

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