

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 22 December 2016

NOTICE OF MEETING

AUDIT COMMITTEE

Date & Time

Monday, 9 January 2017 10.00 a.m.

Venue at

Room 14, Priory House, Chicksands, Shefford

Richard Carr
Chief Executive

To: The Chairman and Members of the AUDIT COMMITTEE:

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

[Named Substitutes:

R D Berry, D Bowater, Mrs J G Lawrence and I Shingler]

All other Members of the Council - on request

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

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AGENDA

1. **Apologies for Absence**

To receive apologies for absence and notification of substitute Members.

2. **Minutes**

To approve as a correct record the minutes of the meeting of the Audit Committee held on 26 September 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 as set out in Annex 2 of Part A4 of the Constitution.

6. **Questions, Statements or Deputations**

To receive any questions, statements or deputations from members of the public in accordance with the Public Participation Procedure as set out in Annex 1 of Part A4 of the Constitution.

Reports

Item	Subject	Page Nos.
7.	Certification of Claims and Returns Annual Report 2015-16 To receive a report from Ernst & Young LLP on its certification and other assurance work including a summary of the results of the company's work on the Council's housing benefit subsidy claim.	* 15 - 28
8.	Annual Audit Letter for the Year Ended 31 March 2016 To consider the Annual Audit Letter from Ernst & Young LLP following completion of the company's audit procedures for the year ended 31 March 2016.	* 29 - 58

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|-----|---|-------------|
| 9. | Audit Plan | * 59 - 78 |
| | To consider a report from Ernst & Young LLP which provides the Audit Committee with a basis to review the company's proposed audit approach and scope for the 2016/17 audit and ensure that the audit is aligned with the Committee's service expectations. | |
| 10. | Statement of Accounts 2016/17 | * 79 - 84 |
| | To consider key changes required to the Council's statutory Statement of Accounts for 2016/17. | |
| 11. | Local Government Pension Scheme Update | * 85 - 92 |
| | To consider an update on the governance of the Local Government Pension Scheme. | |
| 12. | Revised Confidential Reporting Code | * 93 - 104 |
| | To consider proposed revisions to the Confidential Reporting Code. | |
| 13. | Revisions to the Internal Audit Charter | * 105 - 122 |
| | To consider proposed revisions to the Internal Audit Charter following changes to the Public Sector Internal Auditing Standards (PSIAS). | |
| 14. | Risk Update Report | * 123 - 130 |
| | To consider an overview of the Council's risk position as at December 2016. | |
| 15. | Internal Audit Progress Report | * 131 - 142 |
| | To consider an update on the progress of work by Internal Audit for 2016/17. | |
| 16. | Tracking of Internal Audit Recommendations | * 143 - 154 |
| | To consider a summary of high priority recommendations arising from Internal Audit reports together with the progress made in their implementation. | |
| 17. | Work Programme | * 155 - 158 |
| | To consider the Audit Committee's work programme. | |

CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 15, Priory House, Chicksands, Shefford on Monday, 26 September 2016

PRESENT

Cllr M C Blair (Chairman)
Cllr D J Lawrence (Vice-Chairman)

Cllrs P Downing
R Morris

Cllrs D Shelvey
A Zerny

Apologies for Absence: Cllr F Firth

Substitutes: Cllr R D Berry (In place of F Firth)

Members in Attendance: Cllr M A G Versallion

Officers in Attendance:	Ms M Damigos	Deputy Monitoring Officer
	Mr R Gould	Head of Financial Control
	Mr L Manning	Committee Services Officer
	Ms K Riches	Head of Internal Audit & Risk
	Mr B Sykes	Operations and Networks Manager
	Mr C Warboys	Chief Finance Officer

Others In Attendance:	Mr N Harris	Executive Director – Ernst & Young LLP
	Ms C Ryan	Manager – Ernst & Young LLP

AUD/16/17 Minutes

RESOLVED

that the minutes of the meeting of the Audit Committee held on 27 June 2016 be confirmed and signed by the Chairman as a correct record.

AUD/16/18 Members' Interests

None.

AUD/16/19 Chairman's Announcements and Communications

The Chairman reminded Members that they should turn their mobile devices off. He then apologised to Members for the need to distribute so many of the reports at both relatively short notice and as supplements. This was due to the

fact that the external audit was still continuing and Members were being presented with the most up to date information.

AUD/16/20 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/16/21 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/16/22 External Audit Results Report 2015/16

Members considered the External Audit Results Report for the year ended 31 March 2016 from Ernst & Young LLP. The report informed the Committee of the work carried out by the Company in order to discharge its statutory audit responsibilities together with any governance issues identified. The report summarised the findings from the substantially completed 2015/16 audit and also included the messages arising from the audit of the Council's financial statements and the results of the work Ernst & Young had undertaken to assess the Council's arrangements to secure value for money in the use of its resources.

The Ernst & Young Executive Director first apologised for the delay in the issue of the report but explained that this had occurred because he wanted to ensure that the Committee received the most up to date information. He then stated that, since the issue of the report, most of the outstanding areas of work had been completed. He expressed his thanks to the Council's officers for their full co-operation and assistance during the auditing process. The Executive Director stated that, subject to final checks, Ernst & Young would be issuing an unqualified opinion on the Council's financial statements and, in addition, had concluded that the Council had put in place proper arrangements to secure value for money in its use of resources. He added that the audit of the Whole of Government Accounts (WGA) was the only area of work still outstanding. The procedures required by the National Audit Office (NAO) for the WGA were in progress and would be finished before the deadline of 21 October 2016.

The Ernst & Young Executive Director stated that he would wish to discuss the timetabling of future audits to ensure that forthcoming changes were met. He then worked through the External Audit Results Report referring to particular issues for Members' information, in particular the Better Care Fund and Private Finance Initiative (PFI) Liability. The meeting noted that the Head of Financial Control would also be referring to these issues in item 8 (Statement of Accounts).

(Note: Minute AUD/16/23 below refers).

NOTED

the External Audit Results Report from Ernst & Young LLP setting out the results of its 2015/16 audit.

AUD/16/23 2015/16 Statement of Accounts

The Committee considered a report by the Chief Finance Officer which presented the 2015/16 Statement of Accounts for approval. A copy of this document was attached at Appendix A to the Chief Finance Officer's report. In addition a schedule of changes to the Statement of Accounts certified by the Chief Finance Officer on 28 June 2016 was attached at Appendix B and a draft Letter of Representation 2015/16 was attached at Appendix C to the report. Last, a schedule of additional changes to the Statement of Accounts, also marked as Appendix B, was circulated at the meeting. The amendments in both Appendices B were mainly classification or typographical corrections and had no impact on the General Fund balance being essentially presentational. A copy of the appendix circulated at the meeting is attached at Appendix A to these minutes.

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

For Members' benefit the Head of Financial Control worked through the annual accounts document. He made particular reference to two specific areas of interest, the first being the Council's outstanding Private Finance Initiative (PFI) liability arising from its schools PFI contract. He explained the background to this matter, some of which was set out within the Statement, and how, following a query from Ernst & Young a revised accounting model would be applied from the 2016/17 financial year.

The Head of Financial Control next turned to the Better Care Fund, introduced from April 2015, which represented the second area of interest. He again provided Members with information in addition to that set out within the report, the meeting noting that the Fund aimed to increase the integration of the local authority and health sectors through pooled budget arrangements. In Central Bedfordshire's case this was with the NHS Bedfordshire Clinical Commissioning Group (CCG). The accounts had been amended following the external audit to clarify that the substance of the Fund's operation during 2015/16 was a partnership rather than a pooled budget arrangement. The

presentation in the Council's accounts was now consistent with the CCG's accounts.

RESOLVED

- 1 that the 2015/16 Statement of Accounts for Central Bedfordshire Council, as set out at Appendix A to the report of the Chief Finance Officer and incorporating those amendments set out in the two schedules of changes at Appendices B, be approved;**
- 2 that the Annual Governance Statement for 2015/16, previously approved at the meeting of the Audit Committee on 27 June 2016, be included with the published 2015/16 Statement of Accounts;**
- 3 that the Chairman of the Committee and the Chief Finance Officer be authorised to sign the draft 2015/16 Letter of Representation as set out to Appendix C of the Chief Finance Officer's report for submission to the Council's external auditor Ernst & Young LLP;**
- 4 that should minor changes be required to the 2015/16 Statement of Accounts and the 2015/16 Letter of Representation following completion of the audit the Chairman and Chief Finance Officer be authorised to approve and sign the revised versions of these documents.**

AUD/16/24. Update on the Development and Approval of an IT Disaster Recovery Plan

The Committee considered a report by the Chief Information Officer which introduced the current plans for the recovery of the Council's IT operations after a major outage at one of the Council's two Data Centres. A copy of the ICT Disaster Recovery Plan (DRP), which was an updated version of the original DRP from 2014, was attached at Appendix A to the report. The meeting was aware that the report had been submitted to the Committee as a result of a request made at the last meeting (minute AUD/16/15 refers).

In addition the report advised the Committee of future trends and subsequent changes in disaster recovery planning. Specific reference was made to a strategy to move the Council's data centres to the Cloud; an approach reflected across the UK in both the private and public sector. Further, the Council's existing data centres required substantial investment to ensure that they could continue to provide a good service and their small size made it difficult to achieve high level efficiencies.

The meeting noted the advantages of moving to the Cloud. Members also noted that plans were now in place to begin the migration and training for ICT staff was underway. Full migrations could take place in 2017.

Discussion followed during which some concern was expressed at the security aspects of Cloud hosting, reference being made to the hacking of large, well known organisations and how cyber criminals were drawn to attacking such bodies. Concern was also raised by the Head of Internal Audit and Risk that a

number of wider issues relating to ICT Disaster Recovery remained outstanding.

It was noted that, in view of forthcoming changes to the DRP environment, the Chief Information Officer had indicated in his report that he would provide an update to the Committee during the first quarter of 2017.

(Note: Minutes AUD/16/27 and 28 below also refer).

NOTED

- 1 the updated ICT Disaster Recovery Plan;**
- 2 the ongoing work within the ICT with regard to the movement of the Council's data centres to the Cloud and the related impact on disaster recovery planning.**

AUD/16/25 Risk Update Report

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

The Head of Internal Audit and Risk introduced the report, which included a Risk Register Dashboard attached at Appendix A to the report. The Committee's attention was drawn to the strategic and operational risk registers and discussion took place on any changes which had taken place since the last meeting. A Member referred to Operational Risk reference SUC030007 (Traffic accidents causing damage to network) and commented that environmental risks such as flooding could have an impact as detrimental to the network as traffic accidents. In response the Head of Internal Audit and Risk acknowledged this possibility and undertook to advise the operational area. A Member referred to Operational Risk reference CHS0005 (Failure to retain and recruit staff within Children's Services) and queried how long this issue was likely to remain on the register given the significant improvements which had taken place. In reply the Chief Finance Officer informed the meeting that, given the improvements which had occurred, it had already been decided that this matter was no longer a strategic risk. The Head of Internal Audit and Risk stressed, however, that this was subject to the improvement in the recruitment and retention of staff being maintained.

Further discussion followed during which the Head of Internal Audit and Risk made reference to the section within the report on the outcome and possible impact on the Council of the recent EU Referendum. She stated that the issues raised would be taken into account when reviewing and updating the risk registers.

NOTED

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

AUD/16/26 Internal Audit Progress Report

The Committee considered a report outlining the progress made on Internal Audit work against the 2016/17 Audit Plan up to the end of August 2016.

The following matters were considered:

- Background
- Fundamental System Audits
- Other Audit Work
- Schools
- Revisions to the Public Sector Internal Audit Standards
- Other Matters of Interest
- Performance Management

The Head of Internal Audit and Risk introduced the report and highlighted matters of particular interest. She made reference to the finalisation of an audit on the use of Purchasing cards by staff; the audit revealing that VAT was not always being claimed back when possible. In connection with this subject the Head of Financial Control advised the meeting that approximately 140 cards were in use. The issue of the cards was strictly controlled and many were only used infrequently or in an emergency.

The Vice-Chairman referred to the Internal Audit Plan 2016/17 attached at Appendix A to the report and to the work being undertaken by officers in connection with Section 106 Agreements. He expressed concern that some major developers were failing to fulfil their obligations under the Agreements and the Council was failing to enforce them. As a result there had been a drift in favour of the developers to the financial detriment of the Council.

A Member referred to the rolling programme of school audit visits and queried the level of Internal Audit resources allocated to this task. In response the Head of Internal Audit and Risk explained that this had been reduced a few years ago as a result of the growing number of schools converting to Academies though the level of resources allocated had since remained consistent. The Chief Finance Officer stated that the opportunity of selling Internal Audit services had been investigated but there had been little interest shown. Further, a change in legislation prevented Academies from being charged for Responsible Officer services.

With regard to a query by the Member regarding the time allocated to carry out audits in schools in comparison to other councils the Head of Internal Audit and Risk stated that this varied and that some councils did not undertake this function. The Chief Finance Officer added that the Council took a risk based approach and that those schools without financial concerns may not be audited for a considerable period.

NOTED

the progress made against the 2016/17 Internal Audit Plan.

AUD/16/27.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.

Whilst recognising that an update had been provided to the meeting on aspects of the development and approval of an IT Disaster and Recovery Plan (minute AUD/16/24 above refers) the Head of Internal Audit and Risk stressed the need for the wider issues relating to IT Disaster Recovery to be addressed before the high priority recommendation relating to the Plan could be considered implemented.

(Note: Minute AUD/16/28 below also refers).

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/16/28.Work Programme

Members considered a report which set out the Committee’s proposed work programme for the 2016/17 municipal year. The meeting was aware that an update on the implementation of the IT Disaster Recovery Plan was due to be submitted to the Committee during the first quarter of 2017 (minute AUD/16/24 and 27 above also refer). Given the proximity of the 9 January 2017 meeting and the large number of items already scheduled to be considered on that date it was felt that the update should be considered by the Committee at its meeting on 3 April 2017.

RESOLVED

that the proposed Audit Committee work programme for the 2016/17 municipal year, as attached at Appendix A of the report of the Committee Services Manager and Committee Services Officer, be approved subject to including the submission of an update on the development and approval of an IT Disaster Recovery Plan to the meeting on 3 April 2017.

(Note: The meeting commenced at 10.00 a.m. and concluded at 11.17 a.m.)

Chairman

Dated

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APPENDIX A

CIRCULATED AT AUDIT COMMITTEE (26 SEPTEMBER 2016)

Appendix B – Schedule of Further Changes to Statement of Accounts Certified 28th June 2016

		Additional Changes to be made to the Statement of Accounts certified by Chief Finance Officer 28th June 2016.
Statement of Accounts Page No	Section / Note	Comment
5	Narrative statement para 6	The subjective Summary of income and expenditure to update in line with revised Note 28.
16	Movement in Reserves Statement	Total Council Reserves Increase/Decrease in year should be bracketed and showing as (157,294) rather than 157,294.
44	Note 3 – Critical Judgements	Update table to show the correct classification of 89 schools as at 31 March 2016 - previously included 57 Community and 5 Foundation The Pinnacle Trust, when should state 56 Community and 6 Foundation The Pinnacle Trust.
56	Note 12 – Property, Plant and Equipment.	Typographical error total 'Other Land & Buildings (HRA) should be £5,536k, typographical error £ 65,536k.
77	Note 28 – Amounts Reported for Resource Allocation Decisions	Update Reconciliation of Directorate Income and Expenditure to Cost of Services in line with the revised Reconciliation to subjective analysis, all within Note 28.
93	Note 39 - Leases	Presentation of Final table of future minimum lease receipts to be amended for correction of working paper analysis

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Central Bedfordshire Council

Audit Committee

9 January 2017

Certification of Claims and Returns Annual Report 2015-16

Report of Ernst & Young LLP

Neil Harris, Executive Director

Purpose of this report

The purpose of the report is to set out certification and other assurance work by Ernst & Young LLP including a summary of the results of the company's work on the Council's housing benefit subsidy claim.

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Certification of claims and returns annual report 2015-16

Central Bedfordshire Council

19 December 2016

Ernst & Young LLP





Ernst & Young LLP
1 More London Place
London SE1 2AF

Tel: + 44 20 7951 2000
Fax: + 44 20 7951 1345
ey.com

The Members of the Audit Committee
Central Bedfordshire Council
Priory House
Monks Walk
Chicksands
Shefford
Bedfordshire
SG17 5TQ
Dear Members

19 December 2016

Ref:

Email: NHarris2@uk.ey.com

Certification of claims and returns annual report 2015-16 Central Bedfordshire Council

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on Central Bedfordshire Council's 2015-16 housing benefit subsidy claim.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2015-16, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

In addition to this, we also acted as reporting accountants in relation to one return – Teachers' Pensions, and are scheduled to act in relation to another – Pooling of Housing Capital Receipts, outside the PSAA's regime.

Summary

Section 1 of this report outlines the results of our 2015-16 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £61.01million. We met the submission deadline. We issued a qualification letter and details of the qualification matters are included in section 1. Amendments to the return had a marginal effect on the grant due of £4,100.

We provided a separate report to the Council in relation to the Teachers' Pensions return with a total value of £8.4 million. Significant issues identified as part of this work are included in section 2.



Fees for certification and other returns work are summarised in section 3. The housing benefits subsidy claim fees for 2015-16 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2015 and are now available on the PSAA's website (www.psaa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the 9 January Audit Committee.

Yours faithfully

Neil Harris
Executive Director
Ernst & Young LLP
Enc

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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£61,098,823
Amended/Not amended	Amended – subsidy reduced by £4,100
Qualification letter	Yes
Fee – 2015-16	£26,910
Fee – 2014-15	£33,201

Recommendations from 2014-15	Findings in 2015-16
<p>While the Council has continued to prioritise staff training and quality control in the Revenues and Benefits team the accuracy of benefits processing has not improved year on year. Given that there has not been a significant improvement the Council should:</p> <ul style="list-style-type: none"> Extend the level of checking that is carried out on the work of assessors, other than new starts, from the current level of 4%; and Focus the checking on the assessors identified as making the most errors. 	<p>The Council has continued to implement its quality control processes in a focussed manner, as described in page 2 below.</p> <p>Our work has continued to identify errors in income assessment and overpayments misclassification.</p>

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

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years claims.

Whilst the errors identified are similar to those identified in previous years and do extend across all benefit types, we have noted an improvement.

Extended and other testing identified errors which the Council amended. They had a small net impact on the claim. We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

Incorrect income assessment leading to underpaid and overpaid benefit	Testing identified underpaid and overpaid benefit mainly as a result of miscalculating claimant income. As there is no eligibility to subsidy for benefit that has not been paid, the underpayments identified did not affect subsidy claimed and were not classified as errors for subsidy
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purposes.

The overpayment errors have been extrapolated across the relevant cell totals and reported to DWP.

Misclassification of overpayments

The level of subsidy for overpayment is determined by its classification. The misclassifications found resulted in both understatements and overstatements of subsidy claimed.

The errors have been extrapolated across the relevant cell totals and reported to DWP.

These issues are similar to those reported in 2014/15. Quality control measures put in place comprise checking in a priority order as follows:

- Individual payments greater than £1,000 (pre and post payment checking)
- 100% check for all new members of staff for a minimum period of 1 week (no maximum period – decision taken on individual basis)
- 4% check of other work processed at random undertaken but subject to resource and availability

The Systems and Controls team also undertake additional random checks on overpayment allocation to supplement the work of the checking team and in response to overpayment allocation issues identified through the audit process, including:

- weekly check of all overpayments identified with specific reason codes to ensure correct technical classification, with corrections applied weekly;
- random monthly sample across all overpayment categories to identify incorrect allocation with corrections applied quarterly; and
- quarterly check of rent officer referral cases to ensure current referral has been requested.

The checks are documented by the Systems and Controls team.

The Council has set a target for benefits accuracy of 95%. This was not achieved in 2015/16. Monitoring in 2016/17 shows performance has been below the target level, however between July 2016 and October 2016 there has been a steady improvement in accuracy levels.

Given the Council has not yet seen a sustained improvement in accuracy levels, it should continue with its targeted quality control processes.

2. Other assurance work

During 2015-16 we also acted as reporting accountants in relation to the following schemes:

- ▶ Teachers pensions

We have provided a separate report to the Council in relation to this return. This work has been undertaken outside the PSAA regime. The fees for this are included in the figures in Section 3. They are referred to here to ensure Members have a full understanding of the various returns on which we provide some form of assurance.

Our reporting identified the following matters meriting reporting to Teachers' Pensions:

Contributions paid - there is a difference between the Authority's return and working papers, and the amount advised by TP of £3,079.46, due to an updated notification of an amount payable by the TP.

Errors found in testing of the Authority's payroll - 2 out of the 20 staff whose payroll is processed by CBC (as at March 2016), have been found to be contributing their teachers' pension at an inappropriate tier, resulting in a £433.03 overstatement of employee contributions.

Lack of assurance over data provided by other payroll providers - in July 2015, the Authority issued all schools and payroll providers with a document detailing the responsibilities and processes required of schools, the payroll provider for each school and the Authority to ensure that pension contributions are deducted from salary, paid over to TP and the service recorded in accordance with the Teachers' Pension Scheme Regulations (2010).

The Council receives MCBs (Monthly Contribution Breakdowns) for individual schools from 8 other payroll providers. Once provider did not submit the MCB to the Council to verify the amounts and one did not provide the detailed report to support the MCB.

For the providers with supporting information, the Authority checks that the MCBs match the detailed reports received. The information from other providers is collated and this summary is used to complete the EOYCa return. No further checks are carried out on the information provided and no checks are carried out on other providers' payroll records.

There have been improvements in the process during 2015-16, but these require strengthening further to provide the assurance required.

Differences between Monthly Contribution Breakdowns and supporting records from other payroll providers - Our testing found differences between MCBs and our recalculation of the employee contributions. The differences identified are shown in Table 1 below and reflect an overstatement of £4,762.11.

- ▶ We have been engaged to provide a reasonable assurance report in respect of the Pooling of Housing Capital Receipts return. This work is scheduled for February 2017 and we will report any to those charged with governance as appropriate.

3. 2015-16 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2015-16, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2015 and are now available on the PSAA's website (www.psa.co.uk).

Claim or return	2015-16	2015-16	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	26,910	26,910	33,201
Other claims or returns:			
Teachers' Pensions	10,000	10,000	13,000
Pooling of housing capital receipts return	TBC*	TBC*	4,000

*We are in the process of completing the engagement procedures regarding this return

4. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2016-17 is £26,910 (excluding reasonable assurance engagements). This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2015-16. Indicative fees for 2016/17 housing benefit subsidy certification work are based on final 2014/15 certification fees. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014-15.

Details of individual indicative fees are available at the following web address:
<http://www.psa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Chief Finance Officer before seeking any such variation.

PSAA is currently consulting on the 2017-18 work programme. There are no changes planned to the work required and the arrangements for certification of housing benefit subsidy claims remain in the work programme. However, this is the final year in which these certification arrangements will apply. From 2018-19, the Council will be responsible for appointing their own auditor and this is likely to include making their own arrangements for the certification of the housing benefit subsidy claim in accordance with the requirements that will be established by the DWP.

5. Summary of recommendations

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

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
<p>Housing benefits subsidy claim:</p> <p>Given the Council has not yet seen a sustained improvement in accuracy levels, it should continue with its targeted quality control processes</p>	Medium	Every effort is made to minimise errors entering the system through robust and sustained checking, as per the details provided in this report, and that the further increase in digitisation and automation should significantly impact on re-keying errors. Where issues are identified, either through the annual audit or through checking, targeted checking will be undertaken (whether at a 100% level or on a randomised basis) to reduce recurrence of error.	April 2017	Gary Muskett, Head of Revenues and Benefits
<p>Teachers' Pensions return:</p> <p>There is a lack of assurance over data provided by other payroll providers. There have been improvements in the process during 2015-16, but these require strengthening further to provide the assurance required.</p>	Medium	The Council will further improve the processes and introduce data checking for 2016/17.	April 2017	Ralph Gould, Head of Financial Control

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Central Bedfordshire Council

Audit Committee

9 January 2017

Annual Audit Letter for the Year Ended 31 March 2016

Report of Ernst & Young LLP

Neil Harris, Executive Director

Purpose of this report

The purpose of the report is to enable the Audit Committee to consider the Annual Audit Letter from Ernst & Young LLP following the completion of the company's audit procedures for the year ended 31 March 2016.

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Central Bedfordshire Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



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

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

A hand holding a pen writing on a document in an office setting with a calculator and a laptop.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Central Bedfordshire Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We undertook some work following receipt of a public interest disclosure from a whistleblower concerning the approach the Council has taken to the procurement of its legal services. We reported our findings and recommendations to the Audit Committee on 27 June 2016. We have no further matters to report in this area. The Council was required to prepare a Narrative Statement in 2015/16. The requirements for this Statement are set in an update to the 2015/16 Code of Practice on Local Authority Accounting. The purpose of the foreword Narrative Report is to provide an accessible guide to

the most significant matters reported in the accounts. The Narrative Report should be fair, balanced and understandable for the users of the financial statements. The guidance sets out further detailed disclosure requirements. There are opportunities for the Council to enhance its Narrative Statement to more clearly comply with the requirement as set out in the Code Update. In the preparation of the 2016/17 financial statements, the Council should review the requirements for the Narrative Statement and ensure it fully meets the disclosure requirements.

We have no other matters we wish to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 20 September 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	<p>We will shortly issue our audit completion certificate.</p> <p>We could not formally conclude the audit and issue an audit certificate until we completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. This is now complete and we can now issue our completion certificate.</p>

In January 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

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

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 26 September 2016 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2015/16 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

A blurred office background featuring a laptop, several glasses of water, and financial documents. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

Financial Statement Audit

Financial Statement Audit

Key Issues

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

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 28 September 2016.

Our detailed findings were reported to the 26 September 2016 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p>We considered the following accounting estimates most susceptible to bias:</p> <ul style="list-style-type: none">• Valuation of property, plant and equipment• Depreciation• Valuation of the pension liability• NNDR appeals provision <p>We concluded that the basis of these estimates were reasonable and did not indicate management override of controls.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p>

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business

Revenue and expenditure recognition

Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.

We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.

For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

We identified the main revenue and expenditure streams:

Revenue:

Government grants - as these amounts receivable are centrally determined, and have a fixed value assigned to individual financial years, we were able to audit these against third party documentation.

Council tax - the income from council tax is determined as part of the annual budget setting exercise and is levied in individual financial years. The amounts recognised in each year's financial statements are the result of the Council's tax base and its annual charge and we have undertaken substantive audit procedures to obtain our assurance for this income stream.

Business rates - business rates are calculated on the basis of the rateable value of the property, and the non-domestic (determined by the Valuation Office Agency) and the business rates multiplier (determined by central government). We have undertaken substantive audit procedures to obtain our assurance for this income stream.

Fees and charges - councils have the ability charge for discretionary services they provide. These charges will largely go through the accounts receivable system and we have undertaken substantive audit procedures to obtain our assurance for these transactions.

Expenditure:

Salaries and wages - This is the most significant element of the Council's expenditure. We obtained an understanding of the system and undertook substantive procedures to obtain our assurance for the payroll transactions.

Supplies and services - the Council spends significant sums on supplies and services that are consumed in the delivery of services. We obtained an understanding of the accounts payable system and undertook substantive procedures to obtain our assurance for these transactions.

Contracts - the Council has some significant contracts with a revenue impact. We have reviewed the contracts register and considered its completeness. We have considered any risks associated with the most significant contracts. We obtained an understanding of the accounts payable system and undertook substantive procedures to obtain our assurance as part of our testing of accounts payable transactions.

Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition.

We reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

Our testing did not identify any expenditure which had been inappropriately capitalised.

Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position.

Property, plant and equipment Valuation

Property, Plant and Equipment (PPE) represent the largest asset values on the Council's balance sheet.

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.

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.

Annually assets are assessed to identify whether there is any indication of impairment.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of external experts and

We assessed the work of your valuer including procedures to rely on management's valuation experts and agreed the outputs to your fixed asset register and statements, including the treatment of impairments.

Overall our audit work did not identify any issues that would indicate the valuation of property, plant and equipment was not materially accurately represented in the Council's financial statements.

assumptions underlying fair value estimates.

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.

We examined relevant S75 agreements entered into by the Council and considered what relevant activities are to be undertaken and whether participants have control, either jointly or solely, over the arrangement.

We reviewed the proposed accounting treatments for the Better Care Fund and the disclosures made under relevant accounting standards and performed testing to gain assurance that the Council had appropriately accounted for its share of the BCF.

Our work identified a technical inconsistency between the draft disclosure on the operation of the Better Care Fund and the operation in practice. This related to the extent to which the arrangement can be considered a pooled budget. The Council updated the disclosure in the revised statements.

PFI liability

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 accounting entries are based on a complex range of assumptions via a PFI accounting model.

We engaged an EY expert to review the PFI model to ensure it was working as expected. We agreed the outputs of the model to the accounts, including balances and disclosures for Assets, Liabilities, and Expenditure.

We gained sufficient assurance over the PFI liability and disclosures. We have identified a non-material misstatement within the PFI model that the Council will be revising in 2016/17.

Other Key Findings	Conclusion
Narrative Statement	<p>The Council was required to prepare a Narrative Statement in 2015/16. The requirements for this Statement are set in an update to the 2015/16 Code of Practice on Local Authority Accounting. The purpose of the foreword Narrative Report is to provide an accessible guide to the most significant matters reported in the accounts. The Narrative Report should be fair, balanced and understandable for the users of the financial statements. The guidance sets out further detailed disclosure requirements. There are opportunities for the Council to enhance its Narrative Statement to more clearly comply with the requirement as set out in the Code Update. In the preparation of the 2016/17 financial statements, the Council should review the requirements for the Narrative Statement and ensure it fully meets the disclosure requirements.</p>

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money'.

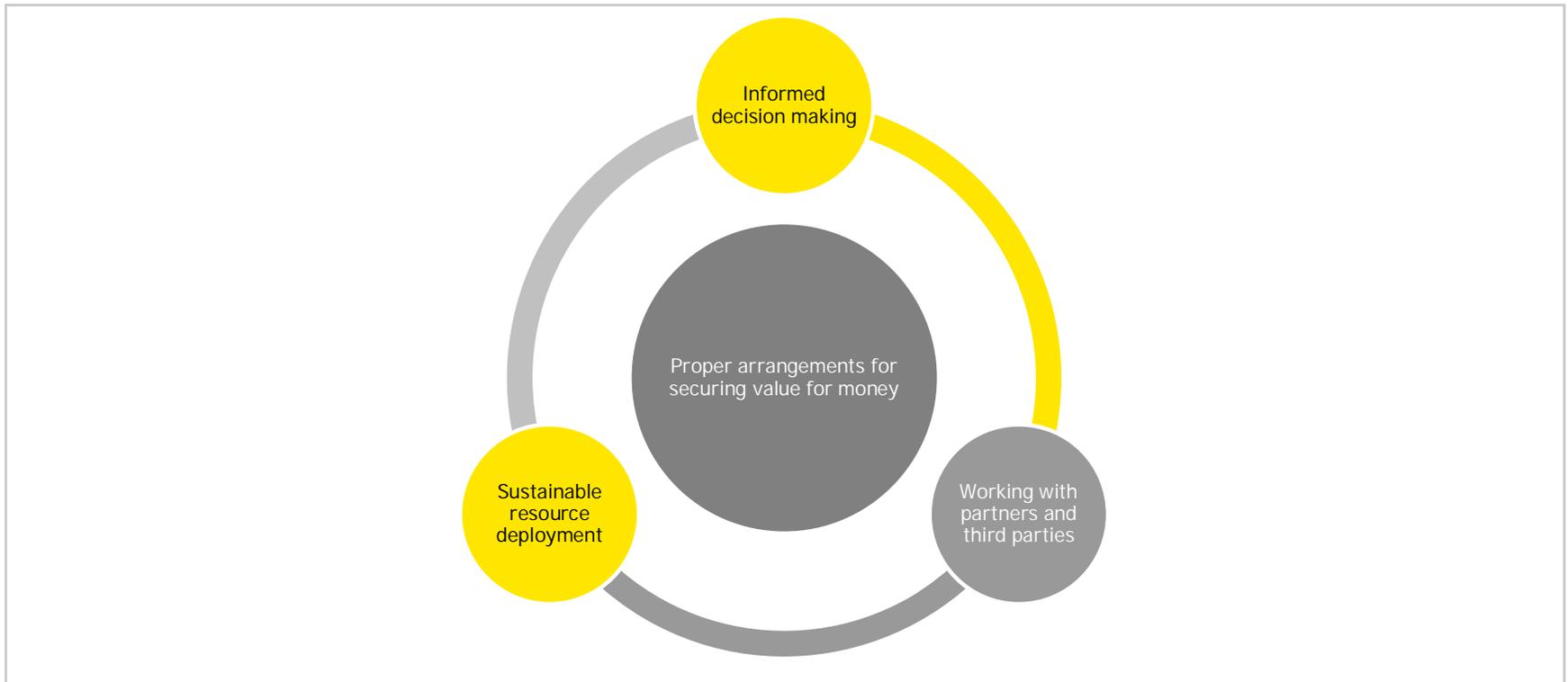
Value for Money

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. This is known as our value for money conclusion.

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.



We issued an unqualified value for money conclusion on 28 September 2016.

Our audit did not identify any significant matters in relation to the Council's arrangements. We did however identify the following areas to bring to your attention.

Significant Risk	Conclusion
<p>Deploying resources in a sustainable manner</p> <p>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.</p> <p>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.</p>	<p>We reviewed the Council's financial reporting including the achievement of financial targets. We considered the delivery of the Council's 2015/16 savings plans and linkages to delivery of longer-term transformational change. We also reviewed the Council's 2016/17 financial plan and the longer-term financial strategy in the light of the local and wider financial pressures in the local.</p> <p>We found there to be a robust budget setting process in place with challenge built into the process from officers and members. The 2015/16 budget has been achieved and the Council is maintaining its levels of General Fund and Earmarked General Fund reserves.</p> <p>The Council has put in place robust arrangements to identify sustainable savings measures and income opportunities to bridge the gap present in 2017/18. The council continues to make progress in identifying sustainable savings. The assumptions applied by the Council in their 2016/17 budget setting as well as for the medium term financial planning have been reviewed and considered appropriate and reasonable.</p> <p>Overall we recognise there continues to be challenges faced by the Council as they seek to identify and implement savings. The Council acknowledges that it will need to robustly challenge assumptions and savings built into the budget and medium term financial plans to ensure these continue to be fit for purpose in the light of changing economic conditions and government policy.</p>
<p>Taking informed decisions</p> <p>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</p>	<p>We reported our findings and recommendations to the Audit Committee on 27 June 2016. There are no further matters arising and our findings and conclusions in this area do not impact on our Value for Money conclusion.</p>

the Council's Chief Executive and Chair of Audit Committee. We received written responses and supporting documentation from the Council's Chief Executive to each of the concerns raised by the whistleblower.



Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 26 October 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit. We have adopted a fully substantive approach and have therefore not tested the operation of controls.

A close-up photograph of a person's hands holding binoculars to their eyes. The person's face is partially visible in the background, looking through the lenses. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
EU Referendum	<p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions. We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p>
Highways Network Assets	<p>The Code of Practice on Transport Infrastructure Assets (TIA Code) was first published in 2010 and updated in 2013. The key aim of this document was to improve the asset management of TIA. During 2016, this guidance has been renamed and updated, with the Highways Network Asset (HNA) Code, Guidance Notes and Accounting Guidance being published. Local Government has historically used depreciated historic cost (DHC) as the valuation approach for infrastructure assets. The introduction of the HNA Code will see this valuation basis change to depreciated replacement cost with effect from 1 April 2016. The change will be applied prospectively from that date, so Highways Authorities are not required to disclose comparative information.</p> <p>This is a fundamental change in approach which will require new accounting and estimation approaches as well as amendments to existing systems, or implementation of new systems.</p>	<p>The impact on the Council's Balance Sheet will be highly significant; with the recognition of a single highways network asset of approximately £5 billion. The impact on the audit will also be significant, as auditors will need to obtain sufficient assurance over the material accuracy of this asset.</p> <p>We will work closely with the Council at both the local level, regarding system implementation, valuation procedures and accounting, and at the wider level through the continuation of our HNA Client Workshops.</p>

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ED None

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

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Central Bedfordshire Council

Audit Committee

9 January 2017

Audit Plan

Report of Ernst & Young LLP

Neil Harris, Executive Director

Purpose of this report

The purpose of the report is to provide the Audit Committee with a basis to review the proposed audit approach and scope for the 2016/17 audit by Ernst & Young LLP and ensure that the audit is aligned with the Committee's service expectations.

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Central Bedfordshire Council

Year ending 31 March 2016

Audit Plan

December 2016

Ernst & Young LLP





Ernst & Young LLP
400 Capability Green
Luton LU4 0DZ

Tel: + 44 20 7951 2000
Fax: + 44 20 7951 1345
ey.com

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

7 December 2016

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 2016/17 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 9 January 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris
Executive Director
For and behalf of Ernst & Young LLP
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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 2017 and of the income and expenditure for the year then ended; and
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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.

2. Financial statement risks

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

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

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue recognition	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</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>For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.</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 ▶ Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

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 2016/17, 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 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

Sustainability and Transformation Plan

Sustainability and Transformation Plans (STPs) give local NHS organisations and councils the opportunity to work together to improve the way health and social care is designed and delivered. The Bedford, Luton and Milton Keynes (BLMK) footprint encompasses 16 partners; and covers almost 1 million people with hugely diverse populations across areas.

£1.3 billion is spent across the BLMK area. Within this context, the NHS budget is considerably overspent, with the 3 CCGs coming into 2016/17 with a deficit of £84 million, whilst two of the three hospital Trusts had a combined accumulated deficit of £154.1m. The plan for 2016/17 is to move to a recurrent combined deficit of £24.4million before the application of STF of £22.2 million.

Our approach will focus on:

- ▶ The arrangements at the Council, working with its STP partners, during 2016/17 for:
 - ▶ Defining the governance arrangements to support STP delivery;
 - ▶ Engaging in the STP process;
 - ▶ Working with the STP partners to progress the STP from high level planning to a more detailed delivery model; and
 - ▶ Demonstrating how the STP will contribute to the financial sustainability of the Council in the context of the health economy.

The partners have focussed on refining BLMK's five STP priorities, including planning and resourcing how changes will be implemented.

The Plan recognises that there will be system-wide demand and financial pressures over the next five years, resulting in a consolidated BLMK deficit in 2020/21 of £311m. It also notes that:

- BLMK's recurrent annual NHS deficit rises to £203m per annum by 2020/21.
 - A further recurrent deficit, estimated at £108m per annum, would need to be added as a result of unavoidable cost pressures surfacing in Council health and social care budgets which are not recovered.
-

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;

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 will shortly be starting our audit work to review internal controls over financial reporting used throughout the Council. Where we expect this to be robust and efficient, we will seek to use a controls-based audit approach. We will need to consider this in the context of the IT environment. 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.

Analytics

We will use our computer-based 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

As in prior years, 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 audit 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 and Code of Audit Practice.

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 £11.1 million based on 2% of gross revenue expenditure. We will communicate uncorrected audit misstatements greater than £0.558 million 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.

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	December 2016	9 January 2017	Audit Fee Letter Audit Plan
Risk assessment and setting of scopes	December 2016	9 January 2017	Audit Plan
Testing routine processes and controls	February 2017	3 April 2017	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	June 2017	September 2017	Report to those charged with governance via the Audit Results Report
Completion of audit	July 2017	September 2017	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	July 2017	September 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. Independence

5.1 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.

5.2 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.

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.

5.3 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 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £	Explanation
Opinion Audit and VFM Conclusion	139,466	139,466	148,009	The 2015/16 final fee includes £8,543 for our work to address the concerns raised in relation to the procurement of legal services.
Certification of claims and returns – housing subsidy claim ¹	26,910	26,910	26,910	
Teachers' Pensions Return ²	10,000	N/A	10,000	
Pooling of housing capital receipts return ³	TBC	N/A	4,000	

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.

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

² The Teachers' Pensions return does not form part of the PSAA contract.

³ The pooling of housing capital receipts return do not form part of the PSAA contract. We are currently finalising the engagement terms for this return.

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>	▶ 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 ▶ Findings and issues regarding the opening balances on initial audits [delete if not an initial audit] 	▶ Audit Results Report
<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 	▶ Audit Results Report
<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 	▶ Audit Results Report
<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 	▶ Audit Results Report
<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 	▶ Audit Results Report
<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 	▶ Audit Results Report

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 ▶ Audit Results Report
<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"> ▶ Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Audit Results Report
<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 ▶ Audit Results Report ▶ Annual Audit Letter if considered necessary
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<ul style="list-style-type: none"> ▶ Certification Report ▶ Annual Audit Letter if considered necessary

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

Central Bedfordshire Council

AUDIT COMMITTEE

Monday, 9 January 2017

Statement of Accounts 2016/17

Report of Director of Resources, Charles Warboys
(Charles.Warboys@centralbedfordshire.gov.uk)

Advising Officer: Financial Controller, Stephanie Pocock
(stephanie.pocock@centralbedfordshire.gov.uk)

Purpose of this report

1. The report outlines key changes required to the Council's statutory Statement of Accounts for 2016/17.

RECOMMENDATIONS

The Committee is asked to:

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

Overview and Scrutiny Comments/Recommendations

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

Background

2. The Accounts and Audit Regulations 2015 require the responsible financial officer of the Local Authority (the Director of Resources) to prepare and sign a set of unaudited accounts by 30 June each year. Audited accounting statements are required to be re-certified by the responsible financial officer, signed by the Chair of the Audit Committee and published by 30 September each year.
3. In addition to meeting the requirements of the 2015 Regulations, the Council has in recent years arranged a Statement of Accounts presentation in June, open to all Members, to inform and enable scrutiny of the key figures from the Statements.
4. Under the same 2015 regulations, the accounts are required to present a 'true and fair' view of the financial position of the Council and comply with 'proper accounting practices'. The Local Government Act 2003

specifies the CIPFA Code of Practice, issued annually, as representing proper accounting practices for this purpose.

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

CIPFA Code of Practice 2016/17 Changes

6. It was anticipated that the Code for 2016/17 would introduce significant changes in respect of the disclosure of the Highways Network Asset. However this particular change has now been deferred by CIPFA/LASAAC until at least the 2017/18 financial year. In respect of English local authorities the Code for 2016/17 now has relatively limited changes compared to 2015/16. The main changes are outlined below.

Highways Network Asset

7. The 2016/17 Code specifies the revised measurement requirements as Depreciated Replacement Cost for the Highways Network Asset. Currently infrastructure assets are valued at historic cost. The Code includes specific accounting policies for the initial recognition, measurement, derecognition and disclosure requirements for the Highways Network Asset. Consequential amendments are also required, principally to the section on Property, Plant and Equipment.
8. On 14th November 2016, CIPFA/LASAAC announced the postponement of the implementation date to 1 April 2017. The decision to defer implementation was taken as a result of key information required from Central Government, regarding central rates to be used in the calculation, not being available in good time for the 2016/17 financial statements. The position will be reviewed in March with a view to implementation in 2017/18.
9. Whilst implementation was not deferred due to concerns regarding local authorities' readiness to meet the Highways Network Asset Code requirements, it nevertheless provides the Council with the time to improve the integrity of the data inputs, and the opportunity to further consider the valuation procedures as part of the 2016/17 accounts 'close down'. It also provides time to address any matters arising over the forthcoming year.

Presentation of the financial statements

10. The Code includes changes resulting from the 'Telling the Story Review' on improving the presentation of local authority financial statements. These include new formats and reporting requirements for the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MIRS) and the introduction of an Expenditure and Funding Analysis and an Income Analysed by Nature note.
11. The Movement in Reserves Statement (MIRS) disclosure has been reduced to a minimum in comparison with previous years. Earmarked reserves will no longer be presented within the MIRS as distinct from the General Fund Balance. However, the detail of reserves identified for specific purposes will be set out elsewhere in the Statements.
12. The Expenditure and Funding Analysis (EFA) will show how annual expenditure is used and funded from resources in comparison with the accounting basis for those items. It also shows how the expenditure is allocated for decision making purposes between directorates/services. The EFA will take the net expenditure that is chargeable to taxation/rents and reconcile it to the CIES Surplus or Deficit on the Provision of Services. This change has enabled the previous segmental reporting requirements to be streamlined.
13. Full retrospective restatement of the 2015/16 CIES and EFA related information will have to be made. However there is no requirement for a restated balance sheet as there are no changes to that information as a result of the new accounting policies.
14. The Accounts and Audit Regulations 2015 introduced a new requirement for English authorities to produce a Narrative Statement, providing an accessible guide to the most significant matters reported in the accounts. The statement must include comment by the Council on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year. The Narrative Statement should be fair, balanced and understandable for the users of the financial statements.
15. The requirement for a Narrative Statement (previously the Explanatory Foreword) arose in 2015/16 following an Update to the 2015/16 Code and this was included in the 2015/16 Statement of Accounts. External Audit identified that there are opportunities for the Council to enhance its Narrative Statement to more clearly comply with the requirements and this will be a consideration in preparing the 2016/17 Statement of Accounts.
16. The narrative report is not formally part of the Statement of Accounts and is not directly covered by the statutory requirements for an audit opinion or certification by the responsible finance officer. However it

needs to be prepared so that it is consistent with the Statement of Accounts but is not formally bound by true and fair requirements.

Amendments arising from changes to accounting standards

17. IAS 24 **Related Party Disclosures**—the definition as to whom this disclosure relates has been amended and now also includes key management personnel. Key management personnel are chief officers, elected members, Chief Executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority. The 2015/16 Statement of Accounts included Members, Councillors and Senior Officers in addition to other public bodies. We have previously provided more information than the guidelines required, as we included senior officers, and therefore this change will not require any further disclosure.

Other key issues

Earlier closedown

18. The Accounts and Audit Regulations 2015 require local authorities to approve and publish the accounts by 31 May and 31 July respectively (currently 30 June and 30 September) effective from the accounts for the year 2017/18. Preparation for these earlier closedown requirements is underway and the Statement of Accounts 2016/17 will be a trial run to ensure the Council is equipped to meet this requirement. The first full draft of the financial statements is anticipated to be produced by mid May 2017.

Statement of Accounts presentation

19. For the last four years there has been a presentation of the key figures in the accounting statements to this Committee with all other Council Members invited, the purpose being to enhance the scrutiny and discussion of the statements. The presentation for 2015/16 was made by the Chief Finance Officer and the Head of Financial Control and included a question and answer session.
20. Conducting a presentation instead of submitting the accounts as an Audit Committee report enabled significantly more time for Finance staff to concentrate on quality assurance work in June. Making the most of the time available for quality assurance activities helps to minimise the work of the Finance team and the external auditors in the period July to September. Positive feedback was received following the latest presentation, which engaged Members and enabled a focus on the key points within the accounts. It is therefore proposed to present the 2016/17 statements in a similar manner at the Audit Committee meeting in June 2017 with an open invitation to all Council Members to attend.

Rights of Access to the Statement of Accounts

21. The Accounts and Audit Regulations 2015 extended the period for exercise of Public Rights (which include rights of objection, inspection of the local authority accounting documentation and questioning of the external auditor) to 30 working days. During this period the Council must make all relevant documents available for public inspection.
22. The Regulations also require that the period for the exercise of public rights includes the first 10 working days of June of the financial year immediately following the end of the financial year being reported, although transitional arrangements amend this to the first 10 working days of July for reporting of financial years 2015/16 and 2016/17.
23. At present local electors can exercise public rights, however, under the Local Audit (Public Access to Documents) Bill—currently being discussed in the House of Commons—this right may be extended to journalists as ‘interested parties’. This would also enable journalists to have access to the accounting records and supporting documents for the relevant year where they are not otherwise an ‘interested person’. The extension of the right to inspect and make or request copies of local authority accounts documentation is intended to increase transparency. This may lead to additional resources being taken up responding to queries. The extension of the right to inspect accounts could also lead to journalists having the right to lodge objections to the accounts, just as local electors may do already. There is strong opposition to this and Government are being lobbied to not allow this.

Council Priorities

24. Informing Members of forthcoming changes relating to the Statement of Accounts and inviting all Members to consider and comment on the Statement contributes towards the Committee’s scrutiny function and meeting the Council’s priority of a more efficient and responsive Council.

Corporate Implications

Legal Implications

25. The production of an annual Statement of Accounts is a requirement of the Accounts and Audit Regulations 2015. The accounts are to be prepared in line with ‘proper accounting practice’ and the Local Government Act 2003 section 21(2) specifies the CIPFA Code of Practice as representing proper accounting practice for this purpose.
26. The accounts are based on International Financial Reporting Standards (IFRS) as defined by the CIPFA Code of Practice and the authority must incorporate any changes to the CIPFA Code in preparing the financial statements.

Financial and Risk Implications

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

Equalities Implications

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

Conclusion and Next Steps

29. It is requested that the Committee notes the key changes required to the 2016/17 Statement of Accounts and the intention to make a presentation of the accounts as certified by the Chief Finance Officer to the Committee and other Members in June. The changes for 2016/17 will be highlighted in the Statement of Accounts presentation.

Appendices

None

Background Papers

None

Central Bedfordshire Council

AUDIT COMMITTEE

Monday, 9 January 2017

Local Government Pension Scheme Update

Advising Officers: Director of Resources, Charles Warboys.
(charles.warboys@centralbedfordshire.gov.uk)

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

Purpose of this report

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

RECOMMENDATIONS

The Committee is asked to:

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

Overview and Scrutiny Comments/Recommendations

1. This report is for information only and has not been made to any Overview and Scrutiny Committee. Due to the significant values of assets and liabilities and the importance of the LGPS to the Council this Committee receives regular reports on the governance and performance of the Local Government Pension Scheme.

Background

2. The Local Government Pension Scheme (LGPS) in England and Wales is a funded public sector pension scheme with approximately 5.1 million members. The scheme, which currently invests some £240 Billion in assets, is the largest funded scheme in the UK and the fifth largest in the world.
3. The regulations for the scheme are determined by Parliament and developed by the Department of Communities and Local Government. The scheme is administered locally for participating employers by eighty nine funds across England and Wales.
4. The Bedfordshire Pension Fund, is administered by Bedford Borough Council, which is responsible for the pensions of Local Government employees across Bedfordshire, including Luton Borough Council and Central Bedfordshire Council.

5. Participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services such as academy schools, contractors, housing associations and charities.
6. At 31 March 2016 there were 145 active and 26 inactive scheme employers participating in the Bedfordshire LGPS. The actual Bedfordshire scheme membership numbers at March 2013 and 2016 are shown in Table 1 below. Following a number of years where active membership had declined, the introduction of auto enrolment (whereby the default position for new employees is that they are included in the scheme and have to opt out if they do not wish to be included), has contributed to an increase in active members for the Fund as a whole.

Table 1 LGPS Bedfordshire and CBC Membership at 31/3/13 and 31/3/16				
	Fund	Fund	CBC	CBC
	31 March 2013	31 March 2016	31 March 2013	31 March 2016
Active	17,442	20,428	3,948	4,753
Deferred	21,142	27,409	6,755	8,067
Pensioners	13,158	14,889	4,131	4,563
Total	51,742	62,726	14,834	17,383

Regulatory and Governance Changes

7. The creation of pooled investment vehicles for the England and Wales LGPS is progressing and eight pools have submitted business plans to the government. The various pools have been meeting with the Minister for State for Local Government and to date several pools have been advised to progress further with the implementation of their business plans including the Border to Coast Pension Partnership, of which the Bedfordshire Fund is a member.
8. The Enterprise Bill 2016 contains provisions to limit the value of exit payments an employee can receive from a public sector employer to £95,000. The exit payment cap includes actuarial strain costs which are those costs paid by the employer to the Pension Fund, and the Bill contains amendments to the LGPS Regulations so that members benefits can be amended to help meet the exit payment cap. The

arrangement is subject to implementation and DCLG are expected to conduct a consultation in the near future.

9. Relevant government Departments are also preparing further public sector exit payment reforms by the end of December 2016 for discussion with stakeholders. The government expects any reforms to be implemented by 30 June 2017.

Actuarial Valuation and Employer Contributions

10. Every three years, as required by the Regulations, the Actuary to the Fund calculates specific employer contribution rates. The 31 March 2016 actuarial valuation is now complete and contribution rates applying from 31 March 2017 have been confirmed. Any Pension Fund open to new members has an extremely long time horizon to consider when assessing its financial position and aiming for a fully funded position at a point in the future. Actuarial calculations inevitably rely on a series of assumptions and the Actuary adopts a risk modelling approach at individual employer level when setting employer contribution rates.
11. The actuarial valuation funding position is set out in Table 2 below. The Funding level in respect of the Council has remained unchanged since 2013 at 66% but the increase in liabilities and assets since that date has resulted in a £28.8m increase in the value of the deficit to £217.6m.

Table 2 – Council Actuarial Valuation Results		
	31 Mar 2013 £(M)	31 Mar 2016 £(M)
Past Service Liabilities		
Active Members (Final Salary)	148.5	130.1
Active Members (Career Average) from 1/4/14	-	35.1
Deferred pensioners	125.1	154.8
Pensioners	276.8	319.4
Total	550.3	639.4
Asset share	361.5	421.7
Deficit	(188.8)	(217.6)
Funding Level	66%	66%

12. Some of the assumptions made at the 2013 valuation compared to the actual experience are set out in table 3 below with the revised forward looking assumptions shown in the final column.

Table 3 – Actuarial Assumptions 2013 and 2016			
	2013 Expected	Actual to 2016	Expected to 2019
Investment Returns 2013 - 16	15.4%	15.3%	12.8%
Salary increases p.a.	3.8%	2.7%	2.4%
Expected Pension increases p.a.	2.5%	1.3%	2.1%

13. The main contributions to the deficit increase relate to the change in financial assumptions (reduction in the discount rate from 4.9% to 4.1%) which has a financial impact of £37.2m and the interest on the existing deficit which amounted to £29m. The main positive impacts relate to the much lower than expected pension increases, £17m, and the impact of contributions paid above the cost of actual pension accrual, £13.4m. A reconciliation of the movement in the deficit is set out in table 4.

Table 4 – Movement in Council deficit 2013 – 2016		
	£(M)	£(M)
Deficit at 31/3/13		(188.8)
Deficit increase		
Change in Financial assumptions	(37.2)	
Interest on deficit	(29.1)	
Pensioner mortality less than expected	(3.5)	
50:50 take up less than expected	(2.8)	
Investment returns less than expected	(0.4)	
Other experience items	(2.5)	
Total Deficit Increase items		(75.5)
Deficit Reduced		
Pension increases less than expected	17.0	
Contributions over cost of benefit accrual	13.4	
Change in mortality assumptions	6.3	
Salary increases less than expected	5.0	
Ill –health retirement strain	3.5	
Impact of Bulk transfers	1.1	
Other change and experience items	0.4	
Total Deficit reduction items		46.7
Deficit at 31/3/16		(217.6)

14. The cost of providing LGPS pension benefits depends on many factors including investment performance. To reflect the degree of uncertainty, employer contribution rates have been set by modelling the contributions required to fund the benefits under 5,000 different

economic scenarios. The employer contribution rates for the Council certified by the 2016 valuation and applying from 2017 along with the previous rates for information are set out in table 5 below.

Table 5 – CBC Certified Employer Contribution Rates			
Year	Future Current Service Rate % of pay	Lump Sum for deficit recovery £M	Total Rate %
2014/15	14.0	6.662	24.4
2015/16	14.0	7.212	24.9
2016/17	14.0	7.450	24.9
2017/18	16.9	5.903	24.2
2018/19	16.9	7.073	25.2
2020/21	16.9	8.296	26.5

15. The increase in the current cost of accrual (current service rate) from 14% of pay to 16.9% reflects the change in discount rate and the actual take up of the 50:50 membership option which has, in common with the LGPS as a whole, been much less than was originally assumed. The increase in contribution rates continues to be stabilised for the majority of public sector employers. The outcome of the initial modelling exercise suggested that the contributions would need to increase by more than the 0.5% p.a. steps that had applied in previous years. Further modelling took place to assess the appropriateness of a funding strategy for the councils assuming larger increases of +1% of pay p.a. The certified rates for the Council have been based on the later modelling results which generated an appropriate likelihood of achieving a fully funded position over a 20 year period.
16. There are two cost capping mechanisms in place for the LGPS which may lead to changes to the accrual rate or contribution rates from 2019. The caps only apply to future service costs and are independent of investment market conditions. Work on the two cost caps is already underway separately for the Scheme Advisory Board and HM Treasury.

Fund Management

17. The Fund has implemented an investment strategy and benchmark, linked to the Funds' liabilities, that seeks to provide less volatile returns compared to those Funds with a greater weighting to equities. At the Bedford Borough Council Pensions Committee meeting on 22nd November 2016 the Fund Administrator reported on the Pension Fund Performance to 30th September 2016. The market value of the Fund

and cash holdings as at 30th September 2016 was £1,922 million (Table 6) an increase of £194.5m since the 31 March 2016.

Table 6 Bedfordshire Fund Investment Asset classes and values at 30 September 2016			
Asset class	30 Sept-16	30 Sept-16	Bench mark
	£M	%	%
UK Equities	172.1	8.9	9
Overseas and Global Equities	822.4	42.8	41
Total Equities	994.5	51.7	50
Government Bonds	66.9		
Index Linked Gilts	111.1		
Absolute return Bonds	166.2		
Total Bonds	344.2	17.9	18
Property – (Indirect))	193.7	10.1	10
Multi Asset Absolute Return	328.2	17.1	20
Cash	61.3	3.2	2
Total Fund	1,921.9	100	100

18. The Fund's overall investment benchmark is a mixture of absolute and market returns and the absolute returns vary by manager e.g. RPI plus 5%, short term interest rates plus 4%. The managers invest in markets that can produce negative or flat returns and when this happens overall performance is likely to be negative relative to the specific benchmark and vice versa. Over 12 months to 30th September 2016 the overall benchmark was 9.6% and the strong equity market returns in recent months have resulted in a Fund investment performance of 16.4%.
19. Annualised 3 year returns were; Benchmark 6.7%, Fund 7.9% and annualised 5 years returns were; Benchmark 7.9% Fund 9.2%.
20. The main change in asset allocation to the reporting date has been a transfer of 9% of the Fund from UK equities to Global Equities.

Council Priorities

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

Corporate Implications

Legal Implications

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

Financial and Risk Implications

23. There are no specific financial implications as this report is made for information purposes. The most recent Bedfordshire LGPS triennial actuarial valuation at 31 March 2016 disclosed Central Bedfordshire Council's liability of £639.4m (£550.3m 2013) compared to assets of £421.7m (£361.5m). It is planned to address the funding deficit of £217.6m (36%) over a twenty year period whilst stabilising the overall employer's contribution rate. In the last financial year 2015/16, employer contributions of 14% of pensionable pay were paid to the Bedfordshire Fund (approximately £8m p.a. including schools non-teaching staff) along with an additional lump sum of £7.212m towards the funding deficit.
24. LGPS contributions are a significant proportion of the Council's overall employment costs and as such the governance and performance of the scheme merits regular monitoring by this Committee.

Equalities Implications

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

Conclusion and next Steps

26. The LGPS continues to be subject to considerable change and the current focus relates to the management of investments. The Fund and its employers also continue to address the operational issues arising from the implementation of the 2014 scheme for LGPS benefits.

27. The 2016 actuarial valuation has certified contribution rates having considered investment and funding strategies together and by modelling 5,000 future economic outcomes. As an exercise in risk management the use of stabilised contribution rates seeks to balance prudence with affordability. The pressures on overall affordability of the LGPS are recognised by the cost capping mechanisms which will be producing some initial results for consideration in the summer of 2017.

Appendices

None

Background Papers

None

Central Bedfordshire Council

AUDIT COMMITTEE

9 January 2017

Revised Confidential Reporting Code

Report of Charles Warboys, Director of Resources
(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 proposed revisions to the Confidential Reporting Code and seek approval for their submission to Full Council for approval.

RECOMMENDATIONS

The Committee is asked to:

1.
 - a) Consider and comment on the proposed revisions to the Confidential Reporting Code.
 - b) Recommend that the revisions be submitted to Full Council for approval.

Overview and Scrutiny Comments/Recommendations

This report is not scheduled to be considered by Overview and Scrutiny, as it is the responsibility of the Audit Committee to maintain an overview of the Council's Confidential Reporting Code and to recommend the Council on any amendments required thereto.

Background

1. The Audit Committee, at its meeting on 23rd January 2012, approved both the Anti Fraud and Corruption Strategy and the Confidential Reporting Code.
2. Both policies are contained within the Constitution. The Confidential Reporting Code is included within the Ethical Framework section whilst the Anti Fraud and Corruption Strategy is included within the Finance, Contracts and Legal section.
3. The Confidential Reporting Code has been refreshed to ensure that it is up to date and reflects current legislation and reporting channels within the Council. Work is progressing on updating the Anti Fraud and Corruption Strategy and this will be presented to a future meeting of this Committee.

4. The updated Code has been presented to senior managers for consideration and comment.

Confidential Reporting Code

5. The Public Interest Disclosure Act 1998 encourages individuals to raise concerns about malpractice in the workplace, and this policy document makes it clear that employees can raise serious concerns without fear of victimisation, subsequent discrimination or disadvantage and is intended to encourage individuals to raise concerns within the Council.
6. The Code has been reviewed against government guidance and benchmarked against other authorities. There are no major revisions, however the Code has been updated to:
 - make reference to the recently updated list of prescribed persons and bodies
 - expand the section on confidentiality to make it clearer
 - make specific reference to “qualifying disclosures”, and
 - reflect current roles and responsibilities
7. Once considered by the Audit Committee and approved by Full Council the revised Code will be published on both the Council’s intranet and website and will be promoted as part of raising fraud awareness.

Council Priorities

8. The implementation of a robust anti fraud culture supports all the Council’s key priorities by encouraging probity and accountability across the Council.

Corporate Implications

Legal Implications

9. The Confidential Reporting Code is a key part of the Council’s Ethical Governance Framework and provides an element of assurance in respect of the Council’s fiduciary duty to the Council tax payers.
10. The Code ensures that the Council complies with the obligations and requirements in respect of protected disclosures under the Employment Rights Act 1996 (as amended by the Public Interest Disclosure Act 1998 and the Enterprise and Regulatory Reform Act 2013).

Financial Implications

11. None directly from this report.

Equalities Implications

12. None directly from this report.

Conclusion and next Steps

13. Central Bedfordshire Council is committed to the highest possible standards of openness, probity and accountability. The Confidential Reporting (Whistle Blowing) Code contributes to promoting a robust but fair anti fraud culture
14. The Anti Fraud and Corruption Policy is also currently being reviewed. Once finalised, the proposed revisions will be presented to a future meeting of the Audit Committee.

Appendices

Appendix A – Confidential Reporting Code (also known as Whistle Blowing)

Background Papers

None

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APPENDIX A



**Central
Bedfordshire**

Confidential Reporting Code (Also known as “Whistle Blowing”)

July 2013 – Updated November 2016

CONFIDENTIAL REPORTING
(Also known as 'Whistle Blowing')

1.0 Introduction

- 1.1 Central Bedfordshire Council is committed to the highest possible standards of openness, probity and accountability. In line with that commitment we expect employees and others that we deal with who have serious concerns about any aspect of the Council's work to come forward and voice those concerns. It is recognised that most cases will have to proceed on a confidential basis.
- 1.2 Employees are often the first to realise that there may be something seriously wrong within the Council. However, they may not express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Council. They may also fear harassment or victimisation. In these circumstances it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice.
- 1.3 The Public Interest Disclosure Act 1998 encourages individuals to raise concerns about malpractice in the workplace and this policy document makes it clear that employees can raise serious concerns without fear of victimisation, subsequent discrimination or disadvantage and is intended to encourage and enable employees to raise those concerns within the Council, rather than overlooking a problem.
- 1.4 This code acknowledges the amendments recently made to the Public Interest Disclosure Act by the introduction of the Enterprise and Regulatory Reform Act 2013.
- 1.5 The code applies to all employees and those contractors working for the Council on Council premises, for example, agency staff, builders, and drivers. It also covers suppliers and those providing services under a contract with the Council in their own premises, for example care homes. Members of the public are also encouraged to raise concerns, which will be responded to in accordance with this code.
- 1.6 These procedures are in addition to the Council's complaint procedures and other statutory reporting procedures applying to some service areas. Service managers are responsible for making service users aware of the existence of these procedures if and when necessary.
- 1.7 This code has been discussed with the relevant trade unions and professional organisations and has their support.

2.0 Aims and Scope of this Code

2.1 This code aims to:-

- encourage you to feel confident in raising serious concerns and to question and act upon concerns about practice
- provide avenues for you to raise those concerns and receive feedback on any action taken
- ensure that you receive a response to your concerns and that you are aware of how to pursue them if you are not satisfied

- reassure you that you will be protected from possible reprisals or victimisation if you have a reasonable belief that any disclosure is made in the public interest.

2.2 The Confidential Reporting Code is intended to cover major concerns that fall outside the scope of other policies and procedures (such as the Grievance procedure, which is in place to enable you to lodge a grievance relating to your own contract of employment). Personal grievances (e.g. bullying, harassment, discrimination) are not usually covered by whistleblowing law, unless your particular case is in the public interest. If the Monitoring Officer or delegated officer considers that a concern raised under the Confidential Reporting Code should more properly be dealt with under the provisions of another policy, the whistle-blower will be referred to that policy. Advice from relevant officers should be sought where required.

Those major concerns that fall outside of other policies and procedures are called "qualifying disclosures". A qualifying disclosure is one made in the public interest by someone who has a reasonable belief that any of the below matters are being, has been, or is likely to be, committed:

- conduct which is an offence or a breach of law
- disclosures related to miscarriages of justice
- health and safety risks, including risks to the public as well as other employees
- damages to the environment
- the unauthorised use of public funds
- possible fraud and corruption, including bribery
- sexual or physical abuse of clients, or
- other unethical conduct
- covering-up of any of the above

2.3 Therefore, any serious concerns that you have about any aspect of service provision or the conduct of officers or members of the Council or others acting on behalf of the Council can be reported under the Confidential Reporting Code. This may be about something that:

- makes you feel uncomfortable in terms of known standards, your experience or the standards you believe the Council subscribe to; or
- is against the Council's Constitution and policies; or
- falls below established standards of practice; or
- amounts to improper conduct.

2.4 This code does not replace the corporate complaint procedure which is in place to address complaints about the Council's services.

2.5 The Council encourages you to raise your concerns under this procedure in the first instance. If you are not sure whether or not to raise a concern, you should discuss the issue with your line manager, trade union representative or the Monitoring Officer.

2.6 Individuals who make a public interest disclosure ('whistleblow') within the context of protections provided within the Employment Rights Act 1996 (the protections are that the dismissal of an employee will be automatically unfair if the reason, or principal reason, for their dismissal is that they have made a "protected disclosure" and that workers are protected from being subjected to any detriment on the ground that they have made a protected disclosure)

would normally be expected to first raise the issue with their employer directly. However, they can also make disclosures to prescribed persons or bodies. The Government has recently updated the List of prescribed persons and bodies. Under the list, individuals need to raise the issue with the correct prescribed person for the sector or industry concerned. Across sectors and industries, there are over 80 persons and bodies listed, a number of them relating to local authorities depending on their areas of responsibility. Guidance in the list also provides information for individuals to help them identify the relevant auditor for a particular local authority.

3.0 Safeguards

3.1 Harassment or Victimisation

3.2 The Council is committed to good practice and high standards and wants to be supportive of employees and others covered by this code.

3.3 The Council recognises that the decision to report a concern can be a difficult one to make. If what you are saying is true, and you have reasonable belief that the disclosure is being made in the public interest, you should have nothing to fear because you will be doing your duty to your employer and those for whom you are providing a service.

3.4 The Council will not tolerate any bullying, harassment or victimisation (including informal pressure) by managers and colleagues and will take appropriate action to protect you when you raise a concern in the public interest. Victimisation of a worker for raising a qualifying disclosure will be a disciplinary offence.

3.5 If you report your concerns via a disclosure you have the right not to be dismissed or subjected to any other detriment because of it.

3.6 Any investigation into allegations of potential malpractice will not influence or be influenced by any disciplinary, sickness, capability or redundancy procedures that already affect you or may affect you in the future.

4.0 Confidentiality

4.1 All concerns will be treated in confidence and every effort will be made not to reveal your identity if you so wish. However, it must be appreciated that the investigation process may reveal the source of the information and a statement by the whistle-blower may be required as part of the evidence. This may mean that witness statements or correspondence is also disclosed. In these situations the Council will contact you and any additional witnesses to advise of this and to offer any guidance where necessary.

4.2 The Council may need to reveal your identity and disclose information where there are legal proceedings following on from the whistleblowing disclosure and as above will inform you prior to this information being released.

4.3 If the Council feels for example that allegations relate to serious criminal offences which the Police should investigate we may also be required to disclose your identity to third parties.

5.0 Anonymous Allegations

- 5.1 This code encourages you to put your name to your allegation whenever possible.
- 5.2 Concerns expressed anonymously are much less powerful but will be considered at the discretion of the Council. You should remember that wherever possible, confidentiality will be preserved.
- 5.3 In exercising this discretion the factors to be taken into account would include:
- the seriousness of the issues raised
 - the credibility of the allegation; and
 - the likelihood of confirming the allegation from attributable sources.
- 5.4 Anonymous whistle-blowers should also bear in mind that, if they do not make their name known, the Monitoring Officer or delegated officer will not know whose identity to keep confidential. It will also not be possible to provide direct feedback to them on the progress and outcome of any investigations.

6.0 False or Unproven Allegations

- 6.1 Where it is established, after investigation, that the allegations are unproven, the whistle-blower will be notified. The Council will deem the matter “closed” and will not expect the issue to be raised again unless new evidence becomes available.
- 6.2 If you make an allegation which you believe to be in the public interest, but it is not confirmed by the subsequent investigation, no action will be taken against you. If however, you make an allegation maliciously or for personal gain, disciplinary action may be taken against you. (The Council will manage such situations using its agreed Disciplinary Procedure).

7.0 How to raise a concern

- 7.1 As a first step, you should normally raise concerns with your immediate manager or their superior. This depends however, on the seriousness and sensitivity of the issues involved and who is suspected of the malpractice. For example, if you believe that management is involved you should approach the Chief Executive, Director of Resources, the Monitoring Officer or the Head of Internal Audit and Risk. Should the concern be relating to the Chief Executive, Director of Resources, the Monitoring Officer or the Head of Internal Audit and Risk your concerns should be raised with the Assistant Director – People.
- 7.2 Concerns may be raised verbally or in writing. Staff who wish to make a written report are invited to use the following format:
- the background and history of the concern (giving relevant dates);
 - the reason why you are particularly concerned about the situation.
 - and providing as full and comprehensive information as is known at the time of the disclosure

If you raise your concern verbally, a written note will be taken in accordance with the above format.

All concerns received will be registered with the Monitoring Officer.

- 7.3 The earlier you express the concern the easier it is to take action.
- 7.4 Although you are not expected to prove beyond doubt the truth of an allegation, you will need to demonstrate to the person contacted that there are reasonable grounds for your concern.
- 7.5 Advice and guidance on how matters of concern may be pursued can be obtained from:
- Monitoring Officer
 - Director of Resources
 - Head of Internal Audit and Risk
 - Chief Executive
- 7.6 You may wish to consider discussing your concern with a colleague or your trade union representative first and you may find it easier to raise the matter if there are two (or more) of you who have had the same experience or concerns. *However, once you have raised a concern under the Confidential Reporting Code you should be mindful that any further discussions with other parties may impede the maintenance of confidentiality or compromise any investigation.*
- 7.7 You may invite your trade union or friend to be present during any meetings or interviews in connection with the concerns you have raised.
- 8.0 How the Council will respond**
- 8.1 The Council will respond to your concerns. Do not forget that testing out your concerns is not the same as either accepting or rejecting them.
- 8.2 Where appropriate the matters raised may:
- be investigated thoroughly by management, internal audit, or through the disciplinary process
 - be referred to the police
 - be referred to the external auditor
 - form the subject of an independent inquiry
- 8.3 In order to protect individuals and those accused of misdeeds or possible malpractice, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. The overriding principle, which the Council will have in mind, is the public interest. Concerns or allegations, which fall within the scope of specific procedures (for example, child protection or discrimination issues), will normally be referred for consideration under those procedures.
- 8.4 Some concerns may be resolved by agreed action without the need for investigation. If urgent action is required this will be taken before any investigation is conducted.

8.5 Within ten working days of a concern being raised, the Monitoring Officer will write to you:

- acknowledging that the concern has been received
- indicating how we propose to deal with the matter
- giving an estimate of how long it will take to provide a final response
- telling you whether any initial enquiries have been made
- supply you with information on staff support mechanisms, and
- telling you whether further investigations will take place and if not, why not.

8.6 The amount of contact between the officers considering the issues and you will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary, the Council will seek further information from you.

8.7 Where any meeting is arranged, off-site if you so wish, a union or professional association representative or a friend can accompany you.

8.8 The Council will take steps to minimise any difficulties, which you may experience as a result of raising a concern. For instance, if you are required to give evidence in criminal or disciplinary proceedings the Council will arrange for you to receive advice about the procedure.

8.9 The Council accepts that you need to be assured that the matter has been properly addressed. Thus, subject to legal constraints, we will inform you of the outcomes of any investigation.

9.0 The Responsible Officer

9.1 The Monitoring Officer has overall responsibility for the maintenance and operation of this code. That officer maintains record of concerns raised and the outcomes (but in a form which does not endanger your confidentiality) and will report as necessary to the Council. They will also ensure that proper and timely progress is made in dealing with any complaint and that the principles and requirements of this code are met.

10.0 How the matter can be taken further

10.1 This code is intended to provide you with an avenue within the Council to raise concerns. The Council hopes you will be satisfied with any action taken. If you are not, and if you feel it is right to take the matter outside the Council, possible contact points are set out after paragraph 10.4

10.2 Before taking matters outside the Council you may wish to take independent advice and the charity Public Concern at Work offers such facilities to employees. They can be contacted through their web site www.pcaw.org.uk or via their telephone number: 0207 404 6609 which is operated Monday to Friday, 9.00 a.m. to 6.00 p.m.

10.3 The following are possible external contact points:

- the Council's external auditor
- your trade union/professional association representative
- your local Citizens Advice Bureau
- relevant professional bodies or regulatory organisations

- a relevant voluntary organisation
- the police

10.4 If you do take the matter outside the Council, you should ensure that you do not disclose confidential information

Further Information:

Charles Warboys – Director of Resources

TEL: 0300 300 6147

EMAIL: charles.warboys@centralbedfordshire.gov.uk

Kathy Riches – Head of Internal Audit and Risk

TEL: 0300 300 6155

EMAIL: kathy.riches@centralbedfordshire.gov.uk

24 Hours CBC Fraud Hotline

TEL: 0300 300 8182

EMAIL: tellusaboutfraud@centralbedfordshire.gov.uk

Quentin Baker - Monitoring Officer

TEL: 0300 300 4204

EMAIL: quentin.baker@centralbedfordshire.gov.uk

Richard Carr - Chief Executive

TEL: 0300 300 4009

EMAIL: richard.carr@centralbedfordshire.gov.uk

Catherine Jones – Assistant Director – People

TEL: 0300 300 6048

EMAIL: Catherine.Jones@centralbedfordshire.gov.uk

NSPCC National Whistleblowing Helpline for employees

TEL: 0808 800 5000

EMAIL: help@nspcc.org.uk

WEBSITE: <https://www.nspcc.org.uk/fighting-for-childhood/news-opinion/new-whistleblowing-advice-line-professionals>

Central Bedfordshire Council

AUDIT COMMITTEE

9 January 2017

Revisions to the Internal Audit Charter

Report of Charles Warboys, Director of Resources
(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 proposes the adoption of revisions to the Internal Audit Charter in compliance with the Public Sector Internal Audit Standards applied in the UK, based upon international standards which were adopted on 1st April 2013 and revised in April 2016.

RECOMMENDATIONS

The Committee is asked to:

1. Consider and endorse the revisions to the Internal Audit Charter.

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 Audit Committee has a key role in ensuring and maintaining effective corporate governance arrangements are in place within the Council. The Internal Audit Charter provides evidence of such arrangements in respect of the Internal Audit function.
3. Public Sector Internal Audit Standard 1000 requires the Purpose, Authority and Responsibility to be defined in an Audit Charter. In addition, the Internal Audit Charter establishes Internal Audit's position within the organisation, including the nature of the Head of Internal Audit and Risk's functional reporting relationship with the Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of audit work and defines the scope of internal audit activities. Final approval of the Internal Audit Charter resides with the Audit Committee.

4. The Audit Committee approved the Internal Audit Charter at its meeting in January 2014, following the introduction of the Public Sector Internal Auditing Standards.
5. The Public Sector Internal Audit Standards were revised in April 2016. Although there were no significant changes that would impact on the way in which Internal Audit deliver the service, there is now a requirement for the Internal Audit Charter to reflect the Mission of Internal Audit (as defined by the Standards) and 10 supporting core principles that should be present and operating effectively in order that the Mission is achieved.
6. The Mission of Internal Audit is defined as follows: “To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”.
7. The Core Principles, taken as whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. They are set out below:
 - Demonstrates integrity.
 - Demonstrates competence and due professional care.
 - Is objective and free from undue influence (independent).
 - Aligns with the strategies, objectives, and risks of the organisation.
 - Is appropriately positioned and adequately resourced.
 - Demonstrates quality and continuous improvement.
 - Communicates effectively.
 - Provides risk-based assurance.
 - Is insightful, proactive, and future-focused
 - Promotes organisational improvement
8. The Internal Audit Charter has, therefore been updated to reflect both the Mission and the 10 Core principles. These principles support the Nolan Principles and also the Code of Ethics, which were already documented within the Charter. A workshop was recently held within the Internal Audit Team to consider the impact of the revisions to the Standards on Internal Audit working practices. No significant changes are required; however the workshop provided a useful opportunity to focus on the standards and the need to comply with them.

Council Priorities

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

Corporate Implications

Legal Implications

10. None directly from this report.

Financial Implications

11. None directly from this report.

Equalities Implications

12. None directly from this report.

Conclusion and next Steps

13. The approval of the revisions to the Internal Audit Charter by the Audit Committee will help ensure that Internal Audit can progress its work in line with the updated Public Sector Internal Audit requirements.

Appendices

Appendix A - Internal Audit Charter December 2016

Background Papers

None

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Internal Audit & Risk Internal Audit Charter

December 2016



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Internal Audit Charter

1 Introduction

- 1.1 This Charter defines Internal Audit's purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS). It establishes Internal Audit's position within the Council, including functional reporting relationships with the Audit Committee (referred to in the PSIAS as "the Board"), authority to access records, personnel and physical properties relevant to the performance of the engagements, and defines the scope of the Internal Audit Activity.
- 1.2 The Charter has been agreed with senior management (Corporate Management Team) and was approved by the Audit Committee on 13th January 2014.
- 1.3 The Charter 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.

2 Statutory Role

- 2.1 The authority for the internal audit function is derived from statute. The requirement for an Internal Audit function for local authorities is set out in section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of these affairs". The Director of Resources has this responsibility within the Council.
- 2.2 Regulation 6 of the Accounts and Audit Regulations 2011 more specifically requires that:

"A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices".

The Director of Resources has sought to achieve this through the establishment of an efficient and effective Internal Audit Service.
- 2.3 There is a statutory requirement for Internal Audit to work in accordance with "proper audit practices". Internal Audit will seek to fulfil its role through adherence to the mandatory Public Sector Internal Audit Standards (PSIAS) which were effective from 1st April 2013 (and any subsequent revisions thereto).
- 2.4 The Council recognises that all officers of internal audit shall, in relation to the activities of the Council and as required by the Council's Constitution:
 - Have access to physical properties relevant to the performance of engagements, and
 - Be supplied with any documentation, records (either paper or electronic) or explanations of transactions requested by them.

3. Purpose

- 3.1 Internal Audit is defined by the PSIAS as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”.
- 3.2 In a local authority Internal Audit provides independent and objective assurance to the organisation, its Members, senior management and the Director of Resources. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council’s governance, risk management and internal control systems.
- 3.3 PSIAS articulates the Mission of Internal Audit as” To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.” Within the Council, the overall aim of Internal Audit is:
“To deliver a risk based audit plan in a professional, independent manner, to provide the Council with an opinion on the level of assurance it can place upon the internal control environment, and to make recommendations to improve it, that are proportionate and demonstrably add value and support the delivery of the Council’s vision to its customers”.
- 3.4 PSAIS set out 10 core principles that should be present and operating effectively in order that the Mission is achieved. These are set out at Appendix D.
- 3.5 The Terms of Reference of Internal Audit are summarised within the Code of Financial Governance (section 5.4).

4. Responsibilities, Scope and Objectives

- 4.1 Internal Audit and Risk supports the Council in its vision and strategic priorities, which sets the Council’s focus over the coming years.
- 4.2 The Head of Internal Audit and Risk is required to provide an annual opinion to the Council and to the Director of Resources, through the Audit Committee, on the adequacy and the effectiveness of the internal control system for the whole Council and all its operations.
- 4.3 The scope of internal audit as set out in the Constitution, includes reviewing, appraising and reporting on the following:
 - The soundness, adequacy and application of internal controls;
 - The safeguards for council assets and interests from losses of all kinds arising from theft, fraud, waste, extravagance, inefficient management, poor value for money or any other cause;
 - The suitability and reliability of financial and other management data; and
 - Compliance with rules, legislation, policy and procedures.
- 4.4 In order to deliver this, Internal Audit has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources
 - To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures
 - To provide a systematic disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes (more details of the nature of this work is set out on Appendix A).
 - To provide assurance that significant risks to the Council's objectives are being managed
 - To provide advice and support to management to enable an effective control environment to be maintained
 - To promote an anti fraud, anti bribery and anti corruption culture within the Council to aid the prevention and detection of fraud, and
 - To investigate allegations of fraud, bribery and corruption (with the exception of benefits fraud, which is investigated by the Benefits Team).
- 4.5 In addition to delivering the agreed audit plan, Internal Audit also carry out special reviews or assignments where requested by management, which fall outside the approved work plan and for which a contingency is included within the audit plan.
- 4.6 The Head of Internal Audit and Risk cannot be expected to give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control within their area of responsibility. They should ensure that appropriate and adequate control and risk management processes, control systems, accounting records, financial processes and governance arrangements exist without depending on internal audit activity to identify weaknesses.
- 4.7 The delivery of the Internal Audit Service is in accordance with the Internal Audit Engagement Protocol (previously known as the Internal Audit Charter).

5. Independence and Accountability

- 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 The Head of Internal Audit and Risk has direct free and unfettered access and freedom to report in his/her own name and without fear or favour to all officers and members, particularly to those charged with governance (including the Chief Executive and the Chair of the Audit Committee). . Accountability for the response to the advice and recommendations of Internal Audit lies with management to either accept and implement the advice or formally reject it. Reviews will be assigned to auditors and rotated between the various audit managers in order to ensure independence in their reviews and maximisation of skills.
- 5.3 Although Internal Audit co-ordinates risk management activity across the Council, it remains independent of other non-audit activities, in order to ensure that there are no conflicts of interest. Internal auditors are required to declare any personal interests which may impact on their objectivity and these are factored into audit planning.

- 5.4 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. Due Professional Care

- 6.1 The Internal Audit function is bound by the following standards:
- Institute of Internal Auditor's International Code of Ethics (see Appendix B)
 - Seven Principles of Public Life (Nolan Principles) – (see www.public-standards.gov.uk)
 - UK Public Sector Internal Audit Standards
 - All Council Policies and Procedures
 - All relevant legislation.

7. Quality Assurance

- 7.1 Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.
- 7.2 A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. The Head of Internal Audit and Risk is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.
- 7.3 Internal Auditors are expected to:
- Exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity,
 - Apply confidentiality as required by law and best practice, and
 - Obtain and record sufficient audit evidence to support their findings and recommendations.
- 7.4 The Head of Internal Audit and Risk develops and maintains a set of performance indicators that are reported to the Director of Resources and the Audit Committee.

8. Reporting

- 8.1 The UK Public Sector Internal Audit Standards require the Head of Internal Audit and Risk to report at the top of the organisation and this is done in the following way:
- 8.2 Internal Audit and Risk report their findings in writing to appropriate officers, as agreed in the audit brief, against four assurance opinions (Full, Adequate, Limited and No

Assurance). These are detailed at Appendix C. The Head of Internal Audit and Risk sets standards for reporting and makes arrangements for their review and approval before issue.

- 8.3 The Head of internal Audit and Risk reports regularly to the Director of Resources and at least three times a year to the Audit Committee on progress against the Annual Audit plan and other issues of concern in respect of the control environment and emerging issues. The Audit Committee meets at least four times a year and has an agreed work plan for the year. In addition, the Head of Internal Audit and Risk produces an Annual Report to the Director of Resources and Audit Committee on the main issues raised by Internal Audit during the year and on the performance of Internal Audit. In particular, the Annual Report:
- Includes an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control Discloses any qualification to that opinion, together with the reasons for the qualifications
 - Presents a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies
 - Draws attention to any issues that the Head of Internal Audit and Risk considers relevant to the preparation of the Annual Governance Statement
 - Compares the work actually undertaken against the work that was planned
 - Summarises the performance of Internal Audit against its performance measures, and
 - Comments on compliance with the Public Sector Internal Audit Standards and communicates the results of the Internal Audit quality assurance and improvement programme.
- 8.4 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.

9. Internal Audit Resources

- 9.1 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.
- 9.2 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.
- 9.3 If a situation arose whereby internal audit resources were insufficient, the Head of Internal Audit and Risk will discuss this with the Director of Resources, and the Audit Committee.
- 9.4 Internal Auditors will maintain their professional competence through an appropriate ongoing development programme.
- 9.5 It may be necessary, from time to time, to buy in either agency staff or sub-contractors, of a suitable quality.

- 9.6 Each auditor will be provided with adequate resources to fulfil their role, including hardware, software, training and access to any information required.

10. Fraud and Corruption

- 10.1 Audit procedures alone, even when performed with due professional care, cannot guarantee the detection of fraud or corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. The Internal Audit Team will include auditors with fraud investigation skills, and will continue to actively participate in the National Fraud Initiative (NFI). Management may request Internal Audit to undertake fraud and special investigations.
- 10.2 In accordance with the Council's Anti Fraud and Corruption Strategy (including Anti Bribery) Members, officers, and staff must report any allegations of fraud to Internal Audit or other appropriate officer, such as the Chief Executive, Director of Resources, or Monitoring Officer.
- 10.3 Internal Audit proactively raises awareness on anti fraud matters. The team is tasked with ensuring that appropriate counter fraud and corruption actions are taken in line with the National Fraud Authority's (NFA) Fighting Fraud Locally Initiative and other relevant national campaigns.

NATURE OF WORK

The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

Promoting appropriate ethics and values within the organisation

Ensuring effective organisational performance management and accountability

Communicating risk and control information to appropriate areas of the organisation

Coordinating the activities of and communicating information among the Audit Committee, external and internal auditors and management.

The internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

Risk Management

- Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:
- Organisational objectives support and align with the organisation's mission:
- Significant risks are identified and assessed
- Appropriate risk responses are selected that align risks and their mitigation with the organisation's risk appetite
- Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages risk.

When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

Control

The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance operations and information systems regarding the:

- Achievement of the organisation's strategic objectives
- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations and programmes
- Safeguarding of assets, and
- Compliance with laws, regulations, policies, procedures and contracts.

In accordance with the PSIAS, most individual audits are undertaken using the risk based systems audit approach, the key elements of which are listed below:

- Identify and record the objectives, risks and controls
- Establish the extent to which the objectives of the system are consistent with higher level corporate objectives
- Evaluate the controls in principle to decide whether or not they are appropriate and can be relied upon to achieve their purpose
- Identify any instances of over and under control
- Determine whether an appropriate strategy to test the effectiveness of controls, i.e. through compliance and/or substantive testing.
- Arrive at conclusions and produce a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.

APPENDIX B

Public Sector Internal Auditing Standards – Code of Ethics

Internal auditors in UK public sector organisations must conform to the Code of Ethics within the Standards. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

There are four principles in the Code of Ethics:

1. **Integrity** – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
2. **Objectivity** – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
3. **Confidentiality** – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
4. **Competency** – Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.

Internal auditors who work in the public sector must also have regard to the Seven Principles of Public Life (Nolan Principles).

APPENDIX C

Audit Opinions

Assurance is work carried out by Internal audit to support the Annual Internal Audit Opinion. The definitions of the opinions given are set out below:

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

APPENDIX D

Core Principles for the Professional Practice of Internal Auditing

The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively.

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement

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Central Bedfordshire Council

AUDIT COMMITTEE

9 January 2017

Risk Update Report

Report of Charles Warboys, Director of Resources
(charles.warboys@centralbedfordshire.gov.uk)

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

Purpose of this report:

The purpose of this report is to give an overview of the Council's risk position as at December 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 December 2016.

Strategic Risks

4. The December 2016 risk report is contained at Appendix A. The report contains 16 strategic risks.
5. There are 12 strategic risks with a residual risk score of 9 or more. A score of 9 or more generally represents an unacceptable risk exposure, with further mitigation required.

6. The risks have been reconsidered and the key revisions are set out below. There have been no changes to the residual risk scores for any of the risks.
7. STR0001 - The Finance risk has been updated to record that The Certainty Deal was signed and submitted to the Department for Communities and Local Government (DCLG) in October. They have confirmed our participation.
8. STR0008 – The risk of ICT failure has been updated to include a further planned mitigation. This relates to the installation of additional lines to provide resilience in the event of an outage and to provide greater load balancing across the CBC infrastructure. The target for completion is February 2017.
9. STR0019 – The risk relating to failure to deliver effective and cohesive health and social care to residents has been reviewed but no revisions have been made. This continues to be the highest scoring strategic risk and there continues to be significant challenges to the National Health System.
10. STR0027- The risk of failing to adopt a Local Plan and Community Infrastructure Levy has been updated to reflect the current anticipated timeframe for the Draft (Regulation 18) Plan to be published, which is January/February 2017. The draft plan is due to be published for consultation in September 2017 and is planned for adoption in April 2018.
11. STR0031- The capacity for the Council to deliver services in the light of further shifts in Government policy has also been updated to reflect the signing of The Certainty Deal.
12. STR0032 - The risk of not being able to access a sustainable market for social care at a reasonable price as a result of the implementation of the National Living Wage and other legislation has been updated to reflect the additional mitigating actions taken. A Day Care review is now underway. A Vulnerable Persons Position Statement is being developed and planning permission for Houghton Regis Central (Independent Living) was granted in November 2016.
13. STR0034 – The risk of failure to deliver the Organisational Development Plan has been updated to record that senior management is to further review these work streams as part of a review to crystallise objectives following the Medium Term Financial Plan (MTFP) reviews.
14. STR0035 – The risk of failing to deliver major transformation programmes within Children’s Services has been updated to reflect the demand analysis that has been undertaken, which has identified potential opportunities for reducing children going into care. In addition, a multi-agency leadership board is now in place.

15. STR0036 - The risk of failure to deliver community cohesion in the context of demographic growth has been updated to reflect current progress in addressing issues relating to both the settled and the gypsy and traveller communities.
16. STR0037 – The risk of failure to support vulnerable people and families, including facets of access to accommodation, welfare reform and low levels of income has also been updated to reflect further planned mitigating actions. These include progressing the Homelessness Strategy Action Plan and implementing the Sheltered Housing Review. In addition, publicity of the Credit Unions has increased activity in this area. Through the Tenancy Sustainment approach and the redesign of the Adult Social Care (ASC) Customer Pathway, it is aimed to support tenants earlier.
17. STR0038, which relates to the fragility of the emergency planning and business continuity functions across partners and the impact of this on the Council's ability to deliver its objectives has also been reviewed. No changes were made but it is noted that the plans and partnerships were tested during the recent gas outage in Amphill, Clophill and Maulden.
18. An additional risk (STR0040) has been added to the strategic risk register. This relates to the political and economic uncertainty around potential changes in laws, regulations, government policy or funding arising from the UK leaving the European Union and other significant international events, which may impact on Council objectives.
19. It is recognised that there could be potential and emerging impacts on:
 - the local economy;
 - capital receipts and land and property negotiations;
 - employment trends and productivity;
 - waste disposal;
 - changes in ministerial appointments and the associated implications for aspects of government policy, such as education, public health and indeed the approach to the management of the public finances;
 - the potential impact of changes being considered by the Bank of England, such as adjustments to interest rates;
 - workforce implications, especially in areas like health and social care where significant numbers of staff were non UK nationals;
 - the impact of the unwinding of European legislation affecting large areas of regulation, including areas such as the working time directive and health and safety regulations, employment rights and procurement; and
 - community cohesion and the need to ensure inappropriate behaviour and racism was tackled appropriately and quickly.
20. Mitigating actions have been considered and include:
 - Continued monitoring of the post referendum environment by CMT

- Keeping abreast of official publications from local, central and European government
- Targeted lobbying by Members on specific issues
- Influencing Government through responding to consultations
- Engagement with the Local Government Association (LGA), Department of Communities and Local Government (DCLG), Department of Innovation and Skills, and other relevant bodies to ensure that current funding is protected
- Monitor emerging policy changes, and
- Monitor European Union funded schemes, and
- Reflecting budget implications within the Medium Term Financial Plan (MTFP)

21. The inherent likelihood and impact scores have both been assessed as 4, resulting in an overall inherent risk score of 16. The residual risk likelihood risk score has been assessed as 4, and the residual impact score has been assessed as 3, resulting in an overall risk score of 12.

22. The position will be regularly monitored to ensure that risks and opportunities are identified and reviewed.

23. There have been no changes to the remaining strategic risks.

Operational Risks

24. 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.

25. The operational risks with a risk score of 15 or above have been regularly reported to CMT. There have been no changes to the key operational risks since the last update.

Council Priorities

26. 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

27. None directly from this report.

Financial Implications

28. None directly from this report.

Equalities Implications

29. None directly from this report.

Conclusion and next Steps

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

Appendices

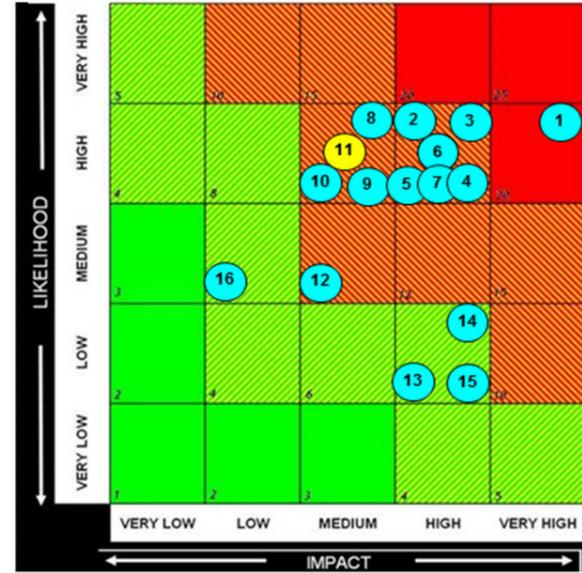
Appendix A – December 2016 Risk summary dashboard.

Background Papers

None

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CBC Strategic Risk Register - Residual Risk Rating



Key		2014/15			2015/16			2016/17		
#	Reference	Sept	Dec	Mar	Sept	Dec	Mar	May	Aug	Dec
1	STR0019	20	20	20	20	20	20	20	20	20
2	STR0001	12	12	12	16	16	16	16	16	16
3	STR0035							16	16	16
4	STR0036							16	16	16
5	STR0009	8	16	16	16	16	16	16	16	16
6	STR0027	20	16	16	16	16	16	16	16	16
7	STR0032							12	16	16
8	STR0038							12	12	12
9	STR0039								12	12
10	STR0037							9	12	12
11	STR0040									12
12	STR0031							9	9	9
13	STR0008	12	12	12	8	8	8	8	8	8
14	STR0013	12	12	12	8	8	8	8	8	8
15	STR0034							8	8	8
16	STR0033							6	6	6

Overview of Risk Position - Dec 2016

The risk with the highest residual risk score remains: STR0019 - The risk to the Health and Social Care System and local residents brought about by significant changes in the National Health system.

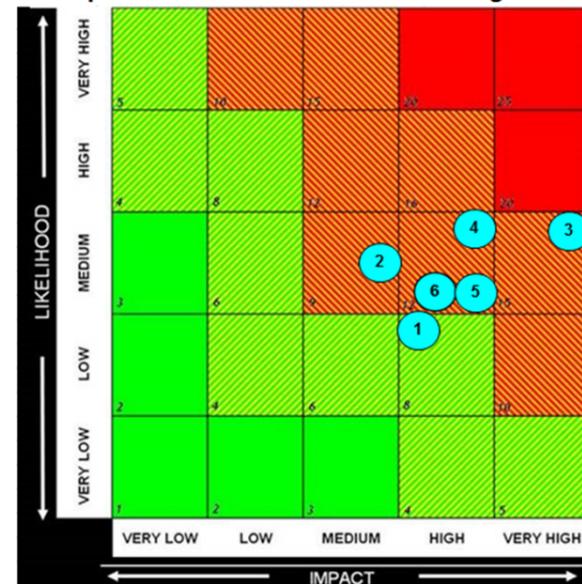
No risks have been rescored.

Revisions to the descriptions or mitigating actions/further actions have been made to the following risks:
 STR0001 - Finance risk
 STR0008 - Risk of ICT failure
 STR0027 - Failure to adopt a Local Plan and CIL
 STR0031 - Capacity of Council to deliver services
 STR0032 - Unsustainable market for social care
 STR0034 - Failure to deliver the Organisational Development Plan
 STR0035 - Failure to deliver major transformation programme within Children's Services
 STR0036 - Failure to deliver social cohesion
 STR0037 - Failure to support vulnerable people and families

The following risk has been added:
 STR0040 - Political and economic uncertainty arising from UK leaving EU and other significant international events.

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

CBC Operational Risks - Residual Risk Rating



Key		2014/15			2015/16			2016/17		
#	Reference	Sept	Dec	Mar	Sept	Dec	Mar	May	Aug	Dec
1	CHS0005	16	16	16	16	16	16	16	8	8
2	CHS0023				15	15	15	15	9	9
3	SUC030007	12	12	12	15	15	15	15	15	15
4	SCH0004	16	16	16	16	16	16	12	12	12
5	SCH0008	16	16	16	16	16	16	12	12	12
6	COMS040008	20	12	12	12	12	12	12	12	12

Key
 New Risk (Yellow circle)
 Current Position (Blue circle)
 Previous Position (Grey 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 Occurrences
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

Overview of Risk Position - December 2016

APPENDIX A

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Central Bedfordshire Council

AUDIT COMMITTEE

9 January 2017

Internal Audit Progress Report

Report of Charles Warboys, Director of Resources
(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 2016/17.

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 2016-19 (3 year) Internal Audit Plan in April 2016. This report provides an update on progress made against the plan up to the end of November 2016.

Progress on the 2016/17 Audit Plan

Fundamental System Audits

5. At the time of the last Committee meeting all the fundamental reviews relating to 2015/16 had been finalised, except for SWIFT Financials. This review is now complete and received a Limited Assurance opinion.
6. Work is progressing on the 2016/17 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 undertaken 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. 2 final reports have been issued, 6 draft reports have been issued and 1 report is in the process of being drafted. The Treasury Management and Council Tax systems both received a Full assurance opinion during 2015/16 and they have again received the same opinion this year. Adequate opinions have been given to the other fundamental reviews completed to report stage. No issues of particular concern have been identified. The opinions given are based upon limited sample testing in view of the light touch approach adopted.
7. 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.
8. The Asset Management 2016/17 and SWIFT Financials audits have still to be started. This work is usually undertaken later in the year.

Other Audit Work

9. Internal Audit has continued to be engaged in several projects, in order to provide advice and guidance on the control environment during project implementation. These include the Success Factors project which relates to core HR and recruitment processes. Work has also been undertaken on grant certification work.
10. In addition to the fundamental audit reviews the following audits have been finalised since the last Committee:
 - Children's Centres - Adequate Assurance Opinion

- Section 278 Follow Up Audit – Satisfactory Progress
- Supporting Families – Data Quality – Limited Assurance Opinion
- Assets Compliance – Limited Assurance Opinion

11. 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.

Schools

12. The rolling programme of school audit visits has continued. To date this year 5 school reports have been finalised.

Investigations

13. A whistle blowing investigation has just been concluded. The concerns raised related to the non banking of cash collected and recorded, and the alteration of accounting records. Over £1600 was identified as not banked. The officer concerned was dismissed.

Other Matters of Interest – External auditor Appointment

14. The Public Sector Audit Appointments Ltd (PSAA) has issued formal invitations to Council to opt in to the sector led arrangement for external auditor appointments. The Director of Resources formally accepted the invitation to opt in during November 2016.

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 2016 –30th November 2016

KPI	Definition	Current Year		Previous Year	Annual target
		Actual	Target	Actual	
KPI01	Percentage of total audit days completed.	58%	52%	50%	80%
KPI02	Percentage of the number of planned reviews completed.	47%	45%	46%	80%
KPI03	Percentage of audit reviews completed within the planned time budget, or within a 1 day tolerance.	74%	75%	84%	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.	76%	80%	68%	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.	92%	80%	100%	80%
KPI06	Overall customer satisfaction.	88%	80%	92%	80%

16. Analysis of indicators:

KPI01 - As at the end of November, Internal Audit has delivered a total of 737 productive audit days against a total of 1260 planned days for the year. This is above target.

KPI02 - This KPI measures final reports issued to date. 47% of the planned reviews have been completed to final report stage along with milestones reached for fundamental systems audit work. In addition, a number of reviews have been completed to draft report stage.

KPI03 - 74% of planned reviews have been completed either within the planned time budgets, or within a 1 day tolerance. This is just below the target agreed for the year. Some reviews have taken longer than originally planned because the audits identified issues that took some time to resolve.

KPI04 - This indicator measures the time taken for Internal Audit to receive a response from the auditee to the draft report. During the period up to the end of November 76 % of draft reports were responded to within the target set. Although slightly below target, this represents an improvement in response times compared to the same period last year.

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 satisfaction surveys have been sent out and 15 of these have been returned. The overall customer satisfaction is 88%.

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

<u>Priority</u>	<u>Audit Title</u>	2016/17	Position as at end November	Opinion (* indicates provisional)
		Days		
	Carry Over Work			
	Completion of Reviews in Progress as at 31 March 2016	120		
	2015/16 Asset Management (incl Asset Register)		Final report issued	Adequate
	2015/16 Accounts Payable Phase 2 (Comensura)		Final report issued	n/a
	Residential Care Homes		Final report issued	Limited.
	Car Parks - Cash Collection		Final report issued	Adequate
	Children's Centres		Final report issued	Adequate
	Contracts Management - Data Centre Visits		Fieldwork substantially completed	
	Customer First		Briefing note issued	n/a
	Direct Payments for Care		Final report issued	Adequate
	Domiciliary Care Framework Agreement		Final report issued	Adequate
	European Social Funding		Final report issued.	Adequate
	Financial Assessment and Charging for Residential Care		Report being drafted	
	Grants		Final report issued.	Limited.
	Information Governance - Transparency		Final report issued.	Adequate
	Information Governance - IG Toolkit		Briefing Note being prepared	n/a
	IT Governance Follow Up		Final report issued.	Satisfactory progress
	IT Network Management and Security		Scoping in progress	
	Mosaic		Fieldwork in Progress	
	2015/16 Payroll Phase 2		Final report issued.	Adequate
	Proactive anti fraud - Timesheets		Fieldwork in Progress	
	Proactive anti fraud - Cash Income		Fieldwork in Progress	
	Proactive anti fraud - Expense claims		Field work In progress	

<u>Priority</u>	<u>Audit Title</u>	2016/17	Position as at end November	Opinion (* indicates provisional)
		Days		
	Proactive anti fraud - Imprests		Final report issued	Adequate
	Proactive anti fraud - Purchasing Cards		Final report issued	Limited
	Public Health - Follow up on Data Quality for Health Checks		Final report issued	Good Progress
	Public Health - Teenage Pregnancies Information Governance.		Briefing note issued.	n/a
	Residential Care Homes		Final report issued	Limited
	Section 106 Agreements		Field work In progress	
	Supporting Delivery of New Housing		Not started	
	SWIFT Financials		Final report issued	Limited
	Third Party Hosting		Field work In progress	
	Supporting Families - Jan 2016 claim		Final report issued.	n/a
	Supporting Families - Data Quality		Final report issued.	Limited
Total - Carry Over Work		120		
Fundamental Systems				
H	Accounts Payable/Purchase Ledger (including feeder systems)	35	Fieldwork In progress	
H	Accounts Receivable/Sales Ledger	30	Final report issued	Adequate
H	Asset Management (incl. Asset Register)/Capital Accounting	30	Not yet started	
H	Council Tax (including Council Tax Support Scheme)	35	Report drafted	Full*
H	Housing Benefits	40	Report drafted	Adequate*
H	Main Accounting Systems (MAS)	30	Report drafted	Adequate*
H	National Non Domestic Rates NNDR	35	Report drafted	Adequate*
H	Payroll	35	Report being drafted	Adequate*

<u>Priority</u>	<u>Audit Title</u>	<u>2016/17</u>	<u>Position as at end November</u>	<u>Opinion</u> (* indicates provisional)
		Days		
H	SWIFT Financials	15	Not started	
H	Treasury Management	25	Final report issued	Full
H	Housing Rents including tenant arrears	25	Report drafted	Adequate*
H	Cash And Banking (Non Invoiced Income)	20	Report drafted	Adequate*
Total - Fundamental Systems		355		
Assurance Audits - Improvement and Corporate Services				
M	Data Quality - Permanent Admission of Older People (65+) to Residential or Care Homes	15	Fieldwork In Progress	
L	Ethics - Gifts and Hospitality - Members and Officers	15	Brief Issued.	
M	Information Governance	15	Scoping in progress	
M	Safer Recruitment	15	Draft Report issued.	
M	Comensura	15	Not started	
M	Corporate Governance Reviews	15	Not started	
IT Reviews:				
M	IT inventories	15	Not started	
M	IT contracts managed outside IT	15	Field work in progress	
H	IT Disaster Recovery	10	Not started	
H	SAP Access and Security	10	Field work in progress	
M	IT Customer Service - Problem Resolution	10	Not started	
Total- Improvement and Corporate Services		150		
Assurance Audits - Finance				
M	VAT reviews	10	Not started	
M	Teachers' Pensions	15	Field work In progress	
M	Budgetary Control	15	Field work In progress	
Total - Finance		40		

<u>Priority</u>	<u>Audit Title</u>	<u>2016/17</u>	<u>Position as at end November</u>	<u>Opinion</u> (* indicates provisional)
		Days		
Assurance Audits - Children's Services				
M	Schools General - School Improvement	80	Rolling programme. Five reports finalised to date. See below	
	Greenleas Lower School Follow Up		Final report issued.	Good progress.
	Moggerhanger Lower School		Final report issued.	Limited
	Southill Lower School		Final report issued.	Adequate
	Stondon Lower School		Final report issued.	Adequate
	Westfield Nursery School		Final report issued.	Adequate
M	Themed Reviews	15	Not started	
Total - Children's Services		95		
Assurance Audits - Social Care, Health and Housing				
M	Housing Repairs Follow Up	10	Report being drafted	
L	Day Centres	10	Fieldwork completed	
Total - Social Care, Health and Housing		20		
Assurance Audits - Community Services				
M	Assets Disposal Programme	10	Scoping in progress	
M	Section 38 income	10	Fieldwork In Progress	
H	Section 278 Follow Up audit	5	Final report issued	Satisfactory progress
M	Highways - assurance on client assurance arrangements	10	Scoping in progress	
M	Compliance - Assets	15	Final report issued	Limited

Priority	Audit Title	2016/17	Position as at end November	Opinion (* indicates provisional)
		Days		
M	Leisure Services Outcomes - Post implementation review of Flitwick Leisure Centre	15	Scoping in progress	
Total - Community Services		65		
Assurance Audits - Regeneration and Business Support				
M	European Social Fund	15	Scoping in progress	
M	Community Infrastructure Levy (CIL)	15	Not started	
Total - Regeneration and Business Support		30		
Assurance Audits - Contracts and Partnerships				
M	Contracts Management	20	Not started	
M	Value for Money reviews	15	Not started	
M	Partnership Governance	15	Not started	
Total - Contracts and Partnerships		50		
Assurance Audits - Public Health				
M	Public Health compliance with best practice	15	Not started	
Total - Public Health		15		
Special Investigations				
M	National Fraud Initiative (NFI)	20	Ongoing throughout year	n/a
M	Special Investigations and supporting the Corporate Fraud Team	40	Ongoing throughout year	n/a
Pro Active Anti Fraud:				
L	Cash disbursements	10	Not started	
L	Allocation of Grants	10	Not started	
Total - Special investigations		80		
Ad Hoc Consultancy etc.,				
H	Risk Management Activities	35	Ongoing throughout year	n/a
M	Major projects - Consultancy	40	Ongoing throughout year	n/a

Priority	Audit Title	2016/17	Position as at end November	Opinion (* indicates provisional)
		Days		
M	Supporting Annual Governance Statement	5	2015/16 statement completed	n/a
M	Audit of Individual Grants	20	Ongoing throughout year	Social Care Capital grant audited
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	50		n/a
Total - Ad Hoc Consultancy etc.		240		
TOTAL CHARGEABLE DAYS REQUIRED		1260		

Central Bedfordshire Council

AUDIT COMMITTEE

9 January 2017

Tracking of Internal Audit Recommendations

Report of Charles Warboys, Director of Resources
(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 presents 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 November 2016.

Tracking High Priority Recommendations

5. Only one high priority recommendation made prior to April 2012 remains outstanding. This relates to the 2009/10 SAP Access and Security (including IT Disaster Recovery) audit. A detailed report providing an

update on the ICT Disaster Recovery (DR) Plan, prepared by the Chief Information Officer, was presented to the last Audit Committee and a further update will be provided to a future meeting of the Committee. There have been no further revisions to the deadline for implementation.

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. Work is progressing on this and the current position is detailed at Appendix A (rec.5).
7. 4 reports containing high priority recommendations were issued during 2015/16, and 8 high priority recommendations were made. These are summarised at Appendix B and the current position of the 4 outstanding recommendations is set out in Appendix A.
8. 4 reports containing high priority recommendations have been issued to date during 2016/17. These are summarised at Appendix C. 9 high priority recommendations have been made, of which 8 have been implemented. The remaining recommendation is currently on target for implementation by the due date.
9. Wherever possible evidence has been obtained to verify the implementation of recommendations. However, in some instances, verbal assurance has been obtained. Where this is the case, further evidence will be obtained to support the assurances given.
10. Progress will continue to be monitored. The follow up of audit recommendations forms an integral part of the fundamental system audit reviews.

Future Monitoring

11. Officers responsible for the implementation of recommendations will be contacted regularly to provide updates on progress made. Evidence will be required to support progress made. Where recommendations are still being implemented these will continue to be monitored.

Council Priorities

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

Corporate Implications

Legal Implications

13. None directly from this report.

Financial Implications

14. Although there are no direct financial risks from the issues identified in the report, the outcome of implementing audit recommendations is for the Council to enhance internal control, and better manage its risks, thereby increasing protection from adverse events.

Equalities Implications

15. None directly from this report.

Conclusion and next Steps

16. Further work is required to ensure that the outstanding recommendations are implemented and to monitor additional recommendations made during the year.
17. This continuous tracking and reporting of progress on Internal Audit inspections to the Audit Committee ensures that the Committee has the means to monitor how effectively the high priority recommendations have been implemented.

Appendices

Appendix A – Details of High Priority 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

Appendix C – Summary of monitoring of High Priority recommendations made during 2016/17 to date.

Background Papers

None.

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

Improvement and Corporate Services

IT Disaster Recovery (including back up and restore arrangements)

<p>Recommendation R1: (Carried forward from previous audits) A disaster recovery plan should be developed and approved. As a minimum, this should include:</p> <ul style="list-style-type: none"> • the identification and prioritisation of key IT systems • the roles and responsibilities of relevant officers and third party suppliers • a set of IT procedures which should be executed initially to react to crises/disaster • escalation procedures • salvage procedures that deal with retrieval of items from affected • the recovery and reconfiguration of all IT and communications systems • details of additional accounts where monies may be sourced to aid recovery efforts • a schedule in respect of the testing of the plan
<p>Rationale for Recommendation: As has been previously reported to the Committee, a thorough review of the existing data centre provisioning at CBC is in progress. It is anticipated that there will be significant changes made in the technologies in use and how they are supported. ICT is undertaking to deliver a refreshed and renewed DR plan.</p>
<p>Target Dates: September 2015 (Original) April 2016 (Revised) March 2017 (Revised.)</p>
<p>Current Position and Explanation for Slippage: A detailed report providing an update on the ICT Disaster Recovery (DR) Plan was been prepared by the Chief Information Officer and presented to the September Audit Committee. It was agreed that an update would be provided to a future Committee.</p>

<p>Recommendation R2: A review of resources alongside disaster recovery processes should be undertaken to confirm if the Council could cope without third party support and expertise. Arrangements should be clearly documented in the DR Plan.</p>
<p>Rationale for Recommendation: The Council no longer has a contractual agreement with an external party for the recovery of services.</p>
<p>Target Dates: September 2015 (Original) April 2016 (Revised) March 2017 (Revised)</p>
<p>Current Position and Explanation for Slippage: As above.</p>

Social Care, Health and Housing

Housing Tenancy Management

<p>Recommendation R3: 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) August 2016 No updated target provided.</p>
<p>Current Position and Explanation for Slippage: Housing responsibilities across the directorates have been considered. In light of this, a review of the Constitution is being undertaken to ensure it accurately reflects the responsibilities identified. No further progress has been made since the last Audit Committee update.</p>

<p>Recommendation R4: 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) August 2016 No updated target provided .</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. No further progress has been made since the last Audit Committee update.</p>

Recommendation R5:

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.

Target Dates:

End September 2014
 End March 2015 (revised)
 End June 2015 (revised)
 October 2015 (revised, self billing)
 January 2016.(revised)
 June 2016 .(revised)
 July 2016 .(revised)
 Nov 2016 .(revised)
 April 2017 (see below)

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

Since the last update, the stakeholders remain the same and continue to work together (including Corporate IT and the software supplier) and significant progress is being made on the QL/SAP interface. IT continues to manage the project structure including the deliverables and timeline. Some user testing in June 2016 demonstrated that further development was still required, so although work has continued, there have recently been interface IT errors highlighted in business testing, which have caused delays and need to be quickly resolved to allow further testing. No firm date can be set for full implementation as yet, but it remains a service priority.

Action 1 - From the Business Requirements Document (BRD) produced in January 2016 the reconciliation of repairs works invoices is being tested. In the interim however, testing of accurate reconciliation between operational and finance teams is underway, with an interim measure that has been agreed, while the IT solution is awaited. Advice and support is being supplied by audit. A methodology has been agreed between relevant staff, with the focus now on testing out the methodology on expenditure. Essentially any work orders within QL should also be in SAP, The suppliers remain engaged in updating the SAP/QL interface, to enable an automatic reconciliation of the 2 systems.

Action 2 -The trial of the process with a major contractor is now concluding as the system is working well and includes pre-payment on account. A roll-out plan to progress this new process with more contractors will now be progressed to include the main day to day contractor. This will deliver significant time efficiencies. The process has demonstrated that there are no late payment issues occurring.

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. Regular audits of user authorisation levels and delegation (Separation of duties) are also carried out to ensure we meet audit recommendations. Further work is also underway to streamline systems and to eliminate any user errors in how the whole system is managed. The lessons learned from the process have been built into a much improved invoicing process for the whole service..

Summary of Monitoring of High Priority Internal Audit recommendations as at End November 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) 2014/15	13/08/15	31/10/15	2	2					
SAP Access and Security	28/05/15	28/05/15	1	1					
IT Disaster Recovery	29/09/15	30/09/15	3	1		2			Recs. 1-2
SOCIAL CARE, HEALTH & HOUSING									
Housing Tenancy Management	04/09/15	30/11/15	2			2			Recs.3-4
Total			8	4		4			

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Summary of Monitoring of High Priority Internal Audit recommendations as at End November 2016

Reports issued during 2016/17 to date

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	
RESOURCES									
Accounts Payable Phase 2 Comensura 2015/16	17/05/16	31/07/16	4	4					
SOCIAL CARE, HEALTH & HOUSING									
Domiciliary Care Framework Agreement	09/06/16	30/06/16	3	3					
Residential Care Homes	13/07/16	13/07/16	1	1					
COMMUNITY SERVICES									
Assets Compliance	08/12/16	30/06/17	1		1				
Total			9	8	1	0	0	0	

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Central Bedfordshire Council

Audit Committee

9 January 2017

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

2016/17 Municipal Year	
26 September 2016	<ul style="list-style-type: none"> • Statement of Accounts 2015/16 (RG) • External Audit Results Report 2015/16 (NH) • Update on Progress made in Developing and Approving the IT Disaster Recovery Plan (SC) • Risk Update Report (KR) • Tracking of Internal Audit Recommendations (KR) • Internal Audit Progress Report (KR) • Work Programme (LM)
9 January 2017	<ul style="list-style-type: none"> • Certification of Claims and Returns Annual Report 2015/16 (NH) • Annual Audit Letter for the Year Ended 31 March 2016 (NH) • Audit Plan (NH) • Statement of Accounts 2016/17 (RG) • Local Government Pension Scheme Update (RG) • Revised Confidential Reporting Code (KR) • Revisions to the Internal Audit Charter (KR) • Risk Update Report (KR) • Internal Audit Progress Report (KR) • Tracking of Internal Audit Recommendations (KR) • Work Programme (LM)
3 April 2017	<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) • Update on the Development and Approval of the IT Disaster Recovery Plan (SC) • Risk Update Report (KR) • Tracking of Internal Audit Recommendations (KR) • Internal Audit Progress Report (KR) • Work Programme (LM)
29 June 2017 (date subject to confirmation)	<ul style="list-style-type: none"> • Statement of Accounts 2016/17 (presentation) (CW/RG) • Annual Audit and Certification Fees 2016/17 (NH) • Annual Governance Statement 2016/17 (QB) • Local Government Pension Scheme Update (RG) • Annual Counter Benefit Fraud Update (GM) • 2015/16 Internal Audit Annual Audit Opinion (KR) • Tracking of Audit Recommendations (KR) • Risk Update Report (KR) • Work Programme (LM)

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