

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 March 2016

NOTICE OF MEETING

AUDIT COMMITTEE

Date & Time

Monday, 4 April 2016 10.00 a.m.

Venue at

Room 14, Priory House, Monks Walk, Shefford

Richard Carr
Chief Executive

To: The Chairman and Members of the AUDIT COMMITTEE:

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

[Named Substitutes:

Cllrs N B Costin, F Firth, 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**

***Please note that phones and other equipment may be used to film, audio record, tweet or blog from this meeting. No part of the meeting room is exempt from public filming.**

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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 11 January 2016 (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	External Audit Plan 2015/16 To receive a report from Ernst & Young LLP on the company's 2015/16 Audit Plan for the Council.	* 17 - 40
8	Annual Counter Fraud Update To consider an update on the work of the Corporate Fraud Investigation Team.	* 41 – 50

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|----|---|---|-----------|
| 9 | Annual Review of Risk Based Verification (RBV) Policy for Housing Benefit and Local Council Tax Support Assessments | * | 51 – 58 |
| | To consider an update on the operation of the current Risk Based Verification (RBV) Policy and the proposed RBV Policy for 2016/17. | | |
| 10 | 2016/19 (3 Year) Internal Audit Plan | * | 59 – 74 |
| | To consider the proposed Risk Based Internal Audit Plan for 2016 to 2019. | | |
| 11 | Outcome of the External Assessment of Internal Audit by CIPFA against the Public Sector Internal Audit Standards (PSIAS) | * | 75 – 84 |
| | To consider the outcome of the external assessment of Internal Audit by the Chartered Institute of Public Finance and Accountancy (CIPFA) against the Public Sector Internal Audit Standards. | | |
| 12 | Internal Audit Progress Report | * | 85 – 96 |
| | To consider an update on the progress of work by Internal Audit for 2015/16. | | |
| 13 | Risk Update Report | * | 97 - 102 |
| | To consider an overview of the Council's risk position as at March 2016. | | |
| 14 | Tracking of Internal Audit Recommendations | * | 103 - 114 |
| | To consider a summary of high priority recommendations arising from Internal Audit reports together with the progress made in their implementation. | | |
| 15 | Work Programme | * | 115 - 118 |
| | To consider the Audit Committee's work programme. | | |

Exempt Appendix

<i>Item</i>	<i>Subject</i>	<i>Exempt Para.</i>	<i>Page Nos.</i>
16	Annual Review of Risk Based Verification (RBV) Policy for Housing Benefit and Local Council Tax Support Assessments To receive the exempt appendix.	* 7	119 - 124

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CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 15, Priory House, Monks Walk, Shefford on Monday, 11 January 2016

PRESENT

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

Cllrs P Downing
D J Lawrence
R Morris

Cllrs D Shelvey
A Zerny

Members in Attendance: Cllr M A G Versallion

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

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

AUD/15/26 Minutes

RESOLVED

that the minutes of the meeting of the Audit Committee held on 28 September 2015 be confirmed and signed by the Chairman as a correct record.

AUD/15/27 Members' Interests

None.

AUD/15/28 Chairman's Announcements and Communications

Aware that meetings of the Audit Committee would be webcast in the future, and mindful of the need for Members to become used to following associated practices, the Chairman asked that Members turn their mobile phones off.

The Chairman welcomed Neil Harris from Ernst & Young LLP to his first meeting of the Committee. Members noted that Mr Harris had replaced Mick West and Carol Ryan had replaced Cathy O'Carroll as the Ernst & Young attendees at the Committee. On behalf of Members the Chairman thanked Mr West and Mrs O'Carroll, the latter of whom was present, for their assistance and contribution and wished them both well.

AUD/15/29 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/15/30 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/15/31 Certification Annual Report 2014-15

The Committee considered the annual report from Ernst & Young LLP which summarised the results of the certification work undertaken by the company on the Council's housing benefit subsidy claim for 2014-15. The report's four sections covered the following matters:

- Section 1 - summary of 2014-15 certification work (including any significant issues identified)
- Section 2 - 2014-15 certification fees
- Section 3 - looking forward (covering the indicative certification fee for 2015-16)
- Section 4 – summary of recommendations (highlighting the recommendations arising from the work carried out by Ernst & Young and the actions agreed).

The Ernst & Young Manager introduced the report. She reminded the meeting that, under the certification guidance and as a result of the number of errors found in the calculation of housing benefit or compilation of the subsidy claim to the Department for Work and Pensions (DWP) by the Council in previous years, a large volume of additional testing by Ernst & Young as the external auditor continued to be required. The Committee noted that, as a result of the DWP requirement to extrapolate the value of the errors found, the net impact was a potential loss of subsidy in 2014-15 of £21,875. This represented a reduction over the corresponding figure of £46,810 in 2013-14 and a fall for the third successive year. However, the Ernst & Young Manager commented that, whilst remedial action had been introduced by the Council to improve benefit assessment accuracy, errors were still being identified in the processing of benefits payments and the main issues remained similar to those reported in 2013-14. Arising from this Ernst & Young had recommended additional action be taken to improve the accuracy of benefits processing.

In response the Chief Finance Officer took the opportunity to remind the Committee that during the Council's first three years of operation the value of errors found averaged £450k a year so, in comparison with those for 2014-15,

there had been a major improvement. Nonetheless, he acknowledged the need to further improve levels of accuracy and so, besides accepting the changes recommended by Ernst & Young, further, additional measures had been introduced. The Chief Finance Officer assured Members that the outcome of the efforts undertaken to date to improve assessment accuracy had been highly positive.

In response to a Member's query the Ernst & Young Manager explained in detail the methodology underpinning the certification guidance.

In response to another Member's query on whether the errors arose through mistakes by staff in processing claims or as the result of incorrect information from claimants the Chief Finance Officer explained that, due to recruitment difficulties, it was necessary to use temporary staff. Some of those recruited had worked at other authorities where they had been expected to interpret the assessment rules slightly differently than at this Council. In addition, the introduction of new rules into an increasingly complex area could cause difficulties of interpretation for some staff. In both cases, there was a focus on targeting staff assessment accuracy.

RECEIVED

the annual certification report 2014-15.

AUD/15/32 Annual Audit Letter

The Committee considered a report from Ernst & Young LLP which presented the 2014/15 Annual Audit Letter for Central Bedfordshire Council. The letter set out the key issues arising from the work undertaken by Ernst & Young as the Council's external auditors and covered the following areas:

- Part 1 - Executive summary
- Part 2 - Key findings
- Part 3 - Control themes and observations
- Part 4 - Looking ahead

The Ernst & Young Manager reminded the meeting that the detailed findings from the company's audit work had already been set out in the 2014/15 Audit Results Report. That report had been submitted to the Committee on 28 September 2015 (minute AUD/15/19 refers).

The Ernst & Young Director advised that he would be submitting the Audit Plan for 2015/16 to the next meeting of the Committee. In connection with this he worked through the following items contained in Part 4 of the report before Members:

- Earlier deadline for production and audit of the financial statements from 2017/18
- Highways Network Assets (formally Transport Infrastructure Assets)
- Better Care Fund

The Ernst & Young Director highlighted any points of interest and the probable impact on the Council. With regard to the requirement to account for Highways Network Assets under depreciated replacement cost from the existing depreciated historic cost from 1 April 2016 a Member expressed concern that some of the infrastructure was of Victorian origin and so would be coming to the end of its useful life. As such he believed that the above would not merely represent a change in accounting policy for the Council but an actual liability.

The Chief Finance Officer stated that the Council had made strenuous efforts to deliver 'value for money' at the expense of being left with low reserves. However, the recent government funding settlement required the Council to make major efficiency savings over the next four years. He therefore queried whether, if the required efficiency savings were larger than the Council's reserves, the Council's accounts would be qualified. In response the Ernst & Young Director explained that if the budget gap, irrespective of the level of reserves and balance, exceeded Ernst & Young's planned level of audit materiality, then the auditor would need to consider if a significant audit risk arose.

The Ernst & Young Director explained that it was anticipated that there would be an increasing number of qualifications of value for money conclusions across the public sector given the increasing financial pressures facing local government, the National Health Service and the community safety sector. He stressed, however, that external auditors would first look at the arrangements that a council had put in place to manage its finances, address its budget gap and deliver a sustainable financial plan before reaching a professional judgement as to whether a council was meeting its financial challenges. A qualification would not, therefore, be automatic.

RECEIVED

the 2014/15 Annual Audit Letter.

AUD/15/33 External Audit Progress Report

Members considered a report from Ernst & Young LLP which provided an overview of the progress made by the company in carrying out the Council's 2014/15 audit. The report also included, at Appendix 2, a briefing document which covered issues which might have an impact on the Council, the local government sector and the audits undertaken by Ernst & Young.

The Ernst & Young Manager introduced the report before turning to the local government audit committee briefing document. The Chairman expressed his general appreciation of the Ernst & Young briefing documents before referring specifically to the article on cloud computing and the finance function ('Finance in the Cloud?'). In connection with this the Chief Finance Officer advised that the Chief Information Officer was examining the issue of cloud computing and a meeting was due to be held the next day regarding a possible variation to the Council's use of SAP and the adoption of that company's next generation of business suite applications (SAP S/4HANA). The Chief Finance Officer added

that, as a result of IT developments, there was a move away from capital costs (as there was no longer an asset) and towards revenue. This represented a significant shift in expenditure type and, therefore, budget planning. In response to a Member's comments regarding the suitability of SAP's extensive functionality for the Council's use the Chief Finance Officer informed the meeting that S/4HANA could, perhaps, be better suited to the Council's requirements. He also acknowledged that the Council should undertake a review of its financial management software requirement if a new system was to be adopted rather than merely implementing an upgrade.

A Member referred to the government's requirement for councils to produce local plans for new homes by 2017 ('Local Plans for New Homes') and drew the Committee's attention to this Council not scheduling its own report's availability until 2018. The Head of Internal Audit and Risk commented that this issue was touched on in agenda item 13 - Risk Update Report (minute AUD/15/37 refers) whilst the Chief Finance Officer stated that there was a risk of the Council losing its New Homes Bonus if a local plan was not in place. It was noted that this suggestion formed part of the current consultation on the New Homes Bonus.

RECEIVED

- 1 the report on the progress of external audit work on the 2014/15 audit;**
- 2 the local government audit committee briefing document.**

AUD/15/34 Statement of Accounts 2015/16

The Committee considered a report by the Chief Finance Officer which outlined any changes required in the preparation of the Council's statutory Statement of Accounts for 2015/16.

The Head of Financial Control introduced the report. He commented that local authorities in England needed to implement only limited changes arising from regulatory best practice requirements under the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice when preparing the Statement for 2015/16 compared to 2014/15 and what was expected in 2016/17.

The Head of Financial Control drew Members' attention to any matters of particular interest and discussion took place on the adoption of International Financial Reporting Standard (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 did not reflect the authority's intention for its use.

The Head of Financial Control then referred to the preparations for the Statement of Accounts presentation at the Committee's meeting in June. He stated that the proposed topics of discussion were interest rates and the requirements to account for Highways Network Assets under depreciated

replacement costs from 1 April 2016 but he invited Members to submit requests for any other areas they would wish to see considered.

A number of Members' queries arose with regard to the Highways Network Assets. In response the Head of Financial Control stated that there were no staffing implications arising from this issue and, whilst there would be extra work, it could be undertaken using existing resources. He advised that the assets themselves were already checked and surveyed and the relevant data was used for asset maintenance purposes. He added that a Code existed which provided a standard assessment method for Highways assets although it was constantly evolving.

NOTED

the changes required in the preparation of the Council's statutory Statement of Accounts for 2015/16.

AUD/15/35 Local Government Pension Scheme Update

The Committee considered a report by the Chief Finance Officer which provided an update on the governance of the Local Government Pension Scheme (LGPS).

The Head of Financial Control introduced the report, drawing Members' attention in particular to the impending Government changes regarding arrangements for the administration of the Local Government Pension Scheme (LGPS) investments. The Government's expressed aims were to promote, through the pooling of assets, the creation of six wealth funds spread across the country which would lead to saving hundreds of millions of pounds in costs whilst being able to invest in infrastructure projects. In connection to this the Department for Communities and Local Government (DCLG) had launched a consultation on draft regulations to reform the investment regulations which was scheduled to close on 19 February 2016. The DCLG had also provided criteria and further guidance for administering authorities to meet in order to deliver the proposals for the pooling of assets, including guidance on suitable investment vehicles. The Head of Financial Control advised that up to eight asset pools were currently in the process of forming, although some might not achieve the published criteria.

The Head of Financial Control then highlighted the actuarial valuation scheduled for 31 March 2016. The meeting noted that the valuation assessment was based on the 31 March 2016 end of year data returns. Delays and validation issues with a payroll provider's annual returns for 31 March 2015 had resulted in the Scheme being unable to issue Annual Benefit Statements to its members this year. All LGPS employers were aware of the importance of addressing the data reporting issues for the 31 March 2016 returns.

NOTED

the Local Government Pension Scheme update.

AUD/15/36 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 November 2015.

The following matters were considered:

- Background
- Fundamental System Audits
- Other Audit Work
- National Fraud Initiative (NFI)
- Fraud and Special Investigations
- Schools
- Other Matters of Interest
- Performance Management

The Head of Internal Audit and Risk worked through the report and introduced the issues within it. A Member referred to the terminology used within Appendix A to the report and sought clarification on what the Internal Audit 'opinions' meant. In response the Head of Internal Audit and Risk undertook to include an explanation in future reports. The Member next referred to Appendix B to the report and the Head of Internal Audit and Risk responded to his request for additional information beyond the brief outline provided.

Last, in response to a query by the Chairman on Appendix A to the report, the Head of Internal Audit and Risk explained that a start to the work to be undertaken with regard to Compliance – Assets and School Transport had been deferred at the request of both service areas because they had only been recently transferred to new Directors under reorganisation.

NOTED

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

AUD/15/37 Risk Update Report

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

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

- strategic risks
- operational risks
- emerging risks

The Committee noted that, whilst a fundamental review of the Risk Register was scheduled to take place in February 2016 some revisions had already been made to the Register since the Committee last met and the report concentrated on those issues. The Head of Internal Audit and Risk also referred to Appendix B to the report which set out the Corporate Risk Management Strategy for 2015/16. She advised the meeting of the following amendments to the text of the document:

Page 6, 'What is Risk Management?' – at the end of the second paragraph add the sentence "The Corporate Risk Management Strategy is designed to enable this."

Pages 15 and 16, remove the 'Draft' watermark from Annex 1.

A Member referred to Strategic Risk 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') and queried whether the likelihood should not be higher than indicated on the Risk Register Matrix given that it had already occurred. In response the Head of Internal Audit and Risk stated that this issue would be considered as part of the fundamental review. Reference was then made to Strategic Risks STR0027 ('Failure to adopt a Community Infrastructure Levy (CIL)') and STR0027 ('Failure to adhere to procurement rules') and the comment passed that these had both already occurred.

A Member then queried whether the proposed shared use of legal services should not also be considered as a risk. However, in response the Chief Finance Officer stated that external, independent, legal advice had been taken on the proposal and this mitigated any requirement for the proposal to be considered as a strategic risk.

A Member queried how the content of the Strategy was communicated through the Council given that the Strategy stated that all staff were responsible for the management of risk and should read, understand and follow the Strategy. In response the Head of Internal Audit and Risk stated that notification to officers involved in the risk co-ordination group took place through the Council's intranet and periodic training also took place.

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.

RESOLVED

that the Corporate Risk Management Strategy 2015/16 be approved, adopted and countersigned by the Chairman of the Audit Committee subject to the following amendments:

Page 6, ‘What is Risk Management?’ – at the end of the second paragraph add the sentence “The Corporate Risk Management Strategy is designed to enable this.”

Pages 15 and 16, remove the ‘Draft’ watermark from Annex 1.

AUD/15/38 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/15/39 Work Programme

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

The meeting was advised that the report scheduled on the Risk Based Verification Policy for Housing Benefit and Local Council Tax support assessments had been delayed until the April meeting to ensure that a complete range of annual data was available from which to prepare the report.

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 11.46 a.m.)

Chairman

Dated

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Central Bedfordshire Council

Audit Committee

4 April 2016

External Audit Plan 2015/16

Report of Ernst & Young LLP

Neil Harris, Executive Director

Purpose of this report

The purpose of the report is to set out Ernst & Young's 2015/16 Audit Plan for the Council, which is based on an analysis of the financial, strategic and operational and risks faced by the Authority. The Plan details 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.

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Central Bedfordshire Council

Year ending 31 March 2016

Audit Plan

March 2016

Ernst & Young LLP



Building a better
working world



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Audit Committee
Central Bedfordshire Council

March 2016

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit 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 Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

We welcome the opportunity to discuss this Audit Plan with you on 4 April 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'Neil Harris', is placed above the typed name.

Neil Harris
Executive Director
For and behalf of Ernst & Young LLP
Enc

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the [PSAA website](http://www.psa.co.uk) (www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

1. Overview

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

- ▶ Our audit opinion on whether the financial statements of Central Bedfordshire Council give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended;
- ▶ Our conclusion on the Council arrangements to secure economy, efficiency and effectiveness; and
- ▶ Any additional specific sector requirements.

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

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

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

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

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2016.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our transition and initial planning activities.

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

Significant risks (including fraud risks)	Our audit approach
Property, plant and equipment	
<p>Property, Plant and Equipment (PPE) represent the largest asset values on the Council's balance sheet.</p> <p>Land and buildings are initially measured at cost and then revalued to fair value. Revaluations are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period.</p> <p>Revaluations are carried out by the Council's in-house valuers. Council dwellings are valued by an external expert valuer. Valuations are based on a number of complex assumptions.</p> <p>Annually assets are assessed to identify whether there is any indication of impairment.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of external experts and assumptions underlying fair value estimates.</p>	<p>We will obtain an understanding of and evaluate key controls over the valuation of PPE.</p> <p>Where asset valuations are undertaken in-year we will:</p> <ul style="list-style-type: none"> ▶ agree the source data used by your valuer to supporting records; ▶ assess the work of your valuer; and ▶ agree the outputs to your fixed asset register and statements. <p>Where the Council proposes significant changes to valuation bases we will evaluate the rationale.</p> <ul style="list-style-type: none"> ▶ Where assets are not revalued in-year, we will review the Council's impairment assessment and consideration of whether the carrying value of these assets remain appropriate.
Risk of fraud in revenue recognition	
<p>Under ISA 240, auditors are required to consider the risk that revenue may be misstated due to improper recognition.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<p>We will</p> <ul style="list-style-type: none"> ▶ Review and test revenue and expenditure recognition policies ▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias ▶ Develop a testing strategy to test material revenue and expenditure streams ▶ Review and test revenue cut-off at the period end date
Risk of management override	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ▶ Reviewing accounting estimates for evidence of management bias, and ▶ Evaluating the business rationale for significant unusual transactions

Private Finance Initiative

The Council recognises on its Balance Sheet a PFI liability for the provision of new buildings, the refurbishment of existing building and associated facilities management at two schools which have both since converted to Academy status. This represents a large element of the balance sheet and is a significant balance at £16m.

The PFI liability is recognised at the same time as the PFI assets are recognised. It is measured initially at the same amount as the fair value of the PFI assets and is subsequently measured as a finance lease liability in accordance with IAS 17. The accounting entries are based on a complex range of assumptions via a PFI accounting model.

We will

- ▶ Obtain an understanding of and evaluate key controls over the valuation of the PFI liability.
- ▶ Ensure PFI model has been brought forward correctly from the previous year, consider engaging relevant experts to review the model against an EY model to ensure the client model is still working as expected.
- ▶ Ensure the PFI accounting model has been updated for any service or other agreed variations.
- ▶ Agree outputs of the model to the accounts, including balances and disclosures for Assets, Liabilities, and Expenditure.

Better Care Fund

The Better Care Fund (BCF) is a major policy initiative between local authorities, CCGs and NHS providers with a primary aim of driving closer integration and improving outcomes for patients, service users and carers. The intention is that partners use the BCF to jointly commission health and social care services at a local level

From 1 April 2015 BCF has been set up as a pooled budget between the Council and the local Clinical Commissioning Group (CCG). The pool has total funding of £18 million in 2015/16.

Local BCF arrangements may be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raise risks of misunderstanding and inconsistencies 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 BCF.

Our approach will focus on:

- ▶ Examining relevant S75 agreements entered into by the Council
- ▶ Reviewing proposed accounting treatments for the Better Care Fund and the disclosures made under relevant accounting standards. As part of this, we will consider what relevant activities are to be undertaken and whether participants have control, either jointly or solely, over the arrangement.
- ▶ Performing testing to gain assurance that the Council has appropriately accounted for its share of the BCF.

We will keep our approach under review, pending any further guidance from CIPFA, the National Audit Office and PSAA.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

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

- ▶ Identifying fraud risks during the planning stages;

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

3. Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

For 2015/16, this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risks which we view as relevant to our value for money conclusion.

Significant value for money risks

Our audit approach

Financial position

Councils are funded by grants from central government and locally raised revenue from council tax and business rates or from fees, charges, or other revenue generating activities. Since 2010-11 funding for Councils from central government has reduced by 37 per cent in real terms, and further reductions for the period 2016-17 to 2019-20 are likely.

Central Bedfordshire Council has identified it requires efficiency savings of £15.3million in 2016/17 and £30million over the following three years to 2019/20. Per the medium term financial plan taken to the Executive on 9 February 2016, the Council has already identified many of schemes to deliver these efficiencies – all of those to meet the £15.3million 2016/17 requirement and £18.8million of the £30million required for the subsequent three years.

Our approach will focus on:

- ▶ Financial reporting including achievement of financial targets.
- ▶ Delivery of the Council's 2015/16 savings plans and linkages to delivery of longer-term transformational change;
- ▶ The Council's 2016/17 financial plan; and
- ▶ The Council's longer-term financial strategy in the light of the local and wider financial pressures in the local economy.

Other matters

In January 2016, the National Audit Office passed on to us a public interest disclosure from a whistleblower concerning the approach the Council has taken during the 2015-2016 financial year to the procurement of its legal services. Several concerns were raised from the whistleblower which we have drawn to the attention of the Council's Chief Executive and Chair of Audit Committee. We have received written responses and supporting documentation from the Council's Chief Executive to each of the concerns raised by the whistleblower including following our subsequent enquiries and discussions. At the time of drafting this Audit Plan, we are now concluding our work in this matter.

- ▶ We will report to the Council, those charged with governance and the whistleblower, via the National Audit Office, on the outcome of our work. In concluding our work, we will determine whether we are minded to challenge any aspect of the Council's procurement of legal services and any additional action we propose to take during the course of our 2015-2016 audit.

4. Our audit process and strategy

4.1 Objective and scope of our audit

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

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

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

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also:

- ▶ Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require;
- ▶ Examine and report on the consistency of any consolidation schedules or returns with the Council's audited financial statements for the relevant reporting period;

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

We are now starting our audit work to review internal controls over financial reporting used throughout the Council, with the intention of using a controls-based audit approach where we expect this to be robust and efficient. Where we believe that reliance on controls will not be possible due to any ineffective design or operation of the controls, we will provide feedback on areas for improvement compared to what we see as leading practice, and will instead perform additional substantive procedures to support our audit opinion.

Liaising with Internal Audit

A key part of understanding and monitoring of the control environment is our ongoing liaison with Internal Audit. We will discuss and review Internal Audit’s annual plans and reports to inform where specific reviews can assist us in our controls and Value for Money Conclusion work.

Analytics

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

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

Internal audit

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

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year based on our initial planning activities are:

Area	Specialists
Pensions	EY Pensions team/ Third party specialists
Valuations	EY Valuations team/ / Third party specialists

In accordance with Auditing Standards, we will evaluate each specialist’s professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and

- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 **Mandatory audit procedures required by auditing standards and the Code**

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

Procedures required by standards

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

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO
- ▶ Examining and reporting on the consistency of any consolidation schedules or returns with the Council's audited financial statements for the relevant reporting period.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.4 **Materiality**

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is £9,78million based on 2% of gross revenue expenditure. We will communicate uncorrected audit misstatements greater than £489,403 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion

by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Central Bedfordshire Council is £139,466. Our work to review concerns raised by a whistleblower on the Council's procurement of legal services is likely to represent additional work outside of the scope of our 2015-2016 audit and scale fee. We are conscious that the cost of our work in this area ultimately falls on Council Tax payers. For this reason, we will be risk based and proportionate in our work. Should we seek a fee variation for the additional audit work we have needed to undertake to respond to the concerns raised, we will discuss the basis of this with Council's management, report to the Audit Committee and seek approval from PSAA.

4.6 Your audit team

The engagement team is led by Neil Harris, who has significant experience of local government audits. Neil is supported by Carol Ryan who is responsible for the day-to-day direction of audit work and is the key point of contact for the Chief Finance Officer.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2015/16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

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

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

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	January 2016	March 2016	Audit Fee Letter Audit Plan
Risk assessment and setting of scopes	February 2016	4 April 2016	Audit Plan
Testing routine processes and controls	February 2016	27 May 2016	Progress Report (We will only provide a report if we have significant matters to raise with the Audit Committee, and by exception).

Year-end audit	August/September 2016	September 2016	Report to those charged with governance via the Audit Results Report
Completion of audit	September 2016	September 2016	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements and overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October 2016	January 2017	Annual Audit Letter

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

5. Certification work

5.1 Housing benefits

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

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

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

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

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

Public Sector Audit Appointments has set an indicative fee for benefits certification work for each body. The indicative fee is based on actual benefits certification fees for 2013/14.

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

6. Independence

6.1 Introduction

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

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

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

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

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

6.2 Relationships, services and related threats and safeguards

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

Self-interest threats

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

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

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with PSAA Terms of Appointment. For example, we undertook an assessment, against ethical standards to ensure we could carry out reasonable assurance work on the Teachers' Pension and Pooling of Housing Capital Receipts returns in 2014/15. The fee was £17,000.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 1:8.

No additional safeguards are required

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

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

Self-review threats

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

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

Management threats

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

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

Other threats

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

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

Overall Assessment

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

6.3 Other required communications

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

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2015/16 £
Opinion Audit and VFM Conclusion	139,466	139,466
Total Audit Fee – Code work	139,466	139,466
Certification of claims and returns ¹	26,910	26,910

All fees exclude VAT.

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

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;
- ▶ We can rely on the work of internal audit as planned;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

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

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee. Our work to review concerns raised by a whistleblower on the Council's procurement of legal services is likely to represent additional work outside of the scope of our 2015-2016 audit and scale fee. We are conscious that the cost of our work in this area ultimately falls on Council Tax payers. For this reason, we will be risk based and proportionate in our work. Should we seek a fee variation for the additional audit work we have needed to undertake to respond to the concerns raised, we will discuss the basis of this with Council's management, report to the Audit Committee and seek approval from PSAA.

¹ Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

Appendix B UK required communications with those charged with governance

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

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

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

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Central Bedfordshire Council

AUDIT COMMITTEE

4 April 2016

Annual Counter Fraud Update

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

Advising Officer: Gary Muskett, Head of Revenues and Benefits
(gary.muskett@centralbedfordshire.gov.uk)

Purpose of this report

1. The purpose of the report is to provide the Committee with an update on the work of the Corporate Fraud Investigation Team.

RECOMMENDATIONS

The Committee is asked to:

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

Background

2. The Council is committed to providing an effective Anti-Fraud Service which is supported by efficient policies and sanctions for those that offend. Counter fraud is the responsibility of everyone in the Council and by ensuring that effective measures are in place to prevent, detect, investigate and report fraud we can ensure that public money is spent where it should be, on services for the community.
3. Failure to report fraud will see money leaving the Council by way of fraud and error and failure to tackle this effectively could lead to loss of revenue for the Council.
4. It is therefore important to demonstrate that resources are focused on fraud reduction and to identify, investigate and rectify administrative weaknesses in order to assure Members of the quality and integrity of investigations.
5. As the Committee will be aware from our report dated 29 June 2015 the 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 our Corporate Fraud Investigation Team (CFIT) was formed from this date.

6. Following the implementation of SFIS the following areas of work 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.
7. The CFIT is based within the Revenues and Benefits service and the officers appointed to this team are all from the former Benefits Fraud Investigation Team. The team consists of 3 full time investigators and are supported by a Team Leader and Senior Manager who both have other responsibilities within the service area. All staff on the team are fully trained counter fraud officers, holding their Professionalism in Security accreditation from Portsmouth University. Investigators have attended advanced investigative interviewing training to build on and improve their current skills.
8. The CFIT works closely with the Internal Audit Team, with CFIT focussing primarily on customer facing fraud and the Internal Audit Team dealing with internal related fraud within the Council.

Corporate Fraud Work Programme

9. As the service is relatively new it was agreed that the team's initial focus would be on building the team, raising awareness of corporate fraud and establishing internal and external partnerships.
10. The work programme, which is jointly delivered by the CFIT and Internal Audit, was developed in May 2015 and has been used to underpin the work of the team during 2015/16. The plan has been updated and the main work areas for 2016/17 will be as follows:

Local Council Tax Support (LCTS)

Local Council Tax Support is funded directly by the Council therefore any reduction or withdrawal of a claim can be viewed as a direct saving to the Council. LCTS discrepancies were investigated in conjunction with Housing Benefit investigations as both claims are usually linked by entitlement and very similar qualifying criteria based on the claimants personal circumstances. However, post SFIS the

CFIT will now only investigate LCTS fraud and will target resources towards high risk cases that can provide direct savings.

Housing Fraud

Housing fraud arises when people occupy social housing, or attempt to obtain housing unlawfully and can include:

- Failing to use a property as the principal home; subletting or abandoning the property, or selling the keys to a third party.
- Providing false information in a Housing application to a tenancy
- Wrongful tenancy assignment and succession where the property is no longer occupied by the original tenant
- False application for homelessness support.
- False Right to Buy application

Blue Badge Fraud

Blue Badge fraud is where a badge is misused or obtained unlawfully and can include:

- Using a Blue Badge when the disabled person is not present in the car
- Using the Blue Badge of a deceased person
- Providing false information on an application form
- Selling a Blue Badge

We have recently started working jointly with the Blue Badge and Parking Enforcement Teams, so that we have a robust approach to fraud. Early work for example includes staff training, process for Parking Enforcement staff to be the “eyes” of CFIT and reviewing information on the website to focus on fraud and how the public can report it.

Continued fraud awareness activities across the Council

This will include articles in staff magazines, attendance at Departmental Management Teams to raise awareness of topical issues and to explain the support the CFIT and Internal Audit Team can offer to different service areas. Awareness sessions have been arranged for 17th February with the Direct Payments Teams and 11th March for the Local Welfare Provision Teams, Housing & Homeless and Disabled Facilities Grants teams.

Disabled Facilities Grants, Direct Payments and care home fees

These frauds are where income and or capital are not declared or the circumstances declared are false. We will continue to accept referrals and give advice as and when needed

School Admissions

School Admissions fraud is where the parent declares a home address which is false and they live elsewhere.

Having met with the School Admissions Team we arranged for them to have Council Tax system access to verify addresses. On the day of this system access training a small number of real applications were

used which uncovered one which needed to be investigated – it actually transpired to be some one avoiding Council Tax and resulted in us issuing a demand notice.

Council Tax and Business Rates fraud

Council Tax and Business Rates are of significant monetary value to the Council.

Fraud in these areas can be where for example the person or business liable to pay puts forward the name of a false tenant or occupier in order to evade payment. It also includes discounts such as the Single Person Discount. A successful Council Tax Single Person Discount review using data matching which compares our data with Credit Reference Agencies data was undertaken in 2015. This review resulted in 1,064 discounts being removed and an additional £281,000 of Council Tax being billed.

Proactive Counter Fraud Work

11. The work of the CFIT has been widely publicised internally via the staff newsletter “Staff Central” and presentations given to Departmental Management Team meetings across the Council.
12. Plans for both internal and external pro-active work are being developed to concentrate on the following areas:
 - a. We will continue our work on Single Person Discounts with a rolling programme of reviews, rather than carrying out a major review every 2 or 3 years as was the previous practice.
 - b. Right to Buy fraud within our own Housing stock. We have already seen promising results from the team’s intervention in the application process, which led to the rejection of 1 application due to fraud where a cheque was about to be issued and 14 applications being rejected that had a bad debt history and as such we unlikely to sustain mortgage repayments.
 - c. Expansion of Right to Buy fraud investigations to other Registered Social Landlords (RSL’s).
 - d. Housing tenancy fraud, such as illegal sub-letting, in our own Housing stock which it is envisaged may also be expanded to include other RSL’s.
 - e. A joint “Enforcement Day” with our Parking Enforcement Team in relation to Blue Badge fraud. This would be a platform on which to advertise and promote an anti-fraud culture.
13. Members of the team have also attended a number of conferences and seminars during the last 12 months to publicise the new team and gain additional knowledge and experience.

Case Studies

14. Below are examples of some of the recent cases that the CFIT have investigated and in some cases prosecuted. Every effort will always be made to maximise the recovery of any losses to Central Bedfordshire Council by:

- Asking for realistic court costs
- Instituting recovery proceedings under Proceeds of Crime legislation where the defendant has realisable assets (i.e. property or capital) and is in a position to settle the debt promptly.

Case 1 – This case involves a council tenancy.

We received an anonymous allegation that the tenant was sub-letting her property and living elsewhere.

During the early stages of the investigation it transpired that the tenant had applied for a “right to buy” discount: It had been granted just before our investigation started. This discount was £77,000 allowing her to purchase a property with a value of £130,000 for £53,000.

There is no issue with an ex-tenant renting out an ex- council property, which they have purchased. However it is a criminal offence to sub-let your council property, whilst you are the council tenant. Likewise it is a criminal offence to falsely declare you reside at your council property on the basis you wish to acquire a “right to buy” discount.

We established evidence that the tenant was living elsewhere and had been doing so for (at least) several months before she purchased the council property: The tenant was privately renting a home with her new partner and using a different surname to conceal her tracks. We also established the details of the people she was renting her council house to.

When interviewed under caution the tenant strongly denied the allegation and refuted the evidence established: Basically she said she continued to live at her council property and had convoluted financial and family arrangements for various reasons. The tenant said she had moved out and rented the council property only once the purchase had completed and again there were convoluted reasons why arrangements had been made with her tenants before they moved in.

The job of a Corporate Fraud Investigator is to establish facts/information – all information obtained and received must be considered. In this case the weight of evidence was against her. A summons was served for her to appear at court for criminal offences relating to the illegal sub-let and the false right to buy discount.

The tenant pleaded guilty and is due to be sentenced on the 19th February. We have arranged for the property to be returned to the Council. (A verbal update on the sentence imposed will be provided).

Case 2 – This case involves Local Council Tax Support.

Upon reviewing a claim a processing officer referred the case for investigation: Local Council Tax Support is means tested.

It is a criminal offence to knowingly fail to declare a relevant change in personal circumstances e.g. started work, or make a false statement to obtain Local Council Tax Support.

We established that the claimant had 2 jobs (not at the same time) which she had not declared.

Of particular interest were the claimants previous claim records. These showed she completed a Local Council Tax Support claim form which was dated 2 months before the date she handed it in at the Council Offices: At the time the claimant handed it in she was working and 2 months earlier she was not.

Also there were times the claimant had queried her husband's earnings (which she had declared), when she was working and didn't use the opportunity to tell us about her work. This was pertinent as the claimants husbands income was being declared for the claim which she was clearly aware of yet she still failed to mention her own earnings.

When interviewed under caution the claimant said she is, and had been, on medication for depression and had a lot of problems with her son, due to his illness. The claimant could not understand why she had not declared the work – it was a genuine mistake – she had been confused. She strongly refuted that it had been done deliberately and said she was not a dishonest person.

The overpaid Local Council Tax Support was not significantly high, being just under £1000.

We progressed this case for prosecution mainly because the second job the claimant had failed to declare was working for Central Bedfordshire Council, in which she was still employed: We believed that the claimant had deliberately incorrectly dated the application form which she handed in at the Council offices after her job at Central Bedfordshire Council had started. Her assertion that it was a mistake due to her health and medication didn't correspond with some one who at the same time applied for and obtained a new job with the Council. The nature of her employment meant that trustworthiness was especially important.

A summons was served for the claimant to appear at court for criminal offences relating to Local Council Tax Support.

The claimant pleaded guilty, was fined £160 and ordered to pay £160 prosecution costs and a £20 victim surcharge. Human Resources were made

aware of this and she was dismissed: It is gross misconduct if you receive a criminal conviction for fraud, whether or not the fraud is against the Council.

Case 3 – This is broadly speaking like case study 2, in that it involves undeclared work for Local Council Tax Support. Again it was referred when a processing officer was reviewing the claim.

The claimant is in her 60's and her husband is in his 70's.

We established that both the claimant and her husband had undeclared earnings. Her husband's earnings also extended to a time where they claimed at Bedford Borough Council before moving to Central Bedfordshire.

When interviewed under caution the claimant said a) she had written to the Council when she had started work – not her problem if we "lost" her letter and she was not worried that we didn't respond to it and b) she was sure her husband had not been working when they came to Central Bedfordshire and completed an application form with us.

We did not accept that the claimant sent us a letter about her job, not only was there no trace of any such correspondence; it was not plausible that she did not expect anything from us in response.

In terms of the claimant's husband's earnings, his employer confirmed that he had been working for years before moving to Central Bedfordshire. What also helped our case was Bedford Borough Council provided a witness statement that these earnings were not declared to them whilst claiming benefits with them.

A summons was served for the claimant to appear at Court for criminal offences relating to Local Council Tax Support.

The claimant pleaded guilty, was fined £120 and ordered to pay £640 towards the prosecution costs and a £20 victim surcharge.

Case 4 – Having worked with the "right to buy" team the CFIT agreed to check all applications made under the Social Mobility Fund (SMF). This is where Council Tenants apply for a £30,000 grant to purchase any house – to get onto the housing ladder.

A particular SMF payment was on the brink of being paid when CFIT undertook to do these checks.

This applicant was of interest because she was claiming Local Council Tax Support (and Housing Benefit) as a single person; however the mortgage for the new home was going to be in joint names with a partner.

The CFIT interviewed the applicant and it became apparent that the information she gave on her original homeless application form was false. That application had been made 4 years earlier: At the time she stated she was pregnant and living with her aunt.

People who give false information tend to forget what they said such a long time ago. When we interviewed the applicant about the SMF she said at the time of her homeless application she had just split up with her partner whilst they lived together in their home after the birth of their first child, the partner being the same as for the joint mortgagee on her proposed new home. The applicant had forgotten that she had said she was living with her aunt, and sleeping on a sofa (quite an unusual thing to forget).

The SMF offer was withdrawn immediately.

The case is not suitable for criminal prosecution action in terms of a false homeless application as we could not obtain any other information to support this case and the applicant could withdraw her statement.

The applicant maintained that the partner had not been living with her at her Council house, however a couple of weeks after the interview she contacted us to say he had moved in. Local Council Tax Support (and Housing Benefit) were subsequently cancelled.

The matter is currently with the Housing service to determine if further proceedings are warranted. In the event of a conviction in this type of case the Courts can agree that Housing can repossess the applicant's home.

Summary of Results in 2015/16

Description	Number	VFM Saving*	Real Saving / Income
Council Tax			
Council Tax Single Person Discounts removed	1,064		£281,000 CTAX £7,000 LCTS
Local Council Tax Support	22		£22,000 LCTS
Council Tax Benefit	11		£25,000 recoverable over-payments
General change in liability, discount removed, empty property levy applied.	33		£53,000
Housing Benefit			
Housing Benefit cancelled / reduced	21		£92,000 HB recoverable over-payments
Housing			
Illegal succession	1	£18,000*	
Illegal sub-let	1	£18,000*	
Fake rent payments	1		£3,000
Right to Buy fraud – applications withdrawn	2	£155,800** (2 x £77,900)	

Right to Buy fraud, property recovered	1		£77,000
Social Mobility Grant applications withdrawn	15	£450,000 (15 x £30,000)	
Non Domestic Rates	2		£3,100
TOTAL	1,174	£641,800	£563,100

***Value for Money Savings** - The Audit Commission estimates the value of a returned property or removal from register as equivalent to the cost of temporary accommodation for a family for a 6 month period.

Nationally this figure is estimated as £18,000 and is the recognised Value For Money saving for a case of tenancy fraud.

** The VFM saving equates to 2 applications for Right to Buy discounts that were withdrawn.

15. Options for consideration

16. None.

Reasons for decision

17. N/a

Reason for urgency

18. None.

Council Priorities

19. The activities of the Corporate Fraud Investigation Team are crucial to protecting public money and the finances of the Council. Good anti fraud management ensures we adopt a planned and proactive approach to the identification of fraud that threatens the delivery objectives, protection of assets, or the financial wellbeing of the Council.

Corporate Implications

Risk Management

20. Work carried out within the scope of this report reduces the risk of financial loss and adverse publicity to the Council through fraud.

Legal Implications

21. Investigations by the CFIT may have legal implications depending upon what action is taken or decided against in respect of those investigations

Financial Implications

22. There are no financial implications arising directly from the recommendation in this report, although an adequate and effective internal counter fraud function provides the Council with assurance on the proper, economic, efficient and effective use of Council resources in delivery of services. The issues set out in the report demonstrate that the council is taking appropriate action to protect the public purse.

Equalities Implications

23. There are no equalities implications arising from this report.

24. Conclusion and next Steps

25. None.

Appendices

None.

Background Papers

None.

Central Bedfordshire Council

Audit Committee

4 April 2016

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

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

Gary Muskett, Head of Revenues and Benefits
(gary.muskett@centralbedfordshire.gov.uk)

Purpose of this report

1. The purpose of the report is to update Members on the operation of the current RBV policy and seek approval of the Risk Based Verification policy for the coming year.

RECOMMENDATION

The Committee is asked to:

1. Consider and comment on the current operational impact of the Risk Based Verification Policy and
2. Approve the Risk Based Verification Policy for 2016/17 at Appendix A

Comments from Overview and Scrutiny

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

Background

3. The Housing Benefit Regulations require local authorities to obtain information which allows an accurate assessment of a claimant's entitlement to benefit to be made. However with the exception of a national insurance number and proof of identity, they do not specify what evidence is required.

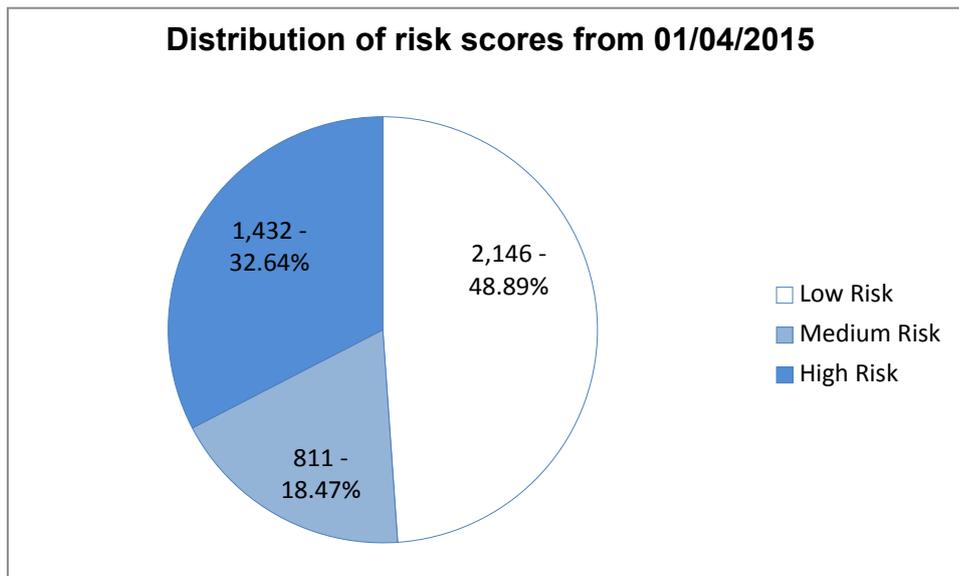
4. In 2011 the Department for Work and Pensions (DWP) changed the requirement and now allows Local Authorities to carry out this verification using a risk based approach for new benefit claims.
5. Risk Based Verification (RBV) is a method of applying different levels of checks to new Housing Benefit and Local Council Tax Support claims according to the risk associated with those claims.
6. Claims are assessed prior to payment and put into 1 of 3 categories – **Low, Medium or High** and this determines the requirement to gather proof.
7. The risk category is determined by proprietary software using statistical information and risk propensity data gathered over many years about what type of claim represents what type of risk.
8. The RBV software is integrated with the benefit processing software and on-line electronic forms. When a customer submits an on-line claim / application form, it is immediately risk scored with the relevant evidence requirement being displayed to the customer before the claim is finally submitted.
9. The RBV solution provided by the DWP has now been developed in respect of change of circumstances. The process again uses a method of applying different levels of checks to benefit claims according to the risk associated with those claims. This happens through a specially developed change of circumstances risk algorithm. The risk algorithm has been developed to identify the likelihood that fraud and error exists in a change of circumstances claim. The algorithm has been built using historical local authority data and its performance has been validated across a number of local authorities.
10. Central Bedfordshire Council adopted this new approach for new claims with effect from 1 April 2015 following approval of the Policy by the Audit committee on 30 March 2015, and will consider extending the use of RBV to reported changes in circumstance from 1 April 2017 following a review of the success of the RBV solution.

Monitoring of Risk Scores

11. We have monitored the effectiveness of RBV since its introduction in April 2015 and can report as follows:

Total risk scores generated for the period selected: 4,389 (as at 1.3.16)

Low Risk	2,146	48.89%
Medium Risk	811	18.47%
High Risk	1,432	32.64%



These scores fall outside of our expected risk scores which were forecast to be 55% low, 25% medium and 20% high.

We have been advised by our RBV software suppliers that the variation in risk scores is quite normal as the original distribution percentage was calculated in 2011 when RBV was introduced nationally and due to changes in caseload demographics that have taken place over the last four years, specifically the increase in the number of in-work claims, there has been an increase in the number of high risk cases.

Our RBV software supplier has analysed the outturn from our new claims and whilst our number of high risk cases are higher than the expected average, the results show we receive a proportionally higher number of claims from claimants who do not receive social security benefits. There is a greater propensity for such claims to be deemed as "higher risk". A very small number of claims from pension age applicants were found to be high risk.

Error Detection

12. Of the 1,432 high risk cases processed between April 2015 and the end of February 2016, only 663 are still in receipt of Housing Benefit/ Local Council Tax Support which demonstrates the high level of churn in our caseload.
13. Analysis of these 663 high risk cases by claim type is shown below. Some cases fall into more than one category and this combination maybe the reason for the high risk score as opposed to the claim type itself, so for example we could not say all student claims are high risk:

Number of Claims	Type of Claim / Income
58	In receipt of DWP out of work benefit e.g. JSA, IS
36	Has a non-dependant(s)
7	Student claim
7	Receiving a Discretionary Housing Payment
403	Claimants earnings
65	Self employed earnings
98	Earnings of the claimant's partner
32	Self employed earnings of the claimants partner
3	Child care costs
13	Tariff income from capital
36	Claimant has a social housing reduction for under occupancy

14. A random 10% sample of the highest risk cases (high risk definitions are split across 3 levels) that are still in receipt of Housing Benefit / Local Council Tax Support has been undertaken to provide a test group for further analysis. This group has been subject to a full review of the income details used in the assessment of the claim in order to detect any instances of undeclared changes of circumstance e.g. an increase in wages.
15. 28 review letters were issued in February which were followed up by telephone calls and visits to the claimants in order to verify their income details. To date 22 review forms have been returned and are currently being processed.
16. This trial has so far revealed that none of the high risk cases that have been reviewed had an undisclosed change in circumstance. A verbal update will be provided to the Committee on the latest position.
17. We are now proposing to extend this trial so that a full review of all category 1 high risk cases is undertaken in 2016/17. Additional resource will be employed on a temporary 6 month basis to carry out the review and this will be funded by a DWP grant that we successfully applied for in March.

Performance

18. Over the period that RBV has been in place, there has not been an improvement in process times for new claims due in the main to staff taking longer than anticipated to familiarise themselves with the new on-line forms and RBV software and a relatively low number of new claims being made on-line, approximately 30% at present. This position is expected to improve in 2016/17 as the new processes have bedded

in and the on-line form is publicised further following the implementation of our on-line change in circumstance form in May.

19. We have also seen a reduction in the number of documents scanned and indexed in support of new claims, particularly since July when the on-line benefits claim form was launched.
20. Over 49% of new claims are returned as low risk which means more resources are targeted at the medium and high risk cases. This enables a more efficient targeting of potential fraud and error.

DWP Requirements

21. The DWP require any local authority adopting RBV to have in place a RBV policy and for this to be reviewed on an annual basis. The DWP circular S11/2011 issues guidance on what should be contained in the policy and who should approve it. The Central Bedfordshire Council policy was drawn up in accordance with these guidelines and this was approved by the Audit Committee last year.
22. The current policy has been reviewed and no changes are proposed for 2016/17.

Options for consideration

23. None. Whilst the Council could abandon the use of RBV technology this is seen as a backward step given the progress made to date.

Reasons for decision

24. To enable the continued use of RBV technology in 2016/17.

Council Priorities

25. By protecting vulnerable and elderly people as well as providing incentives to work, the proposed Local Council Tax Support (LCTS) scheme is designed to support the Council's Medium Term Plan priorities of:
 - Promoting health and wellbeing and protecting the vulnerable.
 - Improved educational attainment.

Corporate Implications

Risk Management

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

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

27. Risk Based Verification reduces the risk of payment of Housing Benefit and Local Council Tax Support to fraudulent applicants as it allows targeting of resources toward high risk cases.
28. In circular HB/CTB S11/2011, the DWP has laid out the procedure required to implement Risk Based Verification to ensure local authorities meet auditing requirements. Central Bedfordshire Council is following these requirements and therefore reducing any risk to the Housing Benefit subsidy claim. The scheme has been piloted in other local authorities, and rolled out nationally from November 2011, allowing Central Bedfordshire Council to benefit from experiences of others.
29. The risk category assigned to each claim will automatically be flagged on the Civica software to enable our external auditors to identify and check the verification requirements of the claim have been correctly categorised and documentary evidence has been obtained in support of the claim as per our policy.

Legal Implications

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

Financial Implications

32. Implementation and on-going costs of the RBV technology are contained within existing budgets; however this new approach to claim verification will improve the processing times for benefit claims, which should reduce the likelihood of overpayments being made to claimants that then have to be recovered.

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

Equalities Implications

34. Pursuant to the Equality Act 2010 (“the Act”), the Council, in the exercise of its functions, has to have due regard to (i) eliminating discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; (ii) advancing equality of opportunity between those with a relevant protected characteristic and those without; and (iii) fostering good relations between those with a relevant protected characteristic and those without. The relevant protected characteristics are age, race, disability, gender reassignment, pregnancy and maternity, religion or belief, sex and sexual orientation. The duty also covers marriage and civil partnership, but to a limited extent.
35. RBV will apply to all New Claims for Housing Benefit and Localised Council Tax Support. A mathematical model is used to determine the Risk score for any claim. This model does not take into account any of the protected characteristics dealt with by the Equalities Act.
36. The Risk score profiles are determined by a propensity model; a mathematical formula which uses historical outcome data to establish the likelihood of fraud and error appearing in any given claim. Each benefit claim is analysed by the risk score software to identify if any of the characteristics associated with the occurrence of fraud and error are present. Likelihood is expressed by a risk category of high, medium or low risk’.
37. The course of action to be taken in respect of the risk score is governed by this policy. As such there should not be any equalities impact.

Conclusion and next Steps

38. Approval is being sought to extend the use of RBV technology for New Claims of Housing Benefit / Local Council Tax Support claimants for 2016/17.

Appendices

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

Background Papers None.

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Central Bedfordshire Council

AUDIT COMMITTEE

4 April 2016

2016/19 (3 Year) Internal Audit Plan

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 present the 2016-19 (3 Year) Internal Audit Plan for review and approval.

RECOMMENDATIONS

The Committee is asked to:

1. Consider and approve the 2016/19 (3 year) Internal Audit Plan.

Overview and Scrutiny Comments/Recommendations

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

Background

2. The Public Sector Internal Auditing Standards, effective from 1st April 2013, require the Head of Internal Audit to establish risk based plans to determine the priorities of internal audit activity, consistent with the organisation's goals. This should be supported by a documented risk assessment, giving consideration to the input of senior management.
3. The Audit Committee, at its meeting in April 2013, approved the Strategic Audit Plan covering the period 2013-2016.
4. 2015/16 represented the final year of the three year plan. An audit plan covering the period 2016 to 2019 has been prepared. The plan has been produced following discussion with senior officers. The plan for 2016/17 is detailed. The plan for future years contains less detail and will be reviewed and updated each year to ensure that it remains relevant.

2016/19 Internal Audit Plan

5. In preparing the audit plan, consideration has been given to the requirement for the Head of Internal Audit to deliver an annual internal audit opinion on the overall adequacy and effectiveness of the Councils framework of governance, risk management and control (as required by the Public Sector Internal Auditing Standards).
6. The updated plan has been informed through:
 - reference to the previous Audit Needs Assessment undertaken
 - consultation with senior management
 - Internal Audit's own analysis of risk areas
 - outcomes of previous audits
 - reference to the strategic and operational risk registers
 - the outcome of the assurance mapping exercise on the risks documented within the Strategic Risk Register, and
 - consideration of the requirements of the Public Sector Internal Audit Standards to include reviews on control, risk, ethics and governance issues.
7. In developing the audit plan, consideration has been given to ;
 - providing assurance on the Council's fundamental systems
 - ICT assurance work
 - grant claim sign off work
 - system reviews of key service activities
 - follow up work, where appropriate
 - consultancy and advice
 - engagement in key transformation programmes and projects, as appropriate
 - new Government initiatives
 - local initiatives
 - the need to ensure that basic systems and controls are robust and being complied with at a time when the Council is refining a number of processes to improve service delivery and increase efficiencies.
8. It is important to recognise the need for flexibility in the approach to our audit work. The approach adopted recognises that organisational and business transformation changes are continuous within Central Bedfordshire and acknowledges that, as a result, the control environment is subject to change. A contingency has been included within the plan to ensure that Internal Audit can respond accordingly. The plan includes provision for a rolling programme of reviews in several areas, including information governance, corporate governance, contracts management and partnership governance. The specific areas for review will be determined based on the progress of planned initiatives and may involve Internal Audit being involved in the early stages of development, as appropriate.

9. The approach to the delivery of the fundamental systems audits has been discussed with Ernst and Young, the Council's external auditors.
10. The plan has been discussed and agreed with the Corporate Management Team.
11. The Audit Plan is attached at Appendix A.

Available Resources

12. It is estimated that there will be 1,260 productive audit days available for 2016/17.

Council Priorities

13. 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

14. None directly from this report.

Financial Implications

15. 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

16. None directly from this report.

Conclusion and next Steps

17. Approval by the Audit Committee of the revisions to the Internal Audit Plan will ensure that Internal Audit can progress its work in line with an agreed approach.
18. The Audit Committee can then use the final plan to monitor the work of internal audit to ensure that appropriate assurance is provided on the Council's systems.

Appendices:

Appendix A – Internal Audit Plan 2016 to 2019.

Background Papers: None

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Appendix A

Internal Audit & Risk 2016-19 Audit Plan

March 2016



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3 AUDIT NEEDS ASSESSMENT 2
4 PRIORITIES FOR INTERNAL AUDIT WORK 3
5 AUDITOR INDEPENDENCE 3
6 INTERNAL AUDIT RESOURCES 3
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Internal Audit Plan 2016 to 2019

1 Background

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit and Risk to establish risk based audit plans to determine the priorities for internal audit work, consistent with the Council's objectives. In preparing this plan, the Head of Internal Audit and Risk is required to take account of the Council's:
 - Risk management framework, and relative risk maturity of the organisation
 - Assurance framework
 - Vision, objectives and priorities and
 - How the work will address local and national issues and risks.
- 1.2 The Head of Internal Audit and Risk is required to provide an annual opinion to the Council and to the Chief Finance Officer, through the Audit Committee, on the adequacy and the effectiveness of the internal control system for the whole Council. The plan, therefore, needs to be sufficient to enable this opinion to be issued. In addition the results of Internal Audit's reviews will help inform the Annual Governance Statement.
- 1.3 The audit plan has been agreed with senior management and was approved by the Audit Committee on 4th April 2016 (TBC).
- 1.4 The plan will be subject to periodic review by the Head of Internal Audit and Risk, in consultation with senior management, and significant revisions will be presented to the Audit Committee for approval. Revisions made would be in response to changes in the Council's business, risks, operations, programmes, systems or controls.
- 1.5 The plan will be delivered in accordance with the Internal Audit Charter and Internal Audit Engagement Protocol.

2 Strategic Aims and Objectives

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

3 Audit Needs Assessment

- 3.1 The 2016 to 2019 Internal Audit Plan has been prepared following an audit needs assessment.
- 3.2 The audit needs assessment focuses internal audit work on key risk areas whilst ensuring comprehensive coverage by prioritising its work and considering;
- previous audit needs assessments undertaken
 - consultation with senior management
 - Internal Audit's own analysis of risk areas
 - outcomes of previous audits
 - known areas of concern
 - reference to the strategic and operational risk registers
 - the outcome of the assurance mapping exercise on the risks documented within the Strategic Risk Register
 - the requirements of the Public Sector Internal Audit Standards to include reviews of risk, control, ethics and governance.
- 3.3 In developing the audit plan consideration has also been given to;
- providing assurance on the Council's fundamental systems
 - ICT assurance work
 - grant claim sign off work
 - Anti Fraud activity
 - system reviews of key service activities, including governance arrangements
 - follow up work, where appropriate
 - key contracts and partnership arrangements
 - consultancy and advice
 - special investigations
 - engagement in key transformation programmes and projects, as appropriate
 - new Government initiatives, such as the Better Care Fund and the Community Infrastructure Levy
 - local initiatives, including the Medium Term Plan
 - the need to ensure that basic systems and controls are robust and being complied with at a time when the Council is going through a period of significant change.
- 3.4 The plan covers a three year period and is attached at Appendix 1. The 2016-17 plan is detailed. The plan for the following two years includes less detail and will be regularly reviewed to ensure that the work programme remains relevant. It has been prepared following discussion with senior management.
- 3.5 The plan includes provision for a rolling programme of reviews in several areas, including information governance, corporate governance, contracts management and partnership governance. The specific areas for review will be determined based on the progress of planned initiatives and may involve Internal Audit being involved in the early stages of development, as appropriate.
- 3.6 In addition to delivering the agreed audit plan, Internal Audit also carry out special reviews or assignments where requested by management, which fall outside the approved work plan and for which a contingency is included within the audit plan.

4 Priorities for Internal Audit Work

- 4.1 When preparing the audit plan, the following list represents the classification within which audits are considered:
- audits in progress from previous year
 - fundamental system assurance work
 - mandatory work, such as grant certification
 - follow up of “No assurance” audits or audits where on going risks have been identified
 - audits to mitigate key control weaknesses identified in the risk registers and through research and discussion with senior managers
 - new developments
 - unplanned work (contingency).

5 Auditor Independence

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

6 Internal Audit Resources

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

7 Reporting

- 7.1 Reporting will be in accordance with the Internal Audit Charter.

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

Appendix 1

<u>Priority</u>	<u>Audit Title</u>	2016/17 Days	2017/18 Days	2018/19 Days	Comments	Linked to Risk
Fundamental Systems						
H	Accounts Payable/Purchase Ledger (including feeder systems)	35	35	35	No change 16/17. Will review for later years	STR0001/22
H	Accounts Receivable/Sales Ledger	30	30	30	As above	STR0001
H	Asset Management (incl. Asset Register)/Capital Accounting	30	30	30	As above	STR0001
H	Council Tax (including Council Tax Support Scheme)	35	35	35	As above	STR0001
H	Housing Benefits	40	40	40	As above	STR0001
H	Main Accounting Systems (MAS)	30	30	30	As above	STR0001
H	National Non Domestic Rates NNDR	35	35	35	As above	STR0001
H	Payroll	35	35	35	As above	STR0001
H	SWIFT Financials	15	15	15	As above	STR0001
H	Treasury Management	25	25	25	As above	STR0001
H	Housing Rents including tenant arrears	25	25	25	As above	STR0001
H	Cash And Banking (Non Invoiced Income)	20	20	20	As above	STR0001
Total - Fundamental Systems		355	355	355		
Assurance Audits - Improvement and Corporate Services						
M	Data Quality	15	15	15	Rolling programme planned	
L	Ethics - Gifts and Hospitality - Members and Officers	15	0	0		
L	Ethics - Declarations of Interests - Members and Officers	0	15	0		
L	Ethics - Code of Conduct - Members and Officers	0	0	15		
M	Information Governance	15	15	15	Rolling programme planned - to include Records management 16/17 (consultancy) data centres 17/18	STR0013

Appendix 1

Priority	Audit Title	2016/17 Days	2017/18 Days	2018/19 Days	Comments	Linked to Risk
M	Safer Recruitment	15	0	0		STR0010
M	Comensura	15	0	0		STR0010/22
M	Corporate Governance Reviews	15	15	15	Proposed to include review of Legal Services governance arrangements in 16/17	
	IT Reviews:					
M	Cloud Hosting Data Storage	0	15	0		STR0008
M	IT inventories	15	0	0		
M	IT contracts managed outside IT	15	0	0		STR0008
M	Project Management - IT Governance	0	15	0		
M	Desk Top Environment - End User Compliance	0	15	0		STR0008
H	IT Disaster Recovery	10	10	10		STR0008
H	SAP Access and Security	10	10	10		STR0013
M	IT Customer Service - Problem Resolution	10	0	0		
M	Partnership Relationship Hosting	0	15	15	Rolling programme to capture areas provided by third party providers	STR0008
Total - Improvement and Corporate Services		150	140	95		
Assurance Audits - Finance						
M	VAT reviews	10	10	10	Rolling programme	STR0001
M	Teachers' Pensions	15	0	0		
M	Budgetary Control	15	15	15	Rolling programme - to focus on Children's Services in 16/17	STR0001
L	Highways Infrastructure - processes for accounting	0	5	0		STR0001
Total - Finance		40	30	25		

Appendix 1

Priority	Audit Title	2016/17 Days	2017/18 Days	2018/19 Days	Comments	Linked to Risk
Assurance Audits - Children's Services						
M	Schools General - School Improvement	80	80	80		
M	Themed Reviews	15	15	15	Financial Management and Safeguarding have been identified for review	STR0001/10
Total - Children's Services		95	95	95		
Assurance Audits - Social Care, Health and Housing						
M	Housing Repairs follow up	10	0	0		
L	Day Centres	10	10	10	Rolling programme of establishment visits	
M	Better Care Fund Integration	0	15	0	Was originally planned for 15/16	STR0028
M	Joint Procurement Arrangements	0	15	0		STR0010
M	New Generation Housing	0	0	15		
M	Review of MANOP (Managing the Accommodation Needs of Older People)	0	15	0		
Total - Social Care, Health and Housing		20	55	25		
Assurance Audits - Community Services						
M	Assets Disposal Programme	10	0	0		STR0024
M	Section 38 income	10	0	0		STR0001
H	Section 278 Follow Up audit	5	0	0		
M	Highways - assurance on client assurance arrangements	10	10	0		
M	Corporate Asset Management Strategy	0	15	0		
M	Compliance - Assets	15	0	0	Was originally planned for 15/16	
M	School Transport	0	15	0	Was originally planned for 15/16	

Appendix 1

Priority	Audit Title	2016/17 Days	2017/18 Days	2018/19 Days	Comments	Linked to Risk
M	Leisure Services Outcomes - Post implementation review of Flitwick Leisure Centre	15	0	0	Was originally planned for 15/16	
Total - Community Services		65	40	0		
Assurance Audits - Regeneration and Business Support						
M	European Social Fund	15	15	15		
M	Community Infrastructure Levy (CIL)	15	0	0		STR0027
M	Building Control/Albion Archaeology	0	15	0		
Total - Regeneration and Business Support		30	30	15		
Assurance Audits - Contracts and Partnerships						
M	Contracts Management	20	20	20	Will include Household Waste Recycling Contract in 16/17	STR0010
M	Value for Money reviews	15	15	15	Rolling programme. To include review of Legal Services payment mechanisms (consultancy)	STR0010
M	Partnership Governance	15	15	15	Rolling programme	STR0009
Total - Contracts and Partnerships		50	50	50		
Assurance Audits - Public Health						
M	Public Health compliance with best practice	15	15	15	Rolling programme proposed - agreed to focus on new Obesity Management contract in 16/17	
Total - Public Health		15	15	15		

Appendix 1

Priority	Audit Title	2016/17 Days	2017/18 Days	2018/19 Days	Comments	Linked to Risk
Special Investigations						
M	National Fraud Initiative (NFI)	20	20	20		
M	Special Investigations	40	40	40		
	Pro active anti fraud reviews					
L	Procurement processes	0	0	10		STR0010
L	Cash disbursements	10	0	0		
L	Allocation of Grants	10	10	10	To include Grants for 2 year olds and Disabled Facilities Grant (DFG)	
Total - Special investigations		80	70	80		
Ad Hoc Consultancy etc.						
H	Risk Management Activities	35	35	35		
M	Major projects - Consultancy	40	40	40		
M	Supporting Annual Governance Statement	5	5	5		
M	Audit of Individual Grants	20	20	20	To include Troubled Families	
M	General Advice	20	20	20		
M	Head of Audit Chargeable Against Plan	60	60	60		
M	Assurance Mapping Review	5	5	5		
M	Benchmarking Exercise	5	5	5		
L	Contingency	50	70	195		
Total - Ad Hoc Consultancy etc.		240	260	385		
Carry over Work						
H	Completion of reviews in progress as at 31st March	120	120	120		
Total - Carry over Work		120	120	120		
TOTAL CHARGEABLE DAYS REQUIRED		1260	1260	1260		

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Central Bedfordshire Council

AUDIT COMMITTEE

4 April 2016

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

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 informs the Committee of the outcome of the recent external assessment of Internal Audit against the Public Sector Internal Audit Standards, undertaken by CIPFA.

RECOMMENDATIONS

The Committee is asked to:

1. Consider and comment on the outcome of the external assessment.

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 Accounts and Audit Regulations state that internal audit should conform to 'proper practices'. Current proper practice for internal audit is set out in the Public Sector Internal Audit Standards (PSIAS) 2013.
3. These standards have four key objectives:
 - Define the nature of internal auditing within the UK public sector;
 - Set basic principles for carrying out internal audit in the UK public sector;
 - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and

- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
4. The Standards consist of 4 overarching categories, (containing over 200 detailed questions), which are summarised below, and set out how the internal audit service should perform its functions.

Category Reference	Standards
1	Definition of Internal Auditing
2	Code of Ethics
3	Attribute Standards <ul style="list-style-type: none"> • Purpose, Authority and Responsibility • Independence and Objectivity • Proficiency and Due Professional Care • Quality Assurance and Improvement Programme
4	Performance Standards <ul style="list-style-type: none"> • Managing the Internal Audit Activity • Nature of Work • Engagement Planning • Performing the Engagement • Communicating Results • Monitoring Progress • Communicating the Acceptance of Risks

5. The standards require periodic self-assessments and an assessment by an external person every five years. The independent external assessment should be undertaken by an appropriately qualified assessor who is independent of the organisation. Following a tendering exercise, CIPFA were appointed to undertake the review. CIPFA is one of the professional bodies who sets internal audit standards for public bodies and provides professional guidance on the standards as well as other aspects of internal audit, and has experience in conducting such reviews.
6. The review was undertaken during January 2016 by Elizabeth Humphrey.

Outcome of the review

7. Of the 12 standards assessed, the review confirmed that Internal Audit was fully compliant with 10. Four minor areas of partial non compliance were identified and all of these issues have now been addressed.
8. Two further suggestions were made to improve compliance and these issues will be addressed.

9. The detailed report and associated action plan are appended to this report.

Council Priorities

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

Corporate Implications

Legal Implications

11. None directly from this report.

Financial Implications

12. None directly from this report

Equalities Implications

13. None directly from this report.

Conclusion and next Steps

14. Action has been taken to address the recommendations contained within the report. Every effort will be made to ensure that internal audit practices continue to conform to the required standards, including any revisions that may be made from time to time.
15. It is a requirement of the PSIAS to include a statement on conformance with the standards within the Internal Audit Annual Audit Opinion and the Committee will be kept informed on conformance with the standard through this reporting mechanism.

Appendices

Appendix A – CIPFA Final report on the external assessment of the internal audit function.

Background Papers

None.

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Final Report for the external assessment of the internal audit function

Central Bedfordshire Council

Lead Associate: Elizabeth Humphrey, CPFA

Internal QA: Keeley Lund, Technical Manager, CIPFA, Professional Standards & Guidance

4th March 2016

Review of Central Bedfordshire Council's Internal Audit service (January 2016)

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013. The standards require periodic self-assessments and an assessment by an external person every five years. Now that Central Bedfordshire Council's audit team has been operating under the standards for almost three years, this was deemed a good time for the first external review.

The review was carried out through a process of interview and document review. A list of interviewees is included as appendix 2. I should like to thank all those who took the time to talk to me for their help. We reviewed seven audits carried out during the 2014/15 and 2015/16 financial years and we examined key documents including the Charter and reports to the Audit Committee.

We identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity, nor any significant areas of partial non-compliance. We have made some practical and pragmatic medium priority recommendations (R) and lower priority suggestions (S) to improve compliance with the standards without requiring significant extra work. The Head of Internal Audit and Risk will need to take action to implement them and an action plan is included as appendix 1.

Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
Attribute standards				
1000 Purpose, authority and responsibility	Partial	1000.C1 The Charter defines consulting activity but not assurance activity, although references are made to it in the Charter	Include a definition of assurance activity in the Charter	R1
1100 Independence and objectivity	Full	Independence and objectivity are well managed. All interviewees emphasised the importance of these aspects of audit behaviour		
1200 Proficiency and due professional care	Full	It was clear from the audit files that audit work is carried out with proficiency and care. The team is well qualified, with good access to training and development		
1300 Quality assurance and improvement programme	Full	Quality and improvement is given priority and the lessons learned document completed at the end of most audits is a useful addition to the standard approach		

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
Performance standards				
2000 Managing the internal audit activity	Partial	<p>Standard 2030 The Charter states that the Chief Finance Officer would be told if there were insufficient audit resources, but not the Audit Committee</p> <p>Standard 2060 Internal audit activities are reported to the Audit Committee in the annual audit opinion. This report is not, however, presented to senior managers</p>	<p>Include referral of insufficient resources to the Audit Committee in the Charter</p> <p>Ensure that senior managers also see the annual audit opinion</p>	R2 R3
2100 Nature of work	Full	All the expected areas of work are covered over the period of the three year audit plan. No specific ethics audits have been undertaken for two years, but further work is planned for this area in 2016/17		
2200 Engagement planning	Full	Engagement planning is thorough and follows the requirements of the audit manual. Ways in which value can be added are considered at each audit but it was not always clear if this included value for money	Consider amending the references to added value to include value for money	S1
2300 Performing the engagement	Full	The audit manual, and the B5 matrix in particular, ensure that engagements are carried out according to the plan. Security in the section is given priority		
2400 Communicating the results	Full	Reports are clear and reflect the work undertaken. The majority of audits reviewed exceeded their time budget although they were delivered to the planned deadlines. In many cases the extra time was needed because of the clients. The lessons learned document identifies why more time was needed than anticipated	Use the lessons learned to improve achievement of budgets	S2
		Standard 2450		

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		The Charter states that the opinion concludes on the control environment, rather than on the broader control framework	The Charter should state that the Opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control	R4
2500 Monitoring progress	Full	A pragmatic, risk-based approach is taken to follow up work, ensuring best use of resources while minimising risk of inaction		
2600 Communicating the acceptance of risks	Full	There was no evidence that risks have been left unmitigated following an audit, highlighting the importance placed by the Council on audit findings		
Code of Ethics	Full	The importance of following the code of ethics is given priority and is mentioned regularly in team meetings. All interviewees stressed the emphasis placed on ethics by the audit team		

The Head of Internal Audit and Risk has details of the findings, standard by standard.
Elizabeth Humphrey CPFA

Appendix 1: action plan

Recommendations

No	Recommendation	Response	Responsible officer	Action date
R1	Include a definition of assurance activity in the Charter	The Charter has been updated, using phrasing agreed with the external assessor.	Head of Internal Audit and Risk	Immediate
R2	Include referral of insufficient resources to the Audit Committee in the Charter	Paragraph 9.1 of the Charter has been expanded to include reference to the Audit Committee.	Head of Internal Audit and Risk	Immediate
R3	Ensure that senior managers also see the annual audit opinion	Arrangements have been made for senior managers to review the Annual Audit opinion prior to presentation to the June Audit Committee	Head of Internal Audit and Risk	June 2016
R4	The Charter should state that the Opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control	Paragraph 8.2 of the Charter has been expanded to reflect this.	Head of Internal Audit and Risk	Immediate

Suggestions

No	Suggestion	Response	Responsible officer	Action date
S1	Consider amending the references to added value to include value for money	The engagement planning document has been amended to ensure that value for money is considered as part of scoping audits.	Head of Internal Audit and Risk	Immediate
S2	Use the lessons learned to improve achievement of budgets	Internal Audit quality assurance processes have already recognised that this is an area for improvement and there will be a focus on trying to keep within budgets.	Head of Internal Audit and Risk	Ongoing

Appendix 2: interviewees

Person	Position
Teresa Bennet	Senior Auditor
Cllr Michael Blair	Chair of Audit Committee
Cllr David Bowater	Vice Chair of Audit Committee
Mike Brandrick	Senior Auditor
Richard Carr	Chief Executive
Judith Cohen	Senior Auditor
Ralph Gould	Head of Financial Control
Clint Horne	Audit Manager
Adrian Howe	Audit Manager
Julie Luckman	Fraud, Welfare and Partnership Manager
Ebenezer Mogaji	Senior Auditor
Gary Muskett	Head of Revenues and Benefits
Cathy O'Carroll	External Audit, Ernst & Young
Kathy Riches	Head of Internal Audit and Risk
Bernard Sykes	IT – Operations and Network Manager
Bernie Tighe	Temporary Senior Auditor
Charles Warboys	S151 officer, Chief Finance Officer

Central Bedfordshire Council

AUDIT COMMITTEE

4 April 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 February 2016.

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. 8 of the reviews have received an opinion of Adequate Assurance and 2 reviews have received an opinion of Full Assurance. Work has commenced on the Asset Management 2015/16 and SWIFT Financials audits. 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.
8. In addition to the fundamental audit reviews the following audits have been finalised since the last Committee:
 - Adherence to Procurement Procedures – Financial Procedures – Adequate assurance
 - Residential Care Homes - Review opening balances on clients' funds – Limited assurance
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. Work is currently in progress on the Section 256 grant claim.

11. The following audits, originally in the 2015/16 Audit Plan, have been deferred to either 2016/17 or 2017/18.
- School Transport
 - Compliance- Assets
 - Care Fund/Better Care Fund Integration
 - Review of Leisure Services outcomes
 - Housing Repairs Follow Up
12. These audits have been postponed after consultation with senior managers. The School Transport and Compliance – Assets audits have been deferred, pending the outcome of reviews within the service areas. The Care Fund/Better Care Fund Integration review has been deferred due to national changes in timeframes. The review of Leisure Services outcomes audit has been scoped but it was considered that the audit should be undertaken mid 2016/17 as by this time it should be possible to assess whether the intended outcomes are being delivered. As has previously been reported to the Committee, a follow up audit of the Housing Repairs system is also planned. 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. This audit review will be undertaken in 2016/17.

Schools

13. The rolling programme of school audit visits has continued. To date this year 10 school reports have been finalised. This includes 4 site visits undertaken at the end of 2014/15 and 6 visits undertaken to date during 2015/16. A further site visit has been undertaken and the draft report has been issued to the school.

External Assessment of Internal Audit against the Public Sector Internal Audit Standards

14. 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 was undertaken in January 2016 by CIPFA. The outcome was positive and the final report from CIPFA is included as a separate item on the agenda. All the recommendations made have been implemented to ensure that Internal Audit is fully compliant with the standards.

Performance Management

15. 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 – 29th February 2016

KPI	Definition	Current Year		Previous Year	Annual target
		Actual	Target	Actual	
KPI01	Percentage of total audit days completed.	76%	73%	83%	80%
KPI02	Percentage of the number of planned reviews completed.	62%	66%	65%	80%
KPI03	Percentage of audit reviews completed within the planned time budget, or within a 1 day tolerance.	76%	75%	81%	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.	77%	80%	63%	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%	80%	96%	80%
KPI06	Overall customer satisfaction.	92%	80%	91%	80%

16. Analysis of indicators:

- KPI01 - As at the end of February, Internal Audit has delivered a total of 958 productive audit days against a total of 1260 planned days for the year. This is slightly above target for the period, but is lower than for the same period last year. 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 February, 62% of the planned reviews had been completed to final report stage along with milestones reached for fundamental systems audit work. This is slightly below target, but also reflects the vacancy earlier in the year. However, this KPI does not reflect work in progress.
- KPI03 - 76% of planned reviews have been completed either within the planned time budgets, or within a 1 day tolerance. This is slightly 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 February 77 % of draft reports were responded to within the target set. Although this is below target, it does represent a significant improvement on the position reported as at the end of February 2015, which was 63%.
- 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 18 have been returned. The overall satisfaction score is 92%, which remains very positive.

Council Priorities

17. 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

18. None directly from this report.

Financial Implications

19. 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

20. None directly from this report.

Conclusion and next Steps

21. 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.

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

Appendices

Appendix A – Progress on Audit Activity

Background Papers

None.

Priority	Audit Title	2015/16 Days	Position as at end February 2016	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 issued	n/a
	Domiciliary Care Framework Agreement		Draft Report issued.	
	SWIFT Financials		Final report issued	Adequate
	Information Governance - Transparency Code		Final Draft Report issued.	
	Application Reviews (framework i)		Fieldwork in progress	
	Customer First		Fieldwork in progress	
	Compliance- Assets		Deferred to 2016/17	
	Integrated Asset Management System (IAMS)		Final report issued	Adequate
	School Transport		Deferred to 2017/18	
	Direct Payments		Report currently being drafted	
	Housing Tenancy Management		Final report issued	Adequate
	Residential Care Homes - Review opening balances on clients' funds		Final report issued	Limited
	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 February 2016	Opinion
	Proactive Anti- Fraud Review 14-15: Expense Claims		Scoping agreed.	
	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	Fieldwork in progress	
H	Council Tax (including Council Tax Support Scheme)	35	Final report issued	Full
H	Housing Benefits	40	Final report issued	Adequate
H	Main Accounting Systems (MAS)	30	Final report issued	Adequate
H	National Non Domestic Rates NNDR	35	Final report issued	Adequate
H	Payroll	35	Final report issued	Adequate
H	SWIFT Financials	15	Scoping agreed	
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.	
M	Corporate Governance Reviews	15	Internal Audit to participate in End of Project Review	
H	IT Disaster Recovery	10	Final report issued	Limited
H	SAP Access and Security	10	Scoping in progress	
M	Third Party Hosting	15	Scoping agreed	
M	IT Network Management and Security	15	Scoping agreed	
M	IT Governance Follow Up Audit	15	Fieldwork in progress	

Priority	Audit Title	2015/16 Days	Position as at end February 2016	Opinion
Total- Improvement and Corporate Services		110		
Assurance Audits - Finance				
M	Financial Procedures	15	Final report issued	Adequate
L	NDR1 and 3 return - processes for assurance on compilation	5	Final report issued	Adequate
M	VAT audit	10	Fieldwork in progress	
M	Grants audit	10	Follow up review started	
Total - Finance		40		
Assurance Audits - Children's Services				
M	Schools General - School Improvement	80	Rolling programme. 6 reports finalised to date. See below	
	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
	Sandy Upper		Final report issued	Limited
M	Children's Centres	10	Fieldwork in progress	
H	Troubled Families Grant	10	Fieldwork in progress	
H	Frameworki	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	All site visits undertaken. Report being drafted.	
M	Supporting delivery of new housing	15	Currently being scoped.	
M	Care Act/Better Care Fund integration	15	Deferred to 2017/18	
Total - Social Care, Health and Housing		70		
Assurance Audits - Community Services				
M	Car Parks	15	Report currently being drafted	
M	Review of Leisure Centres outcomes	15	Deferred until 2016/17	
Total - Community Services		30		

Priority	Audit Title	2015/16 Days	Position as at end February 2016	Opinion
Assurance Audits - Regeneration and Business Support				
M	European Social fund	15	Fieldwork in progress	
M	S106	15	Fieldwork in progress	
Total - Regeneration and Business Support		30		
Assurance Audits - Contracts and Partnerships				
M	Contract Management	20	Scoping agreed	
Total - Contracts and Partnerships		20		
Assurance Audits - Public Health				
M	Public Health - Follow-up on Data Quality, Health checks offered to 40-74	15	Scoping agreed	
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 & charging processes for residential care	10	Scoping agreed	
M	Cash income	10	Fieldwork in progress	
M	Bank Accounts and Cash income	10	Fieldwork in progress	
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. Preparation for 2015/16 commenced.	n/a
M	Audit of Individual Grants	20	Ongoing throughout year	includes Broadband claim and Flood Resilience grant
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		

Priority	Audit Title	2015/16 Days	Position as at end February 2016	Opinion
TOTAL CHARGEABLE DAYS REQUIRED		1260		

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Central Bedfordshire Council

AUDIT COMMITTEE

4 April 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 March 2016.

RECOMMENDATIONS

The Committee is asked to:

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

Overview and Scrutiny Comments/Recommendations

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

Background

2. The Terms of Reference of the Audit Committee include the monitoring of the operation of the Risk Management Strategy. This report is the regular update report to assist the Committee in discharging its responsibilities.
3. The purpose of this report is to give an overview of the Council's risk position as at March 2016.

Strategic Risks

4. As reported to the January Audit Committee, 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 took place in February 2016.
5. When reviewing the risks facing the Council, the following issues were identified for consideration and discussion:

Financial considerations including:

- Implications of the February 2016 final financial settlement
- Additional funding for Adult Social Care
- Additional responsibilities may be transferred to Local Government without adequate additional resources
- Further efficiency savings are likely to be required
- Potential scaling back of capital programme
- Housing Revenue Account (HRA) changes to funding
- Public health funding reductions and the impact across a range of Council services
- Better Care Fund
- Social Care financial pressures
- Impact of New Living Wage
- Impact of Continuing Healthcare decisions on both Children and Adults
- Issues relating to Housing Need, including Homelessness and Social Housing Rents
- Fraud and Corruption.

Changes in Government Policies/Legislation, including:

- Additional responsibilities being transferred from Central Government.

Changes in Service delivery models, including:

- Partnerships
- Shared Services
- Outsourcing
- Integration.

Stability of partners/neighbouring authorities, including

- Service failure of partners or providers.

National Issues, including:

- Demographics
- Safeguarding
- Global economy
- Terrorism
- Climate Change
- Radicalisation
- Cyber attacks.

Local Issues, including:

- Resilience and the interdependencies of major projects
- Supply chain failure
- Information management and a failure to move from data collection to intelligence
- Customer expectation
- Failure to deliver major transformation programmes
- Ineffective use of data/intelligence to achieve our vision.

- Capacity, including lack of resources/skills/difficulty in recruiting appropriately skilled staff
 - Sustainable outcomes
 - Delivery of strategic targets and priorities
 - Business Continuity.
6. As a result of the review, several areas were identified for further consideration. These areas include:
- Not being able to access a sustainable market for social care at a reasonable price due to the implementation of the National Living Wage and other legislation.
 - The capacity of the Council to deliver services in the light of the scale of the efficiencies we need to make, taking account of the increasing importance of our income from NDR, the impact of changes to Housing Revenue Account (HRA) financing and the anticipated transfer of new responsibilities to councils without the concomitant funding, such as the administration of attendance allowances.
 - The fragility of partners and the impact of this on our ability to deliver our objectives. A particular facet relates to emergency planning and resilience in amongst health partners.
 - The impact of cyber crime.
 - The failure to deliver major transformation programmes, including the risk of failing to deliver the organisational development plan.
 - Risk of failure to deliver community cohesion in the context of the demographic growth in Central Bedfordshire
 - Failure to support vulnerable people and families, including facets of access to accommodation, welfare reform and low levels of income.
7. Further detailed work is in progress with senior officers across the Council to fully assess and document these risks and ensure that, where possible, appropriate mitigating actions are in place. The outcome of this work will be reported to a future committee. No revisions to the current strategic risk register have been made at this stage.
8. The current strategic risk register dashboard is attached at Appendix A. No changes to the dashboard have been made since the last Committee meeting. 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.

Operational Risks

9. 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.
10. 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.

Council Priorities

11. 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

12. None directly from this report.

Financial Implications

13. None directly from this report.

Equalities Implications

14. None directly from this report.

Conclusion and next Steps

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

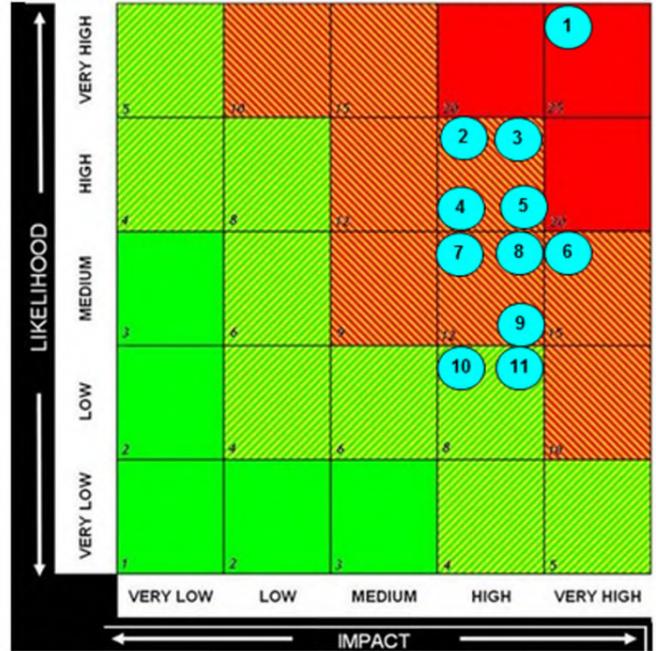
Appendices

Appendix A – March 2016 Risk summary dashboard.

Background Papers

None.

CBC Strategic Risk Register Matrix - Residual Risk Rating

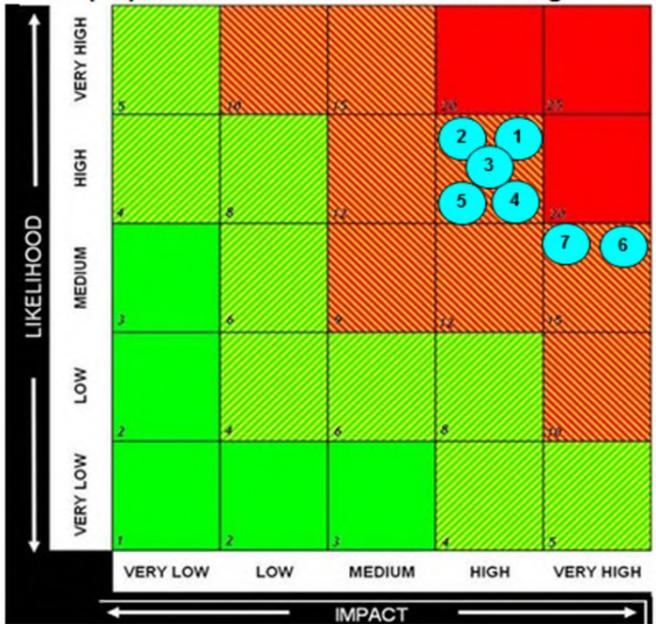


Key		2013/14			2014/15			2015/16		
#	Reference	Dec	Mar	Sept	Dec	Mar	Sept	Dec	Mar	
1	STR0019	15	15	20	20	20	20	20	20	
2	STR0001	12	12	12	12	12	16	16	16	
3	STR0003	16	16	16	12	12	16	16	16	
4	STR0009	8	8	8	16	16	16	16	16	
5	STR0027				20	16	16	16	16	
6	STR0010	12	15	15	15	15	15	15	15	
7	STR0022	12	12	12	12	12	12	12	12	
8	STR0024			20	12	12	12	12	12	
9	STR0028						12	12	12	
10	STR0008	16	15	12	12	12	8	8	8	
11	STR0013	15	15	12	12	12	8	8	8	

Overview of Risk Position - March 2016

No changes have been made to the existing strategic risks, but work is in progress to fully assess and document the emerging risks identified following the fundamental refresh of the risk register.

CBC Top Operational Risks - Residual Risk Rating



Key		2013/14			2014/15			2015/16		
#	Reference	Dec	Mar	Sept	Dec	Mar	Sept	Dec	Mar	
1	SCH0004	16	16	16	16	16	16	16	16	
2	SCH0007	16	16	16	16	16	16	16	16	
3	SCH0008	16	16	16	16	16	16	16	16	
4	SCH0005	16	16	16	16	16	16	16	16	
5	CHS0005			16	16	16	16	16	16	
6	CHS0023						15	15	15	
7	SUC030007	12	12	12	12	12	15	15	15	

Key

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

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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Central Bedfordshire Council

AUDIT COMMITTEE

4 April 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, as at the end of February 2016.

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 undertook a further audit review of IT Disaster Recovery during 2015/16. 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). Appropriate insurance cover is now in place for equipment held at data centres and this recommendation will be removed from future tracking reports.
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. The current position is detailed at Appendix A (rec.6)
7. 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 are currently being tested as part of the Phase 2 of the Accounts Payable 2015/16 audit.
8. 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.
9. Progress will continue to be monitored. The follow up of audit recommendations forms an integral part of the fundamental system audit reviews.

Future Monitoring

10. 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

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

Corporate Implications

Legal Implications

12. None directly from this report.

Financial Implications

13. 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

14. None directly from this report.

Conclusion and next Steps

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

16. 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)

Recommendation R1:

(Carried forward from previous audits)

A disaster recovery plan should be developed and approved. As a minimum, this should include:

- 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

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.

Target Dates:

September 2015 (Original)

April 2016 (Revised, tender decision made)

Current Position and Explanation for Slippage:

An OJEU Tender for new data centre capacity including Disaster Recovery was released to the market end of January 2016 with evaluation taking place the second week of March 2016. After the tender is completed in April 2016 it will be possible to update the DR strategy and plan for the Council.

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.

Rationale for Recommendation:

The Council no longer has a contractual agreement with an external party for the recovery of services.

Target Dates:

September 2015 (Original)

April 2016 (Revised)

Current Position and Explanation for Slippage:

This is subject to the agreed action in the recommendation above.

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 has addressed this issue, in consultation with IT. It has been confirmed that insurance cover will be in place from 1st April 2016. This recommendation will therefore be removed from future tracking reports.

Housing Tenancy Management

<p>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.</p>
<p>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.</p>
<p>Target Dates: November 2015 March 2016 (revised)</p>
<p>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. At the time of drafting this report it was understood that work was ongoing to achieve this action.</p>

<p>Recommendation R5: A Monitoring Group should be established, with clear terms of reference, to monitor and review the effectiveness of the Tenancy Strategy.</p>
<p>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.</p>
<p>Target Dates: November 2015 March 2016 (revised)</p>
<p>Current Position and Explanation for Slippage: This will be addressed as part of the action plan being developed in response to the earlier recommendation.</p>

Recommendation R6:

Housing Repairs expenditure in QL and SAP should be regularly reconciled.

Rationale for Recommendation:

There is no reconciliation between Housing Repairs expenditure in QL and SAP. Actions to resolve this are defined within an invoice review process. Three specific objectives are to be achieved:

- 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.
- 4)

Target Dates:

End September 2014
End March 2015 (revised)
End June 2015 (revised)
October 2015 (revised, self billing)
January 2016.(revised)
June 2016 (see below)

Current Position and Explanation for Slippage:**Progress since last update:**

Since the last update, the stakeholders for the QL/SAP interface have broadened to include Corporate IT and the software supplier. A new project structure has been set up, managed by IT and this has involved re-scoping the deliverables and a new timeline.

Action 1 -A QL/SAP interface was delivered in 2015; however there were some ongoing problems with the reliability of interface files, and improvements to be made.

Business processes supporting these updates to the QL/SAP link have been explored through a series of workshops, to which all stakeholders have been invited. A Business Requirements Document (BRD) was produced in January 2016 which proposes processes for the reconciliation of repairs works invoices. Work is being undertaken with the relevant managers to roll this process out to contractors and teams. The suppliers have been engaged to update the SAP/QL interface, which will be scoped, designed and tested by mid June 2016

Action 2 -The “business process including pre-payment on account” has been agreed and is being successfully trialled with a major contractor as a pilot. Final process reconciliation and sign off is underway with a completion date of 11 March 2016. The next step will initiate a roll-out plan with more contractors.

A reconciliation test was carried out using a QL report to match orders that appeared in SAP with the orders correctly raised through QL as of the 1st Jan 2016, checking that they worked their way through the interface in the correct way.

The test found that that there are still some occasions where orders are manually transferred to SAP and therefore are not showing up on the QL report. This issue is largely due to user error and is being addressed within the service and a further test will be carried out once resolved. This work is to be completed by the end of March 2016.

Action 3 -Operational processes, delegation authorities and accountability have all been documented and signed-off as a result of the original project and audit requirements. These underlying key deliverable and audit requirements remain in

place as the foundation of any upcoming developments.

Regular audits of user authorisation levels and delegation (Separation of duties) are also carried out to ensure we meet audit recommendations.

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Details of Monitoring of High Risk Internal Audit recommendations as at End February 2016

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)	13/08/2015	31/10/2015	2	2					
SAP Access and Security	28/05/2015	28/05/2015	1	1					
IT Disaster Recovery	29/09/2015	30/09/2015	3	1		2			Recs. 1-3
SOCIAL CARE, HEALTH & HOUSING									
Housing Tenancy Management	04/09/2015	30/11/2015	2			2			Recs.4-5
Total			8	4		4			

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Central Bedfordshire Council

Audit Committee

4 April 2016

Work Programme

Advising Officers:

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

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

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. Central Bedfordshire Council has a statutory duty to promote equality of opportunity, eliminate unlawful discrimination, harassment and victimisation and foster good relations in respect of nine protected characteristics; age disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
8. Report authors will be encouraged to work with the Corporate Policy Advisor (Equality & Diversity) in order to ensure that relevant equality implications are identified.

Conclusion and next Steps

9. 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	
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"> • External Audit Plan 2015/16 (NH) • Annual Counter Fraud Update (GM) • Annual Review of Risk Based Verification Policy for Housing Benefit and Local Council Tax Support Assessments (GM) • Outcome of External Assessment of Internal Audit by CIPFA (KR) • Risk Update Report (KR) • Tracking of Internal Audit Recommendations (KR) • Internal Audit Progress Report (KR) • 2016/19 Internal Audit Plan (KR) • Work Programme (LM)
2016/17 Municipal Year	
27 June 2016	<ul style="list-style-type: none"> • Statement of Accounts 2015/16 (presentation) (CW/RG) • Annual Audit and Certification Fees 2016/17 (NH) • External Audit Progress Report (NH) • Annual Governance Statement 2015/16 (QB) • Local Government Pension Scheme Update (RG) • 2015/16 Internal Audit Annual Audit Opinion (KR) • Tracking of Internal Audit Recommendations (KR) • Work Programme (LM)
26 September 2016	<ul style="list-style-type: none"> • Statement of Accounts 2015/16 (RG) • Audit Results Report 2015/16 (NH) • External Audit Progress Report (NH) • Risk Update Report (KR) • Tracking of Internal Audit Recommendations (KR) • Internal Audit Progress Report (KR) • Work Programme (LM)

Appendix A

<p>9 January 2017</p>	<ul style="list-style-type: none"> • Certification Annual Report 2015/16 (NH) • Annual Audit Letter 2015/16 (NH) • External Audit Progress Report (NH) • Local Government Pension Scheme Update (RG) • Statement of Accounts 2016/17 (RG) • Risk Update Report (KR) • Tracking of Internal Audit Recommendations (KR) • Internal Audit Progress Report (KR) • Work Programme (LM)
<p>3 April 2017</p>	<ul style="list-style-type: none"> • External Audit Plan 2016/17 (NH) • Annual Review of Risk Based Verification Policy for Housing Benefit and Local Council Tax Support Assessments (GM) • Risk Update Report (KR) • Tracking of Internal Audit Recommendations (KR) • Internal Audit Progress Report (KR) • Work Programme (LM)

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