

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 23 December 2015

NOTICE OF MEETING

AUDIT COMMITTEE

Date & Time

Monday, 11 January 2016 10.00 a.m.

Venue at

Room 15, Priory House, Monks Walk, Shefford

Richard Carr
Chief Executive

To: The Chairman and Members of the AUDIT COMMITTEE:

Clrs M C Blair (Chairman), D Bowater (Vice-Chairman), P Downing,
D J Lawrence, R Morris, D Shelvey and A Zerny

[Named Substitutes:

Clrs N B Costin, F Firth, Mrs J G Lawrence and I Shingler]

All other Members of the Council - on request

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

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AGENDA

1. **Apologies for Absence**

To receive apologies for absence and notification of substitute Members.

2. **Minutes**

To approve as a correct record the minutes of the meeting of the Audit Committee held on 28 September 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

Item	Subject	Page Nos.
7.	Certification Annual Report 2014-15 To receive the annual certification report from Ernst & Young LLP which summarises the results of certification work at Central Bedfordshire Council on 2014-15 claims and returns.	* 43 - 54
8.	Annual Audit Letter To consider the Annual Audit Letter 2014/15 from Ernst & Young LLP which sets out the key issues arising from the external auditor's work.	* 55 - 68

9. **External Audit Progress Report** * 69 - 88
- To consider a report from Ernst & Young LLP which provides an update on the progress made by the company in carrying out the Council's 2014-15 audit. The report also includes, as an appendix, a briefing document on issues which might have an impact on the Council, the local government sector and the audits undertaken by Ernst & Young.
10. **Statement of Accounts 2015/16** * 89 - 96
- To consider an outline of any changes required to the Council's statutory Statement of Accounts for 2015/16.
11. **Local Government Pension Scheme Update** * 97 - 106
- To consider an update on the governance of the Local Government Pension Scheme.
12. **Internal Audit Progress Report** * 107 - 120
- To consider an update on the progress of work by Internal Audit for 2015/16.
13. **Risk Update Report** * 121 - 144
- To consider an overview of the Council's risk position as at December 2015.
14. **Tracking of Internal Audit Recommendations** * 145 - 154
- To consider a summary of high priority recommendations arising from the Internal Audit reports together with the progress made in their implementation.
15. **Work Programme** * 155 - 158
- To consider the Audit Committee's work programme.

CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 15, Priory House, Monks Walk, Shefford on Monday, 28 September 2015

PRESENT

Cllr M C Blair (Chairman)

Cllrs P Downing
D J Lawrence
R Morris

Cllrs D Shelvey
A Zerny

Apologies for Absence: Cllr D Bowater

Substitutes: Cllr N B Costin (In place of D Bowater)

Members in Attendance: Cllrs F Firth
Mrs J G Lawrence
R D Wenham

Officers in Attendance: Mr R Gould Head of Financial Control
Mr L Manning Committee Services Officer
Ms K Riches Head of Audit
Mr C Warboys Chief Finance Officer

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

AUD/15/14 Minutes

RESOLVED

that the minutes of the meeting of the Audit Committee held on 29 June 2015 be confirmed and signed by the Chairman as a correct record.

AUD/15/15 Members' Interests

None.

AUD/15/16 Chairman's Announcements and Communications

The Chairman reported that he would be changing the running order of business and item 8 (Audit Results Report 2014/15) would now be considered

before item 7 (2014/15 Statement of Accounts) as it would more logical to consider them in that order.

The Chairman next advised the meeting that a Treasury Management Briefing would take place on 27 October 2015. He commented that he had attended a previous briefing and found it very interesting and insightful. He was aware that 25 Members had already registered for the Briefing, and commented that he would expect all members of the Committee to attend.

AUD/15/17 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.

AUD/15/18 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.

AUD/15/19 Audit Results Report 2014/15

Members considered the Audit Results Report from Ernst & Young LLP. The report informed the Committee of the work carried out by the Company in order to discharge its statutory audit responsibilities together with any governance issues identified. The report summarised the findings from the substantially completed 2014/15 audit and also included the messages arising from the audit of the Council's financial statements and the results of the work Ernst & Young had undertaken to assess the Council's arrangements to secure value for money in the use of its resources. The Ernst & Young Manager explained that the audit of the Cash Flow Statement, Note 28 (Segmental Reporting of Amounts Reported for Resource Allocation Decisions) and Whole of Government Accounts was still in progress.

The Ernst & Young Manager worked through the Audit Results Report highlighting various matters of note.

In response to a Member's query on Section 4 (Financial statements audit – issues and findings) and in particular the item on planning materiality and tolerable error the Ernst & Young Director explained the approach taken to determining this. Following further Member comment regarding the size of the planning materiality figure (£9.8m or 2% of gross expenditure) the Chief Finance Officer assured the Committee that there was definitely not a complacent attitude towards reducing errors but he stressed that the planning materiality figure of £9.8m needed to be seen in the context of total gross expenditure of £490.9m.

In connection with Section 5 (Arrangements to secure economy, efficiency and effectiveness) a Member referred to the impact of changes in staffing. In response, the Chief Finance Officer explained how the departure of the former Financial Controller coupled with sickness and other issues within the Financial Control team had caused additional pressures in producing the Council's Annual Statement of Accounts within the reporting deadline. Nonetheless, the Head of Financial Control and his team had risen to this challenge.

Arising from consideration of Section 6 (Independence and audit fees) the meeting noted the additional audit work undertaken by Ernst & Young on the teachers' pensions return. The Ernst & Young Manager advised that historically this work had been undertaken by the Audit Commission but local authorities were now free to choose who they wished to do it and the Council had appointed Ernst & Young. As it was outside its core work it had been disclosed and charged separately. The Chief Finance Officer advised that the work undertaken was an audit function and not consultancy.

With regard to Section 7, Appendix A, the Ernst & Young Manager drew Members' attention to the misstatements in respect of Council Tax that had not been amended. She explained that officers' reasons for not amending the accounts were set out in the Letter of Representation and the Chief Finance Officer's report accompanying the revised Statement of Accounts (minute AUD/15/20 below refers).

Also with regard to Section 7 (Appendices) and specifically under 'Appendix B – corrected audit misstatements', the Ernst & Young Manager drew Members' attention to the overstated business rates appeals provision following a change in legislation setting a deadline for appeals to be lodged. She then explained that three additional errors had been identified; these being:

- Capital financing misclassified between direct revenue contributions and capital grants and contributions
- Grant income previously recognised in the Comprehensive Income and Expenditure Statement (CIES) as grant income with no conditions had been included in the Capital Grants Unapplied reserve and not applied for a number of years
- Errors made in accounting for monies received in respect of the Sundon landfill site.

The Ernst & Young Manager stressed that none of these errors had an impact on the General Fund bottom line for 2014/15.

In response to a query by the Chairman the Head of Financial Control stated that there was a specific earmarked reserve of £441k to fund future reinstatement costs at Sundon Landfill site rather than, as previously accounted for, as a contribution receipt in advance. In response to a query from a Member the Head of Financial Control confirmed that the funding identified was to meet the costs of future reinstatement works at the Sundon site including removal of the existing temporary road to the site within the next 18 months as was scheduled.

In conclusion the Ernst & Young Director stated that the impact of the various corrections was to improve the Council's overall financial position.

NOTED

the Audit Results Report from Ernst & Young LLP setting out the results of its 2014/15 audit.

RESOLVED

that an updated version of the Audit Results Report setting out additional information, as reported in the preamble above, be attached to the minutes of the meeting.

(Note: A copy of the updated Audit Results Report is attached at Appendix A).

AUD/15/202014/15 Statement of Accounts

The Committee considered a report by the Chief Finance Officer which presented the 2014/15 Statement of Accounts for approval. A copy of the annual accounts document was attached at Appendix A to the Chief Finance Officer's report.

In addition a table setting out various amendments to the annual accounts document included with the agenda, was circulated at the meeting. The Head of Financial Control informed the meeting that the amendments, which reflected either corrections of typographical errors or instances where some specific numbers in the notes to the accounts had not been updated in line with the changes reported, had no impact on the General Fund balance.

A copy of the table of amendments is attached at Appendix B to these minutes.

The Committee was aware that the annual accounts had to be published with the audit opinion and certificate by no later than 30 September following the end of the financial year. In advance of this the accounts needed to be approved by Members. Approval was, therefore, required at this meeting of the Audit Committee. In addition, auditing standards required an authority's external auditor to obtain appropriate written representation from the council about the financial statements and governance arrangements. As a result the Committee was also asked to approve a draft letter of representation to its external auditor, Ernst & Young LLP. A copy of the letter was attached at Appendix B to the Chief Finance Officer's report.

Members were reminded that, as required by the Accounts and Audit Regulations, the Chief Finance Officer had certified the draft 2014/15 annual accounts on 29 June 2015. A presentation to explain the key figures within the accounts had been made to the Audit Committee and other Members at its meeting on the same day (minute AUD/15/6 refers) followed by a period of public inspection which had closed on 31 July. The annual accounts had also been subject to an external audit validation by Ernst & Young and the resulting

Audit Results Report, which formed item 8 on the agenda, had already been considered (minute AUD/15/19 above refers).

The Head of Financial Control worked through the annual accounts document explaining to Members the background to the corrections made to the misstatements identified through the audit process and outlining why the Collection Fund related misstatements identified within the Audit Results Report had not been corrected in 2014/15. He explained that the corrected misstatements related to the classification of capital financing transactions or the application of historical capital resources or errors made in the presentation of financial information. Corrections made in respect of the application of capital resources had the impact of reducing the Council's borrowing requirement and associated revenue costs from 2015/16.

The Head of Financial Control explained that the uncorrected misstatements related to arrears in respect of Council Tax and associated recovery costs. He explained that it was important to note that the Revenues system for Council tax and business rates had complete and accurate records for all taxpayers and there was no impact on debt recovery activity. The issue identified through the audit process was that the overall value for Council taxpayers arrears was understated in the Council's accounting system. A correction to the position would improve the financial position of the Collection Fund and the General Fund balance. The corrections had not been made in the 2014/15 statements to allow further work to be carried out to confirm the values. It was planned that the impact on the Council and major preceptors of any corrections would be confirmed in time to update forecasts used for 2016/17 budget setting.

In response Members welcomed this action as the increased accuracy which resulted was viewed as producing more effective governance. Following an enquiry from a Member the Head of Financial Control confirmed that all the legacy council issues identified through the audit process had been addressed and that a number of changes to the final accounts process for the current year would assist in further improving levels of assurance. He indicated that he did not know of any identified legacy council issues that had not been addressed.

The Head of Financial Control confirmed that the audit of the Cash Flow Statement, Note 28 (Segmental reporting) and Whole of Government Accounts was still in progress. He expected that both the Cash Flow Statement and Note 28 would be amended to reflect the various changes outlined in the Audit Results Report.

RESOLVED

- 1 that the 2014/15 Statement of Accounts for Central Bedfordshire Council, as set out at Appendix A to the report of the Chief Finance Officer and incorporating those amendments set out in the table circulated at the meeting by the Head of Financial Control, be approved;**
- 2 that the Chairman be authorised to approve and sign a revised version of the 2014/15 Statement of Accounts and Letter of Representation if changes were required following the completion**

of the audit to the Cash Flow Statement with its associated notes and Note 28 – Amounts Reported for Resource Allocation Decisions;

- 3 that the Annual Governance Statement for 2014/15, previously approved at the meeting of the Audit Committee on 29 June 2015, be included with the published 2014/15 Statement of Accounts;**
- 4 that the draft Letter of Representation, as set out at Appendix B to the report of the Chief Finance Officer, be approved for submission to the Council's external auditor, Ernst & Young LLP, and that the Chairman of the Audit Committee and the Chief Finance Officer be authorised to sign it.**

AUD/15/21 External Audit Progress Report

Members considered a report from Ernst & Young LLP which provided an update on the progress made by the company 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 before turning to the local government audit committee briefing documents. The Ernst & Young Manager worked through the June briefing document highlighting the changes to the management of transport infrastructure assets (TIAs) and the major accounting and auditing implications for all highway and some non highway authorities. The meeting noted that TIAs within local government were to be valued on a Depreciated Replacement Cost (DRC) basis with effect from 1 April 2016 though the change was to be applied retrospectively and thus required valuations as at 1 April 2015 and comparative values for 2015/16. The Head of Financial Control stated that the Council's current highways contractor had already been undertaking valuation work for this purpose.

A Member queried whether any long term liability would arise on TIAs but the Ernst & Young Manager explained that this would not occur as the recommended value was only being recorded on local authority balance sheets.

The Ernst & Young Manager introduced the September briefing document, again highlighting matters of interest.

NOTED

- 1 the report on the progress of External Audit work on the 2014/15 audit;**
- 2 the local government audit committee briefings for June and September 2015.**

AUD/15/22 Internal Audit Progress Report

The Committee considered a report outlining the progress made on Internal Audit work against the 2015/16 Audit Plan up to the end of August 2015.

Amongst the matters considered were the following:

- Background
- Fundamental System Audits
- Other Audit Work
- National Fraud Initiative (NFI)
- Fraud and Special Investigations
- Schools
- Public Sector Internal Audit Standards Update
- Performance Management

The Head of Internal Audit and Risk introduced the report. With regard to the National Fraud Initiative (NFI) she reported that the review of the Single Person's Council Tax Discount had now resulted in an extra £300k in Council Tax collectable receipts. The Head of Financial Control added that there were plans to maintain the review as an ongoing exercise.

The Head of Internal Audit and Risk reported that there was currently a vacancy in her small team for one Audit Manager and this had impacted on productivity levels. However, she was also able to report that a replacement officer had been appointed and he was due to start in November.

NOTED

the progress made against the 2015/16 Internal Audit Plan.

AUD/15/23 Risk Update Report

The Committee considered a report which provided an overview of the Council's risk position as at September 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 was advised that, although risks had been regularly reviewed and updated, a fundamental review and refresh of the strategic risk register had not taken place since July 2013. In view of the probability of continuing funding reductions, changes in government policy and changes in service provision another fundamental review had been scheduled following the next

financial settlement in December. A report on the outcome of the review would be submitted to the Committee at its meeting on 4 April 2016.

The Executive Member for Corporate Resources referred positively to the progress made in the adoption of a Community Infrastructure Levy (CIL) (STR0027) given the significant financial risk of a loss of income from s106 receipts. However, he queried whether this risk was adequately reflected in the scoring. In response the Chairman stated that the query would be considered further by the officers.

A brief discussion took place during which a Member commented on the importance of reputational risk and how this stood separately from financial risk.

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.

AUD/15/24 Tracking of Internal Audit Recommendations

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

NOTED

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

AUD/15/25 Work Programme

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

RESOLVED

that the proposed Audit Committee work programme for the remainder of the 2015/16 municipal year, as attached at Appendix A of the report of the Committee Services Manager and Committee Services Officer be approved.

(Note: The meeting commenced at 10.00 a.m. and concluded at 11.50 a.m.)

Chairman

Dated

Central Bedfordshire Council

APPENDIX A

Audit Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

September 2015

Updated following the 28 September 2015 Audit Committee

ALL UPDATES ARE SHOWN IN BOLD ITALICS



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Section 1

Executive summary

Executive summary – key findings

We have revised the report presented to the 28 September 2015 Audit Committee with the updated information we provided at the meeting and with the results on the work outstanding at 28 September 2015. These are shown in bold italics throughout the report

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2014/15 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ We expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements adequately. ***Update - we issued an unqualified opinion on 30th September 2015.***

Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources. ***Update - we issued an unqualified value for money conclusion on 30th September 2015***

Whole of Government Accounts

- ▶ We do not expect to have to report any significant matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission. ***Update - we reported our findings to the National Audit Office on 1st October 2015.***

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion. ***Update – the audit certificate was issued on 6th October 2015, following the completion of our work on Whole of Government Accounts.***

Section 2

Extent and purpose of our work

Extent and purpose of our work

The Council's responsibilities

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

Purpose of our work

- ▶ Our audit was designed to:
 - ▶ Express an opinion on the 2014/15 financial statements and the consistency of other information published with them
 - ▶ Report on an exception basis on the Annual Governance Statement
 - ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion)
 - ▶ Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

As a component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to the NAO and to the Council..

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Section 3

Addressing audit risks

Addressing audit risks – significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a high likelihood of occurrence and a high magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risks (including fraud risks)</p> <p>Accounting for schools</p> <p>CIPFA has set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 Appendix E its view on this issue. This is that, based on the indicators of control within IFRS 10, the balance of control lies with local authorities for all maintained schools. The definition of maintained schools includes community voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools.</p> <p>The Code requires the recognition of schools' property, plant and equipment in line with relevant accounting standards.</p> <p>CIPFA has subsequently issued in December 2014 LAAP Bulletin 101 'Accounting for Non-Current Assets Used by Local Authority Maintained Schools'. This suggests that where religious bodies provide buildings to voluntary aided and voluntary controlled schools, and these bodies are able to withdraw the buildings at any point, the buildings would not be an asset of the school. In this case they would therefore not be included in the Council's balance sheet.</p>	<p>Having reviewed the arrangements in place at the different categories of school the Council concluded that :</p> <ul style="list-style-type: none"> for community schools ownership of all land and buildings (with the exception of some playing fields) lies with the Council and these schools should continue to be included in the balance sheet; voluntary aided, voluntary controlled and foundation schools should not be included in the balance sheet. <p>No changes in accounting for schools were required.</p> <p>We have:</p> <ul style="list-style-type: none"> had meetings with the Council's finance team to discuss the issues. Sought an assessment by the Council setting out how they have considered the accounting for the different categories of school . Reviewed the relevant disclosures in the financial statements. 	<p>We have reviewed the Council's assessment which sets out the judgements made and we are satisfied that schools have been accounted for correctly in the statement of accounts.</p>

Addressing audit risks – significant audit risks (cont'd)

- ▶ We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risks (including fraud risks)</p>		
<p>Management override As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ Reviewed accounting estimates for evidence of management bias , specifically provisions which include significant figures : <ul style="list-style-type: none"> • Non domestic rates (NDR) appeals provision (£5.7m) - ,we have reviewed the basis for the provision, the underlying calculations and confirmed data to the Valuation Office Agency website. • Provision for retirement benefits (£380m) - , we agreed the provision back to supporting information from the Council’s actuary. We have also obtained the report by PWC commissioned by the Audit Commission which reviews the work of all the actuaries who undertake work for local government pension schemes and have considered the findings from this. ▶ Evaluated the business rationale for any significant unusual transactions . We used our analytics data tool to review general ledger information and test transactions, We do not have anything to report as a result of this testing 	<p>We found that:</p> <ul style="list-style-type: none"> • journal entry controls were in place and operating effectively and • we identified that the NDR provision was overstated by £1.5m (£0.7m in respect of CBC share of 49%) but our review of accounting estimates did not identify any evidence of management bias . • adequate explanations were provided by management for material adjustments made in preparation of the financial statement.

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting:

- ▶ Receipt of a Letter of Representation
- ▶ Satisfactory completion of a number of outstanding audit procedures ,
Update - work on Note 28 Segmental Reporting, the Cash Flow statement and WGA was outstanding at the date of the Audit Committee.
- ▶ Receipt of revised financial statements and checking the agreed audit adjustments
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected misstatements

- ▶ ***Update - We reported to the Audit Committee on 28 September two misstatements within the draft financial statements in respect of council tax debtors, which management had chosen not to adjust at this point in time. Having completed our work we need to report a further uncorrected misstatement in respect of the Cash Flow statement which management has chosen not to adjust.***
- ▶ We ask the Audit Committee to consider approving management's rationale as to why the correction has not been made and, if approved, include this in the Letter of Representation.
Update - A revised Letter of Representation, including the additional uncorrected misstatement in respect of the Cash flow statement was agreed with the Chairman of the Audit Committee prior to signing the revised accounts on 30 September 2015.
- ▶ ***Update - Appendix A to this report sets out the uncorrected misstatements. This Appendix has been updated to reflect additional errors reported at the Audit Committee and the findings from the conclusion of our work on Note 28 Segmental Reporting and the Cash Flow statement.***

Corrected misstatements

Our audit identified a number of misstatements which our team have highlighted to management for amendment. These have been corrected during the course of our work . Further details of the most significant amendments are provided at Appendix B.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following:

- ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
- ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- ▶ Any significant difficulties encountered during the audit; and
- ▶ Other audit matters of governance interest.

We have no matters we wish to report.

Financial statements audit – application of materiality

Our application of materiality

- ▶ When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	
<p>Planning Materiality and Tolerable error</p>	<p>We determined planning materiality to be £9.8 million (2013/14: £9.4 million), which is 2 % of gross expenditure reported in the accounts of £490.9 million .</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We have set tolerable error at the upper level of the available range because there were no corrected significant errors in the Council’s 2013/14 financial statements and no uncorrected errors.</p>
<p>Reporting Threshold</p>	<p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £0.5m million (2014: £0.5 million).</p>

Financial statements audit – internal control, written representations and whole of government accounts

Internal control

- ▶ It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement and can confirm that:
 - ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
 - ▶ It is consistent with other information that we are aware of from our audit of the financial statements.
- ▶ We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation in relation to a number of matters. In addition to the standard representations, we have requested the following specific representations:
- ▶ Ownership of assets - to supplement audit testing of property, plant and equipment .
- ▶ Reserves - corroborative assurance that reserves are properly recorded or disclosed in the financial statements.
- ▶ Use of the work of an expert - corroborative assurance for year end valuation of assets

Whole of Government Accounts

- ▶ Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- ▶ We are currently concluding our work in this area and will report any matters that arise to the Audit Committee.

Section 5

Arrangements to secure economy, efficiency and effectiveness

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Central Bedfordshire Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 – arrangements for securing financial resilience

'Whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'

- ▶ Our Audit Plan presented to the Audit Committee on 30 March 2015 identified "Managing Finances" as a risk but did not highlight it as significant. After our Audit Plan was issued we re-considered whether financial resilience is a significant risk at our audited bodies. This was in response to discussions with our regulator, Public Sector Audit Appointments. EY has taken the view that where a council's savings plans, whether identified or not, are above our planning materiality (£9.8m at Central Bedfordshire Council), then the audit team should consider if there is a significant risk. We decided that we should recognise a significant risk for Central Bedfordshire Council as the savings required in the three years to 31 March 2018 are above our planning materiality.
- ▶ In response to this risk we have considered a range of factors which mitigate this risk, such as the Council's current financial position, its performance in the past and budget processes. Following this work we have concluded that we can give an unqualified conclusion on the value for money conclusion.
- ▶ We have no issues to report in relation to this criteria.

Criteria 2 – arrangements for securing economy, efficiency and effectiveness

'Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'

- ▶ We did not identify any significant risks in relation to this criteria
- ▶ We have no issues to report in relation to this criteria .

Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

Addressing audit risks – significant VFM risks

As noted above we have identified a significant risk for the financial resilience criteria. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the value for money conclusion is the risk that the auditor may issue the wrong value for money conclusion. Where auditors identify a significant value for money conclusion risk they will need to undertake additional audit work to enable them to reach an appropriate conclusion.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Financial Resilience	<p>In response to this risk we have considered the following factors:</p> <ul style="list-style-type: none"> • historic financial performance, including the Council's ability to deliver challenging savings targets • current financial standing • processes for setting the budget, and the nature of the budget assumptions • competency of the Council's finance team • the political stability of the Council 	<p>The Council has a good record of identifying and making savings, and meeting its budget. For the period 2011/12 to 2014/15, the Council made cumulative savings of £64.1m while achieving its budget each year. The delivery of efficiencies continue to be monitored by the Efficiencies Implementation Group (EIG) which meets monthly and reports to Corporate Management Team (CMT).</p> <p>The General Fund balance at 31 March 2015 of £15.3m (Update - amended accounts £15.2m) is within the range set by the Chief Finance Officer. In addition the Council has earmarked reserves totalling £31m at 31 March 2015. Monitoring of both general and earmarked reserves takes place monthly to ensure these are correctly identified and are being used appropriately. The Council recognise that reserves cannot and should not be used to bridge the base budget gap in the absence of longer term plans to make the necessary savings.</p> <p>The Council has established an effective processes for setting its budget. The process for 2015/16 built on that adopted in the prior year with a series of "Head of Service Reviews" at an early stage. This process was refined following input from Senior Management across the Council and key stakeholders. The Council has made reasonable assumptions in setting the budget and updating the Medium Term Financial Plan.</p> <p>There is an experienced finance team and senior management are focussed on management of financial position.</p> <p>There have been no significant changes in policies and priorities that would give rise to uncertainty over the Council's financial position.</p>

As set out above we have identified a significant risk for the financial resilience criteria. This follows discussions between Public Sector Audit Appointments, our regulator, and the audit firms that undertake local government external audit regarding the challenging financial environment that our audited bodies face.

EY has decided that where the savings gap, irrespective of whether savings have been identified or not, is more than our planning materiality, we should consider whether there is a significant risk at our clients. Our review of the savings required in the three years to 31 March 2018 at Central Bedfordshire Council suggested that these are approximately £13m.

The Medium Term Financial Plan (MTFP) includes the New Homes Bonus (NHB) at the 2014-15 level of £7m in its estimate of government funding for 2016-17 and 2017-18. The future of this funding is not certain from 2016-17 onwards and potentially adds a further £14m (2 years @£7m) to the gap. The Council is satisfied that it has recognised this risk by including funding for future years at the 2014-15 level although the Council expects to receive some £9m in 2015-16. "

Section 6

Independence and audit fees

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 5 March 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 28 September 2015.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of 5 March 2015.

Audit fees

- ▶ The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2014/15	Scale fee 2014/15	Variation comments
	£	£	
Audit Fee: Code work	185,955	185,955	n/a
Certification of claims and returns	Work is in progress	33,210	n/a
Non-Audit work - Teachers' Pensions return	15,000	n/a	n/a

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements other than certification of the 2013-14 Teachers' Pensions return .

Section 7

Appendices

Appendix A – uncorrected audit misstatements

- ▶ The following misstatements, which are greater than £0.5m, have been identified during the course of our audit and in our professional judgement warrant communicating to you as those charged with governance.
- ▶ These items have not been corrected by management.

Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)	Debit/(credit)
1. Debtors CIES MiRS adjustment Collection Fund Adjustment A/c	Council Tax arrears in the Collection Fund are understated by £1.7m, of which £1.5m relates to Central Bedfordshire Council. The bad debt provision is based on the correct figure.	F	Dr £1.5m Cr £1.5m	Cr £1.5m Dr £1.5m
2. Debtors CIES	Court costs in respect of Council Tax are understated by £0.8m.	F	Dr £0.8m	Cr £0.8m
3. Cash Flow	<i>The “Adjustments to the net surplus on the provision of services for non cash movements” line in the Cash Flow statement includes an unreconciled balance of £2.4m.</i>			
1 and 2 - The Council will carry out additional work to confirm the value of the error and identify the impact on the Collection Fund. It is understood that these errors have been carried forward from previous years.				
Cumulative effect of uncorrected misstatement	<i>Council tax income and debtors are understated by £2.3m</i> - although the gain would not be available until 2016-17.			

Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

Appendix B – corrected audit misstatements

- ▶ The following corrected misstatements, greater than £0.5m, have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature Description	Type F, P, J	Comprehensive income and expenditure statement	
			Balance sheet Debit/(credit)	Debit/(credit)
1. Capital grants (receipts in advance) Taxation and non-specific grants income MiRS adjustments Capital adjustment account	Past Section 278 capital grants held as receipts in advance after the conditions for their application have been met.	F	Dr £2.8m Cr £2.8m	Cr £2.8m Dr £2.8m
2. Taxation and non-specific grant income and expenditure Provisions MiRS adjustments Unusable reserves	Overstated business rates appeals provision. The provision made included an amount for appeals not yet lodged, however, following a change of legislation setting a deadline for appeals to be lodged, the provision was overstated. (Note that the overall provision is overstated by £1.5m in the Collection Fund – and these entries show the impact on the Council).	F	 Dr £0.7m Cr £0.7m	Cr £0.7m Dr £0.7m
3. 2013-14 comparatives within Unusable reserves Revaluation reserve Capital adjustment account (CAA)	Correction of 2013-14 error. Adjustments were not made to write out of the revaluation reserve revaluation balances for sold or scrapped assets.		 Dr £3.5m Cr £3.5m	
Cumulative effect of corrected misstatement	1. Reduces the capital financing requirement by £2.8m 2. Increase business rates income by £0.7m – but the gain will not be recognised until 2016/17			

Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

Appendix B – corrected audit misstatements continued - *updated following 28 September 2015 Audit Committee*

- ▶ The following corrected misstatements, greater than £0.5m, have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature	Type	Comprehensive income and expenditure statement	
			Balance sheet	Debit/(credit)
	Description	F, P, J	Debit/(credit)	Debit/(credit)
4. CIES net cost of service Taxation and non-specific grants income	Capital financing misclassified between direct revenue contributions and capital grants and contributions.	F		Cr £1.1m Dr £1.1m
MIRS adjustment – capital grants and contributions applied MIRs adjustment – capital expenditure charged against the GF and HRA.				Cr £1.1m Dr £1.1m
Capital adjustment account - capital financing applied Capital adjustment account - capital expenditure charged against GF and HRA			Dr £1.1m Cr £1.1m	
5. Capital Grants unapplied Capital Adjustment account	Grant income previously recognised in the CIES as grant income with no conditions had been included in the Capital Grants Unapplied reserve and not applied for a number of years .	F	Dr £1.5m	Cr £1.5m
Cumulative effect of corrected misstatement	4. Misclassification , no impact on CIES or balance sheet . 5. Reduces the capital financing requirement by £1.5m.			

Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

Appendix B – corrected audit misstatements continued

- ▶ The following corrected misstatements, greater than £0.5m, have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)	Debit/(credit)
6. CIES net cost of service MiRS adjustments	Errors made in accounting for monies received in respect of the Sundon landfill site.	F		Cr 0.569m
			Dr 0.569m	
			Cr 0.441m	
			Cr 0.128m	
7. Cash flow statement	Subsequent to our report to the Audit Committee there were a number of amendments to the Cash Flow statement.	F	0	0
	These changes had no impact on the Balance Sheet or CIES and were agreed with the Chairman of the Audit Committee prior to signing the revised accounts on 30 September 2015			
Cumulative effect of corrected misstatement	6. Increase in earmarked reserves of £0.441m, and reduction in the capital financing requirement of £0.128m.			
	7. These changes had no impact on the Balance Sheet or CIES.			

Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

Appendix B – corrected audit misstatements (cont'd)

Disclosures

Disclosure	Description of misstatement
<p>There have been a number of changes to disclosure notes, the most significant are reported here.</p>	
1. Note 28 –Amounts Reported for Resource Allocation decisions .	<p>In the first table in Note 28, Employee Expenses understated by £2.5m and Other Services Expenses overstated by the same amount.</p> <p>Update - Subsequent to our report to the Audit Committee there were further changes to Note 28 disclosures. These changes had no impact on the Balance Sheet or CIES and were agreed with the Chairman of the Audit Committee prior to signing the revised accounts on 30 September 2015.</p>
2. The Collection Fund	<p>In addition to the amendment made to the business rates appeals provision there have been a number of changes to the format of the Collection Fund to improve the presentation and to correct errors that are below our reporting threshold.</p>

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ED None

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				Published Agenda	Corrected		Change
Agenda Item 7 page No	Statement of Accounts Page No	Item		£000	£000	Reason	£000
23	15	Movement in Reserves Statement	Earmarked General Fund Reserves - Balance at 31 March 2015	(31,579)	(31,561)	Typographical - figure not updated in published Committee report	corrected
25	17	Comprehensive Income and Expenditure Statement (CIES)	Total Cost of Services - Total Gross Expenditure	489,302	489,403	Total Casting error Increased expenditure	101
25	17	Comprehensive Income and Expenditure Statement (CIES)	Total Cost of Services - Total Gross Income	(300,125)	(300,227)	Total Casting error increased Income	(102)
26	18	Balance Sheet	Short Term Creditors	43,971	43,977	Typographical line item no change to totals	corrected
57	50	Note 7 - Adjustments between accounting basis and funding basis under regulations	Amount by which NDR income credit to CIES differs from NDR calculation for the year in accordance with statutory provisions. Figure for movement in Unusable reserves - end column.	822	882	Typographical line item no change to totals	corrected
60	52	Note 8 - Transfers to / from Earmarked Reserves	Insurance reserve - transfers in 14/15	667	651	Note not updated for published Committee	(16)

						report	
60	52	Note 8 - Transfers to / from Earmarked Reserves	Insurance reserve - balance at 31/3/15	4,296	4,280	Note not updated for published Committee report	(16)
60	52	Note 8 - Transfers to / from Earmarked Reserves	Total Corporate Reserves - transfers in 14/15	5,966	5,950	Note not updated for published Committee report	(16)
60	52	Note 8 - Transfers to / from Earmarked Reserves	Total Corporate Reserves - balance at 31/3/15	14,808	14,792	Note not updated for published Committee report	(16)
61	53	Note 8 - Transfers to / from Earmarked Reserves	Total General Fund Earmarked Reserves - transfers in 14/15	12,182	12,166	Note not updated for published Committee report	(16)
61	53	Note 8 - Transfers to / from Earmarked Reserves	Total General Fund Earmarked Reserves - balance at 31/3/15	31,579	31,561	Note not updated for published Committee report - rounding difference £2k	(18)

81	73	Note 25 - Operating Activities Cash Flow	Capital grants credited to surplus or deficit on the provision of services	(39,008)	(40,637)	Typographical line item no change to totals	corrected
96	88	Note 35 - Grant Income - Credited to Taxation and Non-specific Grant Income and Expenditure	Council Tax Income	(132,043)	(132,171)	Not updated in line with other notes/statements	corrected
96	88	Note 35 - Grant Income - Credited to Taxation and Non-specific Grant Income and Expenditure	NDR Share of Income	(36,943)	(37,910)	Not updated in line with other notes/statements	corrected
96	88	Note 35 - Grant Income - Credited to Taxation and Non-specific Grant Income and Expenditure	NDR Levy	99	329	Not updated in line with other notes/statements	corrected
96	88	Note 35 - Grant Income - Credited to Taxation and Non-specific Grant Income and Expenditure	RSG and non-ring fenced government grants	36,992	(36,992)	Not updated in line with other notes/statements	corrected
96	88	Note 35 - Grant Income - Credited to Taxation and Non-specific Grant Income and Expenditure	Subtotal	(200,010)	(200,875)	Not updated in line with other notes/statements	corrected
		Explanatory Foreword - various tables updated before publication to reflect the reported changes to the audited statements.					

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Central Bedfordshire Council

AUDIT COMMITTEE

11 January 2016

CERTIFICATION ANNUAL REPORT 2014-15

Report of Ernst & Young LLP
(www.ey.com/uk)

Purpose of this report

The purpose of the report is to present a summary of the results of the certification work by the external auditor (Ernst & Young LLP) on the Council's housing benefit subsidy claim for 2014-15.

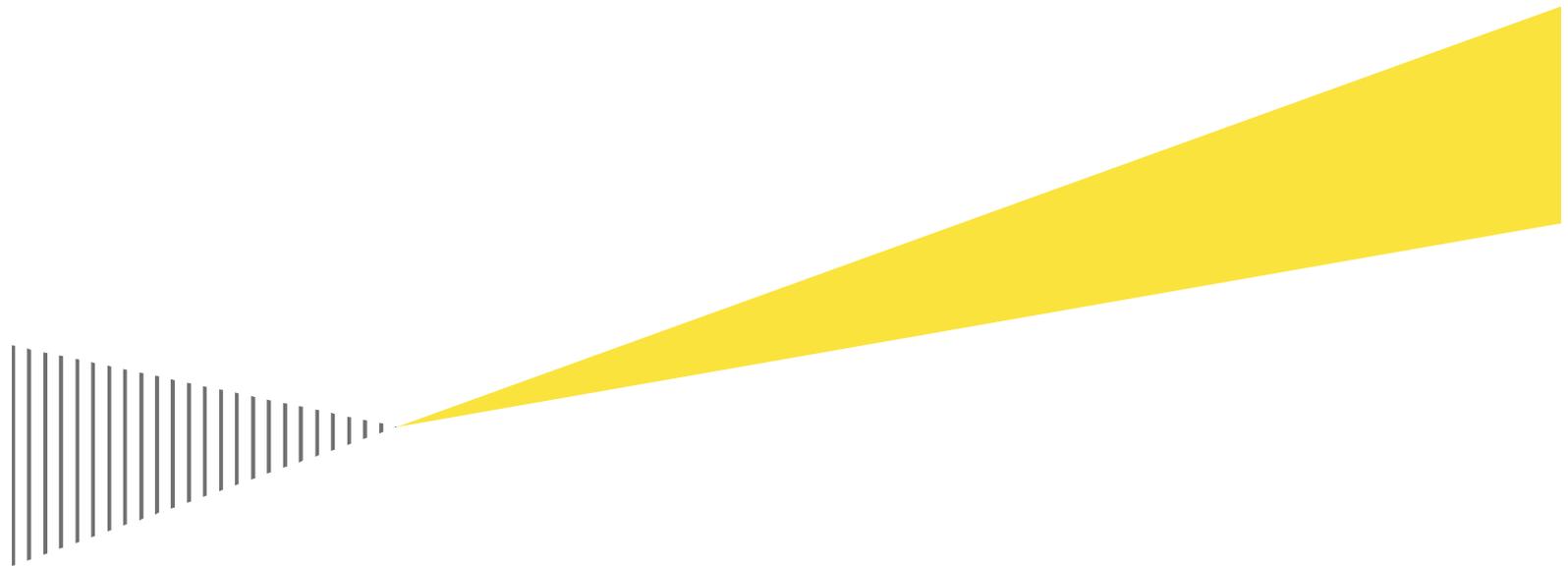
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Central Bedfordshire Council

Certification annual report 2014-15

December 2015

Ernst & Young LLP





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11 December 2015

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Dear Member

Certification annual report 2014-15 Central Bedfordshire Council

We are pleased to report on our certification work. This report summarises the results of our work on the Council's housing benefit subsidy claim.

Scope of work

Benefit authorities claim large sums of public money in subsidies from central government and are required to complete housing benefit subsidy claims. The Department for Work and Pensions (DWP) requires certification from an appropriately qualified auditor of the housing benefit subsidy claims.

The Secretary of State for Communities and Local Government delegated statutory functions (from the Audit Commission Act 1998) to Public Sector Audit Appointments Limited (PSAA). PSAA is responsible for setting indicative fees for certification work and for making arrangements for appointed auditors to certify annual housing benefit subsidy claims from local authorities to the DWP. In certifying these claims, auditors act as agents of PSAA and are required to comply with a specified approach.

Certification work is not an audit. Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims are fairly stated and in accordance with specified terms and conditions.

Where auditors agree it is necessary audited bodies can amend a claim. An auditor's certificate may also refer to a qualification letter where there is disagreement or uncertainty, or the audited body does not comply with scheme terms and conditions.

PSAA does not make arrangements for auditors to certify any other claims or returns. Appointed auditors can act as reporting accountants for other claims and returns such as the teachers' pensions and pooling of housing capital receipts returns. We have agreed to certify the Council's 2014-15 teachers' pensions and 2014-15 pooling of housing capital receipts returns. This is work outside of the Audit Code and is not included in this report.

Statement of responsibilities

In March 2013 the Audit Commission issued a revised version of the 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities). The Statement remains in use under the transitional arrangements delegated to the PSAA. It is available from the Chief Executive of each audited body and the PSAA.

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

Each year, auditors must report the results of the previous year's certification work to those charged with governance at each local authority. The report is mandatory. Reports must be issued to authorities and copied to the PSAA. Your annual certification report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Summary

Section 1 of our report outlines the results of our 2014-15 housing benefit subsidy claim certification work and highlights the significant issues.

The housing benefit subsidy claim had a total value of £61m. We met the submission deadline. We issued a qualification letter. Details of the qualification matters are included in section 1. Our certification work found errors which the Council corrected. The amendments had only a minimal impact on the subsidy due.

While the Council has continued to prioritise staff training and quality control in the Revenues and Benefits team the accuracy of benefits processing has not improved year on year. We have recommended that the Council should:

- extend the level of checking that is carried out on the work of assessors, other than new starters, from the current level of 4%; and
- focus checking on the assessors identified as making the most errors.

Fees for certification work are summarised in section 2. The indicative fee for 2014-15 is based on the final 2012-13 certification fee, reflecting the amount of work required by the auditor to certify the benefit claim in that year.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee

Yours faithfully

Mick West
Director
Ernst & Young LLP
Enc

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1. Summary of 2014-15 certification work	1
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3. Looking forward.....	4
4. Summary of recommendations.....	5

1. Summary of 2014-15 benefit certification work

The main findings from our benefit certification work are provided below.

Housing benefit subsidy claim

Scope of work	Results
Value of claim presented for certification	£61,465,319
Limited or full review	Full
Amended	Amended – Subsidy reduced by £4,106 (£3,704 in 2013-14)
Qualification letter	Yes
Fee – 2013-14	£35,880
Fee – 2014-15	£33,201
Recommendations from 2013-14:	Findings in 2014-15
The Council needs to continue to prioritise staff training and quality control in the Revenues and Benefits team to ensure that the target set by the Council for benefit assessment accuracy is met and reduce the level of testing required to certify this claim.	Our work is still identifying a number of errors particularly in respect of income assessment and misclassification between overpayment cells.

Councils run the Government's housing benefits scheme for tenants. Councils responsible for the scheme claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' testing (extended testing) where errors were found in the previous year or if initial testing identifies errors in the calculation of benefit or compilation of the claim.

Due to the number of errors found in previous years a large volume of additional testing continues to be required. In addition to our initial testing of the three headline cells; - 20 cases in each of rent rebates (non HRA), rent rebates (HRA) and rent allowances, - your officers carried out extended testing for each cell where errors were found last year and where errors have been found in this year's initial testing. Extended testing was completed on 12 cells (10 cells in 2013-14).

Where our testing enabled us to quantify the error, without extrapolation, the Council amended the claim. These amendments reduced the subsidy payable to the Council by £4,106.

We are required to report the nature of the errors found and extrapolate the value across the cell population. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. The net impact of the extrapolated errors is a potential loss of £21,875.

The net impact of the extrapolated errors reported and the amendments agreed is a potential loss of subsidy of £25,981. This compares to a potential loss of subsidy in 2013-14 of £50,514 and reflects a fall in the value of extrapolated errors from £46,810 to £21,875. The value of extrapolated errors and therefore potential loss of subsidy has fallen for the last three years.

Our work is however still identifying a number of errors in the processing of benefits payments. The following are the main issues included in our qualification letter:

Underpaid benefit and overpaid benefit as a result of errors in income assessment.	Testing identified both underpaid and overpaid benefit for a number of claimants, mainly as a result of incorrectly calculating claimant income. As there is no eligibility to subsidy for benefit which has not been paid,
--	---

	<p>the underpayments identified did not affect subsidy and were not classified as errors for subsidy purposes.</p> <p>The overpayment errors have been extrapolated across the relevant cell totals and reported to the DWP.</p>
Misclassification of overpayments	<p>The level of subsidy for overpayments is determined by the classification of the overpayment. The misclassification errors found resulted in both overstatements and understatements of subsidy claimed.</p> <p>Misclassification errors have resulted in the larger extrapolations that impact on subsidy claimed.</p>

These issues were similar to the issues reported in 2013-14 and extended across the full range of benefit types.

The Council has continued to prioritise staff training and quality control in the Revenues and Benefits team in order to reduce the number of errors in processing benefits claims. Quality control measures in place are as follows:

- 100% of all assessments are checked for all new members of the benefits team for at least their first week;
- for all other members of the team a minimum of 4% of cases are checked for each assessor on a weekly basis;
- direct feedback is given to assessors when errors are found so that lessons can be learned, and
- for individual payments greater than £1000 pre and post payment checks are completed.

The weekly accuracy checks are documented and the results are reported as part of the Customer Accounts Dashboard which is reported to the Head of Service and Chief Finance Officer.

The target that the Council has set for benefit assessment accuracy is 95%. This was only achieved in one month (August) during 2014-15. Performance has fallen in 2015-16 with accuracy at a low of 83% for September 2015, although performance improved in October to 88%. The Council introduced Risk Based Verification in April 2015 and a new on line application form in July 2015. The introduction of the new process for verifying eligibility for benefit and the new on line form are thought to have contributed to the dip in accuracy. However, it is anticipated that accuracy will improve as assessors become familiar with the new processes.

While the Council has continued to prioritise staff training and quality control in the Revenues and Benefits team the accuracy of benefits processing has not improved year on year. Given that there has not been a significant improvement the Council should:

- extend the level of checking that is carried out on the work of assessors, other than new starters, from the current level of 4%; and
- focus checking on the assessors identified as making the most errors.

2. 2014-15 certification fees

The indicative fee for 2014-15 is based on the final 2012-13 certification fee for the housing and council tax benefits subsidy claim, reflecting the amount of work required by the auditor to certify the claim, but adjusted for council tax benefits dropping out of the 2014-15 claim.

Claim or return ¹	2013-14 Actual fee £	2014-15 Scale fee £	2014-15 Actual fee £
Housing benefit subsidy claim	35,880	33,210	33,210
Pooling of housing capital receipts (1)	583	-	-
Other claims	-	-	-
Total	36,463	33,210	33,210

- (1) From 2014-15 the Pooling of housing capital receipts return is no longer certified by the appointed auditor as part of the certification arrangements with the PSAA.

3. Looking forward

For 2015-16 the Audit Commission set an indicative certification fee for housing benefit subsidy claim certification work for each audited benefit authority. The indicative fee is based on the actual 2013-14 benefit certification fee reduced by 25% following the further tendering of contracts in March 2014.

The Council's indicative certification fee for 2015-16 is £26,910. The actual certification fee for 2015-16 may be higher or lower than the indicative fee, if we need to undertake more or less work than in 2013-14.

We must seek the agreement of PSAA to any proposed variations to indicative certification fees. The PSAA expects variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the 2013-14 fee.

4. Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
Housing and council tax benefits subsidy claim				
While the Council has continued to prioritise staff training and quality control in the Revenues and Benefits team the accuracy of benefits processing has not improved year on year. Given that there has not been a significant improvement the Council should:	High			
<ul style="list-style-type: none"> extend the level of checking that is carried out on the work of assessors, other than new starters, from the current level of 4%; and 		Agreed	4.1.16	Gary Muskett
<ul style="list-style-type: none"> focus checking on the assessors identified as making the most errors. 		Agreed	4.1.16	Gary Muskett

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Central Bedfordshire Council

AUDIT COMMITTEE

11 January 2016

ANNUAL AUDIT LETTER

Report of Ernst & Young LLP
(www.ey.com/uk)

Purpose of this report

The purpose of the Annual Audit Letter is to communicate to the Council's Members and external stakeholders, including members of the public, the key issues arising from the audit work undertaken by the external auditor (Ernst & Young LLP).

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Central Bedfordshire Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP





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INVESTOR IN PEOPLE

The Members
Central Bedfordshire Council
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19 October 2015

Dear Members

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 Annual Results Report to the 28th September 2015 Audit Committee, representing those charged with governance. We do not repeat them here.

The matters reported here are those we consider most significant for the Council.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours faithfully

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

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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission's website](#).

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

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission.

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

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

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2014/15 audit work was undertaken in accordance with the Audit Plan issued in March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period. The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements, and on the consistency of other information published with them
- reviewing and reporting by exception on the Council's AGS
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of Central Bedfordshire Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 30 th September 2015 we issued an unqualified audit opinion on the Council's financial statements
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources	On 30 th September 2015 we issued an unqualified value for money conclusion.
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts	We reported our findings to the National Audit Office on 1 st October 2015
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	No issues to report
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	No issues to report
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	No issues to report
<i>As a result of the above we have also:</i>	
Issued a report to those charged with governance of the Council with the significant findings from our audit.	Our Audit Results Report was issued on 28 th September 2015 to the Audit Committee. The Audit Results Report was subsequently updated to reflect the work completed prior to sign off of the accounts on 30 th September 2015 and circulated to members of the Audit Committee.

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

The certificate was issued on 6th October 2015 following completion of our work on Whole of Government Accounts (WGA).

In January 2016 we will also issue a report to those charged with governance of the Council summarising the certification of grant claims and returns work we have undertaken.

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 30 September 2015.

Our detailed findings were reported to the 28th September 2015 Audit Committee.

The main issues identified as part of our audit were:

Significant risk 1: Risk of misstatement due to fraud and error as a result of management override

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

Significant risk 2: Accounting for schools

Following guidance issued by CIPFA in LAAP Bulletin 101 'Accounting for Non-Current Assets Used by Local Authority Maintained Schools', issued in December 2014, the Council reviewed its policy for accounting for schools. Having reviewed the arrangements in place at the different categories of school in Central Bedfordshire the Council concluded that no changes in accounting for schools were required. We have reviewed the Council's assessment which sets out the judgements made and we are satisfied that schools have been accounted for correctly in the Statement of Accounts.

Other key findings:

The Audit Results Report reported that there were three misstatements in the audited financial statements which management had chosen not to amend. Two of these misstatements related to council tax, resulting in the Council's share of council tax income and debtors being understated by £2.3m. The council tax arrears figure on which recovery action is based is correct. The Council will carry out additional work to confirm the value of the error and identify the impact on the Collection Fund. It is understood that these errors have been carried forward from previous years.

In addition the Cash Flow Statement included an unreconciled balance of £2.4m. This unreconciled item does not impact on the outturn or the net worth of the Council as at 31 March 2015.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014-15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 30 September 2015

Along with other public sector bodies, Central Bedfordshire is experiencing a reduction in its funding and increases in the demands for its services. The Council has medium term plans to keep its year on year spending in line with the reducing funding. Against this background, we assessed the Council's management of its finances as a significant risk for our value for money conclusion. We increased our focus on the Council's financial management.

Significant risk: Securing financial resilience

In response to this risk we considered a range of factors which mitigate this risk, such as the Council's current financial position, its performance in the past, budget processes, the competency of the finance team and the political stability of the Council.

We found no issues to report and issued our unqualified value for money conclusion.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We reported that the pack was consistent with the audited financial statements and drew attention to the uncorrected misstatements noted above.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance. We completed this work and did not identify any areas of concern.

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Audit Committee on 28th September 2015. In our professional judgement the firm is independent and the objectivity of the director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

2.8 Certification of grant claims and returns

We will issue the Annual Certification report for 2014/15 in January 2016.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we must tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements.

4. Looking ahead

Description	Impact
<p>Earlier deadline for production and audit of the financial statements from 2017/18</p> <p>The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017/18 financial year the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>The Council is aware of this challenge and the need to start planning for the impact of these changes. This will necessarily include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year end closure processes.</p> <p>The 2014/15 accounts were prepared earlier than in previous years in anticipation of the reduction in the time allowed to both complete and audit the financial statements from 2017/18, This should prove valuable in identifying improvements and process changes necessary to meet the new deadline.</p>
<p>Highways Network Assets (formerly Transport Infrastructure Assets):</p> <p>The Invitation to comment on the Code of Accounting Practice for 2016/17 sets out the requirements to account for Highways Network Assets under depreciated replacement cost from the existing depreciated historic cost. This is to be effective from 1 April 2016.</p> <p>This will be a material change of accounting policy for the Council. It will also require changes to existing asset management systems and valuation procedures.</p> <p>Relevant assets may also be held outside of the highways department, for example within the Housing Revenue Account, which will also have to be valued on the revised basis.</p> <p>Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.</p>	<p>CIPFA has produced <i>LAAP bulletin 100</i>, which provides a suggested timetable for actions to prepare for this change. This has been supplemented by the issue of the <i>Code of Practice on Transport Infrastructure Guidance Notes (May 2015)</i> and <i>ITC (July 2015)</i>.</p> <p>This change will have major implications for highway authorities like Central Bedfordshire Council. This is a fundamental change in approach which will require new accounting and estimation approaches as well as amendments to existing systems, or implementation of new systems design and operation.</p>
<p>Better Care Fund</p> <p>The Better Care Fund (BCF) is a major policy initiative between local authorities, clinical commissioning groups (CCGs) and NHS providers with a primary aim of driving closer integration and improving outcomes for patients, service users and carers. From the 1 April 2015 BCFs have been set up as pooled budgets between local government and NHS partners using powers available under pre-existing legislation. The partners use the pooled funds to jointly commission or deliver health and social care services at a local level.</p> <p>Although local authorities, CCGs and NHS providers have experience of pooled budgets and established joint commissioning arrangements, pooled arrangements under BCF are likely to be on a much larger scale. Nationally the fund comprises a number</p>	<p>Local BCF arrangements may be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raise risks of misunderstanding, inconsistencies and confusion between the partners. There are also structural, cultural and regulatory differences between local government and the NHS, and it is important that these are understood and considered by all of the partners in the operation of the pool.</p> <p>In October 2014 HFMA/CIPFA produced "<i>Pooled Budgets and the Better Care Fund</i>" which provides more detailed guidance on the governance and finance issues underpinning the operation of a pooled budget and the associated risks and challenges faced by local government and NHS partners.</p>

Description	Impact
<p>of existing funding streams and will involve a minimum NHS spend of £3.8 billion together with other grant funding streams historically administered by local authorities.</p> <p>The detailed form of local pooled arrangements is not prescribed and is agreed between the partners.</p>	<p>In December 2014 NHS England approved the Better Care Fund Plan for Central Bedfordshire. The Plan was drawn up by the Council and Bedfordshire Clinical Commissioning Group and will create a minimum pooled fund of £15.3m in 2015/16 to support the delivery of integrated care with additional funding of £3.4m from the Adult Social Care budgets making a total of £18.7m.</p>

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Ernst & Young LLP

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Central Bedfordshire Council

AUDIT COMMITTEE

11 January 2016

EXTERNAL AUDIT PROGRESS REPORT

Report of Ernst & Young LLP
(www.ey.com/uk)

Purpose of this report

The purpose of the report is to provide the Committee with an overview of the stage reached by Ernst and Young LLP in carrying out the Council's 2014-15 audit. The report sets out the work undertaken by Ernst & Young since its last progress report to the Committee in September 2015.

The report also includes a sector briefing which covers issues which may have an impact on the Council, the local government sector and the audits which Ernst & Young undertakes.

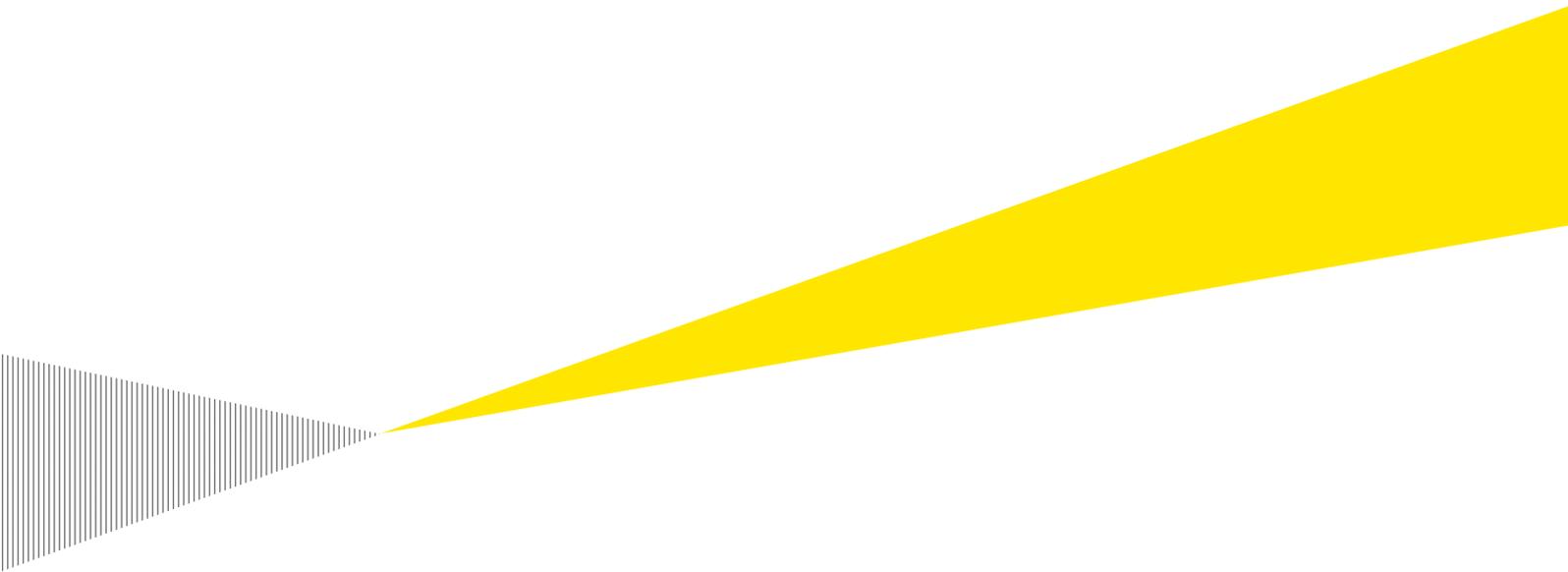
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Central Bedfordshire Council

Year ending 31 March 2015

Audit Progress Report

December 2015



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

2 December 2015

Dear Mike

Audit progress report - 2014-15

We are pleased to attach our audit progress report.

The purpose of this report is to provide the Audit Committee with an overview of the stage we have reached in carrying out your 2014-15 audit. Our report sets out the work we have undertaken since our last progress report to you in September 2015.

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

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

Yours sincerely

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

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Work completed

2014-15 Audit Plan

Our work on the 2014-15 audit is complete. We issued an unqualified audit opinion on the Council's financial statements and an unqualified value for money conclusion on 30th September 2015.

We reported the findings from our financial statements and value for money audit work in our Audit Results Report (ARR) to the 28 September Audit Committee. The ARR was updated on 1 October 2015 to reflect the work completed prior to the audit opinion being issued on 30th September 2015. The updated ARR was reported and published as part of the Minutes of the September meeting.

Our work on the Whole of Government Accounts return was completed by the required deadline. We reported our findings to the National Audit Office on 1st October 2015.

The audit completion certificate was issued on 6th October 2015 following completion of our work on Whole of Government Accounts (WGA).

The Annual Audit Letter was sent to all Members of the Council in October 2015 and is included in the agenda for this meeting of the Audit Committee.

2015-16 Audit Plan

We are currently updating our risk assessment and undertaking more detailed planning for the 2015-16 audit. The Audit Plan for 2015-16 will be presented to the Audit Committee at its meeting in March 2016.

Grant claim certification

The Certification of claims and returns annual report 2014-15 is included in the agenda for this meeting of the Audit Committee. The report sets out the results of our work on the Housing and Council Tax benefits subsidy claim.

Timetable

Audit Committee timeline

The deliverables we agreed to provide to you through the 2014-15 Audit Committee cycle are set out at Appendix 1.

Appendix 1: Audit Progress on Deliverables 2014-15

Progress against key deliverables

Key deliverable	Timetable in plan	Status	Comments
Fee letter	June 2014	Completed	June 2014
Audit plan	March - April 2015	Completed	March 2015
Report to those charged with governance	September 2015	Completed	September 2015
Auditor's report (including opinion and value for money conclusion)	September 2015	Completed	September 2015
Audit completion certificate	September 2015	Completed	6 th October 2015
Auditor's report on WGA return	September 2015	Completed	1 st October 2015
Annual audit letter	October 2015	Completed	October 2015
Annual report on certification of claims and returns	January 2016	Completed	January 2016

Local government audit committee briefing

Contents at a glance

Government and economic news

Accounting, auditing and governance

Regulation news

Key questions for the audit committee

Find out more

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

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

The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international

business. This briefing reflects this, bringing together not only technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies.

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



Government and economic news

EY Item Club Autumn Forecast

The latest EY Item Club forecast (Autumn 2015) predicts tougher times for the UK economy as what it describes as the 'consumer sugar rush' begins to fade.

GDP is forecast to grow by 2.5% this year (compared to 2.9% in 2014) and slow further to 2.4% in 2016 and 2.3% the year after. Consumer Price Inflation is expected to remain below target until 2018. Prospects for exports remain poor, and domestic consumption is likely to be affected by rising inflation and tighter fiscal policy from early 2016. Progress is seen to depend upon productivity gains rather than coming from the commodity price falls that are supporting demand this year. Businesses will need to work hard on overseas markets as opposed to relying on consumer-led domestic markets.

The forecast highlights that the last decade has seen a strong increase in the supply of labour which has depressed real wages and, arguably, productivity, but that we are now seeing a more normal recovery. This is characterised by an increase in the demand for labour, which boosts real wages and productivity. Wage inflation is highlighted as being strong. This is expected to be boosted further in April 2016 by the National Living Wage, the effects of which could be very significant for some sectors and regions.

Provided that increased productivity matches wage inflation, the expectation is that the Monetary Policy Committee will keep base rates on hold until next autumn.

For details of the EY Item Club's latest forecast, see <http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

Housing Associations Right to Buy

The Chartered Institute of Public Financial Accountants (CIPFA) has produced a briefing following the Government's announcement in October that it intends to extend its Right to Buy scheme to Housing Associations. The briefing seeks to explore the potential impact of these plans on Local Authorities.

Local authority housing is intended to be self-financing, based on 30 year business plans established in 2012 with the HRA self-financing regime, with Council housing for each council financed from its own rental income. This principle was reflected in the 30 year business plans, but CIPFA suggests that these business plans do not reflect recent changes contained within the budget. These changes include amendments to the rent policies as well as the proposed sale of high value local authority housing stock in order to compensate housing associations for the shortfall in income caused by the new Right to Buy scheme.

According to CIPFA, research has shown properties sold under the existing Right to Buy scheme have in many instances returned to the rental market at a higher level of rent than council levels. They have cited the example of Barking and Dagenham where it is said that 41% of properties purchased under the Right to Buy scheme are now let privately.

CIPFA warns 'Any legislation that leads to a negative impact on the housing business plan models of local authorities could seriously undermine the very basis of self-financing which promised autonomy for local authorities in the delivery of housing in their areas.'

Government and economic news

However, Communities Secretary Greg Clark said:

“We’re determined to ensure that home ownership is seen as a reasonable aspiration for working people.

Right to Buy is a key part of this, offering a helping hand to millions of people who would have no hope of buying their own home without it.

Today’s historic agreement with housing associations and the National Housing Federation will extend that offer even more widely, whilst at the same time delivering thousands of new affordable homes across the country.”

The Government agreement with housing associations and the National Housing Federation will see housing association tenants able to buy their homes from 2016.

CIPFA’s briefing document can be downloaded from <http://www.cipfa.org/cipfa-thinks/briefings>, and further information from the government is available at <https://www.gov.uk/government/news/historic-agreement-will-extend-right-to-buy-to-13-million-more-tenants>

Consultation: improving efficiency on Council Tax Collection

Council tax collection rates have been relatively high in recent years: 97% across England in both 2014/15 and 2013/14. However, the Government is looking at ways to enable local authorities to further improve collection rates.

To this end, the Government has issued a consultation on its proposals to improve the collection and enforcement process for council tax. The government’s stated intention is to help local authorities to keep council tax rates low, and so the proposals are aimed at ensuring that everyone contributes fairly.

The consultation follows a trial by Manchester City Council, Salford City Council, HMRC and the Cabinet office under the ‘Better Business Compliance Cabinet programme’, and reflects consideration of the findings from this trial.

An example of this is the Government’s proposal to extend the data-sharing gateway which currently exists between HMRC and local authorities. This would enable HMRC to share employment information with councils where council tax debtors have not voluntarily shared the information within 14 days of receiving a liability order. Manchester estimates, based on its pilot with HMRC, that this would recover £2.5mn of debt in its area alone.

The consultation also asks for other suggestions to improve council tax collection.

Responses are requested by 18 November 2015.

For more information on the consultation and details on how to respond, please see https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/466386/150930_Improving_Efficiency_of_Council_Tax_collection_Consultation_Doc.pdf



Government and economic news

Local Plans for New Homes

In October, the Government announced that councils will be required to produce local plans for new homes by 2017. Where councils fail to do so, the Government will consult with local people to ensure that plans are produced for them.

In 2012, the National Planning Policy Framework was introduced to provide guidance for local planning authorities and decision-takers, both in drawing up plans and making decisions about planning applications. This framework reinforced the role of local plans. It required the plans to include an annual trajectory over a period of around 15 years of how many homes they plan to build in their area, and it required local authorities to review this plan approximately every 5 years. Councils were also encouraged to give local people more say on where new developments would be located and what they would look like.

The Government have said that the response to this has been mixed:

- ▶ 82% of councils have published local plans which state how many homes they intend to build over a given period
- ▶ 65% have fully adopted these plans
- ▶ Nearly 20% of councils do not have an up to date plan

If councils fail to produce and bring into force an up to date plan for new homes by 2017, the Government intends to work with local people to ensure one is created.

Read the government press release at <https://www.gov.uk/government/news/prime-minister-councils-must-deliver-local-plans-for-new-homes-by-2017>

Accounting, auditing and governance

Proposals for further emergency services collaboration announced

The Government has launched a consultation which is looking into how the three core emergency services of Police, Fire and Rescue and the Ambulance service could potentially work together in a more efficient and effective manner. Key features of the consultation include:

- ▶ Enabling Police and Crime Commissioners (PCCs) to take on the duties and responsibilities of Fire and Rescue Authorities where a local case was made for this to happen
- ▶ Where a case is made by a local PCC to take on such a role, there would also be the possibility for them to take on the role of a single employer and in doing so enable the sharing of back office support functions
- ▶ Improving joint working between PCCs and local NHS Ambulance Foundation Trusts by encouraging them to allow PCCs to sit on their Council of Governors

The Government also intends to introduce a new statutory duty for the three emergency services to collaborate with one another; and sees this as not being a burden, but is about seeking efficiencies.

However, a key legal distinction would remain under the new proposals, in that a member of a police force will not be permitted under law to become a firefighter, and firefighters will not be given the power of arrest. In order to maintain transparency for local taxpayers, funding from central government will remain separate for police and fire organisations, as will council tax precepts.

<https://www.gov.uk/government/news/proposals-for-further-emergency-services-collaboration-announced>

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/459986/Consultation_-_Enabling_closer_working_between_the_Emergency_Services__w__2_.pdf

Finance in the Cloud?

Cloud computing allows users to rent access to a variety of virtual computing options, conveniently, ranging from network-accessible data storage and software development environments to fully featured applications. As such, the data and applications are not required to be stored on local servers or 'on-premise'; rather, they are hosted and managed by third-party cloud service providers (CSPs).

Enterprises essentially outsource varying levels of IT functionality to CSPs, and users only need an internet connection to access the data and applications via virtual servers. By moving into the cloud, organisations have the potential to reduce greatly, or even eliminate, the total cost of ownership (TCO) of the IT function, thereby forever altering their business model.

The benefits of cloud adoption are highly touted. However, over a decade ago, on-premise enterprise resource planning (ERP) solutions made similar promises. Although the trigger for rushed ERP implementations in the 1990s was the much-fretted Year 2000 (or Y2K) calamity, Y2K concerns turned out to be largely unfounded, and many finance executives would now argue that they have yet to reap genuine, tangible benefits from investing in costly ERP systems.



Accounting, auditing and governance

Although a company's financial management system is critical to success, EY is finding that many organisations have systems averaging from 10 to 15 years old, with upgrade cycles ranging from 5 to 10 years. Despite aging legacy systems, many finance decision-makers are hazy on how cloud solutions are really any different from the ERP solutions hyped in the previous decade.

Organisations that truly understand cloud technology, as well as the associated challenges and risks, are better placed to manage the impact of cloud computing on the finance function. Moreover, they must engage an agile innovation strategy focused on deploying the right operating model in order to realize fully the benefits of cloud computing.

In EY's experience, organisations that fail to make a robust cloud risk assessment often need to make subsequent, costly changes to the cloud model, thereby negating any savings gained from cloud migration. EY recommends that organisations develop a clear, attainable cloud strategy, including an appropriate operating model accompanied with a cloud risk management approach to mitigate risks and avoid a premature move to the cloud.

EY has a proven framework for cloud models, along with risk assessments and broad-based diagnostics to evaluate and optimise a cloud strategy that enables minimal disruption whilst accelerating an organisation's evolution. For more information on this, please talk to a member of your engagement team or read the EY publication at http://performance.ey.com/wp-content/uploads/downloads/2015/10/EY-Performance-Finance-in-the-cloud_Final.pdf

Value for Money Conclusion guidance

The NAO have recently released a consultation document (<http://www.nao.org.uk/keep-in-touch/wp-content/uploads/sites/11/2015/08/Vfm-arrangements-auditor-guidance-consultation-document.pdf>) a consultation document for auditors on their review of arrangements to secure economy, efficiency and effectiveness in their use of resources. This is also referred to the as three E's or the Value for Money (VfM) conclusion. The guidance covers the VfM work for 2015/16.

Based on the responses received to a similar consultation in 2014 the new draft guidance seeks to:

- ▶ Take forward existing guidance and reflect changing circumstance for public sector organisations such as finding savings and maintain financial stability over the medium and long term
- ▶ Update the definition of 'proper arrangements'
- ▶ Strengthen guidance on the identification and work around significant risks whilst maintaining a risk based approach
- ▶ Update and clarify the range of reporting opinions available to auditors and expectations at key stages of the audit
- ▶ Maintain sector specific guidance that will sit outside of the statutory guidance but can provide up-to-date information on sector specific risks

The consultation closed on 30 September and the NAO will communicate a summary of the responses once they have reviewed them. Further information can be found at <https://www.nao.org.uk/keep-in-touch/our-surveys/consultation-auditors-work-on-value-for-money-arrangements/>.



Regulation news

Consultation on 2016/17 proposed fee scales

Public Sector Audit Appointments (PSAA) is currently consulting on both the work programme and scale of fees for 2016/17 audits. The consultation describes the work that auditors will undertake at principal audited bodies for 2016/17 and their associated scales of fees.

There are no planned changes to the overall work programme for 2016/17 and their proposal is to set scale audit fees at the same level as the scale fees for 2015/16 which already reflect a reduction of 25% in addition to the reduction of up to 40% made from 2012/13.

A change in accounting requirements in 2016/17 relating to highways infrastructure assets will require additional audit work at some authorities. As the amount will differ between authorities, the fee variation process will apply in 2016/17 for this additional work.

The consultation closes on Friday 15th January 2016, and the final work programme will be published following this in March 2016.

For details of the consultation, please refer to the PSAA website at <http://www.psaa.co.uk/audit-and-certification-fees/consultation-on-201617-proposed-fee-scales/>

NAO Case Study: Managing reductions in local authority government funding

The National Audit Office (NAO) has made available more than 30 case studies which give examples of how organisations have used their recommendations or analysis to support the achievement of financial savings.

One of these case studies follows the production of its 2014 report 'Financial Sustainability of Local Services'

The NAO case study states that following their report, the Department for Communities and Local Government (DCLG) has acknowledged that its processes for estimating local authority spending requirements and assessment the potential impacts of spending reductions need to be improved.

They also note use of their report in the sector, citing the following examples:

- ▶ Leeds City Council and Birmingham City Council have drawn on the work in their debates with central government over devolution
- ▶ Wolverhampton City Council and Oldham Council have used the work to inform discussion and decision-making in cabinet meetings and audit and scrutiny meetings
- ▶ The Local Government Association and treasurers' societies have used the analysis from the report to inform their thinking

Find out more about the impact made by NAO reports in their interactive pdf at <https://www.nao.org.uk/wp-content/uploads/2015/10/Impacts-case-studies-2014.pdf>



Key questions for the audit committee

What questions should the Audit Committee ask itself?

Have we considered the impact of the extension of Right to Buy and reflected our consideration in our Medium Term financial plans and/or Local Plan?

How successful are we in systematically improving our collection rates for Council Tax? Is there best practice that we could share via the Government's consultation?

What is our mid to long term IT strategy? Are we considering cloud-based IT and if so how robust are our risk assessments supporting the shift?

Have we formulated a response to the PSAA consultation on the work programme and scale of fees for 2016/17?



Find out more

EY Item Club Autumn Forecast

For details of the EY Item Club's latest forecast, see <http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

Housing Associations Right to Buy

For further information, please see the government press release at <https://www.gov.uk/government/news/historic-agreement-will-extend-right-to-buy-to-13-million-more-tenants> and access the CIPFA report at <http://www.cipfa.org/cipfa-thinks/briefings>

Consultation: Improving Efficiency on Council Tax Collection

For more information on the consultation and details on how to respond, please see https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/466386/150930_Improving_Efficiency_of_Council_Tax_collection_Consultation_Doc.pdf

Local Plans for New Homes

Read the government press release at <https://www.gov.uk/government/news/prime-minister-councils-must-deliver-local-plans-for-new-homes-by-2017>

Proposals for further emergency services collaboration announced

For more information on the Government's proposals, please see <https://www.gov.uk/government/news/proposals-for-further-emergency-services-collaboration-announced>, and for a copy of the consultation document please see https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/459986/Consultation_-_Enabling_closer_working_between_the_Emergency_Services__w__2_.pdf

Finance in the Cloud?

To find out more about Cloud Computing and how EY can support you, please ask a member of your engagement team or read the EY publication at http://performance.ey.com/wp-content/uploads/downloads/2015/10/EY-Performance-Finance-in-the-cloud_Final.pdf

Value for Money Conclusion guidance

Further information can be found at <https://www.nao.org.uk/keep-in-touch/our-surveys/consultation-auditors-work-on-value-for-money-arrangements/>, and a copy of the NAO's consultation document is available at <http://www.nao.org.uk/keep-in-touch/wp-content/uploads/sites/11/2015/08/Vfm-arrangements-auditor-guidance-consultation-document.pdf>

Consultation on 2016/17 proposed fee scales

For further details on the consultation and how to respond to it, please visit:

<http://www.psa.co.uk/audit-and-certification-fees/consultation-on-201617-proposed-fee-scales/>

NAO Case Study: Managing reductions in local authority government funding

Find out more about the impact made by NAO reports in their interactive pdf at <https://www.nao.org.uk/wp-content/uploads/2015/10/Impacts-case-studies-2014.pdf>

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Central Bedfordshire Council

Audit Committee

11 January 2016

STATEMENT OF ACCOUNTS 2015/16

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

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

Purpose of this report

The report outlines any changes required to the Council's statutory Statement of Accounts for 2015/16.

RECOMMENDATION

That the Committee

1. Consider and comment upon the issues raised within the report.

Overview and Scrutiny Comments/Recommendations

1. This report is not scheduled to be considered by any Overview and Scrutiny Committee as the Audit Committee provides scrutiny of the Council's preparation of the annual Statement of Accounts.

Background

2. The Accounts and Audit Regulations 2011 require the Chief Finance Officer of the Local Authority to prepare and sign a set of unaudited accounts by 30 June each year. Audited accounting statements are required to be re-certified by the Chief Finance Officer, signed by the Chair of the Audit Committee and published by 30 September each year.
3. In addition to meeting the requirements of the 2011 Regulations, the Council has in recent years arranged a Statement of Accounts presentation in June, open to all Members, to inform and enable scrutiny of the key figures from the Statements.
4. Under the same 2011 regulations, the accounts are required to present a 'true and fair' view of the financial position of the Council and comply

with 'proper accounting practices'. The Local Government Act 2003 specifies the CIPFA Code, issued annually, as representing proper accounting practices for this purpose.

5. CIPFA and the Local Authority (Scotland) Accounts and Advisory Committee (LASAAC) issue a Local Authority Accounting Panel (LAAP) bulletin at the end of the financial year to address any specific issues arising from the CIPFA Code of Practice. These bulletins have the same status as the CIPFA Code in forming the statutory basis of the Council's accounts. LAAP bulletins may also be issued during the year to provide general guidance on topical issues. CIPFA may also issue mid-year updates to the Code of Practice on an exceptional basis.

CIPFA Code of Practice 2015/16 Changes

6. The Code for 2016/17 will have significant changes particularly for Transport Infrastructure Assets but the 2015/16 in respect of English local authorities has only limited changes compared to 2014/15. The main changes are outlined in greater detail below.

Movements in Reserves Statement

7. There is a clarification of the reporting requirements for disclosures to support the Movement in Reserves Statement. The guidance now requires that, for all the reserves required to be disclosed, an analysis of the amounts included in each reserve is disclosed within either the statement itself or the notes to the Statements. The reserve analysis must present amounts held for capital purposes separately from those held for revenue purposes, and shall separately identify the total reserves held by schools.

Materiality

8. Amendments have been made to chapter one of the Code to underline CIPFA/LASAAC's view of the importance of the consideration of materiality when preparing disclosures for local authority financial statements. CIPFA/LASAAC is of the view that local authorities should only include disclosures that are material to the presentation of a 'true and fair' view of the financial position, financial performance and cash flows of the authority and to the understanding of users of the financial statements. The Code's definition of materiality has not changed, remaining as at 2.1.2.9 in the Code :

Materiality – information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting authority. In other words, materiality is an authority-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual authority's financial statements. Consequently, the Code cannot specify a uniform quantitative threshold for materiality

or predetermine what could be material in a particular situation. An authority need not comply with the Code, as to both disclosure and accounting principles, if the information is not material to the 'true and fair' view of the financial position, financial performance and cash flows of the authority and to the understanding of users.

Fair Value measurement - Adoption of IFRS 13

9. Fair value as a term in previous Codes has been used to describe a number of ways to value assets and liabilities including the concept of Exiting Use Valuation. Following the adoption of IFRS 13 Fair Value Measurement a universal definition of Fair Value based on the concept of an 'exit price' of an asset or liability at the measurement date which does not reflect the authority's intention for its use has been adopted. The Fair value will be based on a hypothetical transaction that could take place in an orderly market.
10. Local authorities for 2015/16 are required to measure their assets and liabilities and provide disclosures in accordance with IFRS 13 Fair Value Measurement where another section of the Code requires or permits fair value measurement, except where adaptations to fit the public sector are detailed in the Code.
11. There are no adaptations to IFRS 13 for the public sector context. However, section 4.1 of the 2015/16 Code adapts International Accounting Standard (IAS) 16 to require that items of property, plant and equipment that are operational and therefore providing service potential for the authority are measured for their service potential at existing use value, existing use value – social housing or depreciated replacement cost, and not at fair value. The values for Property Plant and Equipment (PPE) assets with service potential are now described as current value. Surplus assets (property, plant and equipment) are now to be measured at fair value rather than on the basis of their existing use before the asset was classified as surplus.
12. There is unlikely to be a material impact on the 2015/16 Statements as the measurement (valuation basis) for the vast majority of the Council's PPE assets remains unchanged as illustrated in table 1. Only two assets were classified as surplus assets at 31 March 2015 with a net book value of £182,000 out of a total PPE figure of £974m. As transitional arrangements apply to the change in accounting policy there is no requirement to apply the change retrospectively in the 2015/16 Statements.

Table 1 : Property, Plant and Equipment Accounting Valuations		
Classification	Measurement	Compared to 14/15 Code
Assets providing services where an active market exists	Existing Use Valuation (EUV)	UNCHANGED
Specialist assets used for service delivery or where no market exists	Depreciated Replacement Cost	UNCHANGED
Social Housing	Existing Use Valuation – Social Housing	UNCHANGED
Surplus Assets	Fair Value basis of IFRS 13	CHANGED previously EUV

13. The definition of Fair Value that applies to other assets and liabilities is little changed from the previous one although further detailed definition and requirements to measure fair value is provided in the 2015/16 Code as a fair value measurement hierarchy and framework which will be applied where relevant in preparing the Statements.

2014/15 Code - *Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.*

2015/16 Code - *Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.*

14. The Finance team will review the relevant measurements for other assets and liabilities to ensure that the Council complies with the current requirements of the Code.

Interpretation of 'Short Period'

15. The 2015/16 Code introduces an interpretation to clarify what a short period means for the measurement of a class of assets for local authorities. The current value of land and buildings is usually determined by appraisal of appropriate evidence that is undertaken by a qualified valuer. Where assets are revalued (i.e. the carrying amount is based on current value), revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period.

16. The Code now makes clear that a 'short period' for the revaluation of a class of assets is interpreted to mean that assets are normally revalued every five years as minimum. The Council's procedures for revaluation of property assets are already compliant with this requirement.

Reporting requirements for Local Authority Schools

17. Guidance has been clarified in respect of the recognition of non-current assets used by schools. As for 2014/15 the recognition of such non-current assets will be determined in accordance with relevant accounting standards and the arrangements for the assets.

Other issues

Pooled Budgets

18. The Council is the host authority for a pooled budget arrangement with NHS Bedfordshire Clinical Commissioning Group that has commenced in the current financial year under a framework partnership agreement relating to the commissioning of Health and Social Care services under the Better Care Fund (BCF). As host authority the Council is responsible for the budget's overall accounts and audit.
19. In preparing the 2015/16 Statements the BCF arrangement will be reviewed to confirm the appropriate accounting treatment and the information requirements for the relevant auditors are currently being established.

Accounting for Highways Network Asset (previously Transport Infrastructure Assets) from 2016/17

20. The proposal to move to Depreciated Replacement Cost (DRC), as opposed to the current historic cost basis for transport infrastructure assets from 1 April 2016 has continued to develop. Following consideration of responses to an accounting Code of Practice Invitation to Comment, the November 2015 CIPFA/LASAAC meeting has indicated a number of changes that are subject to approval by the Financial Reporting Advisory Board.
21. There are a number of changes to the technical accounting arrangements but the key proposal in terms of implementation requirements is that whilst the change will still be effective from 1 April 2016 it will not be fully retrospective so that the 2015/16 Statements would not need to be restated and subject to audit opinion.

Local Audit and Accountability Act 2014

22. Section 32 of the Act contains updates to the Accounts and Audit Regulations 2011, and under these updates the Secretary of State consulted on changing the deadlines for publication of the Council's

Statement of Accounts. From the Statements prepared for 2017/18 the Chief Finance Officer will have to certify the draft accounts by 31st May (currently 30 June) and the Audited accounts will need to be approved by the Audit Committee by 31 July (currently 30 September). The Finance team piloted an accelerated Statement of Accounts process for 2014/15 and a similar approach is proposed for 2015/16 having responded to the learning points from the previous financial year.

Accounts Process

23. Accounts and Audit Regulations 2011 require the Chief Finance Officer to certify the unaudited Statement of Accounts by 30 June each year. For the last three years there has been a presentation of the key figures in the accounting statements to this Committee with all other Council Members invited, the purpose being to enhance the scrutiny and discussion of the statements. The presentation for 2014/15 was made by the Chief Finance Officer and the Head of Financial Control and included a question and answer session.
24. Conducting a presentation instead of submitting the accounts as an Audit Committee report enabled significantly more time for Finance staff to concentrate on quality assurance work in June. Making the most of the time available for quality assurance activities helps to minimise the work of the Finance team and the external auditors in the period July to September. Positive feedback was received following the presentation, which engaged Members and enabled a focus on the key points within the accounts. It is therefore proposed to present the 2015/16 statements in a similar manner at the Audit Committee meeting in June 2016 with an open invitation to all Council members.

Council Priorities

25. Informing Members of forthcoming changes relating to the Statement of Accounts and inviting all Members to consider and comment on the Statement contributes towards the Committee's scrutiny function and meeting the Council's priority of achieving value for money

Corporate Implications

Legal Implications

26. The production of an annual Statement of Accounts is a requirement of the Accounts and Audit Regulations 2011. The accounts are to be prepared in line with 'proper accounting practice' and the Local Government Act 2003 section 21(2) specifies the CIPFA Code of Practice as representing proper accounting practice for this purpose.
27. The accounts are based on International Financial Reporting Standards (IFRS) as defined by the CIPFA Code of Practice and the authority

must incorporate any changes to the CIPFA Code in preparing the financial statements.

28. The production of an annual Statement of Accounts is a requirement of the Accounts and Audit Regulations 2011. The accounts are to be prepared in line with 'proper accounting practice' and the Local Government Act 2003 section 21(2) specifies the CIPFA Code of Practice as representing proper accounting practice for this purpose.
29. The accounts are based on International Financial Reporting Standards (IFRS) as defined by the CIPFA Code of Practice and the authority must incorporate any changes to the CIPFA Code in preparing the financial statements.

Financial Implications

30. The preparation of the annual financial statements is a core responsibility of the Council's finance team and involves the support of many other services. The Finance team seek to continuously improve the processes that support the preparation of the statements as well as implement any changes in reporting requirements within the Council's overall approved revenue budget.

Equalities Implications

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

Appendices

None

Background Papers

None

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Central Bedfordshire Council

Audit Committee

11 January 2016

LOCAL GOVERNMENT PENSION SCHEME UPDATE

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

Contact Officer: Ralph Gould, Head of Financial Control
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Purpose of this report

To update the Committee on the governance of the Local Government Pension Scheme (LGPS).

RECOMMENDATION

That the Committee

1. Consider and comment upon the issues raised within 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. Due to the significant values of assets and liabilities and the importance of the LGPS to the Council this Committee receives regular reports on the governance and performance of the Local Government Pension Scheme.

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 some eighty nine funds across England and Wales.
4. The Bedfordshire Pension Fund, is administered by Bedford Borough Council, which 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. At 31 March 2015 there were 137 active and 24 inactive scheme employers participating in the Bedfordshire LGPS. The actual Bedfordshire scheme membership numbers at March 2013 and 2015 are shown in Table 1 overleaf. 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.

Table 1 LGPS Bedfordshire and CBC Membership at 31/3/13 and 31/3/15				
	Fund	Fund	CBC	CBC
	31 March 2013	31 March 2013	31 March 2013	31 March 2015
Active	17,442	19,931	3,975	4,485
Deferred	21,142	24,910	6,755	7,556
Pensioners	13,158	14,281	4,131	4,442
Total	51,742	59,122	14,861	16,483

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).

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.

Governance and Regulatory Changes

9. The Government has been examining ways to achieve efficiencies and improvements in the management of local government pension funds. A reduction in the number of administering authorities was considered but at the present time this does not appear to be an option that is being pursued by central Government. During 2015 the Chancellor of the Exchequer made announcements in respect of the future arrangements for the administration of the LGPS investments. The Chancellor's expressed aims are to promote, through the pooling of assets, the creation of half a dozen British wealth funds spread across the country to save hundreds of millions in costs, and invest billions in the infrastructure of their regions.
10. The Department for Communities and Local Government (DCLG) in November 2015 launched a consultation on draft regulations that would reform the investment regulations and introduce a power of intervention to allow the Secretary of State to intervene in an authority's investment function should it not bring forward ambitious proposals for pooling. The consultation, revoking and replacing the Management and Investment of Funds Regulations 2009, is open until 19 February 2016 and available at: <https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme>.
11. The DCLG has provided criteria and further guidance that administering authorities must meet to deliver the ambitious proposals for the pooling of assets. Further guidance on suitable collective investment vehicles has also been provided by DCLG and made available to stakeholders. The four criteria, which were designed to be read in conjunction with the supporting guidance are set out below as they appear in the DCLG documentation:
 - a. **Asset pool(s) that achieve the benefits of scale:** The 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported. Authorities should explain:
 - i. The size of their pool(s) once fully operational.
 - ii. In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so.
 - iii. The type of pool(s) they are participating in, including the legal structure if relevant.

- iv. How the pool(s) will operate, the work to be carried out internally and services to be hired from outside.
 - v. The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable.
- b. **Strong governance and decision making:** The proposed governance structure for the pools should:
- i. At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;
 - ii. At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.
 - iii. Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability. Authorities should explain:
 - iv. The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.
 - v. The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.
 - vi. Decision making procedures at all stages of investment, and the rationale underpinning this.
 - vii. The shared objectives for the pool(s), and any policies that are to be agreed between participants.
 - viii. The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.
 - ix. How any environmental, social and corporate governance policies will be handled by the pool(s).
 - x. How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.
 - xi. How the net performance of each asset class will be reported publicly by the pool, to encourage the sharing of data and best practice.
- c. **Reduced costs and excellent value for money:** In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so are rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they

incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.

- d. Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons. As part of their proposals, authorities should provide:
 - i. A fully transparent assessment of investment costs and fees as at 31 March 2013.
 - ii. A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.
 - iii. A detailed estimate of savings over the next 15 years.
 - iv. A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.
 - v. A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance.

- e. **An improved capacity to invest in infrastructure:** Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class. Authorities should explain:
 - i. The proportion of their fund currently allocated to infrastructure, both directly and through funds, or "fund of funds".
 - ii. How they might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or "fund of funds" arrangements.
 - iii. The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount.

12. Central Government has set local authorities a challenging agenda and responses are invited by February 2016 with an announcement by the Government of the way forward expected in the spring of 2016. The Bedfordshire LGPS is participating with other Funds in a project to produce options that will meet the specific criteria and form a basis of discussion between the LGPS. Some 40 Funds are involved in the project with data being gathered on a total asset value of £150bn out of a total LGPS asset value of approximately £200bn. There are other initiatives and projects underway involving other LGPS Funds at both a regional and national level.
13. There is a wide range of pooling options and legal investment structures that can be identified and evaluated as to how far they meet the DCLG expectations. As strategic investment decisions are expected to continue to be made by the local LGPS Fund the structure and investment mandates of the available investment pool(s) will be important in determining the degree of detail that can be set and implemented through any local strategy.
14. The Bedford Borough Council Pension Fund Committee met on 5th January 2016 to progress a response to the consultation.

Fund Management

15. The Fund has implemented an investment strategy and benchmark that seeks to provide less volatile returns compared to 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 generally has a greater relative allocation to equities. Conversely when equity markets are weak the Fund would be expected to outperform the average local authority fund.
16. At the Bedford Borough Council Pensions Committee meeting on 24th November 2015 the Fund Administrator reported on the Pension Fund Performance over the nine month period ending 30th September 2015. The market value of the Fund and cash holdings as at 30th September 2015 was £1,611.8 million (Table 2). The Fund has decreased by £92.4 million since 31 March 2015 which mainly reflects the significant decline in equity markets that occurred during August 2015.

Table 2 Bedfordshire Fund Investment Asset classes and values at 30 September 2015			
Asset class	31 Mar-15	30 Sept-15	Bench mark
	£M	%	%
UK Equities	298.4	18.5	19
Overseas Equities	486.2	30.2	31
Total Equities	784.6	48.7	50
Government Bonds	59.3	3.7	
Index Linked Gilts	89.5	5.6	
Absolute return Bonds	161.5	10.0	
Total Bonds	310.3	19.3	18
Property – (Indirect))	175.2	10.9	10
Multi Asset Absolute Return	298.3	18.5	20
Cash	43.4	2.7	2
Total Fund	1,611.8	100	100

17. The Bedfordshire Pension Fund investment return of -3.3% for the quarter ending 30 September 2015 was behind the benchmark return of -0.4% and marginally better than the estimated State Street Local Authority average of -3.5%. Over 12 months the Fund has returned 1.4% compared to a benchmark figure of 3.0% and a State Street Local Authority average of 2.5%. Over three years and five years the Fund has returned an annualised 6.4% and 6.0% which can be compared to respective benchmark returns of 6.6% p.a. and 6.9% p.a.

Actuarial Valuation 2016 and employer reporting

18. Regulations require that every three years the Scheme Actuary conducts an actuarial valuation to determine the level of employers' rates of contribution to the Fund. The next valuation date is 31st March 2016 and preparations for the 2016 Valuation have commenced and the expectation is that it will be extremely challenging for the Fund and its scheme employers. This assessment is based on the March 2015 end of year data returns where delays and validation issues with one payroll provider's returns resulted in the Scheme being unable to issue Annual Benefit Statements to scheme members. The Pensions Regulator has been notified by the Fund of the failure to comply with pension regulations in respect Annual Benefit Statements.
19. The administering authority is currently discussing a timetable with the Actuary and it is expected that, as in previous years, the initial results should be available in September 2016. The success of the timetable will rely heavily on all payroll providers submitting timely, complete and accurate information. The actuary has introduced a data portal which will validate the valuation data as it is loaded which should reduce the overall time on the validation both by Hymans and the Fund. Employers will be reminded regularly between January 2016 and March 2016 of the requirement to provide such data by 30 April 2016. The Annual Employers meeting that will be held in February 2016 will also focus on the issue.
20. An important factor in the employer data issues arising for 2015 was the introduction of the new LGPS 2014 scheme and the need to adapt year end reports to meet the requirement of a new scheme that is now based on Career Average Earnings rather than a scheme member's Final Salary. The Bedford Fund has provided the Council with detailed feedback on the 2015 data submissions and new reports are currently in development.

Council Priorities

21. This report provides information about the Local Government Pension Scheme (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

22. 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

23. 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 contributions for schools non-teaching staff) along with an additional lump sum of £7.212m towards the funding deficit.
24. LGPS contributions are a significant proportion of the Council's overall employment costs and as such the governance and performance of the scheme merits regular monitoring by this Committee.

Equalities Implications

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

Conclusion

26. The LGPS continues to be subject to considerable change and the current focus relates to the management of investments. There is a significant challenge for the 89 LGPS Funds and their stakeholders to agree investment pooling options that meet the Government's criteria early in 2016. The Fund and its employers also continue to address the operational issues arising from the implementation of the 2014 scheme for LGPS benefits so that the 2016 actuarial valuation can be delivered in September.

Appendices

None

Background Papers

None

Central Bedfordshire Council

Audit Committee

11 January 2016

INTERNAL AUDIT PROGRESS REPORT

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

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

Purpose of this report

This report provides a progress update on the status of Internal Audit work for 2015/16.

RECOMMENDATIONS

The Committee is asked to:

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

Overview and Scrutiny Comments/Recommendations

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

Background

2. Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal audit reviews, appraises and reports on the efficiency, effectiveness and economy of financial and other management controls.
3. The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.
4. The Audit Committee approved the 2015/16 Audit Plan in March 2015. This report provides an update on progress made against the plan up to the end of November 2015.

Progress on the 2015/16 Audit Plan

Fundamental System Audits

5. Work is progressing on the 2015/16 fundamental systems audit reviews and the progress made to date is summarised at Appendix A. There has not been any fundamental system change in any of the reviews finalised to date, and, therefore, a light touch approach has been adopted as detailed in the report to the September Audit Committee. This has included comprehensive walkthrough testing of all key controls, documented evaluation of whether the walkthrough has confirmed the system and confirmation that the control environment has not materially altered. Substantive testing has also been undertaken on the key controls relied upon by the external auditors. A follow up of previous recommendations made has also been carried out. The audit opinions are set out in Appendix A. 7 of the reviews have received an opinion of Adequate Assurance and 2 reviews have received an opinion of Full Assurance. The Asset Management 2015/16 and SWIFT Financials audits have still to be started. This work is usually undertaken later in the year. The opinions given are based upon limited sample testing in view of the light touch approach adopted.
6. The work undertaken covers the period April – October. The opinions given are based upon audit testing undertaken to date. During discussions with the external auditors it has been agreed that some further substantive testing to cover the whole year may be required and the opinions may be revised once the substantive testing for the whole year has been undertaken.

Other Audit Work

7. Internal Audit has continued to be engaged in several projects, in order to provide advice and guidance on the control environment during project implementation. It has been agreed that the time allocated within the Audit Plan for the Broadband review will be used to participate in the End of Project Review scheduled for March/April 2016.
8. In addition to the fundamental audit reviews the following audits have been finalised since the last Committee:
 - Care Homes – Accredited Scheme for Dementia (Dementia Quality Mark) – Adequate Assurance opinion
 - NNDR1 and 3 Return – Processes for Assurance on Compilation – Adequate Assurance opinion.
9. A number of other reviews are currently progressing, and these are also shown within Appendix A. The outcomes will be reported to a future committee meeting.

10. Internal audit has also been involved in the certification of certain grant claims, including Broadband, Troubled Families and the Flood Resilience Grant (Repair and Renew 2013/14).
11. Included within the plan is a review of the mechanisms for the alignment of S106 and the Community Infrastructure Levy (CIL). Due to the delays in adopting the CIL, it has been agreed that the focus this year will be on following up the recommendations made in the last audit of S106 and the review of the alignment of the two processes will be deferred until the new levy has been introduced.
12. A follow up audit of the Housing Repairs system is also in the plan. The timing of this review is subject to progress made in implementing the SAP/QL interface. This is considered in more detail in the Tracking of High Priority Recommendations report. It is likely that this audit review will slip into 2016/17.

National Fraud Initiative (NFI)

13. We continue to complete work around the National Fraud Initiative (NFI). The overall responsibility for this exercise has now passed from the Audit Commission to the Cabinet Office. Data sets are supplied when requested and matches investigated as required. A Fair Processing Compliance declaration has recently been submitted.

Fraud and Special Investigations

14. One investigation undertaken by Internal Audit has been finalised since the last Committee. This is summarised at Appendix B.

Schools

15. The rolling programme of school audit visits has continued. To date this year 9 school reports have been finalised. This includes 4 site visits undertaken at the end of 2014/15 and 5 visits undertaken to date during 2015/16. A further site visit has been undertaken and the report is currently being drafted.

Other Matters of Interest

16. As has been previously reported to the Committee, the Public Sector Internal Audit Standards (PSIAS) require an external assessment of the internal audit service to be undertaken at least once every 5 years. The review will be undertaken in January 2016 by CIPFA and the outcome will be reported to a future Committee meeting.
17. A number of members of the Audit Committee recently attended a training session designed to provide an overview of the framework for the provision of Internal Audit. The training included the purpose of Internal Audit, an overview of the principles that underpin the work (PSIAS), the

framework in place, the processes for producing and monitoring the Audit Plan, an overview of risk management processes and also an update on issues that may be of interest to the Committee.

Performance Management

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

Activities for 1 April 2015 – 30th November 2015

KPI	Definition	Current Year		Previous Year	Annual target
		Actual	Target	Actual	
KPI01	Percentage of total audit days completed.	50%	52%	61%	80%
KPI02	Percentage of the number of planned reviews completed.	46%	45%	46%	80%
KPI03	Percentage of audit reviews completed within the planned time budget, or within a 1 day tolerance.	84%	75%	85%	75%
KPI04	Time taken to respond to draft reports: Percentage of reviews where the first final draft report was returned within 10 available working days of receipt of the report from the Auditor.	68%	80%	50%	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.	100%	100%	94%	80%
KPI06	Overall customer satisfaction.	92%	80%	94%	80%

19. Analysis of indicators:

KPI01 - As at the end of November, Internal Audit has delivered a total of 625 productive audit days against a total of 1260 planned days for the year. This is slightly below target for the period. This reflects that there was a vacancy within Internal Audit for the period April – end October 2015.

KPI02 - This KPI measures final reports issued to date. At the end of November, 46% of the planned reviews had been completed to final report stage along with milestones reached for fundamental systems audit work. This is consistent with the previous year. In addition, a number of reviews have been completed to draft report stage.

KPI03 - 84% of planned reviews have been completed either within the planned time budgets, or within a 1 day tolerance. This is consistent with the previous year and above target.

KPI04 - This indicator measures the time taken for Internal Audit to receive a response from the auditee to the draft report. During the period up to the end of November 68 % 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 2014, which was 50%.

KPI05 - This indicator measures the time taken by Internal Audit to issue the final report upon receipt of an agreed response from the auditee, and continues to be positive.

KPI06 – 28 staff surveys have been sent out this year and 17 have been returned. The overall satisfaction score is 92%, which remains very positive.

Council Priorities

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

Corporate Implications

Legal Implications

21. None directly from this report.

Financial Implications

22. 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

23. None directly from this report.

Conclusion and next Steps

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

25. A further update on audit progress will be presented to the next Audit Committee.

Appendices

Appendix A – Progress on Audit Activity

Appendix B – Special Investigations Completed

Background Papers

None

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Priority	Audit Title	2015/16 Days	Position as at end November	Opinion
	Carry Over Work			
	Completion of Reviews in Progress as at 31 March 2015	120		
	Accounts Payable 2014-15 Phase 2		Final report issued	Adequate (as Phase 1)
	Asset Management 2014-15		Final report issued	Adequate
	Council Tax 2014-15 Phase 2		Final report issued	Adequate (as Phase 1)
	NDR 2014-15 Phase 2		Final report issued	Adequate (as Phase 1)
	Payroll Phase 2		Final report issued	Adequate (as Phase 1)
	Housing Rents Phase 2		Final report issued	Adequate (as Phase 1)
	Housing Benefits 14-15 Phase 2		Final report issued	Adequate (as Phase 1)
	ICT Contract Management		Briefing Note currently being drafted	
	Domiciliary Care Framework Agreement		Fieldwork completed	
	SWIFT Financials		Final report issued	Adequate
	Information Governance - Transparency Code		Draft Report issued. To be considered by senior management in January	
	Corporate Governance Review - Broadband		Internal Audit to participate in End of Project Review	
	Application Reviews (framework i)		Fieldwork in progress	
	Customer First Information Security		Scoping agreed	
	Compliance- Assets		Deferred at request of service area	
	Integrated Asset Management System (IAMS)		Final report issued	Adequate
	School Transport		Deferred to Q4 at request of service area	
	Direct Payments		Fieldwork in progress	
	Housing Tenancy Management		Final report issued	Adequate
	Residential Care Homes - Review opening balances on clients' funds		Report drafted.	
	Residential Care Homes - Payroll Due Diligence		Work finalised	n/a
	Care Homes - Accreditation Scheme for Dementia		Final report issued.	Adequate
	Public Health compliance with best practice: Obesity Management		Final report issued	Adequate
	Proactive Anti- Fraud Care Homes Amenity Funds		Final report issued	Adequate
	Proactive Anti- Fraud Review 14-15: Timesheets		Fieldwork in progress	

Priority	Audit Title	2015/16 Days	Position as at end November	Opinion
	Proactive Anti- Fraud Review 14-15: Expense Claims		Scoping agreed. Fieldwork postponed to Q4	
	Maple Tree Lower		Final report issued	Adequate
	Robert Peel Lower Follow up		Final report issued	Satisfactory progress
	Manshead Upper		Final report issued	Adequate
	Russell Lower Follow up		Final report issued	Satisfactory progress
Total - Carry Over Work		120		
Fundamental Systems				
H	Accounts Payable/Purchase Ledger (including feeder systems)	35	Final report issued	Adequate
H	Accounts Receivable/Sales Ledger	30	Final report issued	Adequate
H	Asset Management (incl. Asset Register)/Capital Accounting	30	Not yet started	
H	Council Tax (including Council Tax Support Scheme)	35	Draft report issued	Full
H	Housing Benefits	40	Draft report issued	Adequate
H	Main Accounting Systems (MAS)	30	Final report issued	Adequate
H	National Non Domestic Rates NNDR	35	Draft report issued	Adequate
H	Payroll	35	Fieldwork completed	
H	SWIFT Financials	15	Not yet started	
H	Treasury Management	25	Final report issued	Full
H	Housing Rents including tenant arrears	25	Final report issued	Adequate
H	Cash And Banking (Non Invoiced Income)	20	Final report issued	Adequate
Total - Fundamental Systems		355		
Assurance Audits - Improvement and Corporate Services				
M	Data Quality	15	Scoping in progress	
H	Information Governance - application of framework	15	Scoping agreed. Fieldwork deferred to Q4 at request of service area	
M	Corporate Governance Reviews	15	Not yet started	
H	IT Disaster Recovery	10	Final report issued	Limited
H	SAP Access and Security	10	Not yet started	
M	Third Party Hosting	15	Not yet started	

Priority	Audit Title	2015/16 Days	Position as at end November	Opinion
M	IT Network Management and Security	15	Not yet started	
M	IT Governance Follow Up Audit	15	Not yet started	
Total- Improvement and Corporate Services		110		
Assurance Audits - Finance				
M	Adherence to Procurement Procedures	15	Fieldwork in progress	
L	NNDR1 and 3 return - processes for assurance on compilation	5	Final report issued	Adequate
M	VAT audit	10	Scoping in progress	
M	Grants audit	10	Not yet started	
Total - Finance		40		
Assurance Audits - Children's Services				
M	Schools General - School Improvement	80	Rolling programme. 5 reports finalised to date. See below	all adequate
	Tithe Farm Lower		Final report issued	Adequate
	Church End Lower		Final report issued	Adequate
	Shelton Lower		Final report issued	Adequate
	Brewers Hill Middle		Final report issued	Adequate
	Thornhill Lower		Final report issued	Adequate
M	Children's Centres	10	Scoping in progress	
H	Troubled Families Grant	10	Fieldwork in progress	
H	Framework	10	Fieldwork in progress	
Total - Children's Services		110		
Assurance Audits - Social Care, Health and Housing				
M	Housing Repairs	20	The timing of this review is subject to progress on implementation of recommendations i.e. interface(see Recommendation Tracking report)	
M	Residential care homes	20	Scoping in progress	
M	Supporting delivery of new housing	15	Not yet started	
M	Care Act/Better Care Fund integration	15	Scoping in progress	
Total - Social Care, Health and Housing		70		
Assurance Audits - Community Services				
M	Car Parks	15	Fieldwork in progress	
M	Review of Leisure Centres outcomes	15	Scoping in progress	
Total - Community Services		30		
Assurance Audits - Regeneration and Business Support				

Priority	Audit Title	2015/16 Days	Position as at end November	Opinion
M	European Social fund	15	Fieldwork in progress	
M	CIL/S106 - review of mechanisms for alignment	15	Scoping in progress	
Total - Regeneration and Business Support		30		
Assurance Audits - Contracts and Partnerships				
M	Contract Management	20	Not yet started	
Total - Contracts and Partnerships		20		
Assurance Audits - Public Health				
M	Public Health compliance with best practice	15	Not yet started	
Total - Public Health		15		
Special Investigations				
M	National Fraud Initiative (NFI)	20	Ongoing throughout year	n/a
M	Special Investigations and supporting the Corporate Fraud Team	40	Ongoing throughout year	n/a
Pro Active Anti Fraud:				
M	Financial assessment processes SCHH	10	Scoping agreed	
M	Cash income	10	Not yet started	
M	Bank Accounts and Cash income	10	Not yet started	
M	Use of purchasing Cards	10	Fieldwork in progress	
Total - Special investigations		100		
Ad Hoc Consultancy etc.,				
H	Risk Management Activities	35	Ongoing throughout year	n/a
M	Major projects - Consultancy	40	Ongoing throughout year	n/a
M	Supporting Annual Governance Statement	5	2014/15 statement completed	n/a
M	Audit of Individual Grants	20	Ongoing throughout year	includes Broadband claim
M	General Advice	20	Ongoing throughout year	n/a
M	Head of Audit Chargeable Against Plan	60	Ongoing throughout year	n/a
M	Assurance Mapping Review	5	Ongoing throughout year	n/a
M	Benchmarking Exercise	5	Completed	n/a
L	Contingency	70		n/a
Total - Ad Hoc Consultancy etc.		260		
TOTAL CHARGEABLE DAYS REQUIRED		1260		

Appendix B

SPECIAL INVESTIGATIONS ARISING AND COMPLETED SINCE LAST COMMITTEE				
	Directorate/Area	Potential financial value/risk	Brief Details of Case	Outcome
1.	Director of Improvement and Corporate Services	Low	Concerns were raised by a whistle blower in respect of the conduct of a senior officer within a service area. Concerns included inappropriate conduct, behaviour and attitude and not following the Council's policies.	A review of the concerns was undertaken and the issues raised were reviewed against Council policies and procedures. Some areas for improvement were identified and an action plan has been agreed with managers to address these.

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Central Bedfordshire Council

Audit Committee

11 January 2016

RISK UPDATE REPORT

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

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

Purpose of this report

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

RECOMMENDATIONS

The Committee is asked to:

1. Consider and comment on the contents of the report.
2. Approve the revisions to the Risk Management Strategy

Overview and Scrutiny Comments/Recommendations

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

Background

2. The Terms of Reference of the Audit Committee include the monitoring of the operation of the Risk Management Strategy. This report is the regular update report to assist the Committee in discharging its responsibilities.
3. The purpose of this report is to give an overview of the Council's risk position as at December 2015. It was agreed with senior managers in September 2015 that a fundamental review of the risk register would take place following the Spending Review Announcement and the Local Finance Settlement. This review has been scheduled to take place in February 2016. However, some revisions have been made since the Committee last met and this report focuses on those issues.

Strategic Risks

4. The Strategic Risk Register has been reviewed and updated in consultation with the Directorate Risk Co-ordinators.
5. The December 2015 risk register dashboard is attached at Appendix A. The report contains 11 strategic risks. 9 risks have a residual score of 9 or more. A score of 9 or more generally represents an unacceptable risk exposure, with further mitigation required.
6. The risks have been reconsidered and the key revisions are set out below.
7. The Growth strategic risk (STR0003) has been reviewed. It has been updated to reflect the current work in progress to develop a new Local Plan. There have been no changes to the risk scores. This risk will be subject to a detailed review and refresh in the New Year.
8. The Health and Safety risk (STR0006) has been reviewed by senior managers and it is now considered to be an operational risk rather than a strategic risk. Action has been taken to mitigate the risks associated with both people and properties. The impact residual risk score has been reduced from severe (4) to major (3) and the residual likelihood score has been reduced from possible (3) to unlikely (2). This risk has, therefore, been removed from the risk dashboard.
9. The Strategic Procurement risk (STR0022) has been reconsidered and now focuses on achieving best value through commissioning and procurement. Failing to comply with the Public Contract Regulations 2015 is now regarded as an operational risk and this element has been removed from the strategic risk description. There has been no change in the residual risk score.
10. As reported to the Committee meeting in September, the residual risk score of failing to meet legal requirements relating to Deprivation of Liberty Standards had been reviewed and amended downwards. Although there has been an increase in the number of requests for deprivation of liberty assessments, the additional workload has been successfully managed. The residual likelihood score was reduced from 3 to 2, resulting in an overall residual score of 6. This is no longer regarded as a strategic risk. However, it will be kept under review and monitored through the operational risk registers.
11. The risk of failing to adopt a Community Infrastructure Levy (CIL) (STR0027) has been reviewed to reflect current progress. It is now anticipated that the CIL will be submitted to the Secretary of State in April/May 2016 and adopted in October/November 2016. However, the Council continues to receive conflicting advice on whether the CIL can be adopted without a Local Plan and it may be some time before there is clarity on this issue. At this stage, there has been no change in the residual risk score but the position continues to be closely monitored.

12. There are no revisions to the remaining strategic risks at this stage.

Operational Risks

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

14. The dashboard has listed the 7 operational risks with a risk score of 15 or above. There have been no revisions since the last report.

Emerging Risks

15. As reported to the September Committee meeting, although risks have been regularly reviewed and updated, a fundamental review and refresh of the strategic risk register has not taken place since July 2013. In the light of the likelihood of continuing funding reductions and changes in service provision, following the Spending Review Announcement and the Local Government Finance Settlement a further fundamental review will be undertaken by senior managers in February 2016.

Risk Management Strategy

16. The Council's Risk Management Strategy has been reviewed and updated. Amendments have been made to ensure that it reflects current issues, such as the recently published CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, feedback from the recent Information Commissioner's Office (ICO) visit and feedback from the Directorate Risk Coordinators. A copy of the updated strategy is attached at Appendix B. The revisions made are summarised below:

- roles and responsibilities section amended to reflect the broader range of designations of posts that now exists
- reference included to further guidance available on the Information Risk Management process, and the management of project risks, and
- the inclusion of an annex that lists risk types (including information and fraud) and also a definition of strategic and operational risks

17. The revisions have been agreed with senior managers.

Council Priorities

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

Corporate Implications

Legal Implications

19. None directly from this report.

Financial Implications

20. None directly from this report.

Equalities Implications

21. None directly from this report.

Conclusion and next Steps

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

Appendices

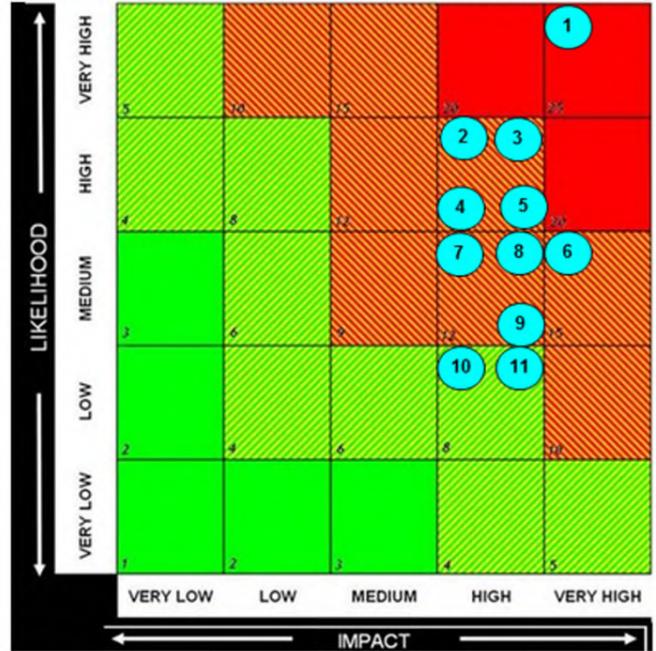
Appendix A – December 2015 Risk summary dashboard

Appendix B – Risk Management Strategy November 2015/16

Background Papers

None

CBC Strategic Risk Register Matrix - Residual Risk Rating



#	Reference	Nature of Risk	2013/14		2014/15			2015/16	
			Dec	Mar	Sept	Dec	Mar	Sept	Dec
1	STR0019	Failure to deliver effective and cohesive Health and Social Care to local residents.	15	15	20	20	20	20	20
2	STR0001	Continuing significant reduction in or redirection of funding due to Central Government cuts, or loss of grant or other funding e.g. Health funding, Schools' Finance Regulations.	12	12	12	12	12	16	16
3	STR0003	Growth: a risk that failure to adopt a 'sound' Development Strategy and subsequently deliver the levels of housing, jobs or infrastructure proposed for growth and regeneration of the area in a planned way.	16	16	16	12	12	16	16
4	STR0009	Failure of partnerships as a result of conflicting priorities: there is a risk that the Council is unable to develop and manage effective partnerships and influence the activities of the partnerships.	8	8	8	16	16	16	16
5	STR0027	Failure to adopt a Community Infrastructure Levy (CIL) .				20	16	16	16
6	STR0010	Failure to recruit and retain professional and qualified social workers and discharge the Council's statutory children's safeguarding responsibilities.	12	15	15	15	15	15	15
7	STR0022	Failure to adhere to Procurement Rules.	12	12	12	12	12	12	12
8	STR0024	Assets Disposal Programme - Failure to achieve capital receipts.			20	12	12	12	12
9	STR0028	Failure to deliver the requirements of the Care Act 2014					12	12	12
10	STR0008	Failure or disruption to key elements of core infrastructure (data centre, environment and networks) leading to no functionality for more than 24 hours.	16	15	12	12	12	8	8
11	STR0013	Information Management: a lack of consistent information management and data accuracy across the organisation leading to non compliance with the Data Protection Act and a breach of information security.	15	15	12	12	12	8	8

Overview of Risk Position - December 2015

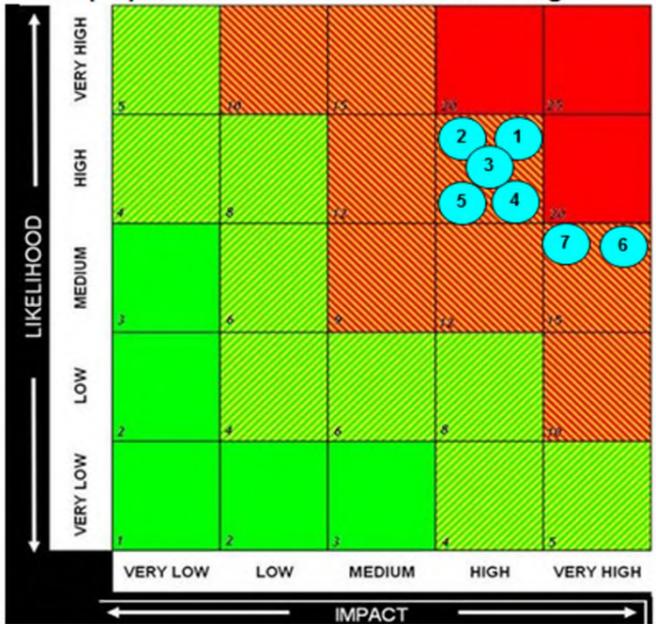
The risk with the highest residual score is: STR0019 - Failure to deliver effective and cohesive Health and Social Care to residents

The following risks have been removed: STR0006 - Health and Safety
STR0026 - Deprivation of Liberty

Revisions to the descriptions or mitigating/further actions have been made to the following risks: STR0003 - Growth
STR0022 - Procurement
STR0027 - Community Infrastructure Levy

The matrix also highlights the most noteworthy operational risks facing CBC.

CBC Top Operational Risks - Residual Risk Rating



#	Reference	Nature of Risk	2013/14		2014/15			2015/16	
			Dec	Mar	Sept	Dec	Mar	Sept	Dec
1	SCH0004	Insufficient staff resources resulting in under or mis-direction of investment in the transformation of adult social care services.	16	16	16	16	16	16	16
2	SCH0007	Partnerships: failure to establish a common vision with health and the delivery of joint commissioning strategies.	16	16	16	16	16	16	16
3	SCH0008	Insufficient capacity, expertise and competency to deliver Adult Social Care and Housing agenda.	16	16	16	16	16	16	16
4	SCH0005	Failure to develop a social care market to deliver positive outcomes and choices for people.	16	16	16	16	16	16	16
5	CHS0005	Failure to retain and recruit staff within Children's Services.			16	16	16	16	16
6	CHS0023	Failure to manage and secure information leading to security alert and privacy breach.					15	15	15
7	SUC030007	Traffic accidents causing damage to network	12	12	12	12	12	15	15

Key

New Risk ●
Current Risk Position ●
Previous Position ●

Assessing Impact

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

Assessing Likelihood

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

APPENDIX A

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APPENDIX B

Corporate Risk Management Strategy 2015/16



Approval History

Version No	Approved by	Approval Date	Comments
V1.0	CMT	March 2012	
	Audit Committee	April 2012	
V2.0	CMT Audit Committee	December 2015	

Document Author

Version	Authors	Role
V1.0 (an update of an earlier version prepared prior to KR assuming responsibility)	Kathy Riches	Head of Internal Audit and Risk
V2.0	Kathy Riches	Head of Internal Audit and Risk

Document Governance

Next Review Date	September 2016
Publish to Web	Intranet & Internet
Circulation	This policy is to be made available to all CBC staff and observed by all members of staff. This policy should also be published on the Authority's website.
Information Classification	NOT PROTECTED

Corporate Risk Management Policy Statement

In the coming years Central Bedfordshire Council will face considerable challenges as a result of having to provide effective services to our communities and citizens, with significantly less resource. In order to achieve its objectives the Council will continue to need a strong focus on risk management – to mitigate the threats and make the most of the opportunities that we face.

The Council believes that risk is an inherent feature in all areas of our organisation. Some risks will always exist and can never be eliminated: they therefore need to be appropriately managed. Effective management of risk is therefore at the heart of the Council's approach to delivering cost effective and valued services to the public as well as adhering to corporate governance requirements. Consequently, all Officers and Members are required to understand their risk management responsibilities, as defined in the Risk Management Strategy.

The Council's objectives will be achieved by:

establishing clear roles, responsibilities and reporting lines within the Council for risk management;
incorporating risk management into the Council's decision making processes;
embedding a consistent, best practice approach to risk management across the Council; and
monitoring risk management arrangements on a regular basis.



Richard Carr
Chief Executive

Michael Blair
Chair of Audit Committee

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Introduction

Risk management is important. It ensures that we successfully deliver our services whilst protecting the interests of our stakeholders. However, the resources that we have with which to manage risk are finite. Therefore the aim of this strategy is to identify how Central Bedfordshire Council (CBC) will manage risk in a way that helps us meet our objectives, is in line with best practice and satisfies internal control requirements whilst remaining as 'light touch' as possible.

The purpose of the Central Bedfordshire Council Risk Management Strategy is to:

**describe our approach to risk management;
define how risk should be managed across all areas of the Council in order to help us meet our strategic objectives; and
explain how we intend to improve our risk management processes throughout 2015/16 and beyond.**

This Risk Management Strategy has been produced using Institute of Risk Management and HM Treasury guidance, and has taken into account other good practice guidance, such as the Information Commissioner's Office (ICO) guidelines and CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption.

Vision

The Council recognises that we live in an uncertain world, where the people, environment and communities of Central Bedfordshire may be at risk. Risk management is a framework by which the Council can view, manage and respond to risk, both threats and opportunities, in a robust, systematic and documented way.

The vision for risk management within CBC is to underpin our self-confidence and pride in our services by ensuring that management of risk is inherent within our work practices and culture to help successfully deliver current and future strategic objectives.

Culture

We expect successful risk management to facilitate the following outcomes:

**Delivery of our strategic objectives
Meeting planned financial outcomes
Maintenance and improvement of our reputation as a Council and leader of the community**

In order to achieve this, it is important that a culture of openness and honesty is encouraged when looking at what could potentially go wrong. Risk owners need to set out to construct proportionate responses to the risks that we face. In order to do this they will need to be aware of all internal and external factors that might affect each risk. With this in mind all risks should be managed within the following context:

An open, ‘no surprises’ culture where well managed risk taking is encouraged.

It is the responsibility of all staff to identify and raise risks, not just risk managers or senior staff.

Managers at all levels will lead by example to encourage the right behaviours and will ensure their staff have a clear understanding of how to assess risks, when they should escalate risks and how risk management is embedded into existing management processes.

Risks will be recorded and managed using transparent and stable processes.

Risk management action should also be embedded into other aspects of the Council including delivery of objectives, service design, policy making, project/programme management, protecting the council against fraud, business continuity and health and safety.

What is Risk Management?

A ‘risk’ can be defined as an uncertain event that, should it occur, will have an effect on the achievement of objectives. A risk is measured in terms of a combination of likelihood and the magnitude of its impact on objectives. In all types of undertaking there is the potential for events and consequences that constitute threats to success (negative impact) or opportunities for benefit (positive impact). Therefore ‘risk management’ can be defined as the way in which we identify and manage the threats and opportunities that face the organisation. The focus of good risk management is the identification and treatment of these risks, with the objective to add maximum sustainable value to all of our activities.

Risk management is also a set of attitudes and skills to help staff, councillors and our partnerships make full use of opportunities by mitigating the uncertainty factor. It is a continuous process, because the environment and the context in which we operate are always evolving. Consequently, the decision making process that addresses the risks and opportunities that surround us needs to be continuously informed. Risk management should work quietly in the background – nobody external to the process needs to know it’s there, because anything that might go wrong is effectively identified and mitigated.

Effective risk management ensures that the organisation, its governance and its services are resilient in adversity. By considering the ‘what ifs’ we can ensure that, if something does go wrong, we are prepared and able to deal

with it in the most appropriate manner. Good risk management can help the Council to:

Have increased confidence in achieving our desired outcomes
Effectively contain threats to acceptable levels
Take informed decisions about exploiting opportunities
Give our stakeholders increased confidence in the fact that we are successfully managing the delivery of our objectives

Why Manage Risk?

There are a number of reasons why the Council encourages good management of risk. These fall broadly into three categories:

Because it helps us to improve the work we do and the services we deliver

Risk management is an indispensable element of good practice. Its implementation improves our ability to deliver services to the highest quality, to make effective decisions, to improve organisational learning and to safeguard our customers.

A well presented, well managed risk register is a useful way of drawing together, in one document, the potential obstacles to delivering our services across the whole organisation. It also identifies the relative importance of these obstacles and assigns responsibilities for reducing the likelihood/impact if they do occur.

Because it helps us manage the Council

Embedding a culture of risk awareness within the Council helps us to identify, understand and manage the threats and opportunities that we face on a day to day basis. The benefits to be gained from good risk management include:

Improved strategic and operational management
Better management of our finances
More effective business planning
Prevention of fraud
Lower insurance premiums
Improved statutory compliance
Increased organisational learning

In addition, the strategic Risk Register helps inform the Strategic Audit Plan.

Because we have to

The Council has adopted a Corporate Governance Framework. The framework, which is signed by the Chief Executive and Leader of the Council, is made up of the systems, processes, culture and values by which the Council accounts to, engages with and leads the community. Good risk management is an integral part of this. The framework lays out our responsibility to ensure that risk management is embedded into the culture of CBC. When the Annual Governance Statement is signed at the end of the year evidence must be provided to show that the Council actively engages in risk management.

The Audit Committee requires us to manage risk effectively. The purpose of the Audit Committee is to provide independent assurance on the adequacy of the risk management framework and the associated control environment. Without adequate risk management processes in place the Committee will be unable to discharge its responsibilities. The Audit Committee is also required to approve the Risk Management Policy Statement.

Who Manages Risk?

Everybody carrying out work on behalf of CBC has a responsibility to manage risk. The table below details roles and responsibilities for risk management for all individuals.

Role	Responsibility
Leader of the Council and the Executive	The Leader has responsibility to ensure the work of the Executive and Full Council is conducted in accordance with Council's approach to management of risk.
Chief Executive	<p>The Chief Executive takes overall responsibility for the Council's risk management performance and in particular is required to ensure that:</p> <p>Decision making is in line with Council policy for management of risk Adequate resources are made available for the management of risk Management of risk performance is continually reviewed There is an understanding of the risks facing Central Bedfordshire Council</p>
Members	Members should take reasonable steps to consider the risks involved in the decisions taken by them, and have an understanding of the risks facing Central Bedfordshire Council. They should be confident that the levels of risk tolerated are appropriate and proportionate to the costs involved their mitigation.
Audit Committee	The purpose of the Audit Committee is to provide independent assurance on the adequacy of the risk management framework and the associated control

Role	Responsibility
	environment. The committee should agree and endorse the Corporate Risk Management Strategy, and review and scrutinise its implementation and effectiveness.
Corporate Management Team (CMT)	<p>CMT has the responsibility for creating the environment and structure for risk management. Therefore they should:</p> <p>Approve the Corporate Risk Management Strategy and related policies Have an understanding of the risks facing Central Bedfordshire Council Identify strategic risks and manage the Strategic Risk Register on a periodic basis Maintain an understanding of the management of risks and its benefits Promote and oversee the implementation of the Corporate Risk Management Strategy</p>
Directors	<p>Directors have primary responsibility for managing risk on a day to day basis. They should:</p> <p>Promote risk awareness Ensure Directorate risk registers are maintained and allocate resources to control/minimise risk Ensure that risk management roles and responsibilities are included within appropriate job descriptions Understand the risks facing CBC</p>
Chief Finance Officer	The post of CFO, as defined by the constitution, has statutory duties in relation to the financial administration and stewardship of the Authority. The CFO has the responsibility to report breaches of financial governance (including risks) to the Audit Committee.
Assistant Directors/Group Managers/Heads of Service/Chief Officers	<p>Assistant Directors/Group Managers/Heads of Service/Chief Officers should:</p> <p>Promote risk management and ensure that the strategy is implemented effectively across services Establish training requirements Understand the risks facing CBC Ensure that all employees are aware of the risk assessments appropriate to their activity</p>
All Staff	<p>Put quite simply, management of risk is the responsibility of every employee. All staff should:</p> <p>Understand that risk management and risk awareness are a key part of the organisation's culture. Read, understand and follow the Risk Management Strategy Identify risks and report to line managers and/or risk coordinators as appropriate</p>
Risk Coordinators (Directorate)	The Risk Coordinators (Directorate Representatives) will bring together risk management across the council,

Role	Responsibility
Representatives)	disseminate best practice and ensure a consistent approach to risk management is taken.
Partners and Contractors	The Council expects third parties upon which it relies (including contractors, consultants, partners and associates) to comply with the risk management policies and procedures and to have their own systems in place to mitigate risk.
Internal Audit and Risk	<p>Internal Audit and Risk will provide assurance on the implementation of the Corporate Risk Management Strategy and the robustness of the Council's management of risks.</p> <p>In addition, Internal Audit and Risk is responsible for coordination of corporate risk management within CBC. This will include:</p> <ul style="list-style-type: none"> Development and implementation of an effective framework for managing risk Development of the Corporate Risk Management Strategy Promoting, supporting and overseeing its implementation Monitoring and reviewing the effectiveness of the Corporate Risk Management Strategy Identifying and communicating risk management issues Assisting services in risk management activity through training and/or direct support Championing risk management at strategic and operational levels.

How we Manage Risk

This section of the strategy lays out the processes that are in place to ensure that risk is managed properly. It is important to note that the approach taken has been identified as proportionate to the organisation. In managing risk it is essential that we respond to the challenges we face, and not create any overly bureaucratic processes.

It is the responsibility of Directors to ensure that risk is effectively managed within their business units. This strategy suggests a flexible approach to the management of risk, and Directors should set the direction within their areas of responsibility. However, because of the requirements identified in the 'Why Manage Risk - Because we have to' section above, there are some parameters to this flexibility. These are as follows:

Directors and their staff should use Risk Registers and the JCAD Risk Management System

When used badly risk registers are bureaucratic and burdensome, but when used correctly they are an extremely useful management tool that can really drive good decision making. We will use the JCAD Risk Management System to record scores and mitigating actions. This is important for a number of reasons:

JCAD RISK is an easy to use online system. It will help ensure that we can easily record and share knowledge and understanding of risks around the organisation without putting bureaucratic processes in place.

It will help us with corporate reporting. The Corporate Management Team (CMT) will review major operational risks facing the organisation on a quarterly basis.

It is open and transparent. CMT, as stewards of the Council, need to have confidence in our risk management processes.

It will help us ensure that there is some consistency in our approach to risk.

Effective use of JCAD will help us ensure that (and provide assurance on) the required mitigating activity is being undertaken.

Each Director should give a suitably placed member of staff the responsibility of being 'risk coordinator'. One of the responsibilities of the risk coordinator will be to ensure that risks are recorded and updated as necessary on JCAD.

Directors and their staff should follow Risk Scoring Guidance

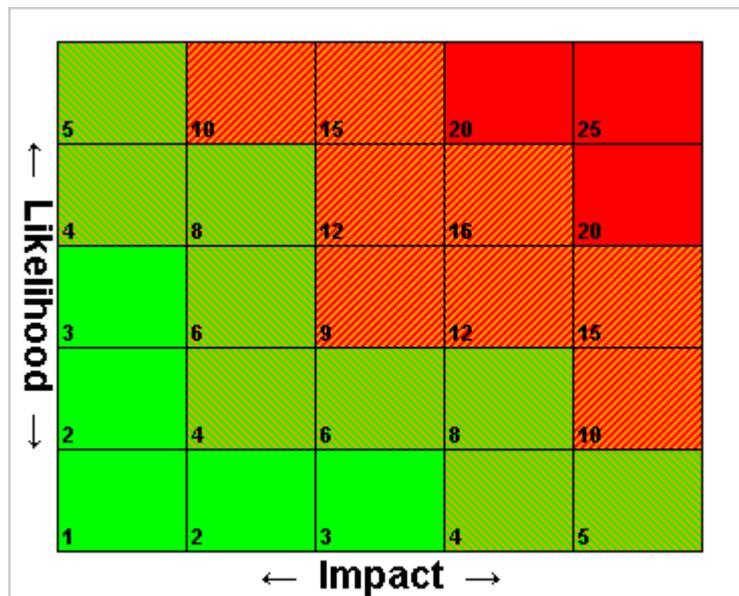
Consistency is an important element of risk management – especially for those such as CMT who need a holistic view of the risks that we face as an organisation. The CBC risk scoring guidance is contained at Annex 1 of this document. It is the responsibility of risk coordinators to ensure that the risks faced by each Director are entered into JCAD and scored appropriately using the guidance.

Assessment of the risk using the scoring guidance should be the first step in understanding what mitigation is required. The higher the score the more urgency should be placed on getting mitigating actions in place.

The matrix below shows the actions that should be taken by Directors and their staff depending on the residual scoring (i.e. post control) of their risks. The dotted line through the middle shows our tolerance to risk. As a general rule any risks that fall into the green or amber/green squares are acceptable. No further mitigating action is required – anything that falls in here is at an acceptable level of risk. Having said this, some thought should be given to the cost of the control measures that keep the risk at such a low level. Do we have to be so risk adverse? Would it be acceptable to have a higher risk exposure if it meant cost savings?

Any risks that fall to the right of the tolerance line reflect an unacceptable level of risk and further mitigating action is required in order to reduce the level of

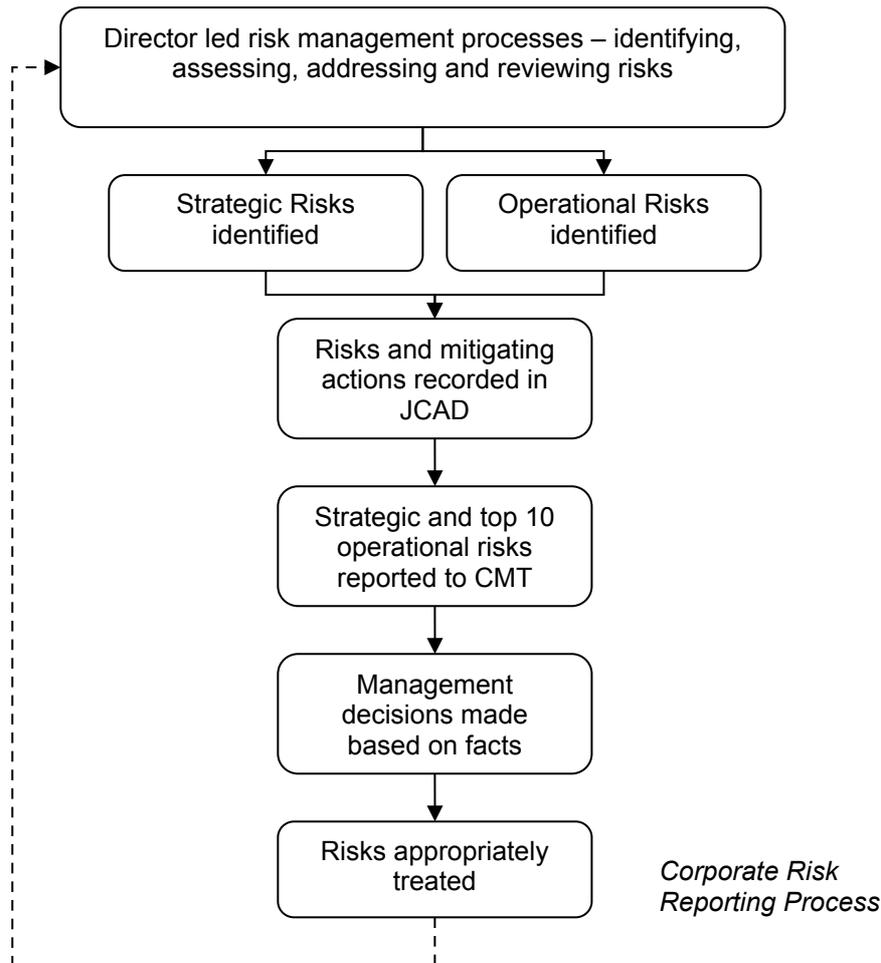
residual risk. Any risks that fall into the red sectors of the matrix represent the highest level of risk facing CBC, and immediate action is required to reduce the residual score to a more appropriate level.



Directors and their staff should comply with corporate reporting requirements

The reporting of risk to CMT on a quarterly basis is important. An assessment of identified risks needs to be fully integrated into the strategic and key operational decision making processes of CBC. For example, when planning fundamental changes to service provision or large capital investment programmes, CMT need to be confident that they understand the full impact. This will minimise the chance of investing unwisely, incurring unacceptable organisational costs, damaging our reputation, or failing to provide the required services.

An effective risk management process helps us achieve this. In line with the aim of maintaining a ‘light touch’ risk management process, the additional requirement on Directors and their staff for corporate risk reporting will be minimal. Directors and their staff will be using the JCAD system to manage their risks. The top Council wide risks with the highest residual exposure will be taken from JCAD to form part of the quarterly risk report. The strategic risk register (which is maintained by Internal Audit and Risk) will form the second part of the report, which will be sent to CMT on a quarterly basis. This process is highlighted in the diagram below.



The Audit Committee will also receive a quarterly risk report. This will ensure that the Committee has an overview of the way in which risk is managed within the Council, and enable Committee Members to discharge their risk management responsibilities.

Directors should ensure that risk training is provided to appropriate staff

All members of staff are required to have a good understanding of the processes involved in managing risk. Therefore each Director will need to ensure that their staff have an appropriate level of risk management training. The level of training required will vary from post to post, and it will be for Directors to define which employees require more advanced training. As a minimum each Directorate should ensure that:

- induction training includes staff responsibility in risk management;
- risk coordinators have a fuller understanding of risk management, and are able to use the JCAD system; and
- appropriate responsibility for risk management is defined in job descriptions.

Some limited support and advice on training is available from Internal Audit and Risk.

How we will Improve Risk Management in 2015/16 and beyond

Corporate risk reports will continue to be submitted to CMT on a quarterly basis

Periodic reassessments of the strategic risks facing the Council will be undertaken in response to both local and national initiatives and events JCAD will be further developed as a risk management tool.

Risk Management will continue to be further embedded within CBC through the Risk Coordinators (Directorate Representatives) who will also continue to meet as a group to bring together risk management across the council, disseminate best practice and ensure a consistent approach to risk management is taken. The risk Management strategy will be periodically reviewed and updated to ensure it reflects current best practice.

Support & Further Guidance

Annex 1 sets out risk scoring guidance

Annex 2 sets out guidance for identifying and managing risks, including risk types

Some support and guidance is also available from Internal Audit and Risk. If you need any assistance you can contact us:

by telephone: 0300 300 6155;

or by email: kathy.riches@centralbedfordshire.gov.uk

Further guidance on the management of Information Risks is contained in the Information Risk Management Process Notes, available on the Intranet and Internet. If you need any assistance with regard to Information Risks, you can contact the FOI and Privacy Specialist.

By telephone: 0300 300 4968

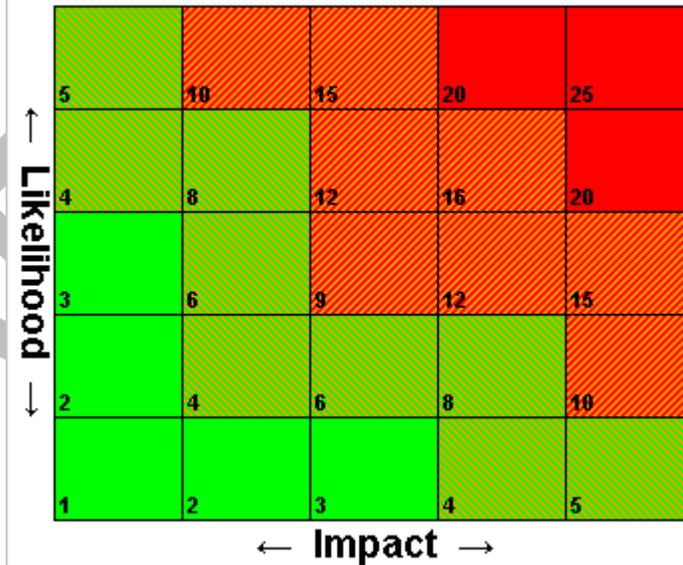
Or by email: sean.dykes@centralbedfordshire.gov.uk

Further information on managing project risks is included within the supporting guidance for Project Commissioning, available on the Intranet.

Annex 1 – Risk Scoring Guidance

Assessing Impact

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



Very Severe	Unacceptable level of risk. Immediate further action required. Flagged to CMT
Severe	Level of risks not tolerable. Further mitigating action required. Represents a high level of risk to CBC
Tolerate	Risk tolerable. Risks can be controlled through existing measures

Assessing Likelihood

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

Managed	Tolerable level of risk. Consideration should be given to the cost of control measures, and whether they are all necessary
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DRAFT

Annex 2 – Guidance for Identifying and Managing Risk

Identifying Risks

A key part of the risk identification process is understanding the sources (root cause) of a particular risk. Some of the key areas are listed below;

Types of Risk

Strategic	Failure to deliver a key strategic objective
Operational	Risks that relate to the delivery of a service or project
Information	Risks that relate to loss or inaccuracy of data systems or reported information
Reputation	Risks that relate to the Council's brand image
Financial	Risks that relate to insufficient funding, losing monetary resources or incurring unacceptable liabilities
HR/People	Risks associated with employees, management and to the well being of the public
Regulatory	Risks related to regulatory environment
Contractual	Risks related to the management of service contracts
Technological	Risks related to the use of technology/systems as part of service delivery
Partnerships & Communication	Risks related to communication with and between a range of external and internal audiences
Health & Safety	Risks associated with stakeholder welfare
Fraud	Risks related to unlawful activities

6 Key Questions for Identifying Risks

- What do you want to achieve, what will stop it being achieved?
- What is the potential cost to time, money and performance?
- How likely is it to happen?
- What are the impacts of each risk?
- What is the source of the risk?
- What can be done to reduce/control the risk?

Methods of Managing Risks

Once the risk has been identified, a decision then needs to be made about what action or controls will be undertaken to ensure effective management of the risk. There are certain methods for managing risk:

- **Avoid** - remove risk completely
- **Reduce Likelihood** – putting controls in place
- **Reduce Impact** – putting controls in place
- **Transfer the risk** – the financial cost through insurance or outsource to specialised company
- **Accept the risk** – only when impact and likelihood are low

When deciding on controls and actions it is important that the cost should be proportionate to the risk to ensure that there is a benefit to be gained.

The actions and controls which are implemented should be reviewed regularly by the person designated to that risk to ensure its effectiveness.

Central Bedfordshire Council

Audit Committee

11 January 2016

TRACKING OF INTERNAL AUDIT RECOMMENDATIONS

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

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

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. Internal Audit has recently finalised a further audit review of IT Disaster Recovery. Three high priority recommendations were made, including the previous recommendation that a Disaster Recovery plan should be developed. These are detailed in Appendix A (recs. 1-3).
6. One high priority recommendation made during 2013/14 remains outstanding. This relates to the reconciliation of Housing Repairs expenditure held in QL to SAP. Addressing this issue has proved more challenging than originally anticipated and the current position is detailed at Appendix A (rec.6)
7. Two high priority recommendations were made in 2014/15 relating to Teachers' Pensions and these have been regularly tracked by the Audit Committee. These recommendations have been removed from the tracking report as action has been taken to address the recommendations made. However, it is planned to undertake a full audit of this area during 2016/17 to test the effectiveness of the action taken and to provide assurance on the current arrangements.
8. 4 reports containing high priority recommendations have been issued during 2015/16 to date. 8 high priority recommendations have been made. These are summarised at Appendix B. The two high priority recommendations relating to the Comensura system were addressed in late October 2015 when a revised process was introduced. The new controls will be tested in detail as part of the Phase 2 of the Accounts Payable 2015/16 audit.
9. 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.
10. Progress will continue to be monitored. The follow up of audit recommendations forms an integral part of the fundamental system audit reviews.

Future Monitoring

11. 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

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

Corporate Implications

Legal Implications

13. None directly from this report.

Financial Implications

14. 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

15. None directly from this report.

Conclusion and next Steps

16. Further work is required to ensure that the outstanding recommendations are implemented and to monitor additional recommendations made during the year.

17. 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 – Details of recommendations made during 2013/14, 2014/15 and 2015/16 that remain outstanding

Appendix B – Summary of monitoring of High Priority Internal Audit recommendations - Reports issued during 2015/16

Background Papers

None

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

Improvement and Corporate Services

IT Disaster Recovery (including back up and restore arrangements)

<p>Recommendation R1: (Carried forward from previous audits) A disaster recovery plan should be developed and approved. As a minimum, this should include:</p> <ul style="list-style-type: none"> • the identification and prioritisation of key IT systems • the roles and responsibilities of relevant officers and third party suppliers • a set of IT procedures which should be executed initially to react to crises/disaster • escalation procedures • salvage procedures that deal with retrieval of items from affected • the recovery and reconfiguration of all IT and communications systems • details of additional accounts where monies may be sourced to aid recovery efforts • a schedule in respect of the testing of the plan
<p>Rationale for Recommendation: As has been previously reported to the 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 is undertaking to deliver a refreshed and renewed DR plan.</p>
<p>Target Dates: September 2015 (Original) April 2016 (Revised, tender decision made)</p>
<p>Current Position and Explanation for Slippage: The tender for data centre provisioning at CBC was published in December 2015. It is anticipated that tenders will be evaluated and a decision made by February 2016. A disaster recovery plan based upon the revised infrastructure will then be developed.</p>

<p>Recommendation R2: A review of resources alongside disaster recovery processes should be undertaken to confirm if the Council could cope without third party support and expertise. Arrangements should be clearly documented in the DR Plan.</p>
<p>Rationale for Recommendation: The Council no longer has a contractual agreement with an external party for the recovery of services.</p>
<p>Target Dates: September 2015 (Original) April 2016 (Revised)</p>
<p>Current Position and Explanation for Slippage: This is subject to the agreed action in the recommendation above.</p>

Recommendation R3:

Clarification regarding IT insurance arrangements at non CBC sites should be sought and reviewed. Arrangements should be clearly documented in the DR Plan.

Rationale for Recommendation:

It is not clear if the Council has appropriate insurance cover in place for equipment held at data centres Hoddesdon and Luton.

Target Dates:

September 2015 (Original)
December 2015 (Revised)
April 2016

Current Position and Explanation for Slippage:

The Council's Insurance Team is currently addressing this issue, in consultation with IT.

Social Care, Health and Housing

Housing Tenancy Management

Recommendation R4:

The Director of Social Care, Health and Housing and the Director of Regeneration and Business should clarify how housing responsibilities are allocated across their directorates. This should include the responsibility for and ownership of the Tenancy Strategy.

Rationale for Recommendation:

The Housing Tenancy Strategy was drafted by the Assistant Director - Housing Services with an Executive Foreword jointly signed by the Executive member with responsibility for Social Care, Health and Housing and the Director of Social Care Health and Housing (SCHH). It was approved by the Executive in March 2013 however during the course of this review it became apparent that responsibility for and ownership of the strategy is unclear. Discussions between the Director of Social Care, Health and Housing and the Director of Regeneration and Business confirmed that housing responsibilities lie across 2 Directorates, SCHH and Regeneration and Business, and that both Directors will clarify how this will be addressed.

Target Dates:

November 2015
March 2016 (revised)

Current Position and Explanation for Slippage:

An action plan is being developed to ensure housing responsibilities across the directorates are agreed and implemented however this has been delayed due to other commitments. Discussions between the Director of Social Care, Health and Housing and the Director of Regeneration and Business are in progress and a revised target date of March 2016 has been agreed.

Recommendation R5:

A Monitoring Group should be established, with clear terms of reference, to monitor and review the effectiveness of the Tenancy Strategy.

Rationale for Recommendation:

Each Provider is responsible for its own individual tenancy policies, as well as arrangements for review and appeals. However, the Tenancy Strategy proposed that the Council establish a monitoring group consisting of representatives of registered providers and other key stakeholders. This group is meant to support the Council in its role of monitoring and reviewing the effectiveness of this Strategy but the group is yet to be set up.

Target Dates:

November 2015
March 2016 (revised)

Current Position and Explanation for Slippage:

This will be addressed as part of the action plan being developed in response to the earlier recommendation.

Housing Repairs Commissioning

<p>Recommendation R6: Housing Repairs expenditure in QL and SAP should be regularly reconciled.</p>
<p>Rationale for Recommendation: 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"> 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. 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. 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.
<p>Target Dates: End September 2014 End March 2015 (revised) End June 2015 (revised) October 2015 (revised, self billing) January 2016. (see below)</p>
<p>Current Position and Explanation for Slippage:</p> <p>A technical interface and related business processes were designed and implemented to move commercial information from QL to SAP. During testing and live operation it has been determined that the 'technical link – business process combination' that has been implemented does not provide a 100% accurate and reconcilable commercial environment. Although the rate of error is very small, there are occasions where information can be mishandled. As such, it has been deemed prudent to develop a more robust data exchange between our QL and SAP systems. This work is has been scoped within the Housing Digitalisation Project as a comprehensive change management programme where Repairs – the SAP / QL / Contractor systems environment – is the top priority for re-design and improvement. The roll out to all contractors will not commence until the data exchange between the two systems is robust and testing demonstrates that the reconciliation is 100% accurate. This is likely to be Quarter 4 2015/16 however revised dates for this programme will be reported to Audit Committee once the Board has approved the Project Initiation Document (PID).</p> <p>In addition, work is continuing to identify a pragmatic resolution with the technical link that was implemented. Specifically, a Date field appears to be the problem between SAP and QL. The next test of data (as a reconciliation exercise) is scheduled for January 2016. In the event that an accurate test is completed in January, this will be reported to Committee. However 'partial success' does not obviate the requirement for comprehensive re-design and change to be implemented.</p> <p>Updates to Audit Committee will continue during 2016 and possibly 2017 until the roll out to all contractors is successfully completed. No milestone date set.</p>

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

Reports issued during 2015/16

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. A
IMPROVEMENT AND CORPORATE SERVICES									
Accounts Payable Phase 2 (Comensura)	13/08/15	31/10/15	2	2					
SAP Access and Security	28/05/15	28/05/15	1	1					
IT Disaster Recovery	29/09/15	30/09/15	3			3			Recs. 1-3
SOCIAL CARE, HEALTH & HOUSING									
Housing Tenancy Management	04/09/15	30/11/15	2			2			Recs.4-5
Total			8	3		5			

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Central Bedfordshire Council

Audit Committee

11 January 2016

WORK PROGRAMME

Advising Officers:

Mel Peaston, Committee Services Manager
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Leslie Manning, Committee Services Officer
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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

2015/16 Municipal Year	
29 June 2015	<ul style="list-style-type: none"> • Statement of Accounts 2014/15 (presentation) (NV/RG) • Annual Audit and Certification Fees 2015/16 (MW) • Annual Governance Statement 2014/15 (MC) • Local Government Pension Scheme Update (RG) • Annual Counter Benefit Fraud Update (GM) • 2014/15 Internal Audit Annual Audit Opinion (KR) • Tracking of Audit Recommendations (KR) • Work Programme (LM)
28 September 2015	<ul style="list-style-type: none"> • Statement of Accounts 2014/15 (RG) • Audit Results Report 2014/15 (MW) • External Audit Progress Report (MW) • Risk Update Report (KR) • Tracking of Audit Recommendations (KR) • Internal Audit Progress Report (KR) • Work Programme (LM)
11 January 2016	<ul style="list-style-type: none"> • Certification Annual Report 2014-15 (MW) • Annual Audit Letter 2014/15 (MW) • External Audit Progress Report (MW) • Local Government Pension Scheme Update (RG) • Statement of Accounts 2015/16 (RG) • Risk Update Report (KR) • Tracking of Audit Recommendations (KR) • Internal Audit Progress Report (KR) • Work Programme (LM)
4 April 2016	<ul style="list-style-type: none"> • Audit Plan 2015/16 (MW) • External Audit Progress Report (MW) • Annual Refresh – Risk Based Verification Policy for Housing Benefit and Local Council Tax Support Assessments (GM) • Risk Update Report (KR) • Tracking of Audit Recommendations (KR) • Internal Audit Progress Report (KR) • 2016/17 Internal Audit Plan (KR) • Work Programme (LM)

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