> <p>A more detailed policy statement and procedures have been developed and will be published to schools and their payroll providers in June 2015.</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. A reminder in relation to secure data transfer is included in the revised policy statement and procedures.

**Central Bedfordshire Council**

**AUDIT COMMITTEE**

29 June 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>2015/16 Municipal Year</b>	
29 June 2015	<ul style="list-style-type: none"> <li>• Statement of Accounts 2014/15 (presentation) (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>• 2014/15 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>• Annual Refresh – Risk Based Verification Policy for Housing Benefit and Local Council Tax Support Assessments (GM)</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>
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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