

Central Bedfordshire
Council
Priory House
Monks Walk
Chicksands,
Shefford SG17 5TQ

**This meeting
may be filmed.***



**Central
Bedfordshire**

please ask for Leslie Manning

direct line 0300 300 5132

date 18 May 2018

NOTICE OF MEETING

AUDIT COMMITTEE

Date & Time

Wednesday, 30 May 2018 10.00 a.m.

Venue at

Council Chamber, Priory House, Monks Walk, Shefford

Richard Carr
Chief Executive

PLEASE NOTE THE VENUE

To: The Chairman and Members of the AUDIT COMMITTEE:

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

[Named Substitutes:

Clrs D Bowater, F Firth, Mrs J G Lawrence and I Shingler]

All other Members of the Council - on request

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

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

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AGENDA

1. **Apologies for Absence**

To receive apologies for absence and notification of substitute Members.

2. **Minutes**

To approve as a correct record the minutes of the meeting of the Audit Committee held on 9 April 2018 (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 4G 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 4G of the Constitution.

Reports

Item Subject

7. **Central Bedfordshire Council Unaudited Statement of Accounts 2017/18**

To receive a presentation on the unaudited Statement of Accounts for 2017/18.

8. **Annual Governance Statement 2017/18**

To consider the draft Annual Governance Statement for 2017/18.

9. **2017/18 Internal Audit Annual Audit Opinion**

To consider the annual report to those charged with governance on the overall adequacy and effectiveness of Central Bedfordshire Council's financial and other management internal controls.

10. **Northamptonshire County Council Best Value Inspection - Summary of Findings and Learning Points for Central Bedfordshire Council**

To consider a report and presentation on the findings of the Northamptonshire County Council Best Value Inspection, a comparison of the financial and governance positions of Central Bedfordshire Council and Northamptonshire County Council and proposed changes to Central Bedfordshire Council's existing processes.

11. **Work Programme**

To consider the Audit Committee's work programme.

CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 15, Priory House, Monks Walk, Shefford on Monday, 9 April 2018

PRESENT

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

Cllrs D Bowater
P Downing
R Morris

Cllrs D Shelvey
A Zerny

Members in Attendance: Cllr R D Wenham

Officers in Attendance: Mr D Galvin Assistant Director of Finance
Mr C Horne Head of Internal Audit and Risk
Mr L Manning Committee Services Officer
Ms S Michael Head of Corporate Finance
Mr G Muskett Head of Revenues & Benefits
Mr C Warboys Director of Resources

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

AUD/17/43 Minutes

RESOLVED

that the minutes of the meeting of the Audit Committee held on 8 January 2018 be confirmed and signed by the Chairman as a correct record.

AUD/17/44 Members' Interests

None.

AUD/17/45 Chairman's Announcements and Communications

The Chairman asked Members to silence their mobile telephones. He then welcomed Sarah Michael, the new Head of Corporate Finance, to her first meeting of the Committee.

AUD/17/46 Petitions

No petitions were received from members of the public in accordance with the Public Participation Procedure as set out in Part 4G of the Constitution.

AUD/17/47 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 Part 4G of the Constitution.

AUD/17/48 External Audit Progress Report

Members considered a report from Ernst & Young LLP, the Council's external auditors, which provided an overview of the progress made by the company with regard to the work it needs to complete during the 2017/18 audit.

Points and comments included:

- The Senior Manager, Ernst & Young drew Members' attention to the two significant risks which had been identified as part of the planning procedures that influenced the company's audit strategy.
- The first risk was that of fraud in revenue and expenditure recognition and the Senior Manager reported that, having considered each of the revenue and expenditure streams, Ernst & Young had rebutted the risk of fraud in revenue recognition in full. The company had also rebutted the risk of fraud in expenditure recognition for all areas of expenditure with the exception of 'Other service expenses'. Given the range of transactions included under this heading it had been concluded that there was a potential risk of manipulation in terms of the recognition of expenditure and the company would, therefore, tailor its audit testing to address that risk.
- The second risk related to management override. Generic risk factors that could indicate how specific risks of management override manifested itself at the Council had been considered as had the specific additional risks of management override as they related to local government accounts. It had been decided that the area that management had the greater opportunity to override controls was within the on system accruals where judgements and estimates were made.
- The Committee also noted other areas of audit focus which set out those areas which had not been classified as significant risks but were still important when considering the risks of material misstatement to the financial statements and disclosures.
- The Committee noted that Ernst & Young would update Members with its findings at the July meeting.
- In response to a query concerning the valuation of the Council's land and buildings (as one of the other areas of audit focus) the Senior

Manager stated that the date for this had been changed. The Chairman advised that it now fell at the end of December and expressed the hope that only a small adjustment would therefore be required to the end of financial year position.

- A Member sought clarification on precepts testing. Following brief comment the Committee was advised of the measures taken to ensure that town and parish councils were paid the precept that they had requested and which Central Bedfordshire Council had collected on their behalf. The meeting noted that those town and parish councils which had low precepts received this in one payment whereas others received two separate payments, one in April and one in September.

NOTED

the External Audit Progress Report from Ernst & Young LLP which set out the overview of the progress made relating to the 2017/18 audit.

AUD/17/49 Annual Review of Risk Based Verification (RBV) Policy for Housing Benefit and Local Council Tax Support Assessments

The Committee considered a report which provided an update on the operation of the current Risk Based Verification (RBV) Policy and sought Members' approval of the Policy for 2018/19.

A copy of the Housing Benefit and Local Council Tax Support Verification Policy 2018/19 was attached as an exempt document at Appendix A to the report.

Points and comments included:

- The Head of Revenues and Benefits advised that there were no changes proposed to the existing Policy.
- The Head of Revenue and Benefits reminded the Committee that the Department for Work and Pensions (DWP) had allowed local authorities to carry out verification using a risk based approach for new benefit claims since 2011. Central Bedfordshire Council had adopted the new Risk Based Verification (RBV) approach with effect from 1 April 2015.
- Members noted how the low, medium and high risk scores for the three years since 2015 differed from those expected. The Council's RBV software supplier had explained that the variation was normal as the original distribution percentage had been calculated in 2011, when RBV had been introduced nationally and, due to changes in caseload demographics that had taken place with specific reference to the number of in-work claims, there had been an increase in the number of high risk cases.
- An analysis of the outturn from new claims had revealed that whilst the number of high risk cases was higher than the expected average the Council received a proportionately higher number of claims from

claimants who did not receive social security benefits. There was a greater chance for such claims to be deemed as higher risk.

- The Head of Revenues and Benefits drew the meeting's attention to the 'churn' over the year in the number of claimants defined as high risk.
- A random sample of the highest risk cases that were still in receipt of Housing Benefit/Local Council Tax Support had been undertaken in May 2017. Ten had been reviewed in detail and eight had been found to have some form of change of circumstance that had not been reported. Most had related to changes related to fluctuations in a claimant's earnings.
- The DWP had since announced a new initiative known as the Verify Earnings and Pension (VEP) service. The service would enable local authorities to use the earnings and pension information supplied by HM Revenue and Customs (HMRC) to verify new claim assessments, changes in circumstance and reviews of claims.
- An alert service would also be developed by the DWP that would use HMRC payment data to trigger an alert to local authorities when there were certain changes to a claimant's earnings and pension information during the life of a Housing Benefit claim. The VEP was expected to be introduced for the Council's claimants in the first quarter of 2018/19.
- The introduction of VEP would create additional work with potentially more claims needing to be amended though it would also negate the need to review many of the high risk claims. A government grant of £90k had been allocated to help resource the additional workload though it was not known how many alerts would occur. The Committee was advised that all local authorities were to be monitored to ensure alerts were processed. Claimants would become more aware that the Council was being advised of changes and it was envisaged that this educational process would encourage them to inform the Council of changes to their circumstances.
- A Member queried how the proportion of online claims could be increased from the 40% received in January 2018. In response, the Head of Revenues and Benefits stated that every household had been notified by flyers of the opportunity to apply online. Some councils no longer accepted paper based claims though he acknowledged that some vulnerable persons still needed to be able to use paper. The Director of Resources added that the Council had achieved the 40% without previously advertising and it was hoped that the use of flyers would result in a substantial increase. The Head of Revenues and Benefits stated that there had been a spike in in the number of online applications over Christmas and the New Year because the Council offices had been closed.

RESOLVED

- 1 that the Housing Benefit and Local Council Tax Support Verification Policy 2018/19, as attached at exempt Appendix A to the report of the Director of Resources, be approved and adopted.**

2 that the Annual Review of Risk Based Verification (RBV) Policy for 2019/20, to be submitted to the Audit Committee in 2019, include comparative demographic data on other local authorities.

(Note: Minute AUD/17/56 below also refers).

AUD/17/50. Counter Fraud and Corruption Strategy

The Committee considered a report which set out the revised corporate strategy for countering fraud and corruption.

A copy of the draft Policy Statement and Strategy was attached at Appendix A to the officer's report.

Points and comments included:

- The present Strategy had been approved in 2012 so an update was required. The update was also an action point within the Annual Governance Statement.
- The new Statement adhered to the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Managing the Risk of Fraud and Corruption 2014.
- It was important for any person supporting the delivery of the Council's services to have a good, general, awareness of the possibility of fraud in their area, what action the Council took to prevent fraud and corruption, what to do if they had concerns and how investigations were carried out.
- The most significant change involved Internal Audit taking on the responsibility to undertake financial crime investigations to a criminal standard in order to pursue prosecutions without the need to involve the Police or Crown Prosecution Service. The approach taken would be determined on a case-by-case basis. The Committee noted that this approach was increasingly used by local authorities and reflected good practice.
- A Member welcomed the draft Strategy and requested that details be shared with the Police through the nominated Liaison Officer.
- The Chairman sought clarification on what determined civil or criminal action. In response the Head of Internal audit and Risk explained that each case would be considered on its individual merits. Key legal, human resources and audit experts would consider the issue at the beginning of an investigation.
- A Member referred to the recommended delegation of authority to the Director of Resources to make minor amendments to the Strategy as necessary. He queried at what point an amendment went beyond 'minor'. In response the Director of Resources stated that this was difficult to define and it was a matter of judgement that had been delegated to him to decide. The Committee concurred with a suggestion that the recommendation be amended so that delegation took place in consultation with the Chairman of the Committee.

- A Member raised the possible issue of resource implications arising from new responsibility for financial crime investigations. The Head of Internal Audit and Risk stated that no resource issues currently existed and it would be difficult to estimate any future impact. He added that a degree of flexibility would meet demand though the matter would be re-examined if there was a major increase in the demand for officer capacity.
- In response to a query by the Chairman the Head of Internal Audit and Risk stated that, historically, there had been quite low levels of fraud and corruption within the Council. Three cases had occurred over the last year but all had been relatively minor.
- A Member queried what levels should be expected. In response the Head of Internal Audit and Risk stated that CIPFA produced an annual benchmark and published documents on fraud and corruption. He reiterated that, in his experience, the levels of fraud and corruption at the Council were at a low level.
- A Member suggested possible areas of fraud and corruption including the licensing of mobile homes. The Director of Resources explained that a team within the Community Services Directorate dealt with licensing but acknowledged that the area was one which could be considered.

RESOLVED

- 1 that the draft Anti-Fraud and Corruption Policy Statement and Strategy be approved.**
- 2 that authority be delegated to the Director of Resources, in consultation with the Chairman of the Audit Committee, to make minor amendments to the Anti-Fraud and Corruption Policy Statement and Strategy as necessary.**

AUD/17/51 Updated 2018-19 Internal Audit Plan

The Committee considered a report which presented the 2018/19 Internal Audit Plan for review and approval.

A copy of the Plan was attached at Appendix A to the officer's report.

Points and comments included:

- Discussions had taken place with Ernst and Young LLP, the Council's External Auditor, on the approach to the delivery of the Fundamental System audits.
- With regard to whether sufficient resources were available, the Head of Internal Audit and Risk stated that Internal Audit was fully staffed and could function with the employees it currently had in place.
- The Committee noted that there was some inbuilt flexibility in the Audit Plan with regard to work schedules. In addition, external auditors could

be brought in if a work schedule was affected by staff absence as a result of long term sickness.

- The Head of Internal Audit and Risk commented that the contingency time included within the Plan enabled Internal Audit to respond to high risk areas and changes in the control environment.
- The number of ICT reviews was increasing as services became more reliant on IT. Priority had been given towards preparing an ICT Plan, which would encompass ICT audits, over the next three years.
- A Member queried what challenges were emerging as a result of cloud based computing and the absence of a paper trail when ordering goods and services. In response the Director of Resources explained that high value orders were sent to him from all Directorates and, in addition, there was a segregation of duties and a system of checks and balances. However, the Member referred to the expectation of an audit trail within the software.
- Another Member commented on the type of items which were stolen, such as printer ink cartridges and paper, and the easy access to such items by employees. In response the Director of Resources explained that audit work was not carried out down to that level although the charge for such goods would go to the budget centre and excessive costs as a result of theft would be picked up at that point.
- The Executive Member for Corporate Resources commented that the number of pages printed was monitored. He also stressed that the increased use of cloud computing had not led to a reduction in monitoring levels. The Director of Resources stated that there had been a change of emphasis to enable Internal Audit to provide advice and guidance on the control environment during project implementation.

RESOLVED

that the updated 2018/19 Internal Audit Plan , as set out at Appendix A to the report of the Director of Resources, be approved.

AUD/17/52 Risk Update Report

The Committee considered a report which provided an overview of the Council's risk position as at March 2018.

Points and comments included:

- The 'track change' amendments shown on the Risk Register attached at Appendix A to the officer's report were fully absorbed into the existing text following consideration by the Committee.
- A Member raised several issues relating to risk and stressed the need for the public to be fully informed of the efforts made by the Council with regard to the operation of the Risk Management Strategy. In response the Director of Resources explained the difficulty in securing media interest in what was 'good news' despite efforts to do so. He added that the report before Members was in the public domain and that it was also

considered by the Directors so senior managers were involved and fully aware.

NOTED

the Strategic Risks facing Central Bedfordshire Council as set out in the Risk Register Dashboard and Strategic Risk Register attached at Appendices A and B respectively to the report of the Director of Resources.

AUD/17/53 Internal Audit Progress Report

The Committee considered a report outlining the progress made on Internal Audit work against the 2017/19 Internal Audit Plan up to the end of February 2018.

Points and comments included:

- Seven of the Fundamental System audits were at the final report stage and all had obtained Adequate Assurance opinions.
- The three remaining Fundamental System audits were in progress and nearing completion. No new significant issues had been identified.
- Internal Audit continued to be engaged in several projects including Success Factors and Fiori which were both part of the SAP Optimisation Programme. Internal Audit would shortly be engaged with the Acolaid replacement project and work had also been undertaken on grant certification.
- Five other audits had been completed since the last update to the Committee including LGSS Law, Comensura (Agency Staffing), Budgetary Control, Accounts Payable and Internal Audit Self-Assessment Review against Public Sector Internal Audit Standards (PSIAS).
- A number of other reviews were in progress.
- Five school audits were in progress and initial impressions on the piloted new approach using desktop reviews with targeted site visits had been positive. An exercise was planned for staff in April 2018 to identify good practice and secure further improvements to the service.
- The long term Audit Manager vacancy had been filled with effect from late January 2018.
- Specialist external expertise had been commissioned to support ICT audit work with two specific reviews; an ICT universe scoping exercise which would provide a 2-3 year prioritised ICT audit plan and, secondly, an audit of the Council's cyber security arrangements. Both pieces of work were in progress.
- A Member referred to the Fundamental System audit of cash and banking and queried if any issues had arisen following the decision by the bank to close the branch used by the Council. In response the Assistant Director Finance explained that few problems had arisen as

the Council encouraged electronic payments and handled relatively little cash.

- The Chairman asked if the KPI annual targets were updated regularly in response to experience. He referred specifically to KPI04 and the time taken to respond to draft reports by the Auditor. In response the Director of Resources stated that the target (80%) had almost been met the previous year (79%) having missed it by only 1%.
- The Chairman referred to the cancellation of various assurance audits and sought clarification as to why this had happened. In response the Head of Internal Audit and Risk explained that some of the audits had been cancelled by Internal Audit and some because changes had taken place which rendered the proposed audits no longer relevant. In response to a Member's query the Head of Internal Audit and Risk stated that, ultimately, the cancellation would be authorised by him, having first been considered by the audit managers. The Director of Resources added that, if he thought an attempt was being made to avoid an audit, he would raise the matter with the relevant Director.

NOTED

the progress made against the 2017/19 Internal Audit Plan.

AUD/17/54.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.

A short discussion took place during which Members considered the best means by which they could raise their dissatisfaction with regard to the level of progress made in implementing the recommendations.

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/17/55.Work Programme

Members considered a report which set out the Committee's work programme.

Points and comments included:

- The Chairman drew Members' attention to the absence of a meeting of the Audit Committee in January 2019 as a result of the changes to the accounting timetable. He expressed concern that issues could arise between the widely spaced meeting dates scheduled to be held during the latter part of the new municipal year that required consideration. In

response the Committee Services Officer explained that 2018/19 was the first municipal year in which the new accounting timetable required meetings of the Audit Committee to be held at the end of May and July. This had impacted on when the two remaining meetings of the Committee could be scheduled during the remainder of the year. He assured Members, however, that the meeting dates would be reviewed based on any experience gained. The Committee also noted that, if required, an emergency meeting of the Committee could be arranged.

- A Member referred to the need to monitor the impact of, and compliance with, the forthcoming General Data Protection Regulation (GDPR). In response the Chairman suggested that an update report be submitted to the November 2018 meeting. On this topic the Executive Member for Corporate Resources advised the Committee that he attended regular monthly meetings with the Council's GDPR team. In addition, information on the GDPR had appeared in the Members' Information Bulletin and on-line training was available. A briefing session was also due shortly.
- The Assistant Director Finance referred to the scheduled submission of a report on the Local Government Pension Scheme at the May 2018 meeting. He asked that this be deferred until the July meeting as additional information would be available for inclusion in a later report.
- In view of the developments at Northamptonshire County Council, the Director of Resources advised that he intended to submit a report and presentation to the May 2018 meeting on the findings of the recent Best Value Inspection of that authority.

RESOLVED

that the proposed Audit Committee work programme, as set out at Appendix A to the report of the Committee Services Officer, be approved subject to the following amendments:

- **30 May 2018 – Local Government Pension Scheme Update – defer report until 30 July 2018.**
- **30 May 2018 – Northamptonshire County Council Best Value inspection report and presentation – include as new report and presentation.**
- **19 November 2018 – General Data Protection Regulation Update report – include as new report.**

AUD/17/56 Annual Review of Risk Based Verification (RBV) Policy for Housing Benefit and Local Council Tax Support Assessments

Minute AUD/17/49 above refers.

(Note: The meeting commenced at 10.00 a.m. and concluded at 11.37 a.m.)

Chairman

Dated

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Central Bedfordshire Council

AUDIT COMMITTEE

30 May 2018

ANNUAL GOVERNANCE STATEMENT 2017/18

Advising Officer: Quentin Baker, Monitoring Officer
(quentin.baker@centralbedfordshire.gov.uk)

Contact Officer: Stephen Rix, Principal Lawyer, LGSS Law Ltd

Purpose of this report

1. The report seeks Committee's approval to the Council's draft Annual Governance Statement for 2017/18.

RECOMMENDATIONS

The Committee is asked to:

- i. Approve the draft Annual Governance Statement attached as Appendix A.

Overview and Scrutiny Comments/Recommendations

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

Background

3. The Audit Committee's terms of reference include responsibility for overseeing the production of the Council's Annual Governance Statement ('AGS').
4. The AGS is intended to demonstrate how the Council has achieved the principles contained in the Code of Corporate Governance in the current financial year and should be read in conjunction with the updated Code of Corporate Governance which is attached at Appendix B.
5. The draft AGS has been considered by the Corporate Management Team and identifies some key areas where the Council intends to take steps over the coming year to further enhance our governance arrangements - these are listed at the beginning of the AGS. Section 5 details previous significant governance issues which remain ongoing.

Developments from previous Annual Governance Statement

6. The Committee was informed last year when the previous Annual Governance Statement ('AGS') was approved that the AGS would be going through some progressive change year on year to reflect the CIPFA good practice. The changes are intended to make the document easier to read for the Public. Some of the technical content has been removed and it has been written in plain English as far as possible. Also some useful links to other key documents have been included.

Council Priorities

7. A sound system of corporate governance provides the framework and assurance within which the Council can deliver its priorities with confidence. Sound governance arrangements contribute to the achievement of all the Council's priorities.

Corporate Implications

Risk Management

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

Staffing (including Trades Unions)

9. There are none.

Legal Implications

10. The Accounts and Audit Regulations 2015 require the Council to conduct an annual review of its systems of internal control. The preparation of an Annual Governance Statement forms part of that process.

Financial Implications

11. The Annual Governance Statement will be reported alongside the Council's Statement of Accounts for 2017/18, but this report has no financial implications.

Equalities Implications

12. None arising directly from this report.

Conclusion and next Steps

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

Appendices

The following Appendices are attached:

- Appendix A – Draft Annual Governance Statement
- Appendix B – Code of Corporate Governance

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CENTRAL BEDFORDSHIRE COUNCIL

ANNUAL GOVERNANCE STATEMENT 2017/18

1.0 Executive Summary

Senior Management and Members are committed to ensuring a sound system of governance (including the system of internal control) is in place to help the Council deliver effective and efficient services to the residents of Central Bedfordshire.

Each year the Council is required to produce a Governance Statement (AGS) which is the result of a review of how those governance arrangements have been working.

This statement has been considered and approved by the Council’s Audit Committee on XXXXX.

Opinion on Governance Arrangements

Overall, we are of the view that the arrangements continue to be appropriate and fit for purpose, section 3 of the statement outlines how we have arrived at this.

There are a number of key Strategic and Governance areas where the Council intends to take steps over the coming year to further enhance our arrangements, these are detailed in section 6 below. We will monitor the implementation of these matters as part of the Council’s Performance Management arrangements and report progress as part of our next annual review.

.....
J JAMIESON
LEADER OF THE COUNCIL

.....
R CARR
CHIEF EXECUTIVE

Dated
.....

Dated
.....

2.0 What is Corporate Governance?

Good Governance in the Public Sector to us means:

‘Achieving our intended outcomes whilst acting in the public interest at all times.’

Corporate governance generally refers to the systems, processes, culture and values by which the authority directs and controls its activities and through which it engages with and leads the community. The framework enables the authority to monitor the achievement of its strategic priorities and to consider whether those priorities have led to the delivery of appropriate services and value for money. The governance framework is described in our Code of Corporate Governance (“Local Code” -

<http://www.centralbedfordshire.gov.uk/council/transparency/internal-audits/audit-risk.aspx>

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

The governance framework has been in place at Central Bedfordshire Council for the year ended 31 March 2018 and up to the date of the approval of the statement of accounts.

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

2.2 Our Governance Arrangements

The Council’s governance framework contributes to the delivery of the Council’s vision and values and the key elements of the processes and systems that comprise the framework are as follows:

- Strategic leadership provided by Members including the development and review of the Council’s visions, priorities and values. These detail the Council’s vision of its purpose and intended outcomes for residents and service users to all;
- Key policies are defined in the “Policy Framework” within the Budget and Policy Framework Procedure Rules in the Council’s Constitution. This

- framework is reviewed periodically to ensure it remains fit for purpose strategically and that it is aligned to corporate priorities;
- Business planning processes which ensure that services are delivered in line with the Council's vision and values and representing the best use of all Council resources;
 - Measuring performance and achievement of objectives through the mechanism of the Council's performance management system;
 - A written Constitution specifying the roles and responsibilities of elected Members and Officers with protocols for effective communication;
 - The Council has adopted arrangements to promote high standards of ethical governance and includes Codes of Conduct defining the standards of behaviour for both Members and Officers and a Member/Officer Protocol as part of the Constitution. Further guidance is provided in the Council's Ethical Handbook;
 - The Schemes of Delegation to Members and Officers within the Constitution sets out the principles, processes and controls for decision makers. Codes of Financial and Procurement Governance set out the constraints within which Officers may work and these Codes are supported by more detailed procedure rules;
 - Embedded internal systems to ensure Members are presented with the appropriate information to make decisions, including corporate implications with advice on legal, risk management and financial considerations. Member level decisions are based on reports and are recorded;
 - An Audit Committee to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process;
 - Statutory Officers to support and monitor the Council's governance arrangements, ensure compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful;
 - Policies for confidential reporting (whistleblowing) and an Anti-Fraud Strategy are in place to support the governance within the Council. There is a corporate complaints process with separate procedures for Children's Services and Adult Social Care where complaints procedures are governed by Regulations. There are also formal processes for registering complaints in respect of the Council's Housing Landlord functions and for receiving, evaluating and investigating complaints against Members;
 - A consultation strategy to ensure the Council consults with and engages the diverse communities of Central Bedfordshire, allowing them to input to the planning of services provided for them and the review of those services as appropriate;
 - A system of Overview and Scrutiny Committees with responsibility for key areas and who receive reports on keys issues including budget monitoring, performance and efficiency information and provides independent checks

and balances on the exercise of functions and responsibilities by the Council.

3.0 REVIEW OF EFFECTIVENESS

The Council's review of the Governance Framework and the effectiveness of the system of internal control comprises:

- The completion of self-assurance statements by directors;
- Annual report and opinion on the Internal Control environment prepared by the Head of Internal Audit and Risk¹. This report draws on the outcome of audit reviews undertaken throughout 2017/18 and is informed by the comments of external auditors and inspectors. The report is designed to provide assurance on the effectiveness of internal controls;
- the work undertaken by the external auditor reported in their annual audit and inspection letter.
- other work undertaken by independent inspection bodies.
- Peer reviews

(1) Central Bedfordshire Council's Vision

The Council's overall objective is to create Central Bedfordshire as a "great place to live and work" and the Council's medium term plan identifies the following priorities:

- Enhancing Central Bedfordshire.
- Great residence services.
- Improving education and skills.
- Protecting the vulnerable and improving wellbeing.
- Creating stronger communities.
- An efficient and responsive Council.

The Council's Budget and Policy Framework contains specific plans, policies and strategies driving delivery of the Council's priorities and key work programmes. Further work is being undertaken this year to narrow the focus of these priorities and ensure there are SMART delivery plans and appropriate governance and accountability.

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

¹ The role of Chief Internal Auditor within Central Bedfordshire Council is undertaken by the Head of Internal Audit and Risk

The Council's values are:

Respect and Empowerment

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

Stewardship and Efficiencies

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

Results Focused

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

Collaborative

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

(2) Service Quality

The Council has used regular performance reporting to ensure a sustained focus on those things that matter most to local people.

At a strategic level, the Senior Management review reports on the performance of the Council on a monthly basis. They also review the MTP progress or status report on a quarterly basis. This report is presented to the Executive with any specific issues addressed through the Overview and Scrutiny Committees.

Directorates provide operational level performance data via the Council's website the latest details of which are:

<http://centralbedfordshireperformance.inphase.com>

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

(3) Key Roles and Responsibilities

The Council's Constitution sets out how the Council operates and sets out clearly what matters are reserved to full Council and those powers which have been delegated to committees and officers, Executive and Members.

(4) Codes of Conduct and standards of behaviour of Officers and Members

Central Bedfordshire Council continues to promote high standards of ethical governance. Complaints about the Council's Members is regularly reviewed via the performance reports to Senior Management and bi-annually at General Purposes Committee which has responsibility for overseeing the arrangements for the Code of Conduct.

The Council's Ethical Handbook contains additional Codes relating to Gifts and Hospitality, Planning and Licensing Good Practice, Confidential Reporting (Whistleblowing) and guidance for Members on Property and Transactions and Commercial Property Management.

(5) Decisions, processes and controls

The Scheme of Delegation within the Constitution sets out the powers delegated to various Officers as well as the limits, processes and controls for those powers.

The Code of Financial Governance sets out the limits within which officers may make decisions on spending, within the budget approved by the Council. The Code is supported by detailed procedure rules which are maintained on the Council's intranet.

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

The Council has a Risk Management Strategy and Policy Statement. The Strategic Risk register has been regularly reviewed and refreshed during the year. Senior Management have received regular risk reports during the year, which have also been presented to the Audit Committee.

Committee reports require officers to set out the risk management considerations in terms of current and potential risks and how they will be managed and mitigated. It is recognised that the transparency and robustness of operational risk management arrangements would benefit from improvement and work to progress this will continue over the coming year.

(6) Audit Committee

The Audit Committee provides independent assurance of the adequacy of the Council's control environment and oversees the financial reporting process.

The Audit Committee met regularly during 2017/18, considering reports, including the annual Internal Audit Report from the Chief Internal Auditor, the Council's Senior Finance Officers and the External Auditor as well as other officers as and when appropriate. The Chair of the Audit Committee presents an annual report to Council detailing the work of the Committee in the preceding year.

(7) Compliance with relevant laws and regulations

The Council continues to have access to a team of professional legal staff with specialist knowledge of its functions via LGSS Law Ltd, a firm wholly owned by the Council, Cambridgeshire County Council and Northamptonshire County Council. LGSS Law Ltd have advised on relevant laws, regulations and constitutional issues to ensure that the Council acts lawfully.

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

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

(8) Counter Fraud, Whistle-blowing and complaints

There is a Confidential Reporting Policy in place and the revised Counter-Fraud and Corruption Strategy was approved in April 2018 - <http://www.centralbedfordshire.gov.uk/schools-portal/finance/regulations/procedures.aspx>

The Council welcomes feedback and has a three stage complaints process for customers with separate statutory procedures for Children's Services and Adult Social Care.

(9) Development and Training for Officers and Members

We have offered a range of Learning and Development opportunities with a focus on providing a wealth of on-demand resources (e-learning, webinars, e-books etc) linked to the Corporate Vision, Values and Priorities. These are designed to provide individuals with the skills to do their job and to support them and the organisation in meeting their objectives and statutory requirements in the context of the Council and local government.

The Member Development Programme has supported all Members and has provided essential updates and training sessions.

(10) Channels of Communication

Central Bedfordshire Council has continued to enhance its communication with the public, staff and other stakeholders during 2017/18. It has maintained presence on social media and continued to provide the quarterly community magazine, and weekly staff and Member bulletins.

(11) Equality and Diversity

The Council has continued to promote equality of opportunity and eliminate unlawful discrimination, harassment and victimisation and foster good relations during 2017/18. Equality Impact Assessments have been conducted for the development of relevant strategies, policies and services and the Council's Equality Forum have been available to quality assure any significant Council Strategies and Policies.

(12) Partnership governance

The Council's Constitution includes a detailed Partnerships Protocol that sets out the arrangements and principles for established and future public and private sector partnerships.

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

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

(13) Internal Audit

The Internal Audit plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk and the Council's corporate governance arrangements, including risk management. All Internal Audit reports included an assessment of the adequacy of internal control and prioritised action plans to address any identified weaknesses. These were submitted to service managers and senior management as appropriate.

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

A self-assessment review is undertaken annually by the Head of Internal Audit and Risk against compliance with the Public Sector Internal Audit Standards 2013 on the effectiveness of the Internal Audit function. No issues of concern were raised as a result of this review.

(14) LGA Peer Review

Our recent LGA Corporate Peer Review (May 2017) was overwhelmingly positive and concluded “Central Bedfordshire Council is an impressive council” and the review has resulted in a series of actions being progressed which are detailed in the feedback report – available here:

<http://centralbeds.moderngov.co.uk/documents/s74230/Appendix%201%20-%20Corporate%20Peer%20Challenge%20-%20Feedback%20Report.pdf>

The review focused on partnerships and in particular on:

1. Understanding of the local place and priority setting
2. Leadership of Place
3. Financial planning and viability
4. Organisational leadership and governance
5. Capacity to deliver

The main conclusions were:

- Sound financial management is well understood across the Council and has allowed us to avoid some of the more draconian service reductions that others have implemented.
- Strong partnership working is evident in some contexts with a desire for even stronger external collaboration specifically on Central Bedfordshire specific issues.

(15) Best Value Inspection comparison review

In light of the well-publicised difficulties of a neighbouring Local Authority, the opportunity was used to undertake a self-assessment against the published Best Value Inspection Report for Northamptonshire County Council. This self-assessment has confirmed the findings of the LGA Peer review above in that Central Bedfordshire is financially stable, well governed and well placed to continue to provide effective services to our citizens, albeit in ongoing challenging circumstances. The full self-assessment and presentation of the key findings are an item on the Agenda of the May 2018 meeting of the Audit Committee.

4.0 ANNUAL AUDIT REPORT FOR 2017/18

The Council's Head of Internal Audit submitted his opinion on the overall adequacy and effectiveness of the Council's internal control environment to the Audit Committee on 30th May 2018. The Internal Audit work programme included reviews of the fundamental financial systems and other assurance work on other non fundamental systems.

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

Nine of the fundamental system reviews received Adequate Assurance audit opinion, only Swift Financials has received a Limited Opinion and it is expected that all of the key issues will be resolved as part of the coming software replacement or upgrade project.

The majority of audit reviews of areas other than the fundamental systems have received Adequate Assurance opinions. Where weaknesses in the current processes have been identified actions have been agreed with management to address these issues and Internal Audit has continued to track the implementation of high priority recommendations throughout the year and report to the Audit Committee.

5.0 PREVIOUS SIGNIFICANT GOVERNANCE ISSUES

The significant governance issues identified in the 2016/17 Annual Governance Statement were:

- New EU Regulations relating to data protection will be effective as from May 2018 and this will require updating of processes and procedures to ensure compliance
- Future challenges arising from significant government cuts in funding

Both of these issues are ongoing:

- New EU Regulations relating to data protection will be effective as from May 2018 and this has required the updating of processes and procedures to ensure compliance. The action plan for management of this issue included regular reviews of the Council's current and planned compliance supported by legal advisors and an officer working group. A programme for raising awareness and implementation of necessary improvements has been carried out together with updates to senior management and assurances for Audit Committee. It is considered that by May 2018 the

Council will have achieved full compliance and therefore it has not been entered onto the Strategic Risk Register

- Central Bedfordshire does continue to face significant future challenges arising from a significant reduction in Central Government funding with the Revenue Support Grant being completely phased out by 19/20. The Council is mitigating this by being prudent in its medium term financial plan and continues to consider longer term planning. The Council is pursuing a significant transformation programme throughout the organisation to ensure that modern, efficient and effective ways of working are in place to support all service provision whilst continuing to drive down costs and seek out appropriate opportunities. There is a particular focus across the Council on the digitisation of services to provide better customer access and enhance the customer experience. Staff are being enabled to work in an agile manner, from any location. Resources have been set aside to assist with the transformation programme.

6.0 2017/18 Significant Strategic and Governance Issues:

The following are the key areas where the Council intends to take steps over the coming year to further enhance our strategic approach and governance arrangements.

Key Improvement Area	Lead	Target
Respond to the learning points from the LGA Corporate Peer Review	Richard Carr, Chief Executive	July 2018
Shaping the Educational Landscape Programme	Sue Harrison, Director of Children's Services	September 2018
Operational Risk Management	Charles Warboys, Director of Resources	April 2019
Respond to the learning points from the Best Value report self-assessment.	Charles Warboys, Director of Resources	September 2018 - January 2019
The Council faces a number of strategic issues which will require senior management and Member attention during the year including: Growth Agenda (Housing, Local Plan, Growth Corridor); Ageing Population; Health and Social Integration (STP) Digitisation	All Directors	March 2019

Key Improvement Area	Lead	Target
Major System implementations and processes eg SAP S4 Hana, Acolaid, Swift.	All Directors	Individual Implementation dates to be confirmed.
GDPR compliance	Stephan Conaway, Chief Information Officer	May 2018

7.0 Strategic Risks

The Council's Strategic Risk Management regime is subject to regular monitoring by senior management and reported through to Audit Committee for oversight.

The following Strategic risks which remain from the 2016/17 period have an impact on governance:

- Failure to deliver major transformation programme within Children's Services.
- Risk of failure to deliver community cohesion in the context of the demographic growth in Central Bedfordshire. Some settlements will experience considerable expansion and we need to manage potential resentment, secure equal access to facilities and enhance a sense of community.
- Fragility of Partners/Failure of Partners: Central Bedfordshire's vision cannot be delivered in isolation. All partners, including Police, Probation, Health, the Voluntary Community Sector, independent care providers and Town and Parish Councils are experiencing significant changes and pressures. These include budgetary pressures, transfer of responsibilities, geographical factors, confusing accountabilities, increasing complexities, fragility and volatility. There is an increased risk that services to our public will be compromised and that increased costs will fall on the Council.
- 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.
- Failure to deliver adequately on the diverse range of change projects that currently make up the transformation programme.

8.0 COMPLIANCE WITH CIPFA CODE OF PRACTICE ON MANAGING THE RISK OF FRAUD AND CORRUPTION

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

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

The Code includes a requirement for organisations to include a statement within their Annual Governance Statement about their adherence to this Code. A detailed review of the Council's arrangements against the Code has been undertaken to address any gaps identified and action has been taken to address any issues identified. The Confidential Reporting Policy has been updated to support compliance with the Code. There is an annual report to the Audit Committee on the Council's anti-fraud work.

Having considered all the principles and the Anti-Fraud and Corruption Strategy approved during the period, we are satisfied that, the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

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Local Code of Corporate Governance

Effective from 2017/18



Contents

CONTENTS	1
CODE OF CORPORATE GOVERNANCE	1
1 INTRODUCTION.....	1
2 WHAT DO WE MEAN BY GOVERNANCE?	1
3. CORE PRINCIPLES.....	1
APPENDIX A - ACTIONS AND BEHAVIOURS TAKEN BY THE COUNCIL THAT DEMONSTRATE GOOD GOVERNANCE.	3
APPENDIX B – CENTRAL BEDFORDSHIRE COUNCIL’S CORPORATE GOVERNANCE FRAMEWORK	11

Code of Corporate Governance

1 Introduction

- 1.1 The Council's Code of Corporate Governance is based upon the CIPFA / SOLACE publication entitled "Delivering Good Governance in Local Government: Framework 2016 Edition." This supersedes the previous Code approved by the Audit Committee in April 2011.

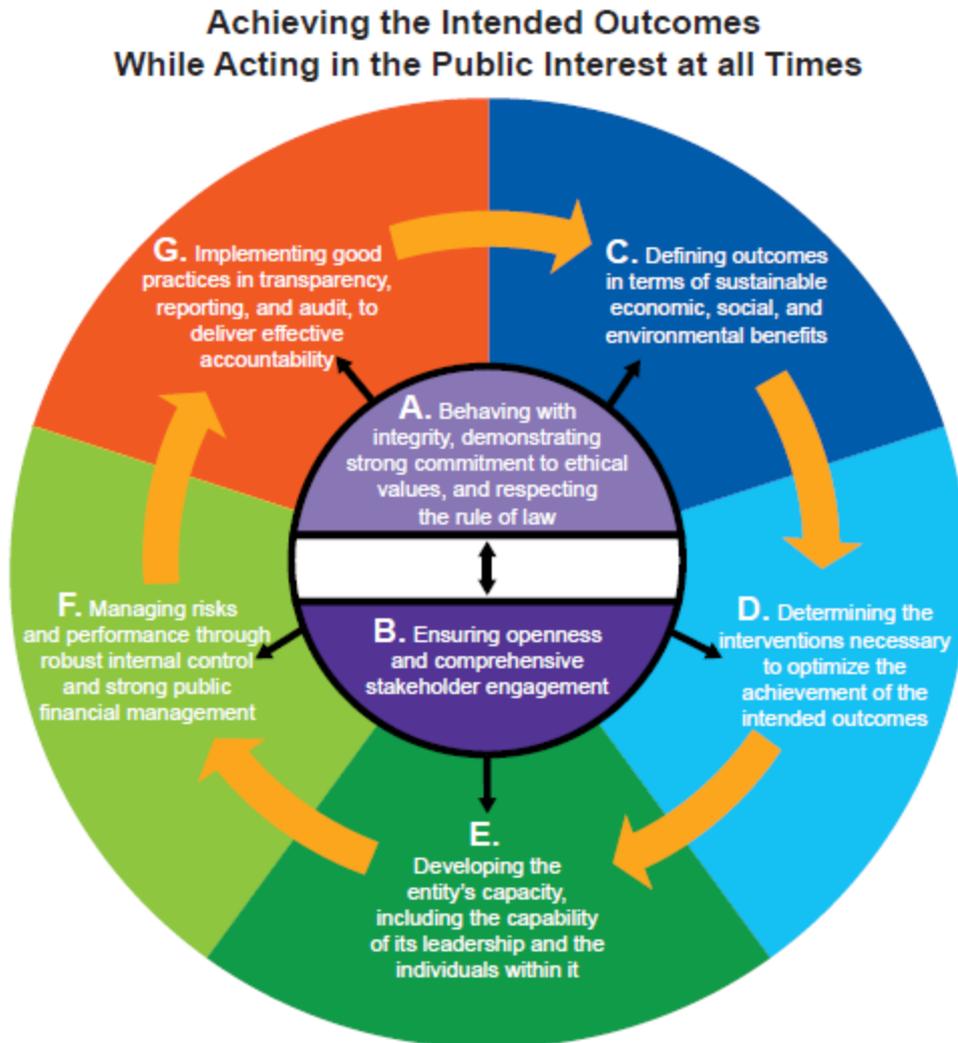
2 What do we mean by Governance?

- 2.1 'The International Framework: Good Governance in the Public Sector' defines 'governance' as comprising the arrangements (including political, economic, social, environmental, administrative, legal and other arrangements) put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The Framework also states that to deliver good governance in the public sector both governing bodies and individuals working for them must aim to achieve the Council's objectives while acting in the public interest at all times.

3. Core Principles

- 3.1 The Council's Code of Corporate Governance is based on seven core principles:-
- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
 - B. Ensuring openness and comprehensive stakeholder engagement;
 - C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
 - D. Determining the interventions necessary to optimize the achievement of the intended outcomes;
 - E. Developing the Council's capacity, including the capability of its leadership and the individuals within it;
 - F. Managing risks and performance through robust internal control and strong public financial management; and
 - G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

3.2 The diagram below, taken from the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) (the 'International Framework'), illustrates the various principles of good governance in the public sector and how they relate to each other.



3.3 The Local Code specifically identifies the actions and behaviours taken by the Council in relation to each of these core principles and associated sub principles. The Code, along with its supporting infrastructure is set out below at Appendix A and is summarised in diagrammatic form in Appendix B.

3.4 The Audit Committee is responsible for approving this Code and it is recommended that this is annually reviewed and updated accordingly. This Code was approved by the Committee at its meeting on 3 April 2017 and was reviewed in April 2018.

Appendix A - Actions and behaviours taken by the Council that demonstrate good governance.

Principle	Sub Principle	Council's Actions and Behaviours
(A) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Behaving with integrity	<ul style="list-style-type: none"> Ensure that Members and Officers behave with integrity and lead a culture where acting in the public interest is visible and consistently demonstrated thereby protecting the reputation of the Council;
		<ul style="list-style-type: none"> Ensure that Members take the lead in establishing specific standard operating principles or values for the Council and its staff and that they are communicated and understood. These will build on the Seven Principles of Public Life (The Nolan Principles);
		<ul style="list-style-type: none"> Lead by example and use the above standard operating principles or values as a framework for decision making and other actions; and
		<ul style="list-style-type: none"> Demonstrate, communicate and embed the standard operating principles or values through appropriate policies and processes which will be reviewed on a regular basis to ensure they are operating effectively.
	Demonstrating strong commitment to ethical values	<ul style="list-style-type: none"> Seek to establish, monitor and maintain the Council's ethical standards and performance;
		<ul style="list-style-type: none"> Underpin personal behaviour with ethical values and ensure they permeate all aspects of the Council's culture and operation;
		<ul style="list-style-type: none"> Develop and maintain robust policies and procedures which place emphasis on agreed ethical values; and
		<ul style="list-style-type: none"> Ensure that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the Council.
	Respecting the Rule of Law	<ul style="list-style-type: none"> Ensure Members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations;
		<ul style="list-style-type: none"> Create the conditions to ensure that the statutory officers, other key post holders, and Members are able to fulfil their responsibilities in accordance with legislative and regulatory provisions;
		<ul style="list-style-type: none"> Strive to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders;
		<ul style="list-style-type: none"> Deal with breaches of legal and regulatory provisions effectively; and
		<ul style="list-style-type: none"> Ensure corruption and misuse of power is dealt with effectively.

Principle	Sub Principle	Council's Actions and Behaviours
(B) Ensuring openness and comprehensive stakeholder engagement	Openness	<ul style="list-style-type: none"> ▪ Ensure an open culture through demonstrating, documenting and communicating the Council's commitment to openness;
		<ul style="list-style-type: none"> ▪ Make decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption will be for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential will be provided;
		<ul style="list-style-type: none"> ▪ Provide clear reasoning and evidence for decisions in both public records and explanations to stakeholders and will be explicit about the criteria, rationale and considerations used. In due course, the Council will ensure that the impact and consequences of those decisions are clear; and
		<ul style="list-style-type: none"> ▪ Use formal and informal consultation and engagement to determine the most appropriate and effective interventions / courses of action.
	Engaging comprehensively with institutional stakeholders	<ul style="list-style-type: none"> ▪ Effectively engage with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably;
		<ul style="list-style-type: none"> ▪ Develop formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively; and
		<ul style="list-style-type: none"> ▪ Ensure that partnerships are based on trust, a shared commitment to change, a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit.
	Engaging stakeholders effectively, including individual citizens and service users	<ul style="list-style-type: none"> ▪ Establish a clear policy on the type of issues that the Council will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes;
		<ul style="list-style-type: none"> ▪ Ensure that communication methods are effective and that Members and Officers are clear about their roles with regard to community engagement;
		<ul style="list-style-type: none"> ▪ Encourage, collect and evaluate the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs;
		<ul style="list-style-type: none"> ▪ Implement effective feedback mechanisms in order to demonstrate how their views have been taken into account;
		<ul style="list-style-type: none"> ▪ Balance feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity; and
		<ul style="list-style-type: none"> ▪ Take account of the interests of future generations of tax payers and service users.

Principle	Sub Principle	Council's Actions and Behaviours
(C) Defining outcomes in terms of sustainable economic, social and environmental benefits	Defining outcomes	<ul style="list-style-type: none"> ▪ Have a clear vision, which is an agreed formal statement of the Council's purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the Council's overall strategy, planning and other decisions;
		<ul style="list-style-type: none"> ▪ Specify the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer;
		<ul style="list-style-type: none"> ▪ Deliver defined outcomes on a sustainable basis within the resources that will be available;
		<ul style="list-style-type: none"> ▪ Identify and manage risks to the achievement of outcomes; and
		<ul style="list-style-type: none"> ▪ Manage service users' expectations effectively with regard to determining priorities and making the best use of the resources available.
	Sustainable economic, social and environmental benefits	<ul style="list-style-type: none"> ▪ Consider and balance the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision;
		<ul style="list-style-type: none"> ▪ Take a longer- term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the Council's intended outcomes and short-term factors such as the political cycle or financial constraints;
		<ul style="list-style-type: none"> ▪ Determine the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs; and
		<ul style="list-style-type: none"> ▪ Ensure fair access to services.

Principle	Sub Principle	Council's Actions and Behaviours
(D) Determining the interventions necessary to optimise the achievement of the intended outcomes	Determining interventions	<ul style="list-style-type: none"> ▪ Ensure decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided; and
	Planning interventions	<ul style="list-style-type: none"> ▪ Consider feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts.
		<ul style="list-style-type: none"> ▪ Establish and implement robust planning and control cycles that cover strategic and operational plans, priorities and targets;
		<ul style="list-style-type: none"> ▪ Engage with internal and external stakeholders in determining how services and other courses of action should be planned and delivered;
		<ul style="list-style-type: none"> ▪ Consider and monitor risks facing each partner when working collaboratively including shared risks;
		<ul style="list-style-type: none"> ▪ Ensure arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances;
		<ul style="list-style-type: none"> ▪ Establish appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured;
		<ul style="list-style-type: none"> ▪ Ensure capacity exists to generate the information required to review service quality regularly;
	<ul style="list-style-type: none"> ▪ Prepare budgets in accordance with organisational objectives, strategies and the medium term financial plan; and ▪ Inform medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy. 	
	Optimising achievement of intended outcomes	<ul style="list-style-type: none"> ▪ Ensure the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints;
		<ul style="list-style-type: none"> ▪ Ensure the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term;
		<ul style="list-style-type: none"> ▪ Ensure the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage; and
<ul style="list-style-type: none"> ▪ Ensure the achievement of 'social value' through service planning and commissioning. The Public Services (Social Value) Act 2012 states that this is "the additional benefit to the community...over and above the direct purchasing of goods, services and outcomes". 		

Principle	Sub Principle	Council's Actions and Behaviours
(E) Developing the Council's capacity, including the capability of its leadership and the individuals within it	Developing the Council's capacity	<ul style="list-style-type: none"> ▪ Review operations, performance use of assets on a regular basis to ensure their continuing effectiveness; ▪ Improve resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the Council's resources are allocated so that outcomes are achieved effectively and efficiently; ▪ Recognise the benefits of partnerships and collaborative working where added value can be achieved; and ▪ Develop and maintain an effective workforce plan to enhance the strategic allocation of resources.
	Developing the capability of the County Council's leadership and other individuals	<ul style="list-style-type: none"> ▪ Develop protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained; ▪ Publish a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body; ▪ Ensure the Leader and the Chief Executive have clearly defined and distinctive leadership roles within a structure whereby the Chief Executive leads the Council in implementing strategy and managing the delivery of services and other outputs set by Members and each provides a check and a balance for each other's authority; ▪ Develop the capabilities of Members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by: <ul style="list-style-type: none"> ➤ ensuring Members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged; ➤ ensuring Members and Officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis; and ➤ ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external. ▪ Ensure that there are structures in place to encourage public participation; ▪ Take steps to consider the leadership's own effectiveness and ensure leaders are open to constructive feedback from peer review and inspections; ▪ Hold staff to account through regular performance reviews which take account of training or development needs; and ▪ Ensure arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing.

Principle	Sub Principle	Council's Actions and Behaviours
(F) Managing risks and performance through robust internal control and strong public financial management	Managing Risk	<ul style="list-style-type: none"> ▪ Recognise that risk management is an integral part of all activities and must be considered in all aspects of decision making;
		<ul style="list-style-type: none"> ▪ Implement robust and integrated risk management arrangements and ensure that they are working effectively; and
		<ul style="list-style-type: none"> ▪ Ensure that responsibilities for managing individual risks are clearly allocated.
	Managing Performance	<ul style="list-style-type: none"> ▪ Monitor service delivery effectively including planning, specification, execution and independent post implementation review;
		<ul style="list-style-type: none"> ▪ Make decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the Council's financial, social and environmental position and outlook;
		<ul style="list-style-type: none"> ▪ Ensure an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the Council's performance and that of any organisation for which it is responsible;
		<ul style="list-style-type: none"> ▪ Provide Members and senior management with regular reports on service delivery plans and on progress towards outcome achievement; and
		<ul style="list-style-type: none"> ▪ Ensure there is consistency between specification stages (such as budgets) and post implementation reporting (e.g. financial statements).
	Robust internal control	<ul style="list-style-type: none"> ▪ Align the risk management strategy and policies on internal control with achieving objectives;
		<ul style="list-style-type: none"> ▪ Evaluate and monitor the Council's risk management and internal control arrangements on a regular basis;
		<ul style="list-style-type: none"> ▪ Ensure effective counter fraud and anti-corruption arrangements are in place;
		<ul style="list-style-type: none"> ▪ Ensure additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor;
		<ul style="list-style-type: none"> ▪ Ensure an Audit Committee which is independent of the executive and accountable to the Council: <ul style="list-style-type: none"> ➤ provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment; and ➤ that its recommendations are listened to and acted upon.

Principle	Sub Principle	Council's Actions and Behaviours
(F) Managing risks and performance through robust internal control and strong public financial management	Managing Data	<ul style="list-style-type: none"> ▪ Ensure effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data;
		<ul style="list-style-type: none"> ▪ Ensure effective arrangements are in place and operating effectively when sharing data with other bodies; and
		<ul style="list-style-type: none"> ▪ Review and audit regularly the quality and accuracy of data used in decision making and performance monitoring;
	Strong public financial management	<ul style="list-style-type: none"> ▪ Ensure financial management supports both long term achievement of outcomes and short-term financial and operational performance; and
<ul style="list-style-type: none"> ▪ Ensure well –developed financial management is integrated at all levels of planning and control, including management of financial risks and controls. 		

Principle	Sub Principle	Council's Actions and Behaviours
(G) Implementing good practices in transparency, reporting and audit to deliver effective accountability	Implementing good practice in transparency	<ul style="list-style-type: none"> Write and communicate reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience ensuring that they are easy to access and interrogate; and
		<ul style="list-style-type: none"> Strike a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand.
	Implementing good practices in reporting	<ul style="list-style-type: none"> Report at least annually on performance, value for money and the stewardship of its resources to stakeholders in a timely and understandable way;
		<ul style="list-style-type: none"> Ensure Members and senior management own the results;
		<ul style="list-style-type: none"> Ensure robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publish the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (Annual Governance Statement);
		<ul style="list-style-type: none"> Ensure that the Framework is applied to jointly managed or shared service organisations as appropriate; and
		<ul style="list-style-type: none"> Ensure the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations.
	Assurance and effective accountability	<ul style="list-style-type: none"> Ensure that recommendations for corrective action made by external audit are acted upon;
		<ul style="list-style-type: none"> Ensure an effective internal audit service with direct access to Members is in place which provides assurance with regard to governance arrangements and that recommendations are acted upon;
		<ul style="list-style-type: none"> Welcome peer challenge, reviews and inspections from regulatory bodies and implement recommendations;
	<ul style="list-style-type: none"> Gain assurance on risks associated with delivering services through third parties and evidence this in the annual governance statement; and 	
	<ul style="list-style-type: none"> Ensure that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met. 	

Appendix B – Central Bedfordshire Council’s Corporate Governance Framework

‘The International Framework: Good Governance in the Public Sector’ defines ‘governance’ as comprising the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The framework also states that to deliver good governance in the public sector both governing bodies and individuals working for them must try to achieve the Council’s objectives while acting in the public interest at all times.

Core Principles	(A) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	(B) Ensuring openness and comprehensive stakeholder engagement	(C) Defining outcomes in terms of sustainable economic, social, and environmental benefits	(D) Determining the interventions necessary to optimise the achievement of the intended outcomes	(E) Developing the Council’s capacity, including the capability of its leadership and the individuals within it	(F) Managing risks and performance through robust internal control and strong public financial management	(G) Implementing good practices in transparency, reporting, and audit to deliver effective accountability
Evidence of Good Governance	Constitution	Constitution	Committee Reports	Budget Consultation	Constitution	Constitution	Audit Committee
	Code of Financial Governance	Decision making Committees	Five Year Plan, setting out objectives	Other Consultations	Member Induction	Code of Financial Governance	Overview and Scrutiny Committees
	Code of Procurement Governance	Overview and Scrutiny Committees	Consultations	Stakeholder Engagement	Member Development Programme	Audit Committee	Decision Making Protocols
	Ethical Handbook within Constitution	Council website includes published calendar of meetings, including agenda printed minutes and key decisions.	Risk Management Strategy	Option Appraisals	Workforce and Organisational Development Strategy and Work streams	Overview and Scrutiny Committees	External audit of accounts and value for money opinion
	Member Induction	Webcasting of meetings	Strategic performance, financial and risk reporting framework	Five Year Plan, setting out objectives	Secondments	Risk Management Strategy	Annual Statement of Accounts

'The International Framework: Good Governance in the Public Sector' defines 'governance' as comprising the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The framework also states that to deliver good governance in the public sector both governing bodies and individuals working for them must try to achieve the Council's objectives while acting in the public interest at all times.

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	Member Development Programme	Public Meetings	Scrutiny Framework	Medium Term Financial Plan	Leadership Development Programme	Emergency/Business Continuity Management	Annual Governance Statement / Assurance Framework
	Schemes of Delegation / Decision making protocols	FOI Request Information	Procurement/Commissioning toolkit	Decision Making Protocols	Staff Performance Development Review	Financial Procedures	Head of Internal Audit and Risk's Annual Opinion / Report
	Audit Committee	Online Council Tax information	Environmental Information Regulations (EIR)	Strategic Commissioning Plans	Your Year/360 reviews	External audit of accounts and value for money opinion / Statement of Accounts	Internal Audit Service
	Standards Sub Committee	Five Year Plan, setting out objectives	Medium Term Financial Plan	Risk Management Strategy	Consideration of alternative service delivery models/ Shared Services e.g. LGSS	Medium Term Financial Plan	Strategic performance, financial and risk reporting framework

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	Scrutiny Framework	Consultations	Capital Programme	Consideration of alternative service delivery models/ Shared Services e.g. LGSS	Continuing Professional Development Programmes	Consideration of risk in decision making processes (e.g. Committee reports).	Open Data and Transparency Code
	Financial Procedures	Open Data and Transparency Code	New School Places Programme	Strategic performance, financial and risk reporting framework	Peer Reviews / External Inspections	Strategic Risk Register / Operational Risk Registers	Website
	Scheme for Financing Schools	Customer feedback / Complaints Policy	Transport Strategy and associated strategies	Medium Term Financial Plan	Benchmarking	Risk Based Internal Auditing Service / planning	External inspections/peer reviews
	Financial Regulations for Schools	Annual Statement of Accounts and Annual Governance Statement published			Safety, Health and Wellbeing	Head of Internal Audit and Risk's Annual Opinion / Report	Publication Scheme Statement

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	Statutory Officers Roles Chief Executive, Chief Financial Officer/Monitoring Officer / Legal Services	Community Engagement Strategy			Staff 1:1	Strategic performance, financial and risk reporting framework	Complaints Annual reports (Adult Social Care and Children's)
	Members and Officers Codes of Conduct	Partnership arrangements.			Periodic staff surveys	Anti-Fraud and Corruption Strategy	
	Members / Officers Register of Interests / Register of Gifts and Hospitality	Partnership Protocol				Information Risk Management Process	
	Protocol for Member Officer Relations	Publication Scheme Statement				Information Asset Risk Register	
	Anti-Fraud and Corruption Strategy (including Anti Bribery)	Local Code of Governance				IT Acceptable Usage Policy	

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	Confidential Reporting Code (Whistleblowing)	Social Media				Information Sharing Protocols	
	Risk Management Strategy	Compliance with EU data protection law allowing greater control of individuals over personal data processed by the Council					
	Procurement Guidance						
	Complaints Procedure						
	IT Acceptable Usage Policy						
	Transsexual, Transgender and Gender Re-assignment guidance						

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Council's Vision and Values							

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Central Bedfordshire Council

Audit Committee

30 May 2018

2017/18 Internal Audit Annual Audit Opinion

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

Contact Officer: Clint Horne, Head of Internal Audit and Risk
(clint.horne@centralbedfordshire.gov.uk)

Purpose of this report:

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

RECOMMENDATION

The Committee is asked to:

1. Consider and comment on the contents of the report.
2. Note that the Head of Internal Audit and Risk's opinion on the Council's Internal Control environment is that overall it continues to be adequate

Overview and Scrutiny Comments/Recommendations

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

Background

2. The Accounts and Audit Regulations 2015 require the Council to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices. The applicable standards for 2017/18 were the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1st April 2013 and were revised in April 2017. In accordance with the standards, the Head of Internal Audit and Risk is required to deliver a report to those charged with governance, timed to support the Annual Governance Statement, which must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
3. This report:
 - Presents an opinion on the overall adequacy and effectiveness of Central Bedfordshire's framework of governance, risk management and control for the 2017/18 financial year
 - Summarises audit work undertaken that supports that opinion

- Highlights significant issues identified as part of Internal Audit's work, including those that are particularly relevant to the Annual Governance Statement
- Compares the Internal Audit work actually undertaken with the work that was planned and summarises the performance of the internal audit function against its performance measures and criteria, and
- Includes a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Responsibilities

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

Independence and Accountabilities

5. Internal Audit remains independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.
6. In addition, the Head of Internal Audit and Risk has direct free and unfettered access and freedom to report in his own name and without fear or favour to all officers and members, particularly to those charged with governance (including the Chief Executive and the Chair of the Audit Committee).

Internal Control Environment

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

The Audit Methodology and Basis of Assurance

9. During 2017/18 Internal Audit was bound by the Public Sector Internal Audit Standards. The purpose, authority and responsibility of the internal audit service is set out in the Internal Audit Charter, approved by the Audit Committee in January 2017.
10. The internal audit work undertaken during the year has been conducted in accordance with the mandatory standards and good practice.

11. The Internal Audit Plan for 2017/18, approved by the Audit Committee in April 2017, was compiled using a risk-based approach and was informed through:
 - reference to the previous Audit Needs Assessment undertaken
 - consultation with senior management
 - Internal Audit's own analysis of risk areas
 - reference to risk registers, and
 - the outcome of the assurance mapping exercise on the risks documented within the Strategic Risk Register.
12. The Internal Audit Plan identified the individual audit assignments. The activity was undertaken using a systematic risk-based approach. The objectives for each activity were determined and risks in the processes that supported that activity were identified and set down in terms of reference that outlined the objectives and scope for each audit. The work was planned and performed so as to obtain all the information and explanations necessary to provide sufficient evidence in forming an overall opinion on the adequacy of the internal control framework.
13. Internal Audit reports provide an overall conclusion on the control environment for each system reviewed. A summary of the conclusions for each audit is attached as Appendix A to this report. The definitions of each conclusion are attached as Appendix B.
14. The overall annual audit opinion is derived from the work undertaken during the year, as determined by the Audit Plan. However, it is also recognised that there is a risk management assurance framework in place that provides reasonable assurance that other significant risks have been identified and are managed effectively.
15. To provide quality assurance over the audit output, audit assignments are allocated to staff according to their skills and experience. Each auditor has a designated Audit Manager to perform quality reviews at four stages of the audit assignment: the audit brief (terms of reference), file review, draft report and final report stages. In addition, the Head of Internal Audit and Risk reviews all reports.
16. In addition to this annual report, the Audit Committee receive regular progress reports throughout the year.

The Internal Audit Team

17. During 2017/18 the Internal Audit Service was delivered by a team of suitably qualified auditors. Each permanent member of the team undertakes a regular Performance Development Review (PDR) referred to as 'Your Year' and participates in Continuing Professional Development (CPD) as appropriate. Several unplanned resourcing issues have affected Internal Audit throughout 2017/18 including a secondment at the start of the year and vacancies at both Senior Auditor and Audit Manager level, the latter for a significant proportion of the year.
18. All issues have been managed as well as possible in the circumstances and in all respects have now been resolved. Inevitably these issues have had an effect on the number of assignments finalised.

Head of Internal Audit's Annual Opinion Statement

19. The Internal Audit work undertaken during the year has enabled Internal Audit to provide an objective assessment of whether systems and controls are operating effectively. In giving an audit opinion, however, it should be noted that assurance can never be absolute. However, the scope of the activity undertaken is sufficient for reasonable assurance to be placed on the work.

20. Ernst and Young, as the Council's external auditors, have reviewed the work undertaken by Internal Audit on the fundamental system audits and have been able to place reliance on the work, and have not raised any concerns with the audit opinions given.

21. A summary of the work undertaken during the year, forming the basis of the audit opinion on the control environment, is shown at Appendix A of this report.

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

21. This conclusion is based on the following:

Framework of governance:

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

Risk Management Arrangements:

- A risk management framework is in place, including a documented strategy, risk co-ordinators within directorates, a Risk Matters Group and regular monitoring and reporting on strategic risks to senior management and the Audit Committee.

Internal Control:

- The audit opinion for each of the fundamental system reviews has been positive. All but one of the fundamental system reviews received an Adequate Assurance audit opinion (finalised or provisional). In light of minimal system upgrades and changes to business processes, and the proposed replacement of Swift, a light touch review of Swift Financials was undertaken with the proviso that previously identified issues and weaknesses would be carried forward to the replacement project for resolution. Swift Financials received a Limited Opinion last year.
- Adequate controls were found to be in place in a number of other areas. The majority of audit reviews of these areas other than the fundamental systems have received Adequate Assurance opinions. Where weaknesses in the current processes have been identified actions have been agreed with management to address these issues, and

- Progress has been made in addressing almost all of the high priority Internal Audit recommendations made.
22. It should be noted that most audits undertaken have resulted in reports identifying areas for improvement which have been well received by managers, and actions agreed to address weaknesses in control. The implementation of these actions is tracked by Internal Audit and the progress against the implementation of high recommendations is regularly reported to the Audit Committee.
23. In arriving at the opinion the following has been taken into account:
- The results of the audits undertaken as part of the 2017/18 plan
 - The results of follow up action in respect of previous audits
 - Whether or not any limitations have been placed on the scope of Internal Audit – of which there have been none.
24. The 2015/16 Governance statement highlighted issues with the ICT Disaster Recovery Plan. Since then ICT management has increasingly looked to cloud services where feasible, which in addition to functionality improvement for end users is considered to provide improved resilience and disaster recovery procedures. The Audit Committee received direct assurance from ICT management at the April 2017 meeting along with an updated Disaster Recovery Statement Plan, and a follow up audit will form part of a 3 year prioritised ICT audit plan being developed from 2018/19.

Delivery of the 2017/18 Internal Audit Plan

25. The operation of the key financial systems is a key part of the internal control environment. The table at Appendix A sets out the outcome of the reviews of these systems, and indicates where the work is still ongoing. The appendix also summarises other reviews undertaken during the year.
26. The reviews of the key fundamental systems help inform the Annual Governance Statement. All reviews have received an adequate assurance audit opinion (finalized or provisional). It should be noted that the opinions given reflect the controls in place across the whole year.
27. Audit work is not just limited to implementing the audit plan. Internal Audit is involved in other areas advising on systems development and using their skills to provide other general advice to service areas. Internal Audit has participated in and advised on a number of projects providing advice on controls required, the most significant being the SAP Success Factors implementation and GDPR implementations.
28. Resourcing constraints mentioned in section 17 have meant that not all planned audits have been completed in the year, however the highest priority reviews will be rolled into the new year's plan of work for 2018/19. It is not considered that the deferral of these reviews exposes the Council to any unacceptable risks that would impact on the overall Internal Audit Opinion.

National Fraud Initiative (NFI)

29. During 2017/18 Internal Audit continued to complete work around the National Fraud Initiative (NFI). The overall responsibility for this exercise has now passed from the Audit Commission to the Cabinet Office. Data sets are supplied when requested and matches investigated as required.

30. The Internal Audit team has also assisted other authorities to undertake their NFI enquiries by providing information to support their investigations.

Anti-Fraud Work and Special Investigations

31. Internal Audit concluded three investigations during the year.
32. During the year, Internal Audit has continued to work closely with colleagues within the Corporate Fraud Team on reviewing existing counter fraud arrangements and raising awareness of fraud risks across the Council.

Adding Value

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

Schools

34. The rolling programme of school audits has continued during 2017/18. 5 school audits have been undertaken as part of the new pilot. Initial impressions on the new approach have been positive and a lessons learned exercise has taken place identifying good practice and further improvement areas. The opinions given for the finalised reviews are set out at Appendix A.

Performance Management

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

36. The indicators include both CBC audit activities and school activity.

Activities for 1 April 2017 – 31 March 2018

KPI	Definition	2017/18	2016/17	2015/16	Our target
		How we performed	How we performed	How we performed	
KPI01	Percentage of total audit days completed.	76%	91%	90%	80%
KPI02	Percentage of the number of planned reviews completed to final report stage.	72%	70%	75%	80%
KPI03	Percentage of audit reviews completed within the planned time budget, or within a 1 day tolerance.	79%	70%	77%	75%

KPI04	Time taken to draft reports: Percentage of reviews where the first final draft report was returned by auditee within 2 weeks of receipt of the report from the Auditor.	71%	81%	79%	80%
KPI05	Time taken to issue a final report: Percentage of reviews where the final report was issued within 2 weeks of receipt of the response agreeing to the formal report.	93%	92%	100%	80%
KPI06	Overall customer satisfaction.	91%	91%	93%	80%

37. Analysis of indicators:

KPI01 – During the year we delivered a total of 963 productive audit days against a total of 1260 planned days for the year. This is below our expectations and mainly due to the long term Audit Manager vacancy and secondment.

KPI02 – 72% of the planned reviews had been completed to final report stage, which is below the target and reflects the resourcing issues already mentioned earlier in this report. However, this KPI does not reflect work in progress. Reprioritisation of outstanding work as part of the new 18/19 plan will ensure completion of high priority work.

KPI03 – 79% of planned reviews have been completed either within the planned time budgets, or within a 1 day tolerance. This is above the target for the year.

KPI04 - This indicator measures the time taken for Internal Audit to receive a response from the auditee to the final draft report. During 2017/18, 71% of draft reports were responded to within the target set.

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 at 93%.

KPI06 – The responses received have been positive at 91%. We consider all feedback to continue to drive improvement where possible.

Conformance with the Public Sector Internal Audit Standards

38. The Public Sector Internal Audit Standards require the Annual Internal Audit Opinion to include a statement on conformance with the PSIAS and also the results of the Quality Assurance and Improvement Programme.

39. In order to ensure that the Internal Audit Service operates in accordance with the PSIAS, the Head of Internal Audit and Risk undertakes an annual self-assessment of compliance with the standards. The Accounts and Audit Regulations 2015 require that there is a review of the effectiveness of the System of Internal Audit. An external assessment was undertaken during 2015/16 by CIPFA. The outcome of the external assessment was reported to the April Audit Committee and the self-

assessment for this year raised no significant issues of concern, although one area previously reported relates to the Corporate Risk Management arrangements which have not been subject to an internal audit in the recent past. Given the role of the Head of Internal Audit and Risk in delivering audits and monitoring risk management activity, and to ensure that the independence and objectivity of the function is preserved, last year's statement indicated that an external review of Risk Management was planned for later in the year. As the Head of Internal Audit and Risk is relatively new in post and has been reviewing CBC's risk management arrangements during 2017/18, the external review is now planned for 2018/19.

40. The PSIAS require the Annual Audit opinion to include a statement of conformance with the standard. Following the implementation of the recommendations made by the CIPFA assessor, the Internal Audit service is fully compliant with the standards.
41. A Quality Assurance Improvement Programme (QAIP) is in place. Following the announcement of the retirement of the previous Head of Internal Audit, the management team undertook a skills assessment and training needs assessment for the whole team to identify any pressing gaps and to ensure that training resource was allocated on a priority basis. This programme is intended to ensure that the internal audit service continues to develop and improve. As such, it is envisaged that work will be ongoing in this area, and the programme will be regularly refreshed and updated.
42. The Head of Internal Audit and Risk will continue to regularly review internal audit activity against the standards and any areas of development identified will be addressed.

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

Background (Accounts and Audit Regulations 2015)

43. All councils are required to publish an Annual Governance Statement (AGS) to accompany their Statement of Accounts, in accordance with the 2015 Accounts and Audit Regulations. Assessments of the Effectiveness of Internal Audit and the Effectiveness of Systems of Internal Control are two key aspects of the AGS. Central Bedfordshire Council has reviewed both systems for 2017/18 and the findings are incorporated into the Annual Audit Opinion and subsequently into the AGS.

Review of the Effectiveness of Internal Audit

44. As referred to in paragraph 39 above, a review of the Effectiveness of Internal Audit was undertaken by CIPFA in 2015/16 and by self-assessment this year.

Review of the Effectiveness of the Systems of Internal Control

45. The Council's review of the effectiveness of the system of internal control is informed by:
 - Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports
 - the work undertaken by Internal Audit during the year
 - the work undertaken by the external auditor reported in their annual audit and inspection letter
 - other work undertaken by independent inspection bodies

46. The Head of Internal Audit and Risk has supported the Monitoring Officer to collect evidence required for the production of the AGS.
47. Directors have signed statements on the Effectiveness of Internal Control for 2017/18, confirming that during the year they were:
- Ensuring that there are arrangements in place for establishing Directorate objectives and compliance to corporate priorities;
 - Ensuring compliance to the Council's governance arrangements (Constitution, Ethical Framework, and Policies & Regulations);
 - Ensuring arrangements for sound budgetary controls;
 - Effectively monitoring and managing performance;
 - Reporting to the appropriate Member Committees;
 - Responding promptly to internal & external audits & inspections;
 - Continuously managing business risks and service continuity arrangements.
48. The work undertaken by Internal Audit on the systems of internal control disclosed that generally they were effective during 2017/18.

Corporate Implications

49. None directly from this report.

Legal Implications

50. None directly from this report.

Financial Implications

51. 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

52. None directly from this report.

Conclusion and next Steps

53. The work undertaken by Internal Audit has enabled the team to advise management of some of the control weaknesses identified at an early stage, and make recommendations designed to enhance and strengthen controls and mitigate risks.
54. Overall, the internal control environment is considered fit for purpose and operated adequately during 2017/18.

Appendices:

Appendix A – Summary of Internal Audit Activity 2017/18

Appendix B – Audit Opinion Definitions

Background Papers:

None

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APPENDIX A

Internal Audit Activity during 2017/18

The table below provides a summary of audit activity during 2017/18

<u>Audit Title</u>	<u>Position of Review</u>	<u>Opinion</u>
Carry Over Work:		
Completion of reviews in progress as at 31st March 2017		
Accounts Payable/Purchase Ledger (including feeder systems)	Final report issued	Adequate
Asset Management (incl. Asset Register)/Capital Accounting	Final report issued	Adequate
SWIFT Financials	Final report issued	Limited
Contracts Management - Data Centre Visits	Briefing Note issued	n/a
Proactive anti-fraud - Employee Self Service (Expense claims and Timesheets)	Briefing Note issued	n/a
Maulden Lower School	Final report issued	Limited
Sandy Upper School Follow-up	Final report issued	Unsatisfactory Progress
VAT	Final report issued	Adequate
Financial Assessment & Charging for Residential Care	Final report issued	Adequate
Members, Declarations of Interest, Gifts & Hospitality	Final report issued	Adequate
Comensura	Final report issued	Adequate
IT inventories	Final report issued	Adequate
Leisure Services Outcomes - Post implementation review of Flitwick Leisure Centre	Final report issued	Adequate
IT Customer Service - problem resolution (Helpdesk)	Fieldwork in progress	-
Section 106 Agreements	Deferred to 18/19 pending outcome of external review.	-
2017-18 Plan		
Fundamental Systems		
Accounts Payable/Purchase Ledger (including feeder systems)	Final report issued	Adequate
Accounts Receivable/Sales Ledger	Final report issued	Adequate

* indicates provisional opinion

<u>Audit Title</u>	<u>Position of Review</u>	<u>Opinion</u>
Council Tax (including Council Tax Support Scheme)	Final report issued	Adequate
Housing Benefits	Final report issued	Adequate
Main Accounting Systems (MAS)	Final report issued	Adequate
Non-Domestic Rates NDR	Final report issued	Adequate
Payroll	Final report issued	Adequate
SWIFT Financials	Draft briefing note issued	n/a
Treasury Management	Fieldwork in progress	
Housing Rents including tenant arrears	Final report issued	Adequate
Cash and Banking (Non Invoiced Income)	Final report issued	Adequate
Chief Executive		
Data Quality	Deferred to 18/19	
Information Governance (Records Management)	Final report issued	Adequate
Resources		
VAT reviews	Cancelled	
Budgetary Control	Final report issued	Adequate
Highways Infrastructure - processes for accounting	Cancelled	
Ethics - Declarations of Interests, Gifts and Hospitality - Officers	Fieldwork in progress	
Corporate Governance Reviews - LGSS Law	Final report issued	Adequate
Democratic Governance	Draft report issued	Adequate*
Children's Services		
Schools General - School Improvement	Rolling programme, 1 School completed, 5 In Progress see below	
Watling Lower School	Final Report Issued	Limited
Chiltern School	Fieldwork complete	
Pulford Lower	Fieldwork in progress	
Beaudesert Lower	Draft report issued	Adequate*
Clipstone Brook Lower	Fieldwork complete	
Swallowfield Lower	Fieldwork in progress	

* indicates provisional opinion

<u>Audit Title</u>	<u>Position of Review</u>	<u>Opinion</u>
Contract review of Alternative Provision (Education)	Fieldwork in progress	
Themed Reviews	Fieldwork in progress	
Pro-active Fraud review - Cash Disbursements	Final Report Issued	Adequate
Social Care, Health and Housing		
Day Centres	Cancelled	
Better Care Fund Integration	Cancelled	
New Generation Housing	Cancelled, Service Request	
Direct Payments - Review of controls	Deferred to 18/19	
Follow-up on QL - SAP interface	Briefing note issued	Satisfactory progress
Community Services		
Highways - assurance on client assurance arrangements	Deferred to 18/19 at Service Request	
School Transport	Deferred to 18/19 at Service Request	
IT Reviews:		
Cloud Hosting Data Storage	Cancelled	
IT Cyber Security	Fieldwork in progress	
Project Management - IT Governance	Deferred to 18/19	
Desk Top Environment - End User Compliance	Cancelled	
IT Disaster Recovery	Scoping in progress	
SAP Access and Security	Fieldwork in progress	
Regeneration and Business Support		
European Social Fund	Deferred to 18/19	
Albion Archaeology	Deferred to 18/19	
Contracts and Partnerships		
Contracts Management	Deferred to 18/19	
Value for Money reviews	Cancelled	
Partnership Governance	Covered - LGSS Law review	
Public Health		
Public Health compliance with best practice	Scoping	
Joint Procurement Arrangements	Fieldwork in progress	

Special Investigations		
National Fraud Initiative (NFI)	Ongoing throughout year	
Special Investigations and supporting the Corporate Fraud Team	Ongoing throughout year	
Pro Active Anti Fraud:		
Allocation of Grants	Deferred to 18/19	
Consultancy etc.		
Risk Management Activities	Ongoing throughout year	
Major projects - Consultancy	Ongoing throughout year	
Supporting Annual Governance Statement	2016/17 statement completed	
Audit of Individual Grants	Ongoing throughout year	
General Advice	Ongoing throughout year	
Head of Audit Chargeable Against Plan	Ongoing throughout year	
Assurance Mapping Review	Ongoing throughout year	
Contingency		

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

- 1. 2016/17 Asset Management (incl. Asset Register/Capital Accounting)**
This review covered policies and procedures, and accounting for assets. The overall audit opinion was adequate assurance.
- 2. Contracts Management – Data Centre Visits**
Subsequent to the Information Commissioners Office (ICO) Enforcement Department considering a case where the Council (CBC) had incorrectly addressed a mailing of sensitive personal data, and a further case where CBC failed to redact a social worker's personal data from a crime report, CBC agreed to a data protection audit of its processing of personal data by the ICO. As a follow up to this, Internal Audit undertook a review of the Council's Offsite Storage facilities which included an assessment of relevant contracts/service level agreements (SLA) and site visits to data centres to verify compliance with appropriate standards and controls. No undue concerns were noted.
- 3. Proactive anti-fraud - Employee Self Service (Expense claims and timesheets))**
Prior to the implementation of Successfactors, Internal Audit undertook a review of the controls associated with the processing of expense claims and timesheets within Employee Self Service to enable any learning points to be included as appropriate.
- 4. Members, Declaration of Interests, Gifts & Hospitality**
This review covered Councillors Declarations of Interests, Gifts & Hospitality. The Localism Act 2011 requires that the Council adopt a code of conduct for Members to have a register of member's interests and for Town & Parish Councillors to register their interests with us in our role of Principal Authority. The overall audit opinion was adequate assurance.
- 5. Comensura**
This review covered the appropriateness of utilising Agency Workers, the suitability of individual Agency Workers selected for the requirements of the role, the value for money obtained from the Comensura agreement, the validity of timesheets approved, and payments made. The overall audit opinion was adequate assurance.
- 6. IT inventories**
This review covered the accuracy of IT Equipment Asset Registers, the identification of IT assets when purchased, and the recovery of personally allocated IT equipment from leavers. The overall audit opinion was adequate assurance.

- 7. Leisure Services Outcomes – Post implementation review**
Internal Audit reviewed the upgrade of the existing 6 leisure centres across the Council and in doing so, examined the procurement and commissioning of the main contractor, budget setting and monitoring of the investment, project design, development and management and development of facilities, management arrangements, the measurement of outcomes and customer engagement and consultation. The overall audit opinion was adequate assurance.
- 8. 2017/18 Accounts Payable**
This review covered policies and procedures, and the Accounts Payable processes, including ordering, goods receipting, authorisation of invoices, reconciliations and controls over master data. The overall audit opinion was adequate assurance.
- 9. 2017/18 Accounts Receivable**
This review covered policies and procedures, and the Accounts Receivable processes, including invoicing, amendments, accounting arrangements, debt monitoring and write offs. The overall audit opinion was adequate.
- 10. 2017/18 Asset Management (incl. Asset Register/Capital Accounting)**
This review covered policies and procedures, and accounting for assets. The overall audit opinion was adequate assurance.
- 11. 2017/18 Council Tax (including Council Tax Support Scheme)**
This review covered the Council Tax processes including the identification and recording of properties, amendments to accounts, discount and exemption processes, overdue account monitoring and recovery action, write offs, the recording of transactions within the authority's accounts, billing processes and business continuity procedures. The overall audit opinion was adequate.
- 12. 2017/18 NDR**
The scope of this review was similar to Council Tax above but covering NDR and therefore commercial properties. The overall audit opinion was adequate assurance.
- 13. 2017/18 Housing Benefits**
This review covered processes from the receipt of correspondence, assessment of claims, supporting evidence, payment processes, fraud detection, system security arrangements and compliance with DWP requirements. The overall audit opinion was adequate assurance.
- 14. 2017/18 Main Accounting System**
This review covered policies and procedures, accounting for financial transactions, journal entry controls, transfers from feeder systems, controls to ensure accuracy, and reporting mechanisms. The overall audit opinion was adequate assurance.

15. 2017/18 Payroll

The review covered policies and procedures, controls over standing data, the accuracy of payments and deductions, controls over payments to and received from statutory agencies, the accurate posting of data, and compliance with legislative requirements. The overall audit opinion was adequate assurance.

16. 2017/18 Housing Rents

This review covered policies and procedures and the processes to support the calculation, receipt and recording of amounts due, including tenant arrears. The overall audit opinion was adequate assurance.

17. 2017/18 Cash and Banking

This review was combined with Main Accounting System above.

18. Information management (records management)

This review examined the overall system of control associated with the safe keeping of, access to and retention/ destruction of physical records within the Council. The overall audit opinion was adequate assurance.

21. Budgetary control

The review sought to determine the extent to which there are reliable and robust mechanisms in place in respect of Budgetary Control within Adult Social Care focusing upon the Older People Physical Disabilities Care Management North and South as well as Learning Disabilities Adults and Children service areas. The overall audit opinion was adequate assurance.

22. Corporate Governance Reviews – LGSS Law

This audit covered the governance arrangements for the Shared Legal Service and LGSS Law Ltd and examined the collaboration agreement, SLA, shareholders' agreement, Board and shareholder meeting minutes and papers, performance data, business plans, draft annual service report and risk registers. The overall audit opinion was adequate assurance.

23. School audits

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

24. Follow up on QL – SAP interface

This was a follow up review in relation to the high priority recommendations reported previously to the committee. Satisfactory progress had been made.

25. Project Management – IT Governance

Specialist external expertise has been commissioned to support our ICT audit work with two specific reviews. The first is an ICT universe scoping exercise which will provide a 2-3-year prioritised ICT audit plan. This audit will now only be undertaken dependent upon the revised risk assessments within the revised ICT audit plan.

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APPENDIX B

Audit Opinions

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:</i>	<i>Level of Assurance:</i>	<i>Level of Assurance:</i>	<i>Level of Assurance:</i>
<i>High</i>	<i>Medium</i>	<i>Medium/Low</i>	<i>Low</i>

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Central Bedfordshire Council

AUDIT COMMITTEE

30 May 2018

Northamptonshire County Council Best Value Inspection – Summary of Findings and Learning Points for Central Bedfordshire Council

Advising Officers: Director of Resources and s.151 Officer, Charles Warboys. (charles.warboys@centralbedfordshire.gov.uk) and Denis Galvin, Assistant Director of Finance (denis.galvin@centralbedfordshire.gov.uk) Tel: 0300 300 6083

Purpose of report:

The report discusses the findings of the Northamptonshire County Council (NCC) Best Value Inspection and compares the financial and governance position of Central Bedfordshire Council (CBC) with NCC. Finally, this report proposes changes to the Council's existing processes, as a result of the recommendations outlined in the Best Value Inspection of NCC.

RECOMMENDATIONS

The Committee is asked to:

1. The Audit Committee is invited to discuss the contents of this report and make any recommendations arising from this discussion.

Overview and Scrutiny Comments/Recommendations

1. This report is for information only and has not been made to any Overview and Scrutiny Committee. The subject matter is most appropriate to the Audit Committee's terms of reference.

Background

2. On the 9th January 2018 the Secretary of State for Housing, Communities and Local Government appointed Max Caller CBE to undertake an

Inspection of the compliance of NCC with the requirements of Part 1 of the Local Government Act 1999. The Best Value Inspection took place between January and March 2018, the report was published on 15 March 2018.

3. The inspection was carried out following the issue of an adverse value for money opinion in the Annual ISA 260 reports (communication of audit matters to those charged with governance), relating to the 2015/16 and 2016/17 Statement of Accounts by NCC's external auditor KPMG. In September 2017 the Local Government Association (LGA) conducted a Peer Review at NCC which highlighted concerns in relation to the Council's financial planning and management.
4. During the course of the inspection;
 - The Council's Section 151 Officer issued a Section 114 notice on the 2nd February 2018 as in his opinion the Council was at risk of not being able to balance its budget by the year end and, as a consequence, imposed spending controls to attempt to restore the situation pending a full Council consideration of the position and how it should be rectified.
 - The Council's external auditors' KPMG issued an advisory notice on 20th February 2018, under the provisions of Paragraph 2(3) Schedule 8 Local Audit and Accountability Act 2014 on the basis that they believed the Council was about to set a potentially unlawful budget.
5. The Best Value Inspection concluded that the problems faced by NCC are now so deep and ingrained that it would not be possible to promote a recovery plan that could bring the Council back to stability and safety in a reasonable timescale. The report recommended the creation of two unitary authorities in Northamptonshire (East & West).

Summary of Best Value Inspection Findings

6. The NCC Best Value Inspection Report highlights a number of systemic failures & concerns in relation to NCC governance, financial management and Local Government Support Services (LGSS). These are summarised below:

NCC Governance

- NCC's performance can be characterised by three elements: poor budget management, the 'Next Generation Council' [a new but ill defined operating model] and a claim that NCC was specifically and unusually disadvantaged by the funding formula (the 'Mind the Gap' lobby strategy).

- Councillors were also regularly refused information when they sought clarification. Members were told that 'you can only ask that at scrutiny meetings and not outside a meeting' that 'I need to get permission from the Cabinet member to discuss this with you' or just did not get a response.
- Scrutiny by the Audit Committee is not effective. Whilst the Chair of the Committee and the Committee members gave inspectors the impression that they had tried to challenge, it is clear that they have been repeatedly thwarted. Matters that the Committee have wanted reports on have taken many months and much persistence for the reports to be prepared and brought to the Committee.
- The Council did not respond well, or in many cases even react, to external and internal criticism. At its most extreme, the two KPMG ISA 260 reports, stating an adverse opinion on Value For Money matters were just reported to the Audit Committee without comment and the unprecedented KPMG Advisory Notice issued under the 2014 Act was reported to full Council without any officer covering report giving advice on what the response was recommended to be.

Financial Management

- Following the Ofsted Inspection report published in August 2013 which resulted in an 'inadequate' judgement and the subsequent Statutory Direction, NCC lost tight budgetary control and appeared to abandon strong and effective budget setting scrutiny. Instead of taking steps to regain control, the Council was persuaded to adopt a 'Next Generation' model structure as the solution.
- The Council has fallen well short on achieving its planned savings since 2014/15. The analysis shows that the Council had a shortfall in achieving its planned savings of £7.1M in 2013/14, £6.3M in 2014/15, £21.2M in 2015/16, £21.6M in 2016/17 and £27.1M in 2017/18.
- The main way in which NCC has sought to balance its budget since 2016/17 is to make use of the flexibility allowed by Government to use capital receipts for transformation purposes. Councillors were neither clear nor briefed on the rules and application of this funding source. There have also been recent questions about the inappropriate use of the ringfenced Public Health Grant.
- Since 2014/15, overspending in Adults and Children's has mainly been offset by reported underspends in the corporate and Chief Executive budgets. This is where (in the main) the use of reserves and one-off corporate resources are included, so masking the extent to which the Council has relied on one-off resources to support its spending position
- Across the piece, NCC is not the most disadvantaged shire county as a result of unprecedented changes to Local Government funding.

- NCC Council Tax base growth over the period 2014-17 was 7.38%, significantly higher than the shire county average of 4.67%.
- During 2014/15 NCC, like many councils, reviewed its minimum revenue provision (MRP) and received a one off retrospective benefit of £22m, of which it initially used £6.9m to support the budget, the remaining £15.1m was put into earmarked reserves and applied in later years. The MRP review also gave on-going benefits in excess of that budgeted for (£7m in 2014/15 and a further £3m in 2015/16).
- NCC could have benefitted from an improvement in Council tax collection rates. The District and Borough Councils perform the billing and collection function, but improvements in their performance would have benefited the County most. A partnership arrangement which saw NCC invest in improvements at the second tier could have improved the spending ability of the county. However, this was ruled out as “it was not the County’s responsibility”.
- Budgetary control and financial grip is not assisted by the way the finance support is structured at NCC. The Executive Director of Resources (Section 151) has no staff supporting him in the delivery of the financial management for the council. All the staff work within LGSS. This includes the Strategic Finance Managers who are the key staff that support Service Directors and are the most senior finance office that the Section 151 officer would rely on. There appeared to be no one officer who has clear responsibility for setting professional standards for finance staff.
- The Council has made extensive use of one off resources to support its on-going revenue expenditure since 2013/14, both in terms of general use and for service specific purposes. In 2013/14 earmarked reserves stood at £57.7m, by 1st April 2017 they stood at £8.8m

Local Government Support Services (LGSS)

- LGSS claims to have delivered significant savings over its period of operation (from 2010) but it is very hard to see what additional saving has been produced by the structural grouping and what could have been generated by normal management action. Further, much of the reported saving is not more for less but routine service reductions.

Transformation, Culture & Organisational Development

- Until this budget cycle there had been no report to full council, or anywhere else, which set out the specific transformation that was to be achieved, on a project by project basis, as required, nor has there been

any report to full Council which sets out the actual outcome compared to the prediction.

- Instead of taking steps to regain control, the Council adopted a 'Next Generation' model structure as the solution. In essence NCC would have a small retained organisation called 'NCC Group' which would right source Safeguarding and Wellbeing outcomes through a federation of newly formed bodies, be they Mutuals, Community Interest Companies, Social Enterprises, public: public; public: private or private businesses which will have 'spun out' from direct council control. There has never been any business plan or justification to support this proposal, yet Councillors adopted this approach and authorised scarce resources to develop this. The approach did not and could not address the regular budget overspends which were covered by one off non-recurring funding sources.
- Budgets appear to have been set almost by fiat. Savings targets were imposed without understanding of demand, need or deliverability and some Chief Officers did not consider that they were in any way accountable for the delivery of savings that they had promoted.
- In the past 5 years there have been significant changes in personnel at Director level in NCC. All the Executive Directors have been replaced, some more than once. It appeared to the inspection team that there was no sense that the group worked together as a team, seeking to share and jointly solve the Council's problems. The impression was also that working together to understand the impact that decisions taken in one area had on another and addressing the conflicts is not encouraged. It was concluded that NCC works in silos and does not communicate well internally or share common objectives.

Comparison to CBC

7. In order to assess the applicability to Central Bedfordshire Council of the concerns raised in the Best Value Inspection Report, a detailed comparison of CBC & NCC has been conducted which addresses each point in turn.

LGSS Comparison

8. The Report states that *LGSS claims to have delivered significant savings over its period of operation but it is very hard to see what additional saving has been produced by the structural grouping and what could have been generated by normal management action. Further, much of the reported saving is not more for less but routine service reductions. The Inspection Team feel there would be benefit in reviewing the relationship between NCC and LGSS to ensure there was clearer accountability and the Council had strategic capacity close to its decision makers. This is particularly pertinent as it appears that LGSS is no longer generating surpluses which can be applied to reduce the overall costs to the constituent councils.*

9. CBC engagement with LGSS is limited to legal services in the form of a separate trading company - LGSS Law Limited – of which CBC is a 33% Shareholder and therefore exposure to any under performance of the wider LGSS group is limited. However, CBC needs to be cognisant of the fact that the Law company is currently also underperforming financially.
10. CBC retains strategic governance control through Member representation on the Shareholder Board of LGSS Law Ltd and control and influence of the business operation through representation on the Executive Board, through the Director of Resources. This combination of roles means that CBC has first hand knowledge of the operations and financial performance of LGSS Law Ltd. This was something that NCC did not have, being represented on the Executive Board via LGSS employees (the Managing Director and the Finance Director), rather than having any independent input. (This situation has subsequently changed.)
11. CBC has recently completed an internal Governance Audit of the legal shared service arrangement which found the management controls to be adequate but has recommended representation is made for the current wider LGSS Governance structure – currently under review – to be strengthened and clarified.
12. The Best Value Inspection Report adds *While (sic) legal services are delivered by LGSS Law Ltd, the lack of an appreciable client role for legal services has not assisted the Council in controlling its legal costs.* Unlike the position at NCC, CBC implemented a client side role from the outset of the shared service arrangement to scrutinise and challenge legal service delivery, performance and costs, and to support internal improvements in commissioning legal support from LGSS Law.
13. This centralised Client function reviews operational and financial performance on a face to face basis with the LGSS Law Executive Director and management team on a monthly, six monthly and annual cycle.
14. Although CBC is currently experiencing a large overspend on legal services, this has not arisen from poor oversight of the contract. Additional volume of cases from Children's Services is the principal factor, together with putting more business through LGSS Law rather than going to other providers.
15. That said, there have been considerable issues for CBC in obtaining detailed and accurate billing information from LGSS Law. These problems are largely resolved now but demonstrate the need for continued vigilance in monitoring ongoing costs.
16. At this stage, it is unclear whether NCC will remain committed to the LGSS concept (Group and or Law). In particular, the attitude of the two new Unitary Authorities, if formed, is obviously unknown.

Governance Comparison

17. The report refers to there being no reports that set out “the actual outcome compared to the prediction” in relation to planned efficiencies. It also refers to requirements to report “whether planned savings or transformation have been delivered compared to original analysis”. There was “a lack of accountability for non-delivery”. Whilst CBC is certainly not in the same position as NCC, it would be reasonable to consider the extent to which Members are invited to consider progress in delivering the specific efficiencies that were included in the previous year. At present neither Overview & Scrutiny nor Executive have undertaken an analysis of how we are performing against previously identified efficiencies specifically, although this happens monthly at officer level and to the Directors, via the Efficiencies Implementation Group, chaired by the Director of Resources. Performance against delivery of efficiency targets is included as part of the quarterly budget monitoring reports considered by Corporate Resources Overview and Scrutiny Committee, but the level of detail could be improved.
18. CBC is in a strong position in relation to quarterly budget monitoring. Not only do we produce monthly flash reports for Directors and the Leader and the Deputy Leader/Executive Member for Corporate Resources, the quarterly reports are presented openly and in public to both the Executive and Corporate Resources Overview and Scrutiny Committee (CROSC) providing the opportunity for open discussion and scrutiny of our position. These highlight reports draw out key issues and matters relating to reserves in a way that does not appear to have occurred at NCC. This is not to say that transparency on some issues could not be further strengthened.
19. At NCC the reports do not show a clear line of sight between the MTFP and service plans. CBC can evidence the various Executive reports on performance monitoring as demonstration that we are not in the same position as NCC. However, the CBC Peer Challenge report refers to the need for greater clarity of the outcomes we are seeking to achieve. The Council can demonstrate that we are doing this work (based on greater refinement of the projects supporting the corporate priorities) but it is not yet complete.
20. The findings of the inspection highlight a reduction in the amount of key data presented to Members to be able to understand and challenge financial performance. Whilst the CBC budget monitoring is quite comprehensive, from 2017 onwards we commenced presenting quarterly budget monitoring data to only one of the four OSCs. This was a Member decision taken by the Overview and Scrutiny Co-Ordination Panel at its meeting on 27 June 2017.
21. At NCC individual Councillors’ right to know was not understood and Councillors had been refused information when they asked questions. It was also noted that Members were told they were not to be given access

to some information. This is not considered to be an issue at CBC Confidential information is regularly shared with Members of Executive and non-Executive Members, appropriately in 'part 2' of formal meetings. There is no systemic failure to provide information at CBC. Work programmes for OSCs and other meetings are regularly directed by Members of the respective Committees and requested items are regularly a feature of meetings.

22. Comments from Scrutiny were regularly not provided to Executive alongside proposals at NCC. CBC's report template requires comments from Scrutiny to be included, the Chairmen of OSC meetings will regularly attend Executive meetings to present the views of Committee members and recommendations are always made available to the Executive from OSC where a report has been considered by the OSC first. This is not considered to be an issue for CBC.
23. At NCC, Scrutiny should have been given an opportunity to consider budgetary proposals earlier in their development (in the Autumn). This may be an area for CBC to review. The current timetable is condensed and Scrutiny receives a relatively short period of time to consider budget proposals.
24. The Audit Committee consideration of the external audit report at NCC appears to have been superficial and the Best Value Report criticises NCC for not producing a covering report with officer recommendations. The auditors' reports were not presented to Council or Executive. The real significance here is that these auditor reports were flagging a qualified opinion on NCC's delivery of value for money, which is an important part of the overall financial audit of the authority. CBC has never had such a qualified report. At CBC the equivalent auditor reports (from Ernst and Young, (EY) are discussed with officers prior to being submitted to the Audit Committee and whilst there is no covering report (because it is an EY document), officers will always discuss the EY report fully at Audit Committee. In respect of reports on the Statement of Accounts there is always an officer report covering the same issues on the same agenda which sits alongside the EY report and these reports are usually considered by the Audit Committee together, and this will have a management response and action plan as appropriate.
25. NCC's peer review did not result in a tactical action plan. This was not the case at CBC, as our peer review was received by Members of Executive in public and a full action plan and delivery of the recommendations is being undertaken. This is both quantified, and contains lead persons and timescales. The recommendations relating to Scrutiny were also considered by the OSC Co-ordination Panel leading to recommendations that will be developed in their annual report to Council. The Report also refers to the fact that NCC did not take up the offer of a follow-up from the LGA. Again, this is not the case at CBC as a date has been arranged for a follow up peer team visit in late 2018.

26. CBC officers work conscientiously to support each of the 59 elected Members, regardless of their political affiliations. The Finance team also provide briefings and assistance to the Opposition Members as part of the MTFP process and there is an opportunity for all Opposition Members to attend a budget briefing from all Directors. Officers are invariably thanked publicly by the Members for this process at the annual budget setting Council meeting in February.

Financial Comparison

Council Tax Collection Rates

27. Data collected from local authorities shows that the NCC Council Tax Collection rate is below the shire authority average in both 2015-16 & 2016-17. CBC is above the unitary authority average in both years. This shows that CBC is working hard to maximise this revenue stream. A shortfall of 0.5% in collection is estimated to be worth £1.3m for NCC.

Table 1 – Comparison of NCC & CBC Council Tax Collection Rates in 2015-16 & 2016-17.

	2015-16 Collection Rate	2016-17 Collection Rate
NCC	97.5%	97.6%
Shire average	98.0%	98.1%
CBC	97.8%	98.0%
Unitary average	96.9%	97.0%

28. The Table above relates to in-year collection. For CBC the final collection rate is c.99% of all council tax debt. CBC has actively invested in additional resources to supplement collection activity. In 2016 3 additional staff were taken on for this purpose and 3 more in 2017. The additional collection was c.3 times the cost of the additional salaries, and this has helped to maintain a high performance level in the Revenues Service.

Council Tax Base Growth;

29. NCC's Council Tax Base increased by 7.4% from 2014 to 2017, in the same period CBC's increased by 9.3%. This growth demonstrates valuable additional revenue for the Council and shows the advantage of being a growth area with strong commitment and regional leadership in this area.

Council Tax Increases;

30. Along with a number of other authorities, CBC froze Council Tax increases for 2011/12 to 2015/16. To encourage councils to keep increases to zero, the Government provided compensation for the lost income by way of a Council Tax Freeze Grant. For CBC, this Grant amounted to c£1.3M per year where increases were held at zero. During the Spending Review

2013, central Government confirmed that both of the existing Freeze Grants and any new Grants in 2014/15 and 2015/16 would in future be 'baselined' into the Formula Grant (Revenue Support Grant - RSG) and would therefore constitute continuing funding.

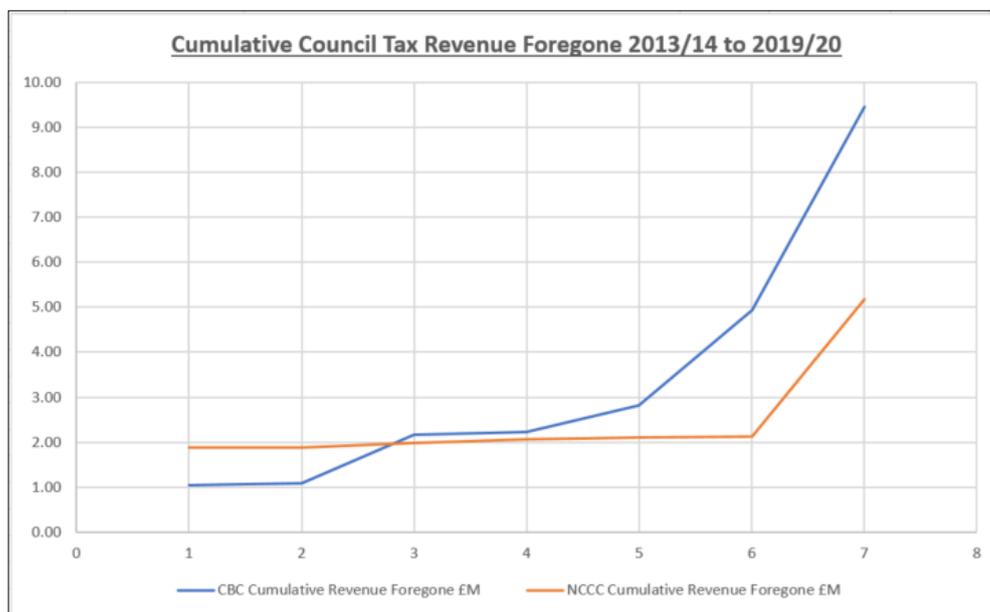
31. That said, RSG is now been phased out and 2018/19 is the last year in which CBC will get RSG. There is therefore an arguable point as to whether this funding is really being continued as promised.
32. Analysis of the Council Tax increases adopted and proposed for NCC & CBC is shown in the table below. This shows that NCC maximised their Council Tax in each of the years shown below. The only exception is the draft 2019-20 proposal, but the maximum Council Tax Increase of 3% is dependent upon the inflation at that time.
33. The analysis below also highlights that CBC has not maximised its income. In the earlier years (2013/14 to 2015/16) the Council received a separate Council Tax Freeze Grant (CTFG) which equated to a 1% Council Tax Increase. In 2018/19 CBC has foregone £2.1M by increasing Council Tax by 4.49% instead of the permissible maximum of 6%. In 2019/20 the current planned freeze results in revenue foregone of £4.5M.

Table 2 – Comparison of NCC & CBC Council Tax Increases 2013/14 to 2017-18

Year	Max CT % Increase	CBC		NCC	
		CBC % Increase	Revenue foregone by CBC £M	NCC % Increase	Revenue foregone by NCC £M
2013/14	1.99%*	0.00%	1.05	0.00%	1.88
2014/15	1.99%*	0.00%	1.08	1.99%	0.00
2015/16	1.99%*	0.00%	1.09	1.95%	0.09
2016/17	3.99%	3.95%	0.05	3.95%	0.10
2017/18	4.99%	4.55%	0.59	4.98%	0.03
2018/19	5.99%	4.49%	2.12	5.98%	0.03
2019/20	2.99%	0.00%	4.52	1.98%	3.05
Cumulative Revenue foregone			10.50		5.18

* A Council Tax Freeze Grant equivalent to a 1% rise in council tax was provided in each of these years.

Graph 1 - Comparison of NCC & CBC Council Tax Foregone 2013/14 to 2019/20



Overspending in Adult Social Care & Children’s Services;

34. Since 2014/15 NCC has repeatedly overspent on Adult Social Care & Children’s Services. This is also true to an extent in each year for CBC, except for 2015/16 and 2017/18 (Q3 forecast). However, as Table 2 shows, only in two years has the overspend been significant – 2014/15 for ASC and 2015/16 for Children’s.

35. However the scale of overspends in comparison to the in year budget shows that NCC has overspent on average by 10% in relation to Adult Social Care and 8% in relation to Children’s Services. Over the same period CBC has overspent on Adult Social Care by an average of 1% and on average 0.2% in Children’s Services.

Table 3 – Comparison of NCC & CBC overspends on Adult Social Care & Children’s Services from 2014/15 to 2017/18 quarter 3.

	2014/15				2015/16				2016/17				2017/18 q3			
	NCC		CBC		NCC		CBC		NCC		CBC		NCC		CBC	
	overspend £m	as % of in year budget	overspend £m	as % of in year budget												
Adults Social Care	11.9	8.2%	1.5	2.4%	8.5	6.1%	0.2	0.3%	25.6	17.6%	0.5	0.7%	12.6	8.3%	0	0.0%
Children's Services	10.5	9.2%	0.1	0.2%	20.9	17.0%	0.9	2.5%	7.4	5.7%	(0.6)	-1.6%	0.3	0.2%	(0.1)	-0.3%
Total	22.4	17.3%	1.6	2.6%	29.4	23.0%	1.1	2.8%	33.0	23.4%	(0.1)	-0.9%	13.0	8.5%	(0.1)	-0.3%

36. It is quite clear therefore that the loss of financial discipline experienced in NCC is not replicated in CBC. Budgetary control is tight, as the Table demonstrates, and in the face of rising pressures on both services financial control has been maintained in CBC in the two key service areas.

Earmarked Reserves;

37. NCC used reserves to balance their budget and fund overspends. The analysis below shows that over the period 2013/14 to 2016/17 NCC's reserves have decreased by £39.3M (66% decrease), whilst CBC's reserves have increased by £15.9M (37% increase).

Table 4 – Comparison of NCC & CBC Reserves 2013/14 to 2016/17

	2013/14		2014/15		2015/16		2016/17		Overall Change	
	NCC	CBC	NCC	CBC	NCC	CBC	NCC	CBC	NCC	CBC
	£m		£m		£m		£m		£m	
General Fund	12.8	15.1	12.9	15.2	12.0	15.5	11.7	15.6	(1.1)	0.5
Earmarked Reserves	47.0	27.8	58.3	31.6	22.1	31.5	8.8	43.2	(38.2)	15.4
Total	59.8	42.9	71.2	46.8	34.1	47.0	20.5	58.8	(39.3)	15.9

38. Over recent years CBC has steadily built up its reserves, from an initially unsustainably low position in 2009. This deliberate financial strategy has enabled a degree of *relative* comfort to be built up, to the extent that the Council has decided to use revenue reserves (New Homes Bonus) to fund capital projects. This is the diametric opposite of the approach NCC has taken, where capital resources have been inappropriately applied to fund ongoing revenue shortfalls.

Capital Receipts flexibility & ringfenced grants;

39. In addition to the use of reserves, NCC has to date used £42.5M of capital receipts to fund its revenue budget, making use of the flexibility allowed by Government to use capital receipts for transformation purposes. The report on NCC comments that this policy was poorly implemented and not sustainable in the longer term. Relevant guidance notes were not followed (see 40 below). CBC has deliberately not followed this path, and does not have any future intention of utilising this flexibility. Capital receipts will instead be used exclusively to fund capital expenditure.

40. Another key finding of the NCC report was that having made the application to the Secretary of State for such flexibility, NCC did not comply with the terms of the relevant guidance. This requires that a list of transformational projects is identified (the emphasis being that the spend is one-off in nature but delivering ongoing revenue savings) and progress in delivering them is reported on a regular basis to full Council. Such reporting did not happen at NCC, nor was any identifiable progress made, and the resources provided by the capital receipts were largely consumed on ongoing revenue expenditure.

41. The inspection team at NCC heard concerns that the grant from Public Health England was not being applied to the appropriate services. It was concluded that this be left to the external auditors and Public Health England to investigate. CBC does not believe that there are any such

concerns in relation to its use of ringfenced grants, however a recommendation is included below to ensure this remains the case.

Prudent approach to Pressures

42. The Report criticises NCC for its treatment of budgetary pressures, especially the failure to deal with these in year, allowing them to roll forward and build up over a number of years. CBC's planning approach each year considers prior year pressures, including non-achievement of planned efficiencies. In the latter years of the MTFP additional potential pressures have been included which provide significant hedging against future expenditure or shortfalls in predicted income, such as NNDR. The long term strategy is not dependent upon reserves or capital receipts, but it should be noted that the short term use of reserves is greater than has previously been the case. It will therefore be essential to rigorously monitor progress in delivering the planned efficiencies that will reduce ongoing revenue costs.

Minimum Revenue Provision (MRP);

43. NCC reviewed its MRP methodology and received a one off retrospective benefit of £22M, of which it initially used £6.9M to support the budget. The MRP review also gave on-going benefits. Along with a number of other local authorities CBC has conducted a similar review and received a one off retrospective benefit of £27.9M. Council approved the application of this, over a reasonable timescale, to offset, for example, the annual impact on the General Fund of the outstanding Private Finance Initiative (PFI) liability. To date none of this funding has been used, nor is it currently forecast to be used as part of the Council's 2018-19 MTFP.

Achievement of Planned Savings;

44. NCC has in every year since 2013/14 experienced a shortfall in achievement of its planned savings. This amounts to a cumulative shortfall of £83.3M over the period 2013/14 to 2017/18 quarter 3 forecast. In the same period CBC has had a shortfall of £0.6M, after identification of some compensatory savings.

45. In 2010/11 CBC set up an Efficiency Implementation Group, chaired at first by the Deputy Chief Executive and subsequently by the Director of Resources. This group has maintained a very detailed review of all budgeted efficiencies and has reported monthly to Directors on progress. This has enabled the identification of shortfalls early on in the financial year, with compensatory savings being identified and delivered.

46. Where savings have not been delivered due to changed circumstances, rather than timing issues, these have subsequently been reflected in the next year's budgeting. This is again something NCC did not do, allowing unachievable savings to simply be rolled forward each year, thus building an ever growing underlying overspend.

Table 5 – Comparison of NCC & CBC shortfall in achievement of planned efficiency savings 2013/14 to 2017/18 quarter 3 (inclusive of compensatory efficiencies)

	2013/14		2014/15		2015/16		2016/17		2017/18 q3		Cumulative shortfall	
	NCC	CBC	NCC	CBC	NCC	CBC	NCC	CBC	NCC	CBC	NCC	CBC
	£m		£m		£m		£m		£m		£m	
Shortfall in savings	7.1	(0.0)	6.3	(0.6)	21.2	(0.3)	21.6	1.1	27.1	0.4	83.3	0.6

Transformation, Culture & Organisational Development Comparison

47. The Best Value Inspection report refers to a silo mentality and a lack of integration across the Council in considering how the Council's problems could be resolved. CBC's current approach via the wider management team is very different and demonstrates a clear attempt to work across service areas and Directorates.
48. However, CBC has more work to do regarding its transformation programmes: how are these quantified, and clearly communicated across the Council? How joined up are the individual projects? Are there specific and measurable outcomes? There are improvements that could be considered such as a one page Project Initiation Document (PID) for each efficiency/ pressure as part of the MTFP.
49. NCC appears to have had a somewhat dysfunctional leadership team, with every director position having at least two incumbents over a 5 year period. There was a lack of common ownership of corporate decisions and each directorate operated without consideration of the overall financial picture. CBC has had much greater stability at Director level.

Recommendations and Conclusions

50. The culture and financial practices inherent at NCC and outlined in the Best Value Inspection Report have been considered in full by Directors, Finance, Governance, the client side Legal Services and the Council's Section 151 officer. As a result there are a number of learning points for CBC, which has led to the formulation of the recommendations outlined below to refine existing procedures & processes;

LGSS Law Recommendations

51. There is a need to develop greater control over the commissioning of legal services and to share, and learn from, best practice across the 3 constituent council owners. The Council's Board representative is

currently engaged in various matters to strengthen the governance and financial performance of the law company.

Governance Recommendations

52. **Recommendation 1-** that consideration is given to the manner in which Scrutiny is involved in the monitoring of previously identified efficiencies and the extent to which their attention is drawn to known pressures on the budget
53. **Recommendation 2-** that improved clarity of the proposals for efficiency savings required to deliver the MTFP be undertaken at least annually. This could take the form of a PID style 1 page document for each proposal greater than a given de minimus value.
54. **Recommendation 3-** that consideration is given to whether to recommence presenting detailed quarterly budget reports to each individual OSC so as to provide more detailed scrutiny of each element of the budget.
55. **Recommendation 4-** that consideration is given to whether OSCs be given the opportunity to influence at an earlier stage (Oct-Dec) the principles to be included in the budget report prior to formal consultation.
56. **Recommendation 5-** that further updates are added to the forward work plan for Executive on the implementation of the Peer Review recommendations. These could be scheduled when there is something of significance to report.

Finance Recommendations

57. **Recommendation 6** – From quarter 1 of 2018-19 budget monitoring will be produced in a gross and net format, to provide greater transparency of both income and expenditure.
58. **Recommendation 7** – The financial procedures will be reviewed, updated and communicated to staff by the end of July 2018.
59. **Recommendation 8** – From 2018 all budget holders across the Council will receive Finance business partner support based on risk based assessment. This approach is already in place but is not currently formally documented. A report will be brought to Directors prior to Quarter 1 2018-19 budget monitoring outlining the approach and the resulting risk assessments.
60. **Recommendation 9** – As part of the 2019-20 MTFP process the classification of Pressures, descriptions and explanations will be reviewed to ensure that the ‘unavoidable pressures’ is not a description used and to ensure that ‘demand pressures’ and ‘demographic pressures’ are fully explained.

61. **Recommendations 10** – As per the Council's Constitution, a capital scheme should not be included in the MTFP unless a business case is provided during the collation of the draft MTFP. Consideration needs to be given to how this practice might be improved for the next MTFP.
62. **Recommendation 11** – The 2019/20 MTFP will include a comprehensive explanation of compensatory efficiencies for previous years and details of unachievable efficiencies
63. **Recommendation 12** – To enhance monitoring to ensure that ringfenced grants (such as Public Health, the Adult Social Care precept & Improved Better Care Fund) are spent as per the grant regulations. This could involve internal audit reviews and details regarding expenditure would be included in the outturn report.

Transformation, culture & organisational development Recommendations

64. **Recommendation 13** – Transformation Projects across the Council will be reported separately in corporate budget monitoring from Quarter 1 of 2018-19. They will also be detailed in the Council's 2019-20 MTFP Report.

Conclusion

65. Following a detailed review of the findings and criticisms in the NCC Best Value Inspection Report it is clear that there are lessons to be learned by the entire local government sector. It is recognised that whilst CBC does not find itself in a similar financial or governance position to NCC, nonetheless this does not mean that the Council can afford to be complacent.
66. The aim of this report is to assess the applicability of these findings to CBC and to propose recommendations to ensure that the Council continually improves upon its existing processes & procedures.

Appendices

Appendix A – Summary Presentation



Lessons Learned from the Northamptonshire County Council Best Value Inspection Report

Audit Committee 30 May 2018

Purpose

This presentation to the Audit Committee summarises the findings of the Northamptonshire County Council (NCC) Best Value Inspection and compares the financial and governance position of Central Bedfordshire Council (CBC) with NCC.

It also identifies proposals to refine some of the Council's existing processes as a result of lessons learned from the recommendations outlined in the Best Value Inspection of NCC.

NCC summary findings

NCC's performance can be characterised by four elements:

1. poor budget management and loss of financial control
2. a new but ill defined operating model ('Next Generation Council')
3. a claim that NCC was specifically and unusually disadvantaged by the funding formula (the 'Mind the Gap' lobby strategy).
4. a series of governance issues relating to Member involvement, or lack of it, in the above matters

Councillors were also regularly refused information when they sought clarification. Members were told that 'you can only ask that at scrutiny meetings and not outside a meeting' that 'I need to get permission from the Cabinet member to discuss this with you' or just did not get a response.

Individual Councillors right to know was not understood and Councillors had been refused information when they asked questions. It was also noted that ~~Members were told they were not to be given access to some information.~~

NCC Financial Management

- NCC fell well short on achieving its planned savings since 2014/15. The analysis shows that the Council had a shortfall in achieving its planned savings of £7.1M in 2013/14, £6.3M in 2014/15, £21.2M in 2015/16, £21.6M in 2016/17 and £27.1M in 2017/18.
- The main way in which NCC has sought to balance its budget since 2016/17 is to make use of the flexibility allowed by Government to use capital receipts for transformation purposes. Councillors were neither clear nor briefed on the rules and application of this funding source. There have also been recent questions about the inappropriate use of the ringfenced Public Health Grant.
- Budgetary control and financial grip is not assisted by the way the finance support is structured at NCC. The Executive Director of Resources (Section 151) has no staff supporting him in the delivery of the financial management for the council. All the staff work within LGSS. This includes the Strategic Finance Managers who are the key staff that support Service Directors and are the most senior finance office that the Section 151 officer would rely on. There appeared to be no one officer who has clear responsibility for setting professional standards for finance staff.
- The Council has made extensive use of one off resources to support its on-going revenue expenditure since 2013/14, both in terms of general use and for service specific purposes. In 2013/14 earmarked reserves stood at £57.7m, by 1st April 2017 they stood at £8.8m

CBC comparison (1)

Poor budget management

- Monthly budget monitoring reports are presented to Directors and Directorate Management Teams monthly, and the Executive and CR OSC quarterly.
- An officer group “Efficiencies Implementation Group (EIG)” track planned efficiencies monthly. Chaired by Director of Resources.
- The findings of the NCC inspection highlight a reduction in the amount of key data presented to Members to be able to understand and challenge financial performance. Whilst the CBC budget monitoring is quite comprehensive, from 2017 onwards we commenced presenting quarterly budget monitoring data to only one of the four OSCs.

CBC Comparison (2)

Refusal to Provide Information

- CBC officers work conscientiously to support each of the 59 elected Members, regardless of their political affiliations. The Finance team also provide briefings and assistance to the Opposition Members as part of the MTFP process and there is an opportunity for all Opposition Members to attend a budget briefing from all Directors. Officers are invariably thanked publicly by the Members for this process at the annual budget setting Council meeting in February.
- Confidential information is regularly shared with Members of Executive and non-Executive Members, appropriately in 'part 2' of formal meetings. There is no systemic failure to provide information at CBC. Work programmes for OSCs and other meetings are regularly directed by Members of the respective Committees and requested items are regularly a feature of meetings.

CBC Financial Management (1)

Planned Savings

- EIG monitor planned savings.
- Any shortfall must be offset by compensatory savings
- Ongoing pressures incorporated into next year's MTFP

Use of Capital Receipts

- CBC does not use capital receipts for anything other than reducing the borrowing requirement to support capital investment

Use of Public Health Grant

- CBC has a strict process for ensuring that the PH Grant is only used for the purpose for which it is provided.

CBC Financial Management (2)

Finance Support

- Each Directorate within CBC has dedicated financial support, and the structure of AD Finance and three Heads of Service is sufficient to cover all aspects of financial control.

Use of Reserves

- Use of Reserves is reviewed by Directors monthly and reported to the Executive and CROSC on a quarterly basis.
- To date use of reserves has been quite limited. The Budget for 2018/19 requires a greater than usual level of support from reserves but this is to cover timing issues whilst ongoing efficiencies are delivered.

Scrutiny

- At NCC, Scrutiny should have been given an opportunity to consider budgetary proposals earlier in their development (in the Autumn). This is something for CBC to consider as the current timetable is tight and Scrutiny receives a relatively short period of time to consider budget proposals.

NCC Audit Committee (1)

- Scrutiny by the Audit Committee was not effective. Whilst the Chair of the Committee and the Committee members gave inspectors the impression that they had tried to challenge, it is clear that they have been repeatedly thwarted. Matters that the Committee have wanted reports on have taken many months and much persistence for the reports to be prepared and brought to the Committee.
- The Council did not respond well, or in many cases even react, to external and internal criticism. At its most extreme, the two KPMG ISA 260 reports, stating an adverse opinion on Value For Money matters were just reported to the Audit Committee without comment and the unprecedented KPMG Advisory Notice issued under the 2014 Act was reported to full Council without any officer covering report giving advice on what the response was recommended to be.
- The Audit Committee consideration of the external audit report at NCC appears to have been superficial and the Best Value Report criticises NCC for not producing a covering report with officer recommendations. The auditors' reports were not presented to Council or Executive. The real significance here is that these auditor reports were flagging a qualified opinion on NCC's delivery of value for money, which is an important part of the overall financial audit of the authority. CBC has never had such a qualified report.

NCC Audit Committee (2)

Extract from the NCC Audit Committee Constitution: Statement of Purpose

- 3.1. To provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non authority's exposure to risk and weakness of the control environment and to oversee the financial reporting process.
- At the February 2018 Audit Committee, the Chairman expressed his concern that the Corporate Risk register did not contain the financial risks or the risks around Transformation.

CBC Audit Committee

Officer Involvement

- At CBC the equivalent auditor reports are discussed with officers prior to being submitted to the Audit Committee and whilst there is no covering report (because it is an EY document), officers will always discuss the EY report fully at Audit Committee. In respect of reports on the Statement of Accounts there is always an officer report covering the same issues on the same agenda which sits alongside the EY report and these reports are usually considered by the Audit Committee together, and this will have a management response and action plan as appropriate.
- All papers presented to the CBC Audit Committee have a senior officer presenting. EY send senior representatives to all Audit Committee meetings.

Risk

- At CBC the Strategic Risk Register identifies financial risk as a high priority to monitor along with mitigating actions.

LGSS & NCC

- The Inspection Report states that LGSS claims to have delivered significant savings over its period of operation but it is very hard to see what additional saving has been produced by the structural grouping and what could have been generated by normal management action. Further, much of the reported saving is not more for less but routine service reductions.
- The Inspection Team feel there would be benefit in reviewing the relationship between NCC and LGSS to ensure there was clearer accountability and the Council had strategic capacity close to its decision makers.
- This is particularly pertinent as it appears that LGSS is no longer generating surpluses which can be applied to reduce the overall costs to the constituent councils.

LGSS & CBC

- CBC engagement with LGSS is limited to legal services in the form of a separate trading company - LGSS Law Limited – of which CBC is a 33% Shareholder and therefore exposure to any under performance of the wider LGSS group is limited. However, CBC needs to be cognisant of the fact that the Law company is currently also underperforming financially.
- CBC retains strategic governance control through Member representation on the Shareholder Board of LGSS Law Ltd and control and influence of the business operation through representation on the Executive Board, through the Director of Resources.
- CBC has recently completed an internal Governance Audit of the legal shared service arrangement which found the management controls to be adequate but has recommended representation is made for the current wider LGSS Governance structure – currently under review – to be strengthened and clarified.
- Work is currently underway to strengthen the financial performance and processes within LGSS Law.

Recommendations arising from the analysis of the NCC report

These are set out in the accompanying detailed report on this agenda, to which Members are referred

Central Bedfordshire Council

AUDIT COMMITTEE

30 May 2018

Work Programme

Advising Officers:

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

Audit Committee Work Programme

2018/19 Municipal Year	
30 May 2018	<ul style="list-style-type: none"> • CBC Unaudited Statement of Accounts 2017/18 (presentation) (CW/DG) • Annual Governance Statement 2017/18 (SR) • 2017/18 Internal Audit Annual Audit Opinion (CH) • Northamptonshire CC Best Value Inspection – Summary of Findings etc (presentation and report) (DG) • Work Programme (LM)
30 July 2018	<ul style="list-style-type: none"> • External Audit Results Report 2017/18 (NH) • CBC Audited Statement of Accounts 2017/18 (CW/DG) • Annual Audit and Certification Fees 2018/19 (NH) • Annual Governance Statement 2017/18 (QB) • Annual Counter Fraud Update (GM) • Local Government Pension Scheme Update (DG) • 2017/18 Internal Audit Annual Audit Opinion (CH) • Risk Update Report (CH) • Tracking of Internal Audit Recommendations (CH) • Internal Audit Progress Report (CH) • Work Programme (LM)
19 November 2018	<ul style="list-style-type: none"> • Certification of Claims and Returns Annual Report 2017/18 (NH) • Annual Audit Letter for the Year ended 31 March 2018 (NH) • Audit Planning Report (NH) • GDPR Review (SD) • Local Government Pension Scheme Update (DG) • Risk Update Report (CH) • Tracking of Internal Audit Recommendations (CH) • Internal Audit Progress Report (CH) • Work Programme (LM)

11 March 2019	<ul style="list-style-type: none">• External Audit Progress Report (NH)• Annual Review of Risk Based Verification (RBV) Policy for Housing Benefit and Local Council Tax Support Assessments (GM)• Statement of Accounts 2018/19 (SP)• Risk Update Report (CH)• Tracking of Internal Audit Recommendations (CH)• Internal Audit Progress Report (CH)• Work Programme (LM)
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