

CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 14, Priory House, Monks Walk, Shefford on Monday, 4 April 2016

PRESENT

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

Cllrs P Downing
R Morris

Cllrs D Shelvey
A Zerny

Members in Attendance: Cllr F Firth

Officers in Attendance: Mr R Gould Head of Financial Control
Mrs J Luckman Fraud, Welfare & Partnerships
Manager
Mr L Manning Committee Services Officer
Mr G Muskett Head of Revenues & Benefits
Ms K Riches Head of Internal Audit & Risk
Mr C Warboys Chief Finance Officer

Others In Attendance: Ms C Ryan Manager – Ernst & Young LLP

AUD/15/40 Minutes

RESOLVED

that the minutes of the meeting of the Audit Committee held on 11 January 2016 be confirmed and signed by the Chairman as a correct record.

AUD/15/41 Members' Interests

None.

AUD/15/42 Chairman's Announcements and Communications

The Chairman welcomed Carol Ryan from Ernst & Young LLP to her first meeting of the Committee. He added that Ms Ryan's colleague, Neil Harris, was unable to be present because his attendance was required at another meeting.

AUD/15/43 Petitions

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

AUD/15/44 Questions, Statements or Deputations

No questions, statements or deputations were received from members of the public in accordance with the Public Participation Procedure as set out in Annex 1 of Part A4 of the Constitution.

AUD/15/45 External Audit Plan 2015/16

Members considered a report from Ernst & Young LLP which set out the company's 2015/16 Audit Plan for the Council, based on an analysis of the financial, strategic and operational risks faced by the authority. The Plan detailed the approach to be taken by Ernst & Young to the audit of the Council's 2015/16 financial statements and to providing a value for money conclusion on the adequacy of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Committee noted that the audit approach and scope would be in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by the Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It was also to ensure that Ernst & Young's audit was aligned with the Committee's service expectations.

The Audit Plan summarised the company's initial assessment of the key risks which drove the development of an effective audit for the Council and outlined the company's planned audit strategy in response to those risks.

The Ernst & Young Manager introduced the report and highlighted particular issues for Members' attention. Under 'Other Matters' (Part 3 – Significant value for money risks) she referred to the public interest disclosure from a whistle blower regarding the approach taken by the Council to its procurement of legal services. The Committee noted that at the meeting of the Council's Executive on 12 January 2016 (minute E/15/89 refers) the Chief Executive had explained that the Council had received notification of the whistle blower's concerns through the National Audit Office and that the Council's external auditors had been tasked with investigating them.

The Ernst & Young Manager explained that the company had welcomed the Council's positive response to the company's investigation procedure and the authority was known to be considering the lessons which had been identified

so far. She added that it had been hoped to submit a letter setting out the outcome of the company's work to the meeting but this was yet not ready.

In response to a Member's query regarding the whistle blower the Chief Finance Officer stated that the complaint had been received through the National Audit Office and passed to Ernst & Young as the Council's external auditors. As such it was extremely doubtful whether the whistle blower's identity was known within the Council. The Chief Finance Officer then explained that the whistle blower's concerns related to the procurement process undertaken by the Council for the provision of shared legal services through LGSS Law Ltd and whether external legal advice had been sought on this. The Chief Finance Officer confirmed that it had. He added that the Council had followed the correct procedure but, unfortunately, this had not been fully documented. He reminded the meeting however, that this was the first time that the Council had undertaken such a process and, if it was to occur again, any lessons would be applied. He concluded by stating that the letter containing the final outcome from Ernst & Young was expected shortly.

NOTED

the external Audit Plan for the year ending 31 March 2016.

(Note: Minute AUD/15/53 below also refers).

AUD/15/46 Annual Counter Fraud Update

The Committee considered a report which provided an update on the work of the Council's Corporate Fraud Investigation Team (CFIT) and the main work areas for the new municipal year.

Members were reminded that responsibility for investigating Housing Benefit fraud passed to the Department for Work and Pensions (DWP) Single Fraud Investigation Service (SFIS) on 1 May 2015 and that CFIT was formed on this date. The Committee noted that the following areas of work had remained with the Council:

- Local Council Tax Scheme reduction fraud investigations
- The compilation of information and evidence requested by the DWP in support of a fraud investigation by SFIS
- Amendment to any Housing Benefit claims and the collection of any overpayments
- Participation in the National Fraud Initiative (NFI) for both benefits and Council Tax
- Corporate fraud and error investigations, including tenancy fraud, Council Tax discount fraud and Business Rates avoidance.

CFIT's initial focus during its first year had been on team building, raising awareness of corporate fraud and establishing internal and external partnerships. However, a range of counter fraud work had been carried out and the Head of Revenues and Benefits referred to four recent case studies

which provided examples of this. The meeting was advised that, with regard to the first example, which related to a Council tenant illegally sub-letting her property before purchasing it, the tenant had pleaded guilty and had received a ten month suspended sentence, been required to pay £2,500 costs and return the property to the Council. In reply to a Member's query the Fraud, Welfare and Partnerships Manager stated that the case had been publicised through a press release and she was personally aware that it had been reported on several occasions on Three Counties Radio.

The Head of Revenues and Benefits drew the Committee's attention to the following main work areas, to be jointly delivered by CFIT and Internal Audit, for 2016/17:

- Local Council Tax Support (LCTS) fraud
- Housing fraud
- Blue Badge fraud
- Continued fraud awareness across the Council
- Disabled Facilities Grants, Direct payments and care home fees
- School Admissions
- Council Tax and Business Rates fraud
- Proactive Counter Fraud work

In reply to Members' queries regarding access to the full range of background data on claimants, the Head of Revenues and Benefits and the Fraud, Welfare and Partnerships Manager described the various sources that could be used, on a case by case basis, and the team's relationship with particular bodies. In response to a further query regarding operational security and the use of an information analyst the Fraud, Welfare and Partnerships Manager set out the team's operational procedures and the security measures that were taken whilst the Head of Revenues and Benefits explained that consideration was being given to making use of a single, well defined version of the data held in the form of a 'golden record' for analytical purposes.

Given CFIT's success in recovering monies obtained by fraudulent means a Member asked whether an increase in staff numbers could generate the recovery of even larger amounts of money. Discussion followed during which the Chief Finance Officer explained that additional staff had already been, or were in the process of being, appointed in other areas within Revenues and Benefits. Whilst he could not reject the possibility of further appointments to CFIT he stressed that the team was only a year old. In addition, forthcoming changes to Housing Benefits meant the future workload levels for Housing Benefits Officers were uncertain and an opportunity to transfer staff to CFIT might arise.

In conclusion, and on behalf of the Committee, the Chairman congratulated the Head of Revenues and Benefits and his team for the excellent results arising from the team's first year of operation. He asked that the report be made available to all Members through the Members' Bulletin.

NOTED

the update on the work of the Corporate Fraud Investigation Team for 2015/16 and the main areas of work identified for 2016/17.

AUD/15/47 Annual Review of Risk Based Verification (RBV) Policy for Housing Benefit and Local Council Tax Support Assessments

The Committee considered a report which provided an update on the operation of the current Risk Based Verification (RBV) Policy and sought the Committee's approval of a new Policy for the coming year. A copy of the proposed Housing Benefit and Local Council Tax Support Verification Policy 2016/17 was attached as an exempt document at Appendix A to the report.

The Head of Revenues and Benefits introduced the report, drawing Members' attention in particular to the effectiveness of RBV since its introduction in April 2015. The meeting noted that the actual risk scores awarded to the three categories of claim (high, medium and low) for the period 1 April 2015 to 29 February 2016 had fallen outside those forecast. The Council's RBV software supplier had stated that the variation in risk scores was quite normal as the original distribution percentage had been calculated in 2011 when RBV was introduced nationally. However, due to changes in demographics over the last four years, and specifically the increase in the number of in-work claims, there had been an increase in the number of high risk cases. This had led to the difference between the estimated and the actual risk scores and skewed results.

In reply to Members' questions regarding the approach taken towards claimant errors the Head of Revenues and Benefits explained that an individual claimant's personal circumstances were fully considered during the assessment process before implementing any response to an error. The Chief Finance Officer added that the Council would not take action against a claimant who had made a genuine error when submitting their claim. The Head of Revenues and Benefits stated that if an error was discovered and a claimant had been overpaid then he or she would be sent an invoice for the amount. Alternatively, if that person was still in receipt of a benefit then a sum would be deducted from their benefit before payment was made.

The Head of Revenues and Benefits referred to the trial undertaken to increase error detection and outlined how this would be extended so that a full review of all category 1 high risk cases was undertaken during 2016/17. The Committee noted that additional staff, employed on a temporary six month basis and funded by a Department for Work and Pensions (DWP) grant, would be employed to carry out the review.

Turning next to performance the Head of Revenues and Benefits reported that an improvement in process times for new claims had not been forthcoming, mainly because staff were taking longer than anticipated to familiarise themselves with the new on-line claim forms and RBV software coupled with

the relatively low number of claims made on-line. This situation was expected to improve in 2016/17 once the new processes were established and following the introduction of an on-line 'change in circumstance' form in May.

RESOLVED

that the proposed Housing Benefit and Local Council Tax Support (Risk Based) Verification Policy 2016/17, as attached at exempt Appendix A to the report of the Chief Finance Officer, be approved and adopted.

(Note: Minute AUD/15/54 below also refers).

AUD/15/48 2016/19 (3 Year) Internal Audit Plan

Consideration was given to a report which presented the proposed Internal Audit and Risk 2016-19 Audit Plan for the three year period covering 2016-2019. A copy of the proposed Plan was attached at Appendix A to the report.

Members noted that the Public Sector Internal Auditing Standards, effective from 1 April 2013, required the Head of Internal Audit and Risk to establish a risk based plan to determine the priorities of internal audit activity, consistent with the organisation's goals. The Plan should be supported by a documented risk based assessment, giving consideration to the input of senior management. The Audit Committee had subsequently approved what was then the Strategic Audit Plan for the three year period 2013-2016 at its meeting on 8 April 2013 (minute A/13/45 refers).

The Committee noted that the proposed new Plan before the meeting had been produced following discussion with senior officers and that, whilst the content for the year 2016/17 was detailed, the content for the years 2017/18 and 2018/19 was less detailed. However, it would be reviewed and updated each year to ensure it remained relevant.

The Head of Internal Audit and Risk emphasised that, in preparing the Plan, consideration had been given to the requirement for the Head of internal Audit and Risk to deliver an annual internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

In response to a comment by the Chairman, and in view of the government's policy to convert all remaining schools into academies, the Head of Internal Audit and Risk confirmed that a substantial commitment to undertake audit work for schools remained over the period that the Plan covered.

In reply to further queries from Members the Head of Internal Audit and Risk explained that each audit was usually undertaken by more than one member of staff and that provision had been included within the allocated time scales for staff absences, training and so forth.

RESOLVED

that the proposed Internal Audit and Risk 2016-2019 Audit Plan be approved.

AUD/15/49 Outcome of the External Assessment of Internal Audit by CIPFA against the Public Sector Internal Audit Standards (PSIAS)

The Committee considered a report on the outcome of the external assessment of the Council's Internal Audit team by the Chartered Institute of Public Finance and Accountancy (CIPFA) against the Public Sector Internal Audit Standards (PSIAS) 2013.

The meeting noted that the Accounts and Audit Regulations stated that Internal Audit should conform to 'proper practices' and the current proper practice was set out in the PSIAS. These Standards required periodic self-assessments and an assessment by an external, independent and appropriately qualified person every five years. CIPFA, which had experience in this area, was appointed to carry out the assessment which took place during January 2016.

A copy of the final report and associated action plan from CIPFA was attached at Appendix A to the Chief Finance Officer's report.

Members noted that, of the twelve standards assessed, it was found that Internal Audit was fully compliant with ten. Four minor areas of partial non-compliance had been identified and all of these issues had since been addressed. Two further lower priority suggestions had been made to improve compliance. These had also been implemented so that Internal Audit was now fully compliant.

Following discussion the Chairman, on behalf of the Committee, expressed congratulations to the Head of Internal Audit and Risk and her team for their work in insuring that the Council met the PSIAS.

NOTED

the outcome of the external assessment of the Internal Audit team by the Chartered Institute of Public Finance and Accountancy against the Public Sector Internal Audit Standards.

AUD/15/50 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 February 2016.

The following matters were considered:

- Background
- Fundamental System Audits
- Other Audit Work
- Schools

- External Assessment of Internal Audit against the Public Sector internal Audit Standards
- Performance Management

The Head of Internal Audit and Risk introduced the report and highlighted matters of particular interest.

NOTED

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

AUD/15/51 Risk Update Report

The Committee considered a report which provided an overview of the Council's risk position as at March 2016.

The Head of Internal Audit and Risk introduced the report, including the Risk Register Dashboard attached at Appendix A to the report. The Committee noted that a fundamental review of the Risk Register had taken place in February following the Spending Review announcement and the Local Finance Settlement. Members also noted that further detailed work was in progress and the outcome would be reported to the meeting of the Committee in June. As a result of the ongoing work no revisions had been made to either the current Strategic Risk Register or the Operational Risk Register at this point.

A Member expressed concern regarding Strategic Risk STR0019 (Failure to deliver effective and cohesive Health and Social Care to local residents) which had been assessed as 'almost certain' with a 'catastrophic' impact level. He reminded the meeting that he had drawn attention to this Strategic Risk two months ago but, contrary to the promises given, the report before Members contained little additional information and no specific remedial action. In response the Head of Internal Audit and Risk suggested that the Member's concerns could be reported to the Director of Social Care, Health and Housing and she be invited to respond to the next Audit Committee in June. However, the Member felt that this would result in too great a delay given the urgency of the issue. Following discussion it was suggested that the Member's concerns be referred to the Social Care, Health and Housing Overview and Scrutiny Committee instead. Another Member, speaking as the Vice-Chairman of the Overview and Scrutiny Committee, undertook to raise the matter with the Director of Social Care, Health and Housing.

Arising from a Member's query the meeting turned to consider Strategic Risk STR0008 (Failure or disruption to key elements of core infrastructure (data centre, environment and networks) leading to no functionality for more than 24 hours). Members were aware that three high priority recommendations relating to Information Technology Disaster Recovery had arisen from an Internal Audit review and were featured in item 14 (minute AUD/15/52 below refers) and that the IT Disaster Recovery plan had yet to be completed. Following discussion on the status of this Strategic Risk and whether it should be revised the Head of Internal Audit and Risk reminded the meeting that the fundamental review was still ongoing and the outcome would be reported to the June meeting.

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.

AUD/15/52.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.

Members discussed the progress made in developing and approving the Information Technology Disaster Recovery Plan and expressed some concern at the delays experienced.

RESOLVED

that the Chief Information Officer be invited to attend the Audit Committee on 26 September 2016 to provide an update on the progress made in developing and approving the Information Technology Disaster Recovery Plan.

AUD/15/53.Work Programme

Members considered a report which set out the Committee's work programme for the last part of the 2015/16 municipal year and the proposed work programme for the whole of the 2016/17 municipal year.

The Chairman drew Members' attention to the meeting scheduled for 27 June 2016 and advised them that the meeting would start at 2.00 p.m. rather than the usual start time of 10.00 a.m. The Committee Services Officer then informed Members that the June meeting would be held in Room 14 and not the Council Chamber, which was the usual venue for the Committee when the annual presentation on the Statement of Accounts was made. The Committee Services Officer explained that the Chamber was in use by an Overview and Scrutiny Committee and so it had not been possible to use it. He added that Room 14 should be sufficiently large enough to accommodate both the Committee and those other Members who attended in order to participate in the presentation.

Arising from the above discussion the Chairman asked that the layout of the Room's tables be optimised for the meeting and that both display screens be used to ensure Members could clearly follow the presentation.

The Chairman then sought guidance from Members on what they would wish to see as the theme of the presentation. Following discussion on possible content, including capital receipts and how they were accounted for and

reflected in the accounts, the Chairman undertook to liaise with the Chief Finance Officer and Head of Financial Control over the format.

The Head of Internal Audit and Risk advised that, in addition to those items already listed for June she would also be submitting a report on the appointment of external auditors once Ernst & Young's contract expired and a risk update report. The Ernst & Young representative stated that the company's response to the public interest disclosure from a whistle blower regarding the Council's approach to the procurement of its legal services would shortly be issued in the form of a letter but the company also intended to submit it to the June meeting for the Committee to consider formally.

NOTED

that the Chairman of the Audit Committee will liaise with the Chief Finance Officer and Head of Financial Control regarding the format of the presentation on the Statement of Accounts 2015/16 at the Committee's meeting on 27 June 2016.

RESOLVED

that the proposed Audit Committee work programme for the 2016/17 municipal year, as attached at Appendix A of the report of the Committee Services Manager and Committee Services Officer, be approved subject to the following additions to the meeting on 27 June 2016:

- **Appointment of external auditors following the completion of the contract with Ernst & Young LLP (Head of Internal Audit and Risk)**
- **Risk Update (Head of Internal Audit and Risk)**
- **Response to the concerns expressed by a whistle blower over the Council's procurement of its legal services (Director – Ernst & Young LLP).**

AUD/15/54 Annual Review of Risk Based Verification (RBV) Policy for Housing Benefit and Local Council Tax Support Assessments

Minute A/15/47 above also refers.

(Note: The meeting commenced at 10.00 a.m. and concluded at 11.55 a.m.)

Chairman

Dated