

# Public Document Pack



COMMITTEE: **JOINT AUDIT AND STANDARDS COMMITTEE**

VENUE: **Council Chamber - Council Offices, Needham Market**

DATE: **Monday, 13 March 2017  
at 10.00 a.m.**

## Members

### Babergh

Melanie Barrett  
Michael Creffield  
Frank Lawrenson  
Alastair McCraw

David Rose  
William Shropshire  
Stephen Williams  
(1 vacancy)

### Mid Suffolk

John Field  
Lavinia Hadingham  
John Matthissen  
Lesley Mayes

Suzie Morley  
Dave Muller  
Kevin Welsby  
Jill Wilshaw

## **PLEASE NOTE TIME AND VENUE OF MEETING**

## **A G E N D A**

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ITEM	BUSINESS	PAGES
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The Council, members of the public and the press may record/film/photograph or broadcast this meeting when the public and the press are not lawfully excluded. Any member of the public who attends a meeting and objects to being filmed should advise the Committee Clerk.

## **PART I**

### 1 SUBSTITUTES AND APOLOGIES

Any Member attending as an approved substitute to report giving his/her name and the name of the Member being substituted.

### 2 DECLARATION OF INTERESTS

Members to declare any interests as appropriate in respect of items to be considered at this meeting.

### 3 MINUTES

1 - 2

To confirm and sign the Minutes of the meeting held on 23 January 2017 as a correct record (copy attached).

### 4 PETITIONS

The Corporate Manager – Democratic Services to report, in accordance with the Council's Petition Scheme, the receipt of any petitions submitted to the Chief Executive.

ITEM	BUSINESS	PAGES
5	<u>QUESTIONS BY THE PUBLIC</u>	
	To consider questions from, and provide answers to, the public in relation to matters which are relevant to the business of the meeting and of which due notice has been given in accordance with the Committee and Sub-Committee Procedure Rules.	
6	<u>QUESTIONS BY COUNCILLORS</u>	
	To consider questions from, and provide answer to, Councillors on any matter in relation to which the Committee has powers or duties and of which due notice has been given in accordance with the Committee and Sub-Committee Procedure Rules.	
7	<u>EXTERNAL AUDIT REPORTS</u>	3 - 40
	Suresh Patel from Ernst and Young will attend the meeting to present the following reports and answer Members' questions:	
	<ul style="list-style-type: none"> <li>a) <u>Paper JAC96 - Certification of Claims and Returns Annual Report 2015/16 (BDC)</u></li> <li>b) <u>Paper JAC97 - Certification of Claims and Returns Annual Report 2015/16 (MSDC)</u></li> <li>c) <u>Paper JAC98 - Babergh and Mid Suffolk Audit Plan 2016/17</u></li> </ul>	
8	<u>PAPER JAC99 - MANAGING THE RISK OF FRAUD AND CORRUPTION - ANNUAL REPORT 2016/17</u>	41 - 50
	Report by the Corporate Manager – Internal Audit attached.	
9	<u>PAPER JAC100 - INTERNAL AUDIT PLAN 2017/18</u>	51 - 58
	Report by the Corporate Manager – Internal Audit attached.	
10	<u>PAPER JAC101 - COMPLAINTS MONITORING REPORT</u>	59 - 60
	Report by the Monitoring Officer attached.	
11	<u>PAPER JAC102 - FORWARD PLAN</u>	61 - 62
	Report by the Corporate Manager – Democratic Services attached.	

Note: The date of the next meeting is Monday 15 May 2017 (at Hadleigh).

For further information on any of the Part 1 items listed above, please contact Committees on (01449) 724673 or via email at [committees@baberghmidsuffolk.gov.uk](mailto:committees@baberghmidsuffolk.gov.uk)

# Agenda Item 3

BABERGH DISTRICT COUNCIL/  
MID SUFFOLK DISTRICT COUNCIL

JOINT AUDIT AND  
STANDARDS COMMITTEE

MINUTES OF THE JOINT AUDIT AND STANDARDS COMMITTEE MEETING HELD IN  
THE COUNCIL CHAMBER, COUNCIL OFFICES, CORKS LANE, HADLEIGH ON  
MONDAY 23 JANUARY 2017

PRESENT: **BABERGH**

Michael Creffield  
Alastair McCraw  
David Rose  
William Shropshire (Chairman)  
Fenella Swan  
Stephen Williams

**MID SUFFOLK**

John Field  
Lavinia Hadingham  
Derrick Haley  
John Matthissen  
Lesley Mayes  
Suzie Morley  
Dave Muller  
Kevin Welsby

Councillors Frank Lawrenson and Jill Wilshaw were unable to be present.

## 33 SUBSTITUTES

It was noted that in accordance with Committee and Sub-Committee Procedure Rule No 20, a substitute was in attendance as follows:-

Derrick Haley (substituting for Jill Wilshaw)

## 34 DECLARATION OF INTERESTS

There were no declarations of interest.

## 35 MINUTES

### **RESOLVED**

**That the Minutes of the meeting held on 14 November 2016 be confirmed and signed as a correct record.**

## 36 PETITIONS

None received.

## 37 QUESTIONS BY THE PUBLIC

None received.

## 38 QUESTIONS BY COUNCILLORS

None received.

## 39 JOINT TREASURY MANAGEMENT STRATEGY 2017/18

Melissa Evans, Corporate Manager – Financial Services introduced Paper JAC93, presenting Members with the proposed Treasury Management Strategy Statement (including the Annual Investment Strategy) in accordance with the CIPFA Code of Practice. She advised Members of a correction to the figures in the Note in Appendix A – page 7 – which should have read ‘The £87.1m and £71.5m relate entirely to the HRA ....’ to correspond with the figures shown in the table against External Borrowing – Fixed Rate – PWLB.

In response to Members' questions about the investment opportunities for both Councils, it was agreed that the original report and legal advice about the £25m which each Council has borrowed to invest in order to generate new sources of income would be re-circulated to the members of the Joint Committee. The Corporate Manager explained the differences in the borrowing statistics between the two Councils and made reference to the way in which historic debt is shown. She also confirmed that the Treasury Management Strategy had enabled the budget gap for 2017-18 to be closed.

**RECOMMENDED TO EXECUTIVE AND STRATEGY COMMITTEES AND BOTH COUNCILS**

- (1) That the key factors and information relating to and affecting treasury management activities set out in Appendices A and B to Paper JAC93 be noted.**
- (2) That the following be approved:**
  - (a) The Treasury Management Policy Statement set out in Appendix C.**
  - (b) The Treasury Management Strategy for 2017/18, including the Annual Investment Strategy as set out in Appendix D.**
  - (c) The Prudential Indicators and Minimum Revenue Provision Statement set out in Appendices G and H.**

**40 JOINT OPERATIONAL SYSTEMS, INTEGRATED AND EXCELLENT (JOSIE)**

Tom Barker, Assistant Director – Planning for Growth introduced Paper JAC94, updating Members on the JOSIE Project and the actions and activities that had been put in place in response to the Internal Audit Report findings. He acknowledged the concerns expressed by Members about delays in implementing the Project and referred to the current timescale for the system to be live by May 2017, to fit in with the IDOX timetable as explained in the report. Members welcomed the work being done by Steve Newey, the Project Manager, and the improvements to internal communications regarding progress. Members noted that the Assistant Director will keep them informed by appropriate means including through CONNECT and that a further update report will be made in due course.

**RESOLVED**

**That the contents of Paper JAC94 be noted.**

**41 FORWARD PLAN 2016/17**

**RESOLVED**

**That the content of Paper JAC95 be noted.**

The business of the meeting was concluded at 11.10 a.m.

.....  
Chairman

# Certification of claims and returns annual report 2015/16

Babergh District Council

31 January 2017

Ernst & Young LLP



Building a better  
working world

The Members of the Audit Committee  
Babergh District Council  
Corks Lane  
Hadleigh  
IP7 6SJ

31 January 2017

Email: [aclewer@uk.ey.com](mailto:aclewer@uk.ey.com)

Dear Members

## **Certification of claims and returns annual report 2015/16 Babergh District Council**

We are pleased to report on our certification work. This report summarises the results of our work on Babergh District Council's 2015/16 claims.

### **Scope of work**

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

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

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

### **Statement of responsibilities**

The Audit Commission's 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities) applied to this work. It serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

This report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the Council. As appointed auditor we take no responsibility to any third party.

### **Summary**

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

We checked and certified the housing benefits subsidy claim with a total value of £20.1 million and met the submission deadline. We issued a qualification letter with our submission; the qualification matters

are included in section 1. One amendment was made to the claim which had no impact on subsidy claimed.

Fees for certification work are summarised in section 2. The housing benefits subsidy claim fees for 2015/16 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2015 and are now available on the PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk))

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

Yours faithfully

**Andy Clewer**  
Partner  
Ernst & Young LLP  
Enc

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## 1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£20,121,237
Amended	Yes – the entry for rental income for 2015/16 excluding affordable rents was amended but this had no impact on subsidy.
Qualification letter	Yes
Fee – 2015/16	£23,051
Fee – 2014/15	£23,000

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

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years claims. The Council identified errors and carried out extended testing in a number of areas, for which we re-performed a sample of cases.

Summary of errors: 2015/16

Description of Cell	Nature of error
Cell 094: Rent Allowances – total expenditure (benefit granted)	<p>Testing of the initial sample identified one case where the Authority had included an incorrect working tax credit and child tax credit leading to an underpayment of subsidy. An additional sample of 40 cases identified no further errors.</p> <p>As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and has not therefore been classified as an error for subsidy purposes.</p>

2014/15 Follow up

Description of Cell	Follow up issue
Cell 055: Rent Rebates - total expenditure (benefit granted)	<p>In 2014/15 the previous auditors, BDO, identified earned income calculations as an issue. Our 2015/16 testing of the sub population identified one case where earnings had been incorrectly assessed resulting in an overpayment of benefit.</p> <p>We reported an extrapolation in the Qualification Letter.</p>
Cell 055: Rent Rebates – total expenditure (benefit granted)	In 2014/15 BDO identified private pension income calculation as an issue. Our 2015/16 testing of the sub population identified one case where benefit

Description of Cell	Follow up issue
	<p>had been overpaid and one case where benefit had been underpaid as a result of the Authority calculating incorrect pension income.</p> <p>We reported an extrapolation in the Qualification Letter.</p>
<p>Cell 094: Rent Allowances – total expenditure (benefit granted)</p>	<p>In 2014/15 BDO identified self-employed income calculation as an issue. Our 2015/16 testing of the sub population identified 2 cases where benefit had been overpaid by the Authority calculating an incorrect self-employed income.</p> <p>We reported an extrapolation in the Qualification Letter.</p>
<p>Cell 114: Rent Allowances – eligible overpayments</p>	<p>In 2014/15 BDO identified eligible overpayment misclassification as an issue. Our 2015/16 testing of the sub population identified one case where the Authority had misclassified on the Academy system overpaid benefit as eligible overpayment instead of LA error/admin delay.</p> <p>We reported an extrapolation in the Qualification Letter.</p>

We have reported underpayments, uncertainties and the extrapolated value of other errors in our Qualification Letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or claw back the benefit subsidy paid.

As the errors were found in November 2016, the Council may have made similar errors in the early part of the 2016/17 financial year. I have therefore recommended the need for early extended testing in these areas to identify the extent of similar errors that may have been made in 2016/17.

Issues for the 2016/17 audit

2016/17 issue	Recommendation
<p>Early extended testing</p>	<p>Perform early extended testing in those areas where errors were identified in 2015/16, to ascertain the extent of similar errors arising in 2016/17.</p>

## 2. 2015/16 certification fees

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

Claim or return	2015/16	2015/16	2014/15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	23,051	23,051	23,000
<b>Total</b>	<b>23,051</b>	<b>23,051</b>	<b>23,000</b>

The indicative fee for 2015/16 is based on the final fee for 2013/14. The sum of £23,051 also reflects the reduction arising from the outcome of the Audit Commission's tendering exercise in March 2014.

### 3. Other assurance work

For 2015/16 we will also be acting as reporting accountants in relation to the following scheme:

- ▶ Housing pooling return

We will be providing a separate report to the Council in relation to this return. This work is undertaken outside the PSAA regime and the fees for this are not included in the figures included in this report. They are referred to here to ensure Members have a full understanding of the various returns that the Council prepares and on which we provide some form of assurance.

## 4. Looking forward

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

The Council's indicative certification fee for 2016/17 is £17,250. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2015/16. Indicative fees for 2016/17 housing benefit subsidy certification work are based on final 2014/15 certification fees. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014/15.

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

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Assistant Director - Corporate Resources before seeking any such variation.

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

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**JAC97**

# **Certification of claims and returns annual report 2015/16**

Mid Suffolk District Council

31 January 2017

Ernst & Young LLP



**Building a better  
working world**

The Members of the Audit Committee  
Mid Suffolk District Council  
131 High Street  
Needham Market  
IP6 8DL

31 January 2017

Email: [aclewer@uk.ey.com](mailto:aclewer@uk.ey.com)

Dear Members

## **Certification of claims and returns annual report 2015/16 Mid Suffolk District Council**

We are pleased to report on our certification work. This report summarises the results of our work on Mid Suffolk District Council's 2015/16 claims.

### **Scope of work**

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

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

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

### **Statement of responsibilities**

The Audit Commission's 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities) applied to this work. It serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

This report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the Council. As appointed auditor we take no responsibility to any third party.

### **Summary**

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

We checked and certified the housing benefits subsidy claim with a total value of £16.9 million and met the submission deadline. We issued a qualification letter with our submission; the qualification matters



are included in section 1. One amendment was made to the claim which had no impact on subsidy claimed.

Fees for certification work are summarised in section 2. The housing benefits subsidy claim fees for 2015/16 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2015 and are now available on the PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk))

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

Yours faithfully

**Andy Clewer**  
Partner  
Ernst & Young LLP  
Enc

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## 1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£16,888,563
Amended	Yes – the entry for rental income for 2015/16 excluding affordable rents was amended but this had no impact on subsidy.
Qualification letter	Yes
Fee – 2015/16	£18,665
Fee – 2014/15	£25,245

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

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years claims. The Council identified errors and carried out extended testing in a number of areas, for which we re-performed a sample of cases.

Summary of errors: 2015/16

Description of Cell	Nature of error
Headline cells for non-HRA rent rebates, rent allowance, rent rebates and modified schemes.	Our 2015/16 testing of the initial samples for each of the headline cells did not identify any errors. As a result extended testing was not required.

2014/15 Follow up

Description of Cell	Follow up issue
Cell 055: Rent Rebates - total expenditure (benefit granted)	In 2014/15 we identified earned income calculations as an issue. Our 2015/16 testing of the sub population identified one case where earnings had been incorrectly assessed resulting in an overpayment of benefit.  We reported an extrapolation in the Qualification Letter.
Cell 067: Eligible overpayments (current year)	In 2014/15 we identified issues in respect of the correct calculation of eligible overpayments. Our 2015/16 testing of the sub population identified: <ul style="list-style-type: none"> <li>One case where the overpayment had been incorrectly classified as eligible when liability for rent had ended and expenditure should therefore have been classified as a</li> </ul>

Description of Cell	Follow up issue
	<p>Technical overpayment.</p> <ul style="list-style-type: none"> <li>· One case where the 4 week RTI grace period had not been correctly applied meaning that an additional week should be classified as eligible error instead of LA error.</li> <li>· One case where an incorrect earnings figure was applied.</li> </ul> <p>We reported an extrapolation in the Qualification Letter.</p>
<p>Cell 114: Rent Allowances – eligible overpayments (current year)</p>	<p>In 2014/15 we identified issues in respect of the correct calculation of eligible overpayments. Our 2015/16 testing of the sub population identified:</p> <ul style="list-style-type: none"> <li>· 3 cases where the Authority incorrectly classified the overpayments. The overpayments should be classified as LA error.</li> <li>· One case where incorrect income was applied.</li> </ul> <p>We reported an extrapolation in the Qualification Letter.</p>
<p>We have reported underpayments, uncertainties and the extrapolated value of other errors in our Qualification Letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or claw back the benefit subsidy paid.</p> <p>As the errors were found in November 2016, the Council may have made similar errors in the early part of the 2016/17 financial year. I have therefore recommended the need for early extended testing in these areas to identify the extent of similar errors that may have been made in 2016/17.</p> <p>Issues for the 2016/17 audit</p>	
2016/17 issue	Recommendation
<p>Early extended testing</p>	<p>Perform early extended testing in those areas where errors were identified in 2015/16, to ascertain the extent of similar errors arising in 2016/17.</p>

## 2. 2015/16 certification fees

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

Claim or return	2015/16	2015/16	2014/15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	18,665	18,665	25,245
<b>Total</b>	<b>18,665</b>	<b>18,665</b>	<b>25,245</b>

The fee for 2014/15 consisted of the scale fee of £24,000 plus an additional fee of £1,245, approved by the Audit Commission, for the extra testing undertaken during our audit. The 2014/15 actual fee of £25,245 was reported in our 2014/15 certification report to Members.

The indicative fee for 2015/16 is based on the final fee for 2013/14. The sum of £18,665 also reflects the reduction arising from the outcome of the Audit Commission's tendering exercise in March 2014.

### 3. Other assurance work

For 2015/16 we will also be acting as reporting accountants in relation to the following scheme:

- ▶ Housing pooling return

We will be providing a separate report to the Council in relation to this return. This work is undertaken outside the PSAA regime and the fees for this are not included in the figures included in this report. They are referred to here to ensure Members have a full understanding of the various returns that the Council prepares and on which we provide some form of assurance.

## 4. Looking forward

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

The Council's indicative certification fee for 2016/17 is £18,926. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2015/16. Indicative fees for 2016/17 housing benefit subsidy certification work are based on final 2014/15 certification fees. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014/15.

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

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Assistant Director - Corporate Resources before seeking any such variation.

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

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# Babergh District Council and Mid Suffolk District Council

Year ending 31 March 2017

Audit Plan

21 February 2017

Ernst & Young LLP



Joint Audit Committee  
Babergh District Council  
Mid Suffolk District Council

21 February 2017

Dear Members

## **Joint Audit Plan for Babergh District Council and Mid Suffolk District Council**

We are pleased to attach our joint Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Joint Audit Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Audit Committee's service expectations.

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

We welcome the opportunity to discuss this joint Audit Plan with you on 13 March 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Suresh Patel  
Executive Director  
*For and behalf of Ernst & Young LLP Appointed Auditor*  
Enc

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

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

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

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

# 1. Overview

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

- ▶ Our audit opinion on whether the financial statements of Babergh District Council and Mid Suffolk District Council give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended; and
- ▶ Our conclusion on each Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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

## 2. Financial statement risks

We outline below our current assessment of the financial statement risks facing each Council, identified through our knowledge of each Council's operations and discussion with those charged with governance and officers. We will seek to validate these with you at the committee meeting.

Following completion of our detailed planning and interim audit procedures we will consider if any revisions are required to our identified risk assessment and provide you with an update.

Please note all risks outlined below apply to both Councils.

Significant risks (including fraud risks)	Our audit approach
<b>Risk of fraud in revenue recognition</b>	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>Having assessed the key income and expenditure streams of each Council, we judge that there is opportunity and incentive for the incorrect classification of revenue spend as capital expenditure.</p>	<p>We will</p> <ul style="list-style-type: none"> <li>▶ Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</li> </ul>
<b>Risk of management override</b>	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>▶ Reviewing accounting estimates for evidence of management bias; and</li> <li>▶ Evaluating the business rationale for significant unusual transactions.</li> </ul>
<b>Other financial statement risks</b>	
<b>CIPFA Code Changes to the Comprehensive Income and Expenditure Statement (CIES)</b>	
<p>Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year changing the way the financial statements are presented.</p> <p>The new reporting requirements impact the CIES and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.</p> <p>The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.</p> <p>This change in the code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Reviewing the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the Code;</li> <li>▶ Reviewing the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect each Council's organisational structure and how overheads are apportioned across the service areas reported; and</li> <li>▶ Agreeing the restated comparative figures back to each Council's segmental analysis and supporting working papers.</li> </ul>

### Valuation of Property, Plant and Equipment

Due to the complexity of accounting for property, plant and equipment, the cyclical approach to valuations, and the material values involved, there is a higher risk that asset valuations contain material misstatements.

Our approach will focus on:

- ▶ Assessing the independence, objectivity, competence and work of your valuation experts. This will include comparison to industry valuation trends and reliance on our own valuation experts where we identify significant unexplained variations;
- ▶ Testing of journals, supporting spreadsheets and derivation of accounting entries; and
- ▶ Testing the accounting treatment of valuations made in the year, including the assessment and treatment of impairment.

### Pension Liability

Each Council operates a defined benefits pension scheme. Accounting for this scheme involves estimation and judgement. The Pension liability is one of the largest entries on the balance sheet.

We will obtain an understanding of and evaluate key controls over the valuation of the pension liability.

We will consider:

- ▶ The expertise of the Actuary used by each Council;
- ▶ The reasonableness of the estimations and judgements used; and
- ▶ The completeness and accuracy of the data provided by each Council to the Actuary.

## 2.1 Responsibilities in respect of fraud and error

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

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

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

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

### 3. Value for money risks

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

For 2016-17 this is based on the overall evaluation criterion:

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

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

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

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

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

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

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

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. At this stage, this has not identified any risks for either Council which we view as relevant to our value for money conclusion.

We will keep our risk assessment under review throughout our audit, and communicate to the Joint Audit Committee any revisions and any additional local risk-based work we may need to undertake as a result.

## 4. Our audit process and strategy

### 4.1 Objective and scope of our audit

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

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

We issue an audit report that covers:

#### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland). We report to you by exception in respect of each governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

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

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

### 4.2 Audit process overview

Our intention is to carry out a fully substantive audit in 2016/17 as we believe this to be the most efficient audit approach. Although we are therefore not intending to rely on individual system controls in 2016/17, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for each of the Councils Annual Governance Statement. We will review the work completed by internal audit as part of this element of our work.

Our audit takes into account the joint approach adopted by the Councils to financial reporting, financial management and overarching executive management. Our approach involves:

- ▶ Walking through the material financial systems, and assessing the design and implementation of key internal controls;
- ▶ Reviewing internal audit plans and the results of work undertaken; and
- ▶ Reliance on the work of experts in relation to areas such as pensions and valuations.

#### **Analytics**

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

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



## Internal audit

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

## Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. We list the areas where either EY or third party specialists provide input.

Area	Specialists
Property valuations	Management's expert valuer (District Valuer) / EY Property team
Pension liability valuation	Management's actuary (Hymans Robertson) / EY Pensions team
Financial instruments valuations	Management's expert valuer
NNDR appeals provision	Management's expert valuer (Wilkes, Head and Eve)

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

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

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

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

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

### Procedures required by standards

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

### Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

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

## 4.4 Materiality

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

	Overall materiality	% of gross expenditure	Threshold for reporting uncorrected audit misstatements to you
<b>Babergh District Council</b>	£943,000	2%	£47,000
<b>Mid Suffolk District Council</b>	£998,000	2%	£50,000

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

## 4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative scale fees for 2016/17 are:

- Babergh District Council, £48,812.
- Mid Suffolk District Council, £43,425.

The indicative scale fee does not take into account any additional work that may be required as a result of amendments to the Code changing the way the financial statements are presented. Management are currently evaluating the extent of the change to both Councils. Once this has been completed we will consider the audit procedures required to audit the restatement and propose a fee for the completion of this work.

## 4.6 Your audit team

The engagement team is led by Suresh Patel, Executive Director, who has significant experience of auditing local authorities. Suresh is supported by Melanie Richardson, an experienced Audit Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the Section 151 Officer. Suresh and Melanie will be supported by Rodrique Thomas, Audit Executive, who will be significantly involved in the delivery of our financial statements audit.

## 4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to each Council through the Audit Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

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

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

<b>Audit phase</b>	<b>Timetable</b>	<b>Audit Committee timetable</b>	<b>Deliverables</b>
High level planning	<b>April 2016</b>	<b>June 2016</b>	2016/17 Audit Fee Letter
Risk assessment and setting of scopes	<b>January – February 2017</b>	<b>March 2017</b>	Joint Audit Plan
Testing routine processes and controls	<b>February – March 2017</b>	<b>June 2017</b>	Progress Report (If appropriate)
Year-end audit	<b>July – September 2017</b>	<b>25 September 2017</b>	
Completion of audit	<b>July 2017 – September 2017</b>	<b>25 September 2017</b>	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements; and overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	<b>October 2017</b>	<b>tbc</b>	Joint Annual Audit Letter

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

## 5. Independence

### 5.1 Introduction

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

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

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

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

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

### 5.2 Relationships, services and related threats and safeguards

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

#### ***Self-interest threats***

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

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

At the time of writing, neither Council has commissioned any non-audit services from EY for 2016/17.

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

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

***Self-review threats***

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

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

***Management threats***

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

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

***Other threats***

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

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

***Overall Assessment***

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

## **5.3 Other required communications**

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

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

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

## Appendix A Fees

A breakdown of our fees is shown below:

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £	Explanation
<b>Babergh District Council</b>				
<b>Total Audit Fee – Code work</b> Opinion Audit and VFM Conclusion	**£48,812	£48,812	*£52,312	2015/16 audit fee includes £3,500 for extra work to review the Council's methodology for calculating the Minimum Revenue Provision (MRP)
Certification of claims and returns <sup>1</sup>	£17,250	£17,250	£23,051	
Non-audit work	0	0	£2,200	** Pooling of Housing Capital Receipts Return which is agreed outside of the PSAA regime.
<b>Mid Suffolk District Council</b>				
<b>Total Audit Fee – Code work</b> Opinion Audit and VFM Conclusion	**£43,425	£43,425	*£46,925	2015/16 audit fee includes £3,500 for extra work undertaken to review the Council's methodology for calculating the MRP.
Certification of claims and returns <sup>1</sup>	£18,926	£18,926	£18,665	
Non-audit work	0	0	£1,700	** Pooling of Housing Capital Receipts Return which is agreed outside of the PSAA regime.

All fees exclude VAT.

\*The extra fee for £3,500 at both Councils in 2015/16 has been agreed with the Section 151 Officer and is awaiting approval from the PSAA Ltd.

\*\*The planned fee for 2016/17 may be subject to a scale fee variation depending on how effectively the Councils implement the Code changes to the presentation of the accounts as set out in Section 2 of this Plan. Once any fee changes have been agreed we will provide you with an update.

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

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Councils; and
- ▶ The Councils have an effective control environment.

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

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

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

## Appendix B UK required communications with those charged with governance

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

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

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



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# Agenda Item 8

## BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

<b>From: Corporate Manager – Internal Audit</b>	<b>Report Number: JAC99</b>
<b>To: Joint Audit and Standards Committee</b>	<b>Date of meeting: 13 March 2017</b>

### MANAGING THE RISK OF FRAUD AND CORRUPTION – ANNUAL REPORT 2016/17

#### 1. Purpose of Report

- 1.1 This report explains the current arrangements in place across both Councils to ensure there is a pro-active corporate approach to preventing fraud and corruption and creating a culture where fraud and corruption will not be tolerated. It also provides details of proactive work undertaken by Internal Audit to deter, prevent and detect fraud and corruption.

#### 2. Recommendations

- 2.1 That the progress made in ensuring there are effective arrangements and measures in place across both Councils to minimise the risk of fraud and corruption be noted.

#### 3. Financial Implications

- 3.1 Whilst there are no direct implications arising from this report there are potential resource implications concerning anti-fraud and corruption issues. Any implications arising from the need to introduce additional controls and mitigations will be addressed with management. The emphasis at all times will be to improve controls without increasing costs or jeopardising efficient and compliant service delivery.

#### 4. Legal Implications

- 4.1 There are no legal implications arising from these proposals.

#### 5. Risk Management

- 5.1 The key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If robust anti-fraud and corruption arrangements are not in place this could affect the achievement of the Councils' strategic aims and priorities, key projects, the delivery of services and its reputation.	Unlikely (2)	Bad (3)	The risk of fraud and corruption in relation to each Councils' activities is taken into consideration both as part of each Councils' approach to risk management and also in the development of the annual Internal Audit Plan. In practice, each Councils' mitigating controls include clear policies and procedures available to all staff and Councillors;

			Internal Audit who investigate potential areas of fraud and corruption; the bi-annual participation in the National Fraud Initiative; and a sound internal control environment – as demonstrated by internal and external audit opinions and the Annual Governance Statement.
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## 6. Consultations

- 6.1 The Interim Assistant Director – Law and Governance, Assistant Director - Corporate Resources and Legal have been consulted on this report and any comments received have been incorporated in the report.

## 7. Equality Analysis

- 7.1 There are no equality implications.

## 8. Shared Service / Partnership Implications

- 8.1 The overall approach has been to develop an alignment of relevant policies and procedures to provide a clear corporate framework to counter fraudulent and corrupt activity across the two councils.

## 9. Links to Joint Strategic Plan

- 9.1 Work undertaken to reduce fraud and enhance the Councils' anti-fraud and corruption culture contributes to the delivery of all its aims and priorities.

## 10. Key Information

- 10.1 This report shows those responsible for governance how both Councils are looking to fight fraud more effectively. It brings together in one document a summary of the outcomes of our work to deter, prevent and detect fraud and corruption over the last 12 months.
- 10.2 Although both Councils have traditionally encountered low levels of fraud and corruption, the risk of such losses both internally and externally is fully recognised as part of each Council's operations that need to be managed proactively and effectively.
- 10.3 Each Council's expectation of propriety and accountability is that Councillors and staff, at all levels, will lead by example in ensuring adherence to legal requirements, policies, procedures and practices.

### Key issues and drivers

- 10.4 In general terms local government are reviewing how local services are to be delivered. The change of emphasis from local government being a provider to a commissioner of services changes the risk profile of fraud, as well as the control environment in which risk is managed.

- 10.5 These changes are happening against a backdrop of reduced funding in which the general fraud risk tends to increase.
- 10.6 The European Institute for Combatting Corruption & Fraud (TEICCAF) reports on national, regional and local fraud detection by English councils. Their report entitled 'Protecting the English Public Purse 2015 – Fighting Fraud against English Councils' considers the key fraud risks and pressures facing councils and related bodies and identifies good practice. The scale of fraud committed against local government is large, but difficult to quantify with precision.
- 10.7 The Protecting the English Public Purse 2015 – *Fighting fraud against English Councils* reports that in total, English councils detected fewer cases of fraud in 2014/15 compared with the previous year. However, their value increased by more than 11 per cent. Right to Buys and tenancy frauds still feature as areas of fraud risk for councils. Previous scheduled work in these areas has been undertaken by Internal Audit and as a result a number of 'due diligence' checks have been implemented to further strengthen the control environment. Fraud and corruption risks are identified as part of the annual planning process.
- 10.8 The Protecting the English Public Purse 2016 report will be issued later this year. Internal Audit will note any new/emerging fraud risks facing Councils and will react accordingly.

### **The Risk of Fraud**

- 10.9 In practice, each Council's mitigating controls include clear policies and procedures available to all staff; and a sound internal control environment, as demonstrated by internal and external audit opinions and the most recently published Annual Governance Statement.
- 10.10 However, whilst there are mitigating controls in place to manage the risk of fraud, this can never be expunged completely. Each Councils' Financial Regulations give the following responsibility to the Corporate Manager for Internal Audit: the development and maintenance of a Prevention of Financial Crime Policy and ensuring that Members and staff are aware of its contents. The Policy was approved by this Committee on 16<sup>th</sup> March 2015 (Paper JAC49) and disseminated to all Members and staff. A copy of the Policy is held on both Council's websites.

### **Fraud Risk Register**

- 10.11 Part of delivering good governance as defined by CIPFA/SOLACE is ensuring counter fraud arrangements are in place and operating effectively.
- 10.12 Internal Audit has produced a Fraud Risk Register, which contains a list of areas where Internal Audit and service managers believe the Councils are susceptible to fraud. This register will enable the Councils to focus on suitable internal controls to mitigate any subsequent risk. The register also influences the audit planning process – refer to paragraphs 10.21 to 10.24.

### **Raising awareness and openness**

- 10.13 Work continues on raising fraud awareness across both Councils and includes:

- Alerting staff of National Fraud Bulletins and non-benefit threat alerts from the City of London Police and ensuring that associated internal controls are robust;
- Completion of national fraud and corruption surveys; and
- Attendance of the annual Fraud and Error conference. Speakers are invited from central and local government to talk about old and new techniques and approaches for tackling fraud and error. Topics include: the use of technology and data matching initiatives; potential benefits of collaborative working and pooling data intelligence.

10.14 On 1 April 2016 both Councils became members of the National Anti-Fraud Network (NAFN). We are required to join as a result of The Regulation of Investigatory Powers Act 2000 (RIPA). RIPA legislates for the use by Local Authorities of covert methods of surveillance and information gathering to assist in the detection and prevention of crime. If we wish to obtain communications data under RIPA we are now required to use NAFN. Membership also brings a number of benefits, namely:

- Acquisition of data legally, efficiently and effectively from a wide range of information providers (for an example of their service refer to paragraph 10.47);
- Acting as the hub for the collection, collation and circulation of intelligence alerts;
- Providing best practice examples of process, forms and procedures; and
- Compliance with the law and best practice: All data is acquired in full compliance with the law and best practice. NAFN report that their systems are secure and centrally maintained to the highest standards and are recognised as an expert provider of data services by the Interception of Communications Commissioner's Office, the Home Office, the DWP and the DVLA amongst others.

10.15 Both Councils are committed to being open and transparent. The published Communities and Local Authorities (CLG) Code of Recommended Practice for Local Authorities on Data Transparency has set out data publishing requirements on Local Authorities. This now includes publishing information on each Councils' counter fraud work.

### **Policies and Procedures**

10.16 The Councils are committed to ensuring that the opportunity for fraud and corruption is minimised. It adopts a culture in which all of its staff and Councillors can help the organisations maintain a proactive attitude towards preventing fraud and corruption by reporting corrupt, dishonest or unethical behaviour. This is supported by the Prevention of Financial Crime Policy, which was approved by this Committee in January 2015 and the recently published Commissioning and Procurement guidelines.

## **CIPFA Code of Practice – Managing the Risk of Fraud and Corruption**

10.17 The Code includes high level principles that set out counter fraud good practice, suitable across the public sector. It is of key interest to organisations looking to improve the effectiveness of their counter fraud arrangements.

10.18 There are five key principles that make up the code:

- Acknowledge the responsibility of the governing body for countering fraud and corruption;
- Identify the fraud and corruption risks;
- Develop an appropriate counter fraud and corruption strategy;
- Provide resources to implement the strategy; and
- Take action in response to fraud and corruption.

10.19 In December 2015, a document was issued by CIPFA to assist organisations implement the Code and specific guidance was issued for each of the key principles above. A self-assessment undertaken by Internal Audit showing compliance with the detailed requirements was produced and reported to this Committee in April 2016.

10.20 Having considered all the principles, the Corporate Manager – Internal Audit is satisfied that the Councils have adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud. This same statement will also appear in the Councils' Annual Governance Statement 2016/17 as recommended by CIPFA.

### **Internal Audit**

10.21 Fraud and corruption risks are identified as part of the annual planning process and contribute to the overall formation of audit coverage.

10.22 Whilst it is not a primary role of an internal audit function to detect fraud, it does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud.

10.23 Internal Audit can undertake additional work, but it must not be prejudicial to their primary role. Activities carried out include:

- Investigating the causes of fraud;
- Reviewing fraud prevention controls and detection processes put in place by management;
- Making recommendations to improve those processes;
- Using internal knowledge within the Internal Audit team, or bringing in any specialist knowledge and skills that may assist in fraud investigations, or leading investigations where appropriate and requested by management;

- Responding to whistleblowing allegations;
- Considering fraud risk in every audit; and
- Facilitating corporate learning.

10.24 The annual Audit Plan has an allowance for Internal Audit to undertake irregularity investigations, National Fraud Initiative related work, and proactive anti-fraud and corruption work. This is at a level deemed proportionate to the identified risk of fraud within the Councils, and is supported by senior management.

### **Cyber crime**

10.25 The public sector is a key target for cyber criminals. This is evident with several local authorities recently falling to ransomware attacks. An audit is due to be undertaken to provide assurance on whether the Councils have in place controls that will contribute to the security of the Councils' cyber arena. The review will give consideration to the UK Government Communications Headquarters (GCHQ) – produced 10 Steps to Cyber Security. The findings will be reported to this Committee in the Internal Audit Annual Report 2016/17 in May 2017.

### **Benefit Fraud**

10.26 The way Housing Benefit is investigated changed for our Councils on 1<sup>st</sup> May 2015 following a government initiative to create a single integrated fraud investigation service with statutory powers, which included the investigation and sanction of Housing Benefit offences. From 1<sup>st</sup> May 2015 all suspected Housing Benefit fraud cases are referred to the DWP within a new team called the 'Single Fraud Investigation Service' (SFIS).

### **Fraud update from the Shared Revenues Partnership (SRP)**

10.27 The SRP secured funding from the DWP under the Fraud and Error Reduction Incentive Scheme (FERIS) for 2016/17. The SRP have run targeted campaigns to reduce fraud and error Housing Benefit cases. These campaigns have been selected in areas that historically the SRP are aware that there may have been changers that the customer may not have informed the benefits department, for example changes in Private/Occupational Pensions; and whose capital may have gone over the £16k threshold.

10.28 Further enhancements are being introduced in 2017. The SRP will contact the customer and request that they submit information on-line via a secure portal. Once submitted the information will be directly input into the benefit system. This would then be checked by a Benefits Officer and processed. Financial rewards for hitting overpayment thresholds have been received; Mid Suffolk has received a payment of £5,367 and Babergh £3,850.

10.29 The SRP apply a Risk Based Verification (RBV) approach to Housing Benefit claims. RBV assigns a risk rating to each claim which determines the level of verification required. It allows more intense verification activity to be targeted at those claims which are deemed to be at highest risk of involving fraud and/or error.



- 10.30 Every new benefit claim is crossed referenced via a central database to ensure that the customer is not claiming benefit anywhere else or is a household member in anyone else's claim, it cross references National Insurance Numbers to ensure that it is not being used by another person, checks the electoral role and if deemed to be a high risk will carry out a credit reference agency check so that the Benefit Assessor can decide if a claim is ready to be processed or make a referral for potential fraud.
- 10.31 The SRP secured funding from Suffolk County Council to carry out a monthly review of single resident discount during 2016/17. Although work continues on the monthly review, the current number of discounts removed and the value of debt created since April 2016 is shown below:

	<b>Number Removed</b>	<b>Value for 2016/17</b>
<b>Babergh</b>	176	£57,641
<b>Mid Suffolk</b>	170	£61,345

- 10.32 In addition, Real Time Information (RTI) – Bulk Data Matching Initiative is HM Revenue and Customs (HMRC) new system for collecting Pay As You Earn (PAYE) information from employers and pension providers who are required to provide HMRC with income details immediately after each payment they make. The Department for Work and Pensions (DWP) and HMRC have a joint Fraud and Error Strategy and seek to collaborate where possible, especially where one department's assets are of value to the other. Right to Buy is an example of such an asset and provides new opportunities to identify fraud and error across all social security benefits. DWP carries out an exercise matching HMRC RTI against data held on six social security benefits, including HB to identify cases where claimants have either failed to declare or have under declared earnings and/or non-state pension.
- 10.33 Using the above matching SRP have identified £85,125 worth of HB overpayments for Mid Suffolk (199 cases) for the period April 2016 to December 2016 and £62,596 worth of overpayment for Babergh (166 cases).

#### **National Fraud Initiative (NFI)**

- 10.34 Councils are required to participate in the biennial NFI, the Cabinet Office led exercise (previously run by the Audit Commission before its cessation) involving data matching of records nationally from public service databases.
- 10.35 Internal Audit take a leading role in co-ordinating this exercise across both Councils and with the Shared Revenues Partnership (SRP) working across a number of service areas to support staff in providing data and subsequently investigating and recording the results of matches.
- 10.36 The 2014/15 NFI exercise has been completed and the results were reported to this Committee last year.
- 10.37 The data requirements and data specifications for the 2016/17 NFI exercise were completed and successfully uploaded using the NFI's secure electronic upload facility. The data matching results were made available in January 2017 and work has begun on reviewing the results.

## **Reported Irregularities – 2016/17**

### *Housing Tenancy Fraud cases*

10.38 Since April 2016 Community Housing Officers have investigated eight cases of suspected housing related frauds (four in Babergh and four in Mid Suffolk). These have been as a result of anonymous complaints/whistleblowing, intelligence gathered by Community Housing Officers, and/or as part of matters that initially involved work undertaken by Tenant Services for example: welfare checks, missed gas servicing, empty or unkept properties.

10.39 The results of the investigations are summarised below:

- One investigation of Right to Buy fraud within Mid Suffolk, this case was successfully proven and with the purchase of the property being prevented. It is intended that aspects of this case will feature in Housing Enforcers, a BBC documentary in to the work of Social Housing for which we have participated in during the past two series (for further details refer to paragraphs 10.46 to 10.48); and
- A total of seven cases of 'not occupying a council property as the principal home' have been investigated (four in Babergh and three in Mid Suffolk). Of which a total of four cases have been investigated as 'closed' with no further action, whilst a further three are still being investigated.

10.40 To ensure Housing are dealing with any potential fraud robustly they are currently looking to provide front line officers with refresher Tenancy Fraud training.

### *Whistleblowing*

10.41 Concerns were raised regarding instances of misuse and disposal of council property. As a result clear instructions have been issued to staff advising that items left in or beside council skips, surplus or waste materials from completed jobs or items left in or outside of void properties by vacating tenants cannot be taken for personal use or gain without permission or advice from a manager.

### *Fraudulent Business Rates bill*

10.42 A fraudulent Business Rates bill had been created and sent to a utility company in an attempt to extort money using a legitimate business rate payer in Babergh. Through the diligence checks performed by the utility company when there is a change of tenancy they became suspicious of the bill and contacted the Council. Internal Audit liaised with colleagues from the Shared Revenues Partnership and as a result reported the attempted fraud to Action Fraud (National Fraud and Cyber Crime Reporting Centre) and alerted the legitimate rate payer. The attempted fraud was averted.

### *Change of bank account details*

10.43 This type of fraud occurs when someone gets an organisation to change bank account details by purporting to be from a supplier they make regular payments to in order to benefit from unauthorised payments.

- 10.44 In November 2016, Mid Suffolk received a letter from a construction firm informing the Council that their bank account details have changed and requested that we amend our records to ensure all future payments are credited to their new bank account.
- 10.45 Part of the Commissioning and Procurement team's due diligence checks are to confirm with the supplier that amended details of this nature are verified back to source information. In this case the company's Financial Controller was contacted to confirm the reliability and integrity of the request. The Financial Controller confirmed that no such request had been made and reported the incident to the Police via the Action Fraud line that they had been subject to an attempted fraud.
- 10.46 Internal Audit also contacted Action Fraud and made reference to the company's case reference number. Although the fraud had been averted, had money left the Council's account the Council would have been deemed to be the victim of the fraud.

*Right to Buy (RTB) fraud*

- 10.47 In May 2016, officers processing a RTB application within Mid Suffolk became suspicious of the tenant not occupying the property as their principal home. Investigations by the Home Ownership Team, Environmental Enforcement and Tenant Services led officers to making enquiries with neighbours conducting credit checks following recent membership to the National Anti-Fraud Network (NAFN).
- 10.48 These enquiries lead to a third party address being obtained for the potential occupancy of the tenant concerned. Further checks with Council Tax at Waveney DC and visits to the address confirmed that the tenant had moved away from their original property and was now privately renting. Thus losing their security of tenure, invalidating their RTB application and potentially being subject to a criminal investigation under the Prevention of Social Housing Fraud Act 2013.
- 10.49 Following advice by our legal team papers were served on the former tenant to prevent them from purchasing the council property and giving them notice to vacate the council property returning it to the Council. Thus freeing up a three bedroom house to let to someone in most need via the Housing Register.

**Looking ahead**

- 10.50 Some areas where a focus can be expected for 2017/18 are as follows:
- Continue ongoing NFI exercise;
  - Supporting both Councils to improve levels of awareness of fraud risks amongst staff; and
  - Work with neighbouring councils to share knowledge and expertise on anti-fraud and corruption measures.
- 10.51 As we face reduced funding both Councils need to assess fraud risks effectively to target resources where they will produce most benefit. Namely:
- Maintain capacity to investigate non-benefit fraud;

- Be alert and reactive to national fraud concerns; and
- Ensure we have the right skills to investigate all types of fraud.

## **Conclusions**

10.52 The Corporate Manager – Internal Audit currently considers that both Councils have sound anti-fraud and corruption arrangements in place and therefore no further action is required, commensurate with the risks, but the Councils must nevertheless remain vigilant.

## **11. Appendices**

11.1 None.

## **12. Background Documents**

12.1 Prevention of Financial Crime Policy.

12.2 CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

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# Agenda Item 9

## BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

<b>From: Corporate Manager – Internal Audit</b>	<b>Report Number: JAC100</b>
<b>To: Joint Audit and Standards Committee</b>	<b>Date of meeting: 13 March 2017</b>

### INTERNAL AUDIT PLAN 2017/18

#### 1. Purpose of Report

1.1 This report details the proposed Internal Audit Plan for the next financial year.

#### 2. Recommendations

2.1 Councillors are requested to review, assess and approve the Internal Audit Plan 2017/18, as detailed in Appendix A.

#### 3. Financial Implications

3.1 There are no financial implications, as the Internal Audit Plan will be funded from within approved budgets.

#### 4. Legal Implications

4.1 There are no legal implications arising from these proposals.

#### 5. Risk Management

5.1 Each Council is required by statute to maintain an adequate and effective Internal Audit function, which forms an integral part of each Council's corporate governance and internal control arrangements. It is therefore essential that the Internal Audit Plan directs resources to areas of highest risk and has the approval and support of senior management and Councillors.

5.2 The preparation and development of the Internal Audit Plan is described in more detail from paragraph 10 onwards.

5.3 The key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Internal control weaknesses and potential for fraud exists	Unlikely	Bad	Work programme that focuses on key areas, including fundamental systems.
Inefficient processes or systems in place	Unlikely / Probable	Noticeable / Bad	Audit work considers efficiency issues and appropriate recommendations are made.

## **6. Consultations**

- 6.1 The Internal Audit Plan was discussed with the Senior Leadership Team (SLT) including the s151 Officer as part of the audit planning process.

## **7. Equality Analysis**

- 7.1 There are no equality and diversity implications arising from this report.

## **8. Shared Service / Partnership Implications**

- 8.1 The overall approach has been to develop a single shared model for internal audit delivery and management for both Councils.

## **9. Links to Joint Strategic Plan**

- 9.1 The delivery of a comprehensive internal audit service supports the Council objectives, in particular:

An enabled and efficient organisation – The right people are doing the right things, in the right way, at the right time, for the right reasons and are able to prove it.

However, the plan has been designed to support all five of the Council's strategic themes. The proposed allocation of audit days is shown both in the attached detailed report and the associated pictorial representation in Appendix A.

## **10. Key Information**

- 10.1 With project activity and change to service delivery, greater focus on risk, responses to management requests, and the inclusion of the role of Deputy Monitoring Officer for the Corporate Manager - Internal Audit, Internal Audit resources have been challenged to maintain an effective coverage. Consequently approval has been given to the addition of one FTE to strengthen the team. This additional resource has been included in the plan for 17/18.

### **Approach to Audit Planning**

- 10.2 The provision of a risk based Internal Audit Plan consistent with each Council's priorities is an essential part of ensuring probity and soundness of each Council's internal controls, risk exposure and governance framework.
- 10.3 The plan has been constructed to ensure that it delivers against the Public Sector Internal Audit Standards (PSIAS) and the requirement to produce an annual Head of Internal Audit opinion. In doing this it can be confirmed that the plan covers the following activities:

- Governance processes
- Monitoring
- Ethics
- Information and Information technology governance
- Risk Management
- Fraud management

- 10.4 The planning process also recognises that the Councils' are continuing to strive to improve services and use innovative approaches in addressing service delivery against a background of reducing resources.
- 10.5 Internal Audit resources have therefore been targeted across the Councils' services using a risk based approach including support to project teams through this change to help maximise the effectiveness of internal control.

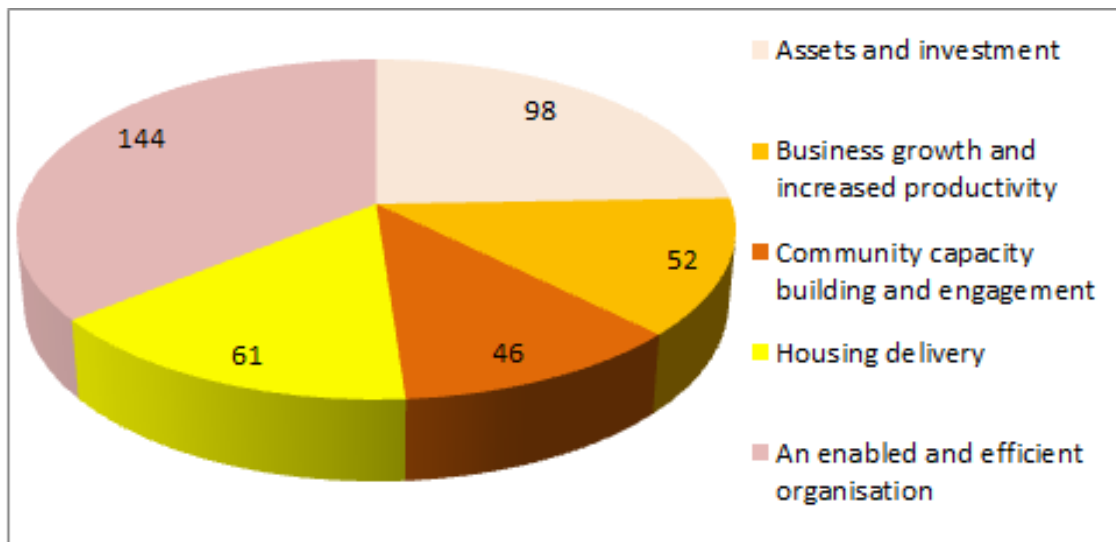
#### **Plan structure and key items to note**

- 10.6 The resources available to the Corporate Manager – Internal Audit are 775 days, of which 465 are allocated to audit (600 - 2016/17 (457 audit)). This reflects adjustments to the staff changes mentioned above, and the resource demands detailed below.
- 10.7 The construction of the Audit Plan has been developed to support both the Annual Governance Statement and the Councils' Five Key Strategic Themes. Factors used in the risk assessment of services and processes to inform the proposed focus of audit for 2017/18 have been based largely, but not exclusively, on the following:
- Consideration of key controls and associated risks;
  - Review of each Council's strategic priorities and those objectives/outcomes contained in the Joint Strategic Plan that sit beneath them;
  - Cumulative audit knowledge and experience;
  - Engagement with senior management to identify management's view of the coming year's risks linked to the Joint Strategic Plan and Delivery Programme about which assurance is required e.g.
    - Significant projects or programmes planned or underway;
    - Areas subject to changing systems or processes;
    - Areas where internal controls may be affected by reductions in resources;
    - Areas subject to high levels of inherent risk; and
    - Significant contracts.
  - Financial materiality – e.g. levels of income and expenditure, value of assets, volume of transactions;
  - Control environment –control assurance in respect of the three lines of defence: Sound Management of Front line operations; Oversight of management activity within a professional framework; and External review by Independent assurance providers;
  - Previous assessments of the soundness of internal controls, taking into account previous findings of Internal Audit and External Audit;
  - Management concerns over the stability, complexity and vulnerability – taking into account such factors as the stability of management and staffing

arrangements, changes in locations, complexity/changes in regulations and legislation, major system changes, new IT systems etc.; and

- Date of last audit – i.e. the longer the time since the last audit potentially the greater the risk.

10.8 During the planning process managers were asked to contribute proposals for audit engagement within the Councils' Five Key Strategic Themes. The plan in Appendix A details this approach, and the days audit allocated are shown below:



The relative emphasis on audit coverage related to Organisation is, in part, due to the nature of audits concerned with generic efficiency and effectiveness across the Councils, such as Information Technology and Health and Safety.

The next largest category, Assets, reflects the audits being conducted within Finance reviewing activities associated with categories of the balance sheet.

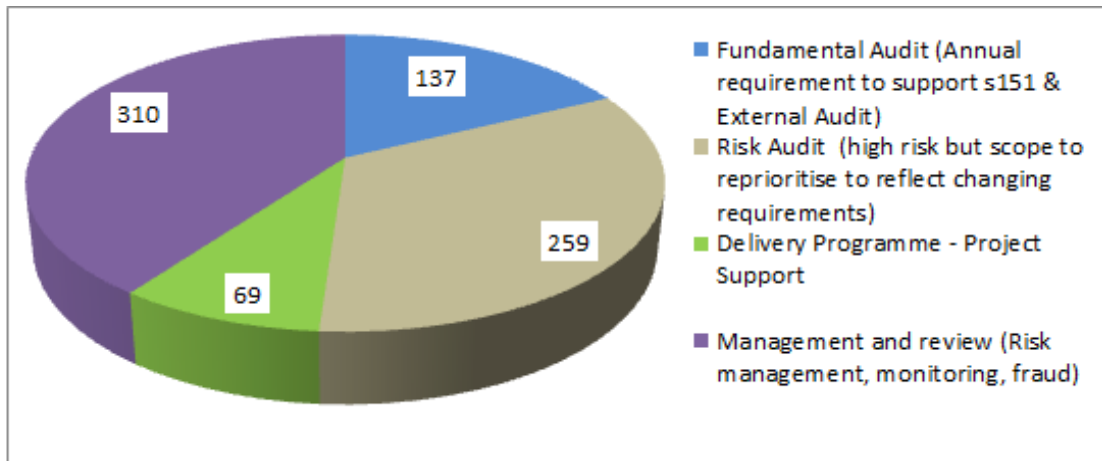
Housing delivery audits are determined by the changes within and focus on, the activities both within Supported Living and the changing legislative and regulatory landscape.

Business Growth and Community include planning activities and Safeguarding & vulnerable adults - S11 reporting.

10.9 The coverage within individual audits continues, where appropriate, to include looking at transformation opportunities for improving efficiency and adding value.

10.10 The audit work proposed in the plan is also structured to reflect the audit disciplines undertaken to support delivery of the governance and professional framework. The resources committed to each category is annotated in the detailed plan in Appendix A and in summary below:





- Fundamental Audits (Managing Finance) – Days included in the plan to cover fundamental systems audit work on which reliance may be placed by the external auditors as they assess the Councils’ final accounts. As the control environment continues to improve there has been some reduction in audit time allocated to audit in this area;
- Risk Audits – identified in the audit planning and assurance process, conducted to support management reliance over the key controls in effect to manage major aspects of the Councils’ operation. As the business continues to transform audit resource is allocated to this activity in this year’s plan;
- Delivery Programme – Resources allocated to support a number of high priority projects to provide the necessary assurances around governance, risk profile and internal control arrangements. Projects will continue to be evaluated in terms of risk and scoped accordingly as management request support from Internal Audit;

Other audit activity, including:

- Governance arrangements – Audits which contribute to the development of both Council’s Corporate Governance Framework and feed into the Annual Governance Statement;
- Monitoring Role – The Corporate Manager - Internal Audit has been appointed to the role of Deputy Monitoring Officer for the Councils, with the specific duty to ensure that the Council, its officers, and its Elected Councillors, maintain the highest standards of conduct in all they do, pursuant to Section 5 of the Local Government and Housing Act 1989, as amended by Schedule 5 paragraph 24 of the Local Government Act 2000.
- Risk Management – Audit work will help to ensure that the Councils identify and effectively manage significant business and operational risks in line with the Risk Management Strategy. An increased commitment is proposed this year to deal with further developments;
- Counter fraud work - ongoing proactive testing of systems and processes help to identify potential fraud and misappropriation, as well as non-compliance with policies and procedures. The audit team will reactively investigate potential wrongdoing, responding to fraud and corruption relating to non-benefit fraud cases.

This includes co-ordinating data matching for the National Fraud Initiative (NFI); raising fraud awareness and providing training in areas such as money laundering; providing advice to services on introduction of new systems or procedures. Full details of counter fraud work undertaken is contained within the annual report entitled 'Managing the Risk of Fraud and Corruption 2016/17', tabled as a separate paper to this Committee;

- Business Continuity – to maintain the Councils' Business Continuity Plan and ensure it remains 'fit for purpose' by undertaking an annual refresh; establish risk management processes and procedures that aim to prevent interruptions to mission critical services; facilitate update of action cards; and provide general advice and guidance to officers.
- Advice and guidance – the team proactively provide ongoing advice across both Councils. Whether through attendance at working groups, projects or responding to enquiries, early audit advice and support can help maintain a robust control environment and feed in good practice. It is likely to remain an area of demand during 2017/18 as managers at all levels, especially those implementing new systems, structures and relocations, require support.

## Conclusion

10.11 The Internal Audit Plan will be kept under review to ensure it reflects the shape of the Councils going forward. Should significant amendments be necessary these will be discussed with senior management, including the Section 151 Officer and, where deemed necessary, reported back to this Committee.

## 11. Appendices

Title	Location
(a) Detailed Proposed 17/18 Internal Audit Plan	Attached

## 12. Background Documents

12.1 None.

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Appendix A Detailed Proposed 17/18 Internal Audit Plan.

Appendix A				
Prioritised Internal Audit Plan for 2017/18				
All audits to include control environment, good practice and transformational aspects				
Audit	Days	Key areas		Intended benefits to the Council
<b>Assets and investment – Improved achievement of strategic priorities and greater income generation through use of new and existing assets ('Profit for Purpose')</b>				
Capital Accounting	15	Capital program and asset management, including changes in Housing Management Accounting.	F	
Local Taxation (covering Council Tax & NDR)	6	Shared Revenue Partnership feeder systems and reconciliations.	F	Covering statutory work in conjunction with External Audit. The beneficial outcomes can include an improved control environment, enhanced management information and streamlined processes thereby improving organisational efficiency.
Receivables / Debtors	10	Income management, inc. debt recovery - how fed back to business by finance and managed by service areas.	F	
Payroll/HR	10	Starters; Leavers; and variation to pay. - Link into SCC as new payroll providers.	F	In addition these reviews provide governance assurance to the S151 Officer and Senior Management.
Income Collection / Cash & Bank - new cash module in General Ledger	16	Payment methods, channel shift, unsolicited transactions, Payment Card Industry Data Security Standards.	F	Fraud may be identified as a consequence of this work.
Treasury Management	11	Corporate Cash Management and links to funding of business strategy.	F	
Investment and Development Strategy effectiveness and efficiency	30	The Asset Strategy will ensure that the use of the Councils' property portfolio is maximised, demonstrating that assets are performing well in terms of support for service delivery, generating income, and are as efficient as possible in terms of outgoings; and land and surplus buildings are used to support strategic priorities.	D	Ensure that the changes safeguard assets and incomes to the Council to support the drive to an enabled and efficient organisation, funding business development and support to the community. Advise on making the system fit for purpose in supporting smooth business growth and housing development across the districts.
	98	Assets and investment planned days		
<b>Business growth and increased productivity – Encourage development of employment sites and other business growth, of the right type in the right places and encourage investment in skills and innovation in order to increase productivity</b>				
Procurement	20	Compliance testing against new procurement framework / guidance.	F	Gain assurance of the veracity of the procurement processes and procedures implemented across the business to ensure that the right people are doing the right things, in the right way, at the right time, for the right reasons and are able to prove it.
Analysis and review of business principles in setting Fees and Charges	15	Setting of Fees and charges strategy, review of regulatory constraints, market challenges and consider if pricing set to recover costs or results in subsidy of the service.	R	Outcomes can include an improved control environment, enhanced management information and streamlined processes thereby improving organisational efficiency. In addition these reviews provide governance assurance to the S151 Officer and Senior Management.
Miscellaneous income streams: cf: Tourist Information Centres and Waste collection centres	5	Procedures in operation to manage, billing, fees and collecting payments - linked to finance systems for recording and collection.	R	Verify that all income is appropriately recognised, collected and reported.
Payables / Creditors	12	Transparency, cash flow, fraud (links to procurement).	F	Covering statutory work in conjunction with External Audit. The beneficial outcomes can include an improved control environment, enhanced management information and streamlined processes thereby improving organisational efficiency. In addition these reviews provide governance assurance to the S151 Officer and Senior Management
	52	Business growth and increased productivity planned days		
<b>Community capacity building and engagement – All communities are thriving, growing, healthy, active and self-sufficient</b>				
Neighbourhood Development Plans (NDP / NHP)	15	Localism- creation of mini plans - Review the process re decisions, overviews, external examinations, Council exposure - key risks Governance, Legal and Financial.	R	Support the development of suitable housing in the area, the development of businesses and the operational development of the Council through challenge of the identification and management of risks and procedures associated with the changes.
Redesign an integrated Planning Service	6	Provide control assurances around: data load validation.	D	Safeguarding the assets and incomes to the Council to support the drive to an enabled and efficient organisation, funding business development and support to the community. Advise on making the system fit for purpose in supporting smooth business growth and housing development across the districts.
Community Infrastructure Levy (CIL)	10	Review significant governance and efficiency issues. Administration of CIL funds to enable sustainable growth, including Expenditure and Governance models.	R	
Safeguarding & vulnerable adults - S11 reporting.	15	S11 reporting to Safeguarding board. Assurance audit re best practice, reporting processes, staff awareness and understanding.	R	Community capacity building and engagement – All communities are thriving, growing, healthy, active and self-sufficient
	46	Community capacity building and engagement planned days		
<b>Housing delivery – More of the right type of homes, of the right tenure in the right place</b>				
Housing Rents	10	Income collection, rent setting. - effectiveness of new IT systems & processes.	F	Covering statutory work in conjunction with External Audit. The beneficial outcomes can include an improved control environment, enhanced management information and streamlined processes thereby improving organisational efficiency.
Housing Benefits	6	Shared Revenue Partnership feeder systems and reconciliations.	F	In addition these reviews provide governance assurance to the S151 Officer and Senior Management. Fraud may be identified as a consequence of this work.
Supported living	15	Areas of Housing, Asset Management, HRA to consider and discuss in detail with Managers.	R	
Asbestos management	10	Review asbestos information given to BMBS and external contractors when emergency/out of hours repairs are required	R	Ensure that the changes safeguard assets and incomes to the Council to support the drive to an enabled and efficient organisation, funding business development and support to the community. Advise on making the system fit for purpose in supporting smooth business growth and housing development across the districts.
Fixed term /flexible tenancies	10	Introduction of fixed term/flexible tenancies which the government are proposing. Not too much is known at this time regarding how much discretion we as an authority will have and how much will be governed by legislation. There will be a knock on effect on the tenancy agreements which will need redesigning involving consultation with Legal plus the IT system could need changing	D	
Open Housing Phase 2	10	Look at management of project, esp integrity of controls to commitment of monies (procurement), budget management etc Links to procurement and finance systems .	D	Safeguarding the assets and incomes to the Council to support the drive to an enabled and efficient organisation, funding business development and support to the community. Advise on making the system fit for purpose in supporting smooth business growth and housing development across the districts.
	61	Housing delivery planned days		
<b>An enabled and efficient organisation – The right people are doing the right things, in the right way, at the right time, for the right reasons and are able to prove it</b>				
Make use of leading edge business systems	10	Information Governance - Sensitive and personal information relating the Councils' businesses is handled in a confidential and secure manner.	R	Gain assurance of the veracity of the processes and procedures implemented across the business to ensure that the right people are doing the right things, in the right way, at the right time, for the right reasons and are able to prove it.
IT	10	TBA but engage with counterparts in SCC.	F	In addition these reviews provide governance assurance to the S151 Officer and Senior Management
General Ledger	11	Integrity of financial information, management of the system. Migrated system and new modules.	F	
Health and Safety	25	Compliance and substantive testing of Health and Safety processes and records to confirm compliance with Council Policy. Audit will work alongside the Health and Safety Officer to support and challenge new initiatives.	R	Provide comfort to Management that the Councils' are fulfilling their legislative duties and that the welfare of staff is being met. Determine the Councils' resilience of and compliance with legislation.
Operational financial indicators	15	Review of the MI and associated challenge arising from the finance engagement model and it's support to Service Managers.	R	
Payment card procedural changes Allpay project post review.	3	Effective receipting, banking and financial recording of cash payments -link to Income Audit.	D	Outcomes can include an improved control environment, enhanced management information and streamlined processes thereby improving organisational efficiency.
Integra Migration	5	Upgrade of the system to Integra 2 and implementation of the cash system module.	D	In addition these reviews provide governance assurance to the S151 Officer and Senior Management.
Budgetary Control	5	Review & critique of finance implementation of new module and associated processes.	D	
Business Continuity	60	Produce and maintain a joint BCP. Annually refresh critical missions, facilitate update of action cards, training and awareness. Venue change specific issues.	R	This work supports the governance and effective operation of the organisation and can aid with the security of assets. It will further provide information and feedback to Members and Officers, as well as ensuring the Councils meet the reporting requirements of statutory and Local Government bodies.
	144	An enabled and efficient organisation planned days		
<b>Other Audit Activity</b>				
Work in progress from previous year	5	Finalisation of any outstanding work. Liaison with External Auditors over review of internal audit work.	R	Covering statutory work in conjunction with External Audit. The beneficial outcomes can include an improved control environment, enhanced management information and streamlined processes thereby improving organisational efficiency
Follow Ups	9	Implementation of audit recommendations deemed as high risk.	R	
Requests for support from management	24	Unplanned investigations assessing the impact on controls and processes through specific events.	M	
Deputy Monitoring Role	100	Work to be undertaken by the Corporate Manager - Internal Audit.	M	Provide comfort to Management that the Councils' are fulfilling their legislative and fiduciary duties, and determine the Councils' resilience of and compliance with legislation.
Annual Governance Statement	25	Collation, interpretation, challenge and presentation of management opinion of control assurance and governance across the Councils.	M	
Anti-Fraud & Corruption work including the National Fraud Initiative (NFI)	50	Proactive: Money Laundering, Policy reviews, Advice and guidance - awareness, Staff training. NFI Data monitoring. Reactive: Investigations. Data matching (statutory requirement).	R	
Management	35	Service delivery (Citee reports / Planning)	M	Supports the governance and effective operation of the organisation and can aid with the security of assets. It will further provide information and feedback to Members and Officers, as well as ensuring the Councils meet the reporting requirements of statutory and Local Government bodies.
5 Yr Quality review -(new one off)	6	Self assessment review of audit delivery.	M	
Risk Management	120	Committee report cycle – Executive and Strategy half yearly and JASC annually. Review and challenge of Significant Risk Register. Training, advice and guidance to members & officers. Annual review joint Risk Management Strategy.	M	
	374	Other Audit Activity planned days		
	775	Total Days Planned		F Fundamental Audit (Annual requirement to support s151 & External Audit) R Risk Audit (high risk but scope to reprioritise to reflect changing requirements) D Delivery Programme - Project Support M Management and review (Risk management, monitoring, fraud)

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# Agenda Item 10

## BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

<b>From: Monitoring Officer</b>	<b>Report Number: JAC101</b>
<b>To: Joint Audit and Standards Committee</b>	<b>Date of meeting: 13 March 2017</b>

### COMPLAINTS MONITORING REPORT

#### 1. Purpose of Report

- 1.1 To report on Code of Conduct complaints received or determined since the last time that such complaints were reported to the Committee.

#### 2. Recommendation

- 2.1 That the content of this report be noted.

#### 3. Financial Implications

- 3.1 No direct costs have been incurred in the handling of complaints.

#### 4. Risk Management

- 4.1 This report is most closely linked with the Councils' Significant Business Risk No. 5c – Failure to develop clear governance arrangements that enable the right decisions to be taken that are appropriate for the environment that we are operating in.

Key Risks are set out below:

<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation Measures</b>
Complaints are not handled promptly	2 - Unlikely	1 - Minimal	Monitoring of complaints
Decisions are not sound	2 - Unlikely	3 - Bad	Apply adopted procedures

#### 5. Consultations

An 'independent person' appointed under the Localism Act 2011 has or will be consulted on each complaint.

#### 6. Equality Analysis

- 6.1 Not relevant to this report.

#### 7. Shared Service / Partnership Implications

- 7.1 The same processes are applied across both Councils.

## 8. Key Information

	<b>BDC</b>	<b>MSDC</b>	<b>TOTAL</b>
<b>Number of complaints received since last meeting</b>	10	4	14
<b>Number of complaints against District Councillors</b>	0	0	0
<b>Number of complaints against Parish Councillors</b>	10	4	14
<b>Number of complaints upheld &amp; action taken</b>	1*	0	1
<b>Number of findings of no breach of the Code &amp; no action taken</b>	8	1	9
<b>Number of complaints under consideration/pending decision</b>	1	3	4

- Non-declaration of pecuniary interest referred to Suffolk Police.

## 9. Background Papers

None.

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# Agenda Item 11

## BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

<b>From: Corporate Manager – Democratic Services</b>	<b>Report Number: JAC102</b>
<b>To: Joint Audit and Standards Committee</b>	<b>Date of Meeting: 13 March 2017</b>

### FORWARD PLAN 2016/17

#### Date of Committee – 15 May 2017

<b>Topic</b>	<b>Purpose</b>	<b>Portfolio Holder / Lead Officer</b>
Annual Significant Risk Register Report 2016/17	Review the Significant Risk Register and note the management and mitigation actions being taken	Enabled and Efficient Organisation / Internal Audit and Risk Management Officer
Annual Audit Report 2016/17	To note the outcome of the Internal Audit Work in 2016/17	Enabled and Efficient Organisation / Finance / Corporate Manager – Internal Audit
Annual Governance Statement 2016/17	To consider and review the Joint Annual Governance Statement	Enabled and Efficient Organisation / Finance / Corporate Manager – Internal Audit
End of year Significant Risks position statement and progress report	To note progress during 2016/17	Enabled and Efficient Organisation / Finance / Corporate Manager – Internal Audit

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