

Thurrock: A place of opportunity, enterprise and excellence, where  
individuals, communities and businesses flourish

## Standards and Audit Committee

The meeting will be held at **7.00 pm** on **17 March 2015**

**Committee Room 1, Civic Offices, New Road, Grays, Essex, RM17 6SL**

### Membership:

Councillors Simon Wootton (Chair), Yash Gupta (MBE) (Vice-Chair),  
Terence Hipsey, Cathy Kent and Brian Little

### Substitutes:

Councillors Oliver Gerrish, Robert Gledhill and Tunde Ojetola

### Agenda

Open to Public and Press

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<b>1 Apologies for Absence</b>	
<b>2 Minutes</b>	<b>5 - 10</b>
To approve as a correct record the minutes of the Standards and Audit Committee meeting held on 4 February 2015.	
<b>3 Items of Urgent Business</b>	
To receive additional items that the Chair is of the opinion should be considered as a matter of urgency, in accordance with Section 100B (4) (b) of the Local Government Act 1972.	
<b>4 Declaration of Interests</b>	
<b>5 Risk and Opportunity Management - Benchmarking and Review of the Policy, Strategy and Framework</b>	<b>11 - 30</b>

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**Queries regarding this Agenda or notification of apologies:**

Please contact Kenna-Victoria Martin, Senior Democratic Services Officer by sending an email to [Direct.Democracy@thurrock.gov.uk](mailto:Direct.Democracy@thurrock.gov.uk)

Agenda published on: **9 March 2015**

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# DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF

Breaching those parts identified as a pecuniary interest is potentially a criminal offence

## Helpful Reminders for Members

- *Is your register of interests up to date?*
- *In particular have you declared to the Monitoring Officer all disclosable pecuniary interests?*
- *Have you checked the register to ensure that they have been recorded correctly?*

## When should you declare an interest *at a meeting*?

- **What matters are being discussed at the meeting?** (including Council, Cabinet, Committees, Subs, Joint Committees and Joint Subs); or
- If you are a Cabinet Member making decisions other than in Cabinet **what matter is before you for single member decision?**



Does the business to be transacted at the meeting

- relate to; or
- likely to affect

any of your registered interests and in particular any of your Disclosable Pecuniary Interests?

Disclosable Pecuniary Interests shall include your interests or those of:

- your spouse or civil partner's
- a person you are living with as husband/ wife
- a person you are living with as if you were civil partners

where you are aware that this other person has the interest.

A detailed description of a disclosable pecuniary interest is included in the Members Code of Conduct at Chapter 7 of the Constitution. **Please seek advice from the Monitoring Officer about disclosable pecuniary interests.**

**What is a Non-Pecuniary interest?** – this is an interest which is not pecuniary (as defined) but is nonetheless so significant that a member of the public with knowledge of the relevant facts, would reasonably regard to be so significant that it would materially impact upon your judgement of the public interest.

### Pecuniary

If the interest is not already in the register you must (unless the interest has been agreed by the Monitoring Officer to be sensitive) disclose the existence and nature of the interest to the meeting

If the Interest is not entered in the register and is not the subject of a pending notification you must within 28 days notify the Monitoring Officer of the interest for inclusion in the register

Unless you have received dispensation upon previous application from the Monitoring Officer, you must:

- Not participate or participate further in any discussion of the matter at a meeting;
- Not participate in any vote or further vote taken at the meeting; and
- leave the room while the item is being considered/voted upon

If you are a Cabinet Member you may make arrangements for the matter to be dealt with by a third person but take no further steps

### Non- pecuniary

Declare the nature and extent of your interest including enough detail to allow a member of the public to understand its nature



You may participate and vote in the usual way but you should seek advice on Predetermination and Bias from the Monitoring Officer.

**Vision: Thurrock:** A place of **opportunity**, **enterprise** and **excellence**, where **individuals**, **communities** and **businesses** flourish.

To achieve our vision, we have identified five strategic priorities:

**1. Create** a great place for learning and opportunity

- Ensure that every place of learning is rated “Good” or better
- Raise levels of aspiration and attainment so that residents can take advantage of local job opportunities
- Support families to give children the best possible start in life

**2. Encourage** and promote job creation and economic prosperity

- Promote Thurrock and encourage inward investment to enable and sustain growth
- Support business and develop the local skilled workforce they require
- Work with partners to secure improved infrastructure and built environment

**3. Build** pride, responsibility and respect

- Create welcoming, safe, and resilient communities which value fairness
- Work in partnership with communities to help them take responsibility for shaping their quality of life
- Empower residents through choice and independence to improve their health and well-being

**4. Improve** health and well-being

- Ensure people stay healthy longer, adding years to life and life to years
- Reduce inequalities in health and well-being and safeguard the most vulnerable people with timely intervention and care accessed closer to home
- Enhance quality of life through improved housing, employment and opportunity

**5. Promote** and protect our clean and green environment

- Enhance access to Thurrock's river frontage, cultural assets and leisure opportunities
- Promote Thurrock's natural environment and biodiversity
- Inspire high quality design and standards in our buildings and public space

## Minutes of the Meeting of the Standards and Audit Committee held on 4 February 2015 at 7.00 pm

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<b>Present:</b>	Councillors Yash Gupta (MBE) (Vice-Chair), Cathy Kent and Brian Little  Rhona Long, Co-Opted Member Jason Oliver, Co-Opted Member
<b>Apologies:</b>	Councillors Simon Wootton (Chair) and Terence Hipsey Chris Harris – Head of Internal Audit (Baker Tilly)
<b>In attendance:</b>	Sean Clark, Head of Corporate Finance Christine Connolly, Ernst and Young Gary Clifford, Client Manager for Audit Services Kathryn Adedeji, Head of Housing, Investment and Development Ian Cousins, Serco Paul Milmore, ICT Client Services Lead Ann Osola, Head of Service Kenna-Victoria Martin, Senior Democratic Services Officer

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Before the start of the Meeting, all present were advised that the meeting may be filmed and was being recorded, with the audio recording to be made available on the Council's website.

### **29. Minutes**

The Minutes of Standards and Audit Committee, held on 09 December 2014, were approved as a correct record.

### **30. Items of Urgent Business**

There were no items of urgent business.

### **31. Declaration of Interests**

There were no declarations of interest

### **32. Disaster Recovery Plans for IT**

The Head of Housing, Investment and Development and Corporate Commercial Services briefly introduced the report to the Committee explaining that it was her understanding that at the December meeting it was requested by Members to receive a report on disaster recovery.

Members were advised that officers were currently starting the process to update both the Council's disaster recovery and business continuity plans. It was further explained that 60% of disaster recovery was managed by Serco.

The Committee expressed its concern that Members hadn't seen a report on disaster recovery for two and half years and that within the report it didn't cover the 40% of

disaster recovery that was managed by the Council, including Housing, Adult Social Care and Children's Services. Officers explained that they would bring a report back to the Committee and would include the arrangements in place for the Councils disaster recovery.

It was sought as to whether the Council still had an offsite location where backup tapes were held. Members further enquired as to the review of both disaster recovery and business continuity plans and what were officer's action plan and timeframes. Officers confirmed to the Committee that the offsite location was the culver centre, the Head of Housing, Investment and Development and Corporate Commercial Services also clarified that Officers would bring back a report in the new municipal year and would include the review plan for Members information.

Members queried as to when the last tests of the plan had been undertaken, as according to the plan history within the report there hadn't been any updates or tests completed since 2011. Officers informed the Committee that the systems were backed up daily and taken offsite weekly.

During discussions it was agreed by the Committee to include an additional recommendation in that officers would undertake testing of the disaster recovery plan and to report those findings back to the Committee at the first meeting of the municipal year.

**RESOLVED That Standards and Audit Committee:**

- 1. Noted the attached Serco ICT Disaster Recovery Plan;**
- 2. Agreed to a full and detailed review of both business continuity and ICT Disaster Recover arrangements be undertaken as outlined in section 3;**
- 3. Receive at the first meeting of the Committee in the new Municipal Year this report, together with costed options to improve the Council's overall business continuity and ICT disaster recovery approach.**
- 4. Request that officers undertake testing of the disaster recovery plan and report their findings back to the Committee at the first meeting of the municipal year**

**33. Bridge Maintenance Inspections**

The Head of Transportation and Highways introduced the report explaining that it showed the findings from an Audit of the Bridge Maintenance Inspections undertaken by the internal audit team in October 2014. The Head of Transportation and Highways continued to highlight the main points within the report which included:

- The Council had complied with government guidance to undertake two yearly General Inspections, however, the six yearly Principal Assessments had not been undertaken due to insufficient funding for bridges;
- It was explained, that Thurrock Council as the highway authority had statutory duties to maintain the public highway and associated structures in a state that is safe and fit for use;



- Officers informed the Committee that they were working on a recovery programme which was recommended to meet the objectives outlined within the audit;
- Members were further advised that Officers were planning to bring in a new computer system, along with this Officers had also invited specialist resources to assist with improving the service;
- The Committee were notified that moving forward; officers were working on more robust KPIs and were also going to take a detailed report to the Planning, Transport and Regeneration Overview and Scrutiny Committee in the new municipal year.

Following discussions the Committee sought a number of queries and clarifications these were:

- The difference between the two year General and the six year Principal Assessments;
- If the Council hasn't been carrying out the 6 yearly Principal Assessments did this mean that as an authority, Thurrock Council would be liable for any incidents as they were not compliant with statutory legislation;
- Would it be possible for Officers to gain funding through the Government in a similar way they could for tar mucking roads

Officers responded to the Committees questions explain that the difference between the two inspections was that the 2 yearly were a visual inspection and a brief update. The 6 yearly Inspections were a more detailed inspection with Officers looking at long term issues. It was clarified for the Committee that it was not the fact that Officers had not been carrying out the 6 yearly assessments, they had merely lapsed. Officers continued to explain that, bridges were included within the national code of practice which was part of the Highways Act 1980 and assured Members that the Council was not non-complaint.

It was further confirmed that Officers were working very hard to bid on the Competitive Challenge Funding, provided by the government and were currently working on detailed business cases.

Members sought assurance from the Head of Transportation and Highways that despite the challenges facing the service and the fact that Thurrock's population was increasing; there were no reasons to be concerned as to the safety. The Head of Transportation and Highways assured the Committee that there were not the structures within the borough that could cause catastrophic damage; she continued to assure Members that there were no risks.

It was confirmed by Officers following an enquiry from the Chair, that in terms of management, officers accepted the finding from the Audit . The service has recently been brought back in house, the risks were being managed new systems were in place. The Internal Audit Manager, further confirmed to Members that as the audit resulted as a red assurance then Internal Audit would be revisiting the service and the results would be included in the Audit progress update.

During discussions it was agreed by the Committee to include an additional recommendation in that Officers would report back to the Committee at the first meeting of the municipal year with an update report of the improvements made.

**RESOLVED that the Standards and Audit Committee:**

1. **Noted the contents of the report**
2. **Receive an update report on Bridge Maintenance Inspections in according to the recent audit.**

**34. Report from Ernst and Young Certification of Claims and Returns Annual Report 2013-14**

The Head of Corporate Finance introduced the report to the Committee informing Members that the external auditors were required to certify two claims. He further notified the Committee that the Housing and Council Tax Benefits Subsidy claim for 2012/2013 required additional work in respect of issues identified from the audit undertaken last year, however improvements were still being made.

The External Auditor continued to inform Members that as of next year it would only be the Housing Benefits claim that would require to be certificated. She advised the Committee that Ernst and Young were asked to separately audit the Teachers' Superannuation return and the works were completed with no significant issues reported.

It was highlighted that improvement had been made and this was shown by the reduced fee.

**RESOLVED:**

**That the Standards and Audit Committee noted the report attached at Appendix 1 and the agreed actions.**

**35. Standards & Audit Committee Work Programme**

Members discussed the work programme for the last meeting of the municipal year and the following reports were agreed:

17 March 2015

- Internal Audit: Red Reports - As required
- Fraud Report
- Review of ROM Policy
- Draft Internal Audit Plan
- Ernst and Young – Audit Plan 2014/2015
- Regulation of Investigatory Powers Act 2000

**The meeting finished at 8.10 pm**

Approved as a true and correct record

**CHAIR**

**DATE**

**Any queries regarding these Minutes, please contact  
Democratic Services at [Direct.Democracy@thurrock.gov.uk](mailto:Direct.Democracy@thurrock.gov.uk)**

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<b>17 March 2015</b>	<b>ITEM 5</b>
<b>Standards and Audit Committee</b>	
<b>Risk and Opportunity Management - Benchmarking and Review of the Policy, Strategy and Framework</b>	
<b>Wards and communities affected:</b> All.	<b>Key Decision:</b> Non-key.
<b>Report of:</b> Andy Owen, Corporate Risk Officer.	
<b>Accountable Head of Service:</b> Sean Clark, Head of Corporate Finance	
<b>Accountable Director:</b> Graham Farrant, Chief Executive	
<b>This report is</b> a public report.	

## Executive Summary

Risk and Opportunity Management (ROM) is recognised as good management practice and is an integral part of the Council’s Corporate Governance and Performance Management arrangements.

To enable Standards and Audit Committee to consider the effectiveness of the Council’s ROM arrangements the report is presented on an annual basis.

The report provides details of how the Council’s ROM arrangements compare against the ALARM/CIPFA Benchmarking Model, outlines the current ROM activity, the proposals to maintain/improve the practice across the organisation and includes the updated ROM Policy, Strategy and Framework.

### **1. Recommendations:**

- 1.1 That Standards and Audit Committee note and comment on the results of the benchmarking exercise, the current ROM activity and proposals to maintain and improve the practice across the organisation.**
- 1.2 That Standards and Audit Committee note and comment on the updated ROM Policy, Strategy and Framework.**

### **2. Introduction and Background:**

- 2.1 Risk and Opportunity Management is an integral part of the Council’s Corporate Governance and Performance Management arrangements and the Council has a statutory responsibility under the Account and Audit Regulations to put in place arrangements for the management of risks.**

2.2 The Council currently undertakes an annual review of its ROM arrangements against the ALARM/CIPFA Risk Management Benchmarking Model (the national model of best practice for risk management). The model is designed to test and compare the Council's performance against:

- The major risk management standards
- The criteria that informs the risk management element of the Annual Governance Statement
- Other public services organisation arrangements for ROM

2.3 The benchmarking model resembles the EFQM (European Foundation Excellence Model) approach and breaks down risk management activity into seven strands with five focussed on enablers and two focussed on results:

**Enablers criteria for Risk Management**

- A. Leadership & Management
- B. Policy & Strategy
- C. People
- D. Partnerships & Resources
- E. Processes

**Results criteria for Risk Management**

- F. Risk Handling & Assurance
- G. Outcomes & Delivery

2.4 The Enabler section covers what an organisation does and the Results section covers what an organisation achieves. Each strand is covered by a series of questions that are designed to explore where the organisation scores against good practice. The answers to the questions are weighted to reflect their relative impact on performance and collated into a final score for each strand.

2.5 These results are then used to calculate the overall scores for the Enabler and Results sections. A summary of Thurrock's scores against the model is outlined below:

ENABLERS			Score	ENABLERS			Score
<b>A</b>	4/4	<b>LEADERSHIP &amp; MANAGEMENT</b>	<b>73/100</b>	<b>E</b>	6/6	<b>PROCESSES</b>	<b>74/100</b>
1	✓	Information and decision making	22/32	1	✓	Links to business/service processes overview	25/35
2	✓	Escalation and reporting systems	10/12	2	✓	Risk Identification and Analysis	25/30
3	✓	Accountability and management responsibility	24/32	3	✓	Risk response	10/15
4	✓	Leading risk management implementation	17/24	4	✓	Risk reporting and review	4/5
<b>B 2/2 POLICY &amp; STRATEGY 75/100</b>				<b>5</b> ✓ Information Risk 4/5			
1	✓	Risk management policy	50/60	<b>6</b> ✓ Service Continuity 6/10			
2	✓	Strategy	25/40	<b>RESULTS</b>			
<b>C 4/4 PEOPLE 71/100</b>				<b>F 2/2 RISK HANDLING &amp; ASSURANCE 66/100</b>			
1	✓	Culture	20/25	1	✓	Risk handling	38/60
2	✓	Responsibility	14/20	2	✓	Assurance	28/40
3	✓	Skills and guidance - capability	21/35	<b>G 2/2 OUTCOMES &amp; DELIVERY 68/100</b>			
4	✓	Communication	16/20	1	✓	Risk management contribution to overall performance	38/60
<b>D 3/3 PARTNERSHIPS &amp; SHARED RESOURCES 70/100</b>				2	✓	Contribution to specific outcomes	30/40
1	✓	Partnerships and shared services	35/50	<b>Additional Questions</b>			
2	✓	Finance	20/30	• Go to additional questions			
3	✓	Tools	15/20				

**Comparison to Alarm's National Performance Model for Risk Management**

ENABLERS LEVEL KEY		RESULTS LEVEL KEY	
Level 5 - Driving	85%+	Level 5 - Driving	85%+
Level 4 - Embedded and integrated	70%+	Level 4 - Embedded and integrated	70%+
Level 3 - Working	45%+	Level 3 - Working	45%+
Level 2 - Happening	20%+	Level 2 - Happening	20%+
Level 1 - Awareness	0+	Level 1 - Awareness	0+

Your Score--> **70%**      Your Score--> **45%**

- 2.6 The Council has attained Level 4 – Embedded and integrated for the Enabler criteria and Level 3 - Working for the Results criteria.
- 2.7 The benchmarking cohort consisted of 37 public sector organisations, the majority of which are Local Authorities (6 Unitary, 4 London Borough, 5 County, 5 District, 5 Scottish Unitary, 6 Metropolitan, 4 Fire, 1 Police and 1 Government Organisation).

### 3. Analysis and Evaluation of Results

- 3.1 The graphs in **Appendix 1** show:
- . Thurrock's scores for 2014 against the model and the lowest and highest performance in the benchmarking cohort.
  - . Thurrock's scores for 2014 against the model and the average performance in the benchmarking cohort for the years 2011 to 2014.
  - . Thurrock's scores against the model for the years 2011 to 2014.
  - . Thurrock's scores for 2013 against the model/cohort for comparison.
- 3.2 The benchmarking has revealed that:
- . For 6 of the 7 strands the Council has attained Level 4 – embedded and integrated (70%+).
  - . For 1 of the 7 strands the Council's scores are on the border of attaining the score for Level 4 - embedded and integrated (70%+).
  - . For 4 of the 7 strands the Council's score has improved slightly against the previous year's results.
  - . The Council has attained a score which is similar with the average score of the benchmarking cohort for all of the 7 strands.
- 3.3 An outline of the current ROM activity and proposals to maintain and further embed the practice across the organisation are included in **Appendix 2**.
- 3.4 The challenge facing the Council in the short to medium term is to maintain or improve the practice across the organisation to ensure that adequate ROM arrangements remain in place, are further embedded and form part of the decision making process both at operational and strategic levels.
- 3.5 A full review of the ROM arrangements was undertaken in 2013 and a revised Policy, Strategy and Framework agreed by Cabinet 19<sup>th</sup> March 2014, via Standards and Audit Committee 6<sup>th</sup> February 2014 and Directors Board 14<sup>th</sup> January 2014.
- 3.6 A further review of the ROM Policy, Strategy and Framework was carried out as part of the benchmarking arrangements and some minor changes made to update the document. The updated ROM Policy, Strategy and Framework document is included in **Appendix 3**.

#### **4. Reasons For Recommendation:**

- 4.1 To enable Standards and Audit Committee to consider the effectiveness of the Council's ROM arrangements the report is presented on an annual basis.
- 4.2 The report provides details of how the Council's ROM arrangements compare against the ALARM/CIPFA Benchmarking Model and outlines the current ROM activity and proposals to maintain and improve the practice across the organisation.

#### **5. Consultation (including Overview and Scrutiny, if applicable)**

- 5.1 The results of the benchmarking exercise, outline of the current ROM activity and proposals to maintain and improve the practice across the organisation were to be reported to Directors Board 10<sup>th</sup> February 2015 via Performance Board 2<sup>nd</sup> February 2015

#### **6. Impact On Corporate Policies, Priorities, Performance And Community Impact**

- 6.1 ROM is recognised as a good management practice and how successful the Council is in managing the risks and opportunities it faces will have a major impact on the achievement of the Council's priorities and objectives.

#### **7. Implications**

##### **7.1 Financial**

Implications verified by: **Michael Jones,  
Management Accountant.**

Effective risk and opportunity management and the processes underpinning it will provide a more robust means to identify, manage and reduced the likelihood of financial claims and/or loss faced by the Council.

##### **7.2 Legal**

Implications verified by: **David Lawson,  
Deputy Head of Legal and Deputy Monitoring  
Officer**

Effective risk and opportunity management and the processes underpinning it will provide a more robust means to identify, manage and reduced the likelihood of legal claims or regulatory challenges against the Council

##### **7.3 Diversity and Equality**

Implications verified by: **Rebecca Price,  
Community Development Officer.**



The management of risk and opportunities provides an effective mechanism for monitoring key equality and human right risks associated with a range of service and business activities undertaken by the Council. It also provides a method for reducing the likelihood of breaching our statutory equality duties.

7.4 **Other implications (where significant) – i.e. Section 17, Risk Assessment, Health Impact Assessment, Sustainability, IT, Environmental**

Risk and opportunity management contributes towards the Council meeting the requirements of Corporate Governance and the Account & Audit Regulations.

**Background Papers Used In Preparing This Report:**

- ALARM/CIPFA Risk Management Benchmarking Club 2014 – Papers and exercise.

**Appendices To This Report:**

- Evaluation of results against the model/cohort - **Appendix 1**
- Summary of Current Activity and Proposals to Maintain and Improve the Practice - **Appendix 2**
- Risk and Opportunity Management Policy and Strategy - **Appendix 3**

**Report Author Contact Details:**

**Name:** Andy Owen, Corporate Risk Officer

**Telephone:** 01375 652174

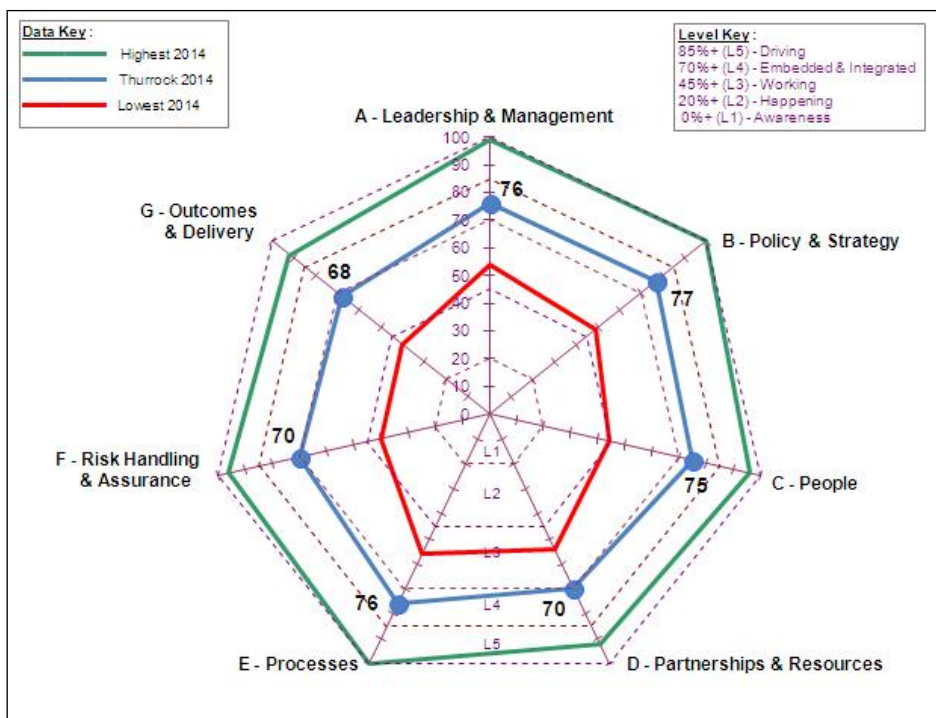
**E-mail:** [aowen@thurrock.gov.uk](mailto:aowen@thurrock.gov.uk)



### Evaluation of Results

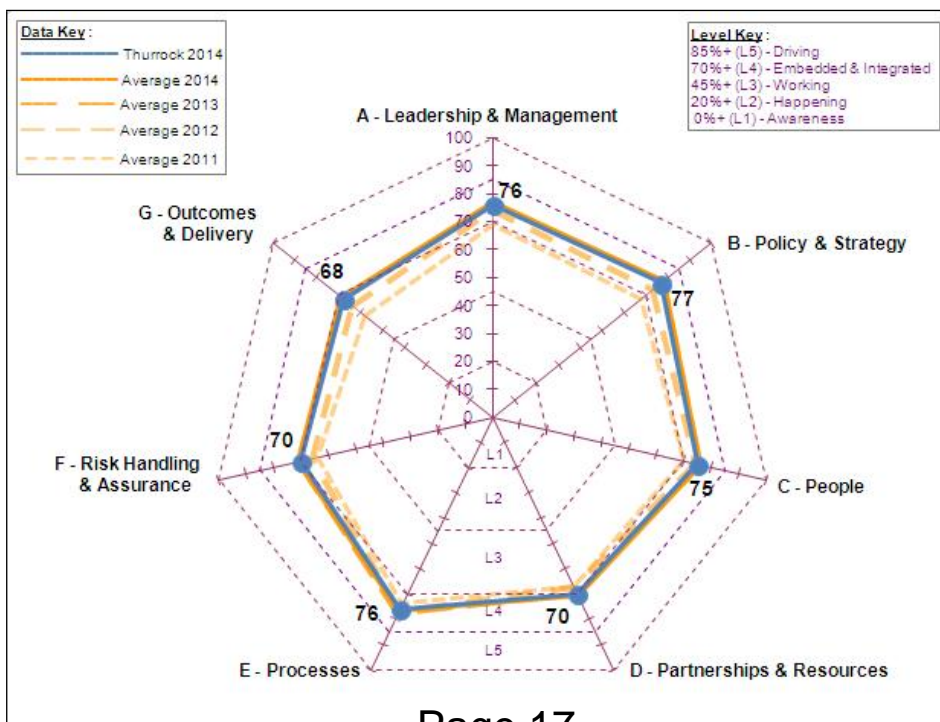
**Graph 1** shows Thurrock's scores for 2014 against the model and the lowest and highest performance in the benchmarking cohort.

- The green line shows the highest performance in the benchmarking cohort for each strand
- The blue line shows Thurrock's score for each strand
- The red line shows the lowest performance in the benchmarking cohort for each strand



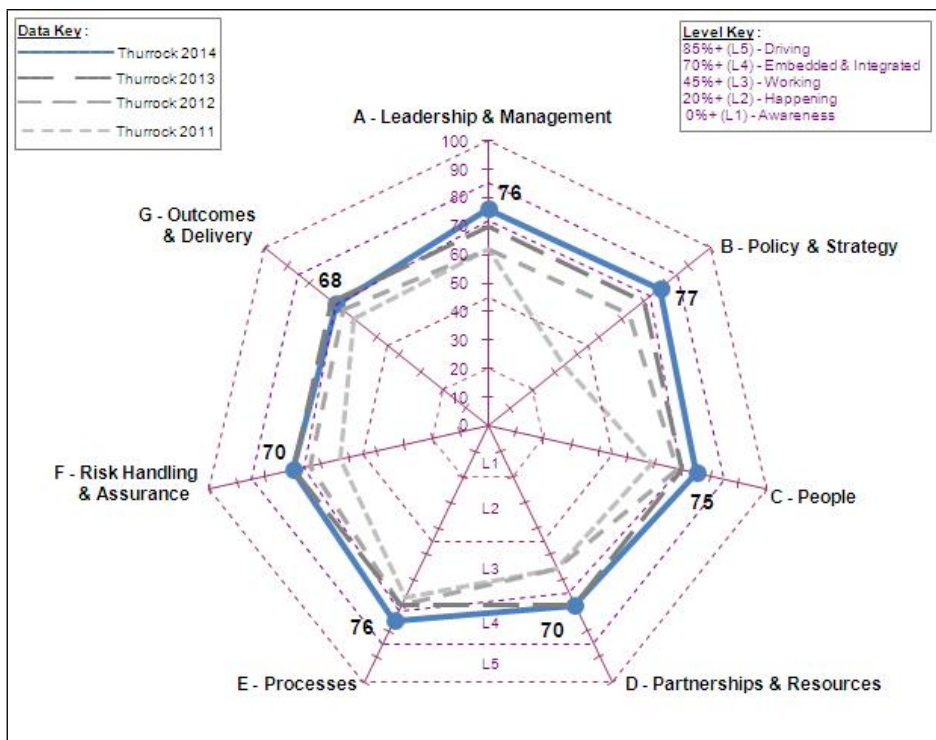
**Graph 2** shows Thurrock's scores for 2014 against the model and the average performance in the benchmarking cohort for the years 2011 to 2014.

- The blue line shows Thurrock's score for each strand.
- The amber line shows the average score in the benchmarking cohort for 2014. Note this is similar to Thurrock's score and masked by the blue line.
- The large dashed amber line shows the average score in the benchmarking cohort for 2013. Note this is similar to Thurrock's score and masked by the blue line.
- The medium dashed light amber line shows the average score in the benchmarking cohort for 2012.
- The small dashed light amber line shows the average score in the benchmarking cohort for 2011.



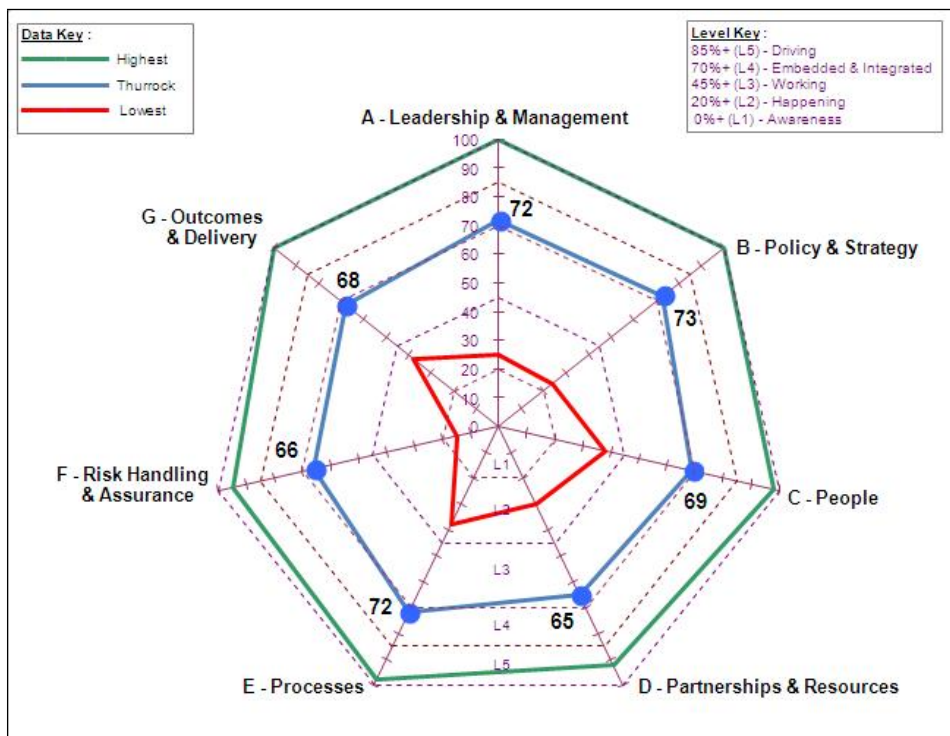
**Graph 3** shows Thurrock's scores for 2014 against the model and Thurrock's scores for the years 2011 to 2013.

- The blue line shows Thurrock's score for 2014 under each strand.
- The large dashed dark grey line shows Thurrock's score for 2013 under each strand.
- The medium dashed grey line shows Thurrock's score for 2012 under each strand.
- The small dashed light grey line shows Thurrock's score for 2011 under each strand.



**Graph 4** shows Thurrock's scores for 2013 against the model (including the lowest & highest performance in the benchmarking cohort) for comparison against the 2014 results (Graph 1).

- The green line shows the highest performance in the benchmarking cohort for each strand
- The blue line shows Thurrock's score for each strand
- The red line shows the lowest performance in the benchmarking cohort for each strand



## Summary of Current ROM Activity and Proposals to Maintain/Embed the Practice

ROM Priorities	Summary of Activity 2014/15
<ul style="list-style-type: none"> <li>• Review &amp; Develop ROM Policy, Strategy &amp; Framework</li> <li>• Review and improve Strategic/Corporate level ROM</li> <li>• Review and improve Service level ROM including Project and Partnership ROM</li> <li>• Continue to embed ROM and build skill/capacity for ROM across the Council.</li> </ul>	<ul style="list-style-type: none"> <li>• Risk Management Policy, Strategy &amp; Framework revised and reported to Cabinet March 2014, via Standards &amp; Audit Committee Feb 2014, Directors Board January 2014 and Performance Board January 2014.</li> <li>• Risk Management Policy Strategy &amp; Framework presented to Department Management Teams February to March 2014.</li> <li>• Review and reporting arrangements for Strategic/Corporate level ROM revised March 2014 and presented to Department Management Teams.</li> <li>• In Quarter 1 Refresh of the Strategic/Corporate Risk and Opportunity Register undertaken during March to May 2014 and reported to Standards &amp; Audit Committee July 2014, via Directors Board May 2014 and Performance Board representatives May 2014. S&amp;AC papers shared with Cabinet Members.</li> <li>• In Quarter 2 Review of the Strategic/Corporate Risk and Opportunity Register undertaken during June to July 2014 and reported to Directors Board July 2014, via Performance Board representatives July 2014.</li> <li>• Risk management section of business case template for the savings proposals developed June 2014 and business cases for savings (including risk and mitigation) presented to Overview and Scrutiny Committees from July 2014.</li> <li>• In Quarter 3 Review of the Strategic/Corporate Risk and Opportunity Register undertaken during September to October 2014 and reported to Standards &amp; Audit Committee December 2014, via Directors Board November 2014 and Performance Board November 2014. S&amp;AC papers shared with Cabinet Members.</li> <li>• Review to compare the Council's Strategic/Corporate Risk and Opportunity Register against Zurich Municipal's assessment of the key risk/challenges facing the local government sector undertaken July 2014 and reported to Standards &amp; Audit Committee December 2014, via Directors Board November 2014 and Performance Board November 2014.</li> <li>• Information from the In Quarter 3 Review used to report progress against the items included in the Strategic/Corporate R&amp;O Register as part of the Mid Year Corporate Progress and Performance Report to Cabinet December 2014</li> <li>• In Quarter 4 Review of the Strategic/Corporate Risk and Opportunity Register scheduled for January 2015. Report to Directors Board 20<sup>th</sup> February 2015, via Performance Board representatives 20<sup>th</sup> February 2015.</li> <li>• ROM section of Service Plan template/guidance developed and Service Plans (including risk and opportunity registers) developed by Services March 2014.</li> <li>• Project level ROM – Risk management support for key projects provided (e.g. Gloriana Working Group, Better Care Fund Section 75 Project Group). Guidance and templates for project level ROM updated November 2014. Principles that should be applied by services for projects incorporated in the Finance Procedure Rules of the Constitution.</li> <li>• Partnership ROM reviewed June 2014 - Principles that should be applied by services when working with Partners or Third Parties incorporated in the Finance Procedure Rules of the Constitution.</li> <li>• ROM Information file developed and set up March 2014 on J/Thurrock/Exchange and regularly updated.</li> <li>• ROM Awareness Training presentation refreshed and made available from June 2014.</li> <li>• ROM section of Corporate Report template and guidance reviewed June 2014.</li> <li>• Risk management arrangements benchmarked against the ALARM/CIPFA RM Benchmarking Model 2014 (including review of the ROM Policy &amp; Strategy). Report results to Standards and Audit Committee 17<sup>th</sup> March 2015, via Directors Board 10<sup>th</sup> February 2015 and Performance Board 2<sup>nd</sup> February 2015.</li> </ul>

ROM Priorities	Summary of Proposed Activity and Improvements for 2015/16
<ul style="list-style-type: none"> <li>• Review and Update the ROM Policy, Strategy and Framework</li> <li>• Maintain Strategic/Corporate level ROM</li> <li>• Review and further develop Service level ROM including project and partnership ROM.</li> <li>• Continue to embed ROM and build skill/capacity for ROM across the Council.</li> </ul>	<ul style="list-style-type: none"> <li>• Update ROM guidance in line with revised ROM Policy, Strategy &amp; Framework.</li> <li>• Update Department Management Teams of the revised ROM Policy, Strategy and Framework to maintain awareness of the ROM arrangements across the Council.</li> <li>• Review the reporting arrangements for Strategic/Corporate Risk and Opportunity Register.</li> <li>• Update Department Management Teams of the review and reporting arrangements for the Strategic/Corporate Risk and Opportunity Register.</li> <li>• Undertake In Quarter 1 Review/Refresh of the Strategic/Corporate Risk and Opportunity Register and report to Standards &amp; Audit Committee via Directors Board and Performance Board.</li> <li>• Undertake In Quarter 2 Review of the Strategic/Corporate Risk and Opportunity Register and report to Directors Board via Performance Board.</li> <li>• Undertake In Quarter 3 Review of the Strategic/Corporate Risk and Opportunity Register and report to Standards &amp; Audit Committee via Directors Board and Performance Board.</li> <li>• Undertake In Quarter 4 Review of the Strategic/Corporate Risk and Opportunity Register and report to Directors Board via Performance Board.</li> <li>• Undertake mid year review to compare the Council's Strategic/Corporate Risk &amp; Opportunity Register against peer authority records and/or reports of the key risk/challenges facing the local government (e.g. Zurich Municipal's annual assessment).</li> <li>• As part of the Mid and End of Year Corporate Progress and Performance Report to Cabinet provide an outline the items included in the Strategic/Corporate Risk &amp; Opportunity Register and the developments to manage the risks/opportunities.</li> <li>• Review Service Level ROM arrangements and work with Services and Performance Board to develop service plans and service risk/opportunity registers.</li> <li>• Continue to embed project level risk management for key projects.</li> <li>• Develop and promote partnership ROM.</li> <li>• Maintain regular updates of ROM Information on the J/Thurrock/Exchange file.</li> <li>• Review ROM awareness training provision and research/develop e-learning module.</li> <li>• Annual review of ROM arrangements (e.g. ALARM/CIPFA RM Benchmarking Model or CIPFA Governance Framework).</li> </ul>

# Risk and Opportunity Management Policy and Strategy

## December 2014

<b>Title:</b>	Risk and Opportunity Management Policy and Strategy.
<b>Purpose:</b>	Outlines the overarching ROM framework for Thurrock Council.
<b>Owner:</b>	Andy Owen, Corporate Risk Officer
<b>Approved by:</b>	N/A
<b>Date:</b>	December 2014
<b>Version:</b>	1.2
<b>Status:</b>	Draft
<b>Review Frequency:</b>	Annual
<b>Next Review Date:</b>	December 2015
<b>Consultation:</b>	N/A

## Purpose

The Risk and Opportunity Management Policy & Strategy outlines the overarching risk and opportunity management framework in Thurrock detailing where a formal approach to risk and opportunity management must be adopted by officers.

The document details the priorities of Corporate Risk and Opportunity Management over the next year, how risk and opportunity is monitored, reported and escalated across the Council and what duties are placed on officers across the council to ensure compliance.

## Related Documents

- Risk and Opportunity Management Guide

## Who is Governed by this Policy and Strategy?

The Risk Management Policy and Strategy applies to all staff including and not limited to temporary staff, seasonal staff and contractors. A failure to comply could be damaging to the finances and reputation of the Council.

## Executive Summary

This combined risk and opportunity management policy and strategy details the Council's framework for managing business risk and opportunity. The risk and opportunity management framework is the culture, processes and structures that are directed towards effective management of potential risks and opportunities that the council faces in delivering its objectives.

Thurrock Council takes risks and recognises that risk is involved in everything it does and that it has a duty to manage these risks. This duty is to staff, residents and people working in the borough, service users, partners and funding agencies. Proactive risk and opportunity management makes sound business sense; effective risk and opportunity management is good management practice.

The Risk and Opportunity Management Guide expands upon the principles laid out in this document; and provides more support on how to undertake a risk and opportunity assessment.



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# Risk & Opportunity Management Policy

Risk needs to be managed rather than avoided, and consideration of risk should not stifle innovation. The Council delivers services in an increasingly litigious and risk averse society and believes that risk management is a tool for exploiting opportunities as well as safeguarding against potential threats. Thurrock Council uses the discipline of risk and opportunity management to promote innovation in support of the Council's strategic priorities and objectives.

The risk and opportunity management framework is the all-encompassing approach that the Council takes towards risk and opportunity management; including the adoption of this Policy & Strategy, the resourcing of Corporate Risk and Opportunity Management and the consideration of risk and opportunity management in other corporate policies and procedures.

The risk and opportunity management discipline involves the identification, evaluation, management, review and escalation of risk and opportunity. Whenever an officer is involved in an activity which has significant levels of risk, it is important that the risk management process is formalised by, for example, undertaking a risk assessment or detailing risks in a report. The council recognises that the approach to risk management should be proportionate to the level of risk present.

The management of risk and opportunity is woven throughout the Council's key governance frameworks and as such there are specific requirements for all officers to adopt a formal approach to risk and opportunity management in the following areas;

- Key decision making reports
- Corporate and Service planning processes
- Programme and Project management
- Procurement processes
- Partnership working arrangements
- Change management processes.

Corporate Risk Management is responsible for developing and embedding the risk and opportunity management framework within which risks and opportunities are to be managed across the Council. This includes developing risk and opportunity management capacity within the Council's workforce through the offer of guidance, support and training.

All Council officers are responsible for the management of the risks and opportunities that surround their role and adherence to the risk and opportunity management framework.

The Risk and Opportunity Management Policy and Strategy are reviewed on an annual basis by Corporate Risk Management. Standards and Audit Committee Members are consulted as part of this process. This policy is approved by Cabinet and any major changes will be taken back to Cabinet for re approval.

Adherence to the requirements set out in the Risk and Opportunity Management Policy and Strategy is monitored by Corporate Risk Management and reported to Directors Board and Standards and Audit Committee as appropriate.

# Risk & Opportunity Management Strategy

Thurrock Council believes that through the proactive management of its significant business risks and opportunities it will be in a stronger position to deliver the strategic priorities and objectives

To this end, Corporate Risk Management has been issued the remit of developing and embedding an enterprise-wide risk and opportunity management framework.

There is strong senior management support for risk and opportunity management. The Council has a developing risk culture and a positive attitude to risk – recognising that well managed risk brings opportunity and innovation.

## **The Risk & Opportunity Management Framework**

Having a robust and systematic risk and opportunity management framework which is embedded throughout the organisation will;

- Help officers to fully understand the event, cause and effects of the risks and opportunities that they face, and in turn make more informed decisions on how best to manage risks and opportunities.
- Allow officers to analyse and prioritise risks and opportunities; helping inform decisions on the management, escalation and communication of risks and opportunities.
- Creates a management tool which promotes discussion and helps reinforce officers' understanding of risks/opportunities and how they will be managed; as well as encouraging the assignation of roles and responsibilities.
- Provides senior managers and members with the assurance that risks and opportunities are being considered and managed across the organisation, and where need be risks and opportunities are escalated for their input and guidance.

## **Key Risk and Opportunity Management Objectives**

In order to realise the organisational benefits of managing risk/opportunity and deliver upon their remit of developing and embedding a risk and opportunity management framework, Corporate Risk Management has identified the following objectives;

1. To maintain and review the risk and opportunity management framework which takes into account new and emerging risk and opportunity management practices in accordance with the principles of British Standard 31100.
2. To ensure the Council actively manages risks and opportunities in the delivery of Service Plans and strategic priorities and objectives.
3. To ensure risks and opportunities are considered and discussed as part of the councils key decision making processes.
4. To ensure all programmes and projects in the council have a robust approach to risk and opportunity management.
5. To ensure officers consider the risks and opportunities associated with partner organisations, delivery agents and the voluntary sector.

6. To ensure officers consider the management of risk and opportunity within the procurement process.
7. To integrate and embed risk and opportunity management throughout the working culture of the Council by providing support, guidance and training to officers.
8. To monitor adherence to the Risk and Opportunity Management Framework and report on performance to Directors Board (DB), and the Standards & Audit Committee (S&AC).

## Defining Risk and Opportunity Management

Thurrock Council's definition of Risk and Opportunity Management is:

***“The planned and systematic approach to identify, evaluate and manage the risks to and the opportunities for the achievement of objectives”***

This definition compliments the CIPFA Better Governance Forum's definition of risk and the context of risk management as detailed in the British Standard 31100, which state:

***“Risk arises as much from failing to capture opportunities, as it does from threat that something bad will happen”*** (Definition of risk - CIPFA Better Governance Forum).

***“Risk management is as much about exploiting potential opportunities as preventing potential problems”*** (Context of risk management - British Standard 31100).

## Corporate Risk Management

Corporate Risk Management sits within Corporate Finance and is led by the Corporate Risk and Insurance Manager who is mandated to;

- Establish the risk and opportunity management framework through developing procedures, tools and guidance on how to manage risk and opportunity;
- Embed the framework by providing training, guidance and support to officers across the council on how to comply with it.

The tools that Corporate Risk Management (CRM) has developed are available on the Risk and Opportunity Management file under J/Thurrock/Exchange/ROM.

## Risk and Opportunity Management in Thurrock Council

Thurrock Council's risk management strategy was first developed in 2005 and it is reviewed on an annual basis. The risk management strategy focussed on the potential negative effects of uncertainty (risk) and as a result, uncertainties that could have beneficial effects (opportunities) were generally overlooked. The framework was therefore revised and Opportunity Management incorporated in the approach. The Risk and Opportunity Management framework was introduced in 2008.

Standards and Audit Committee and Directors Board act as the risk and opportunity management oversight bodies; receiving regular reports throughout the year and providing challenge and support to the whole process. The Portfolio Holder for Central Services and Head of Corporate Finance promote risk and opportunity management across the Council in their respective roles of Member and Officer Risk Management Champions.

This Policy & Strategy provides an overview of the risk management framework within Thurrock Council and outlines Corporate Risk Management's objectives in the short/medium term to further develop and embed the framework.

## **Risk and Opportunity Management Priorities 2014-16**

The following priorities will be incorporated into Corporate Risk Management's plans for 2014-2016

- Review and develop the ROM Policy, Strategy and Framework.
- Review and maintain Strategic/Corporate level ROM.
- Review and further develop Service level ROM, including Project and Partnership ROM.
- Continue to embed ROM and build capacity for ROM across the Council.

## **Governance and Compliance**

The management of risk is woven throughout the Council's key governance frameworks and as such there are specific requirements for all officers to adopt a formal approach to risk and opportunity management in the following areas;

- Key decision making reports.
- Corporate and Service Planning.
- Programme and Project management.
- Procurement processes.
- Partnership working arrangements.
- Change management processes.

A formal approach to risk and opportunity management will involve for example, undertaking a risk assessment or detailing risks in a report. The council recognises that the approach to risk and opportunity management should be proportionate to the level of risk or opportunity involved. For more information refer to the guide on the risk and opportunity management page on the intranet.

## **Compliance with the Risk and Opportunity Management Framework**

This policy and strategy is just one part of the Council's risk and opportunity management framework. Other key components include the risk/opportunity rating system, risk and opportunity assessment templates and strategic/corporate risk and opportunity register.

To ensure consistency it is important that these tools are adopted across the Council. Any variations or dispensations will be kept to a minimum and must be approved by Corporate Risk Management.

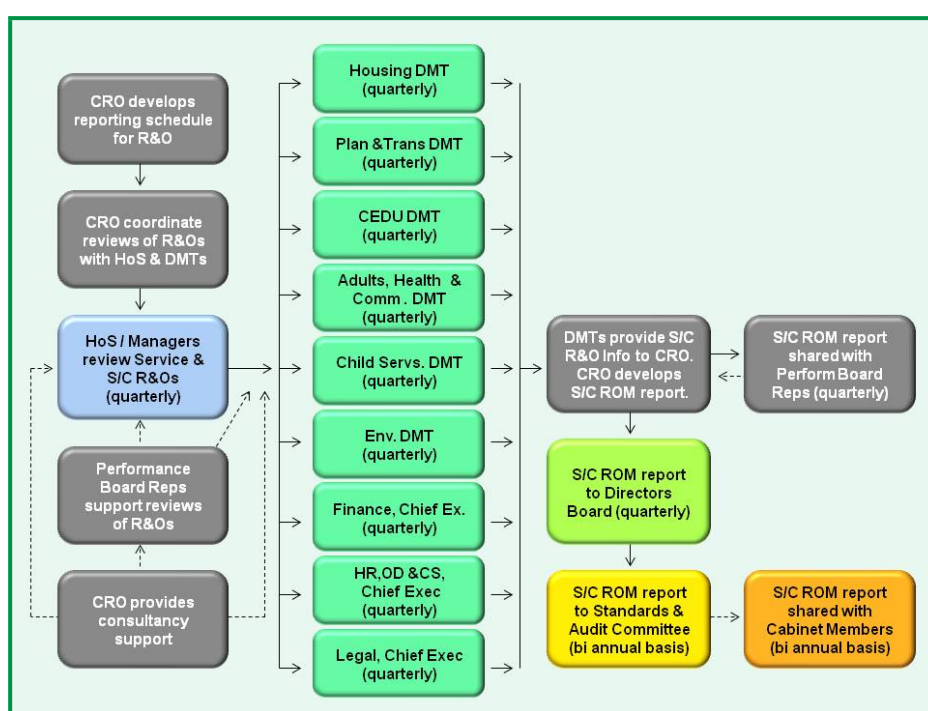
Heads of Service and Directors have responsibilities to ensure that their staff adhere to the risk and opportunity management framework. For more information on the roles and responsibilities of all staff please refer to the Risk and Opportunity Management Framework table, Appendix A at the end of this document.

## Monitoring, Reporting & Escalating Risk and Opportunity

Corporate Risk Management continually monitors the management of risk/opportunity across the council. This is done through half yearly reviews of each Directorates/Departments key risks and opportunities, regular engagement on the management of risk/opportunity within programmes and projects and consultation and sign-off of all key decision making reports.

Each Directorates/Departments performance in relation to compliance to the risk and opportunity management framework and management of risk/opportunity is monitored on a quarterly basis through the directorate/department management teams.

Risks/opportunities are escalated and reported throughout the organisation in a number of different ways. Through the regular review of key service, department and directorate risks and opportunities, a process of aggregation and escalation occurs and the items considered by Directorate/Department Management Teams. The Directorate/Department risks and opportunities with strategic/corporate significance are then further analysed to develop strategic/corporate risks and opportunities which are reported to Directors Board quarterly and Standards & Audit Committee on a bi annual basis.



*Monitoring & reporting - strategic/corporate risk & opportunity register*

Within programmes and projects the monitoring, reporting and escalation of risk/opportunity is less formal. Corporate Risk Management provides support to programmes and projects, and the corporate programme and/or project management methodology details the approach that should be followed for monitoring, reporting and escalating risk/opportunity to project and programme boards.

The risks/opportunities associated with key decisions and how they will be managed is detailed within all reports to Cabinet. The Corporate Risk and Insurance Manager is a mandatory consultee for all reports and this process of risk and opportunity reporting helps Members to make informed decisions.

## Thurrock Council's Risk and Opportunity Management Maturity – Review

The development of the risk and opportunity management framework and the level to which it is embedded in the working practices of the organisation are reviewed and benchmarked against good practice on an annual basis. The improvement opportunities highlighted by the review are used to inform the Corporate Risk Management priorities and plans for the short/medium term.

## Further Guidance, Tools, Support and Training

The latest version of the Risk and Opportunity Management Policy and Strategy and all of our documents can be obtained from Corporate Risk Management:

Sharon Roots  
Corporate Risk & Insurance Manager  
Thurrock Council  
[sroots@thurrock.gov.uk](mailto:sroots@thurrock.gov.uk)  
01375 413975

Andy Owen  
Corporate Risk Officer  
Thurrock Council  
[aowen@thurrock.gov.uk](mailto:aowen@thurrock.gov.uk)  
01375 652174



## Risk and Opportunity Management Framework

Who	Key Roles & Responsibilities	Report Type	By Whom	Frequency
Council	Receive and act upon: <ul style="list-style-type: none"> <li>Reports from Cabinet, S&amp;AC and Head of Paid Service.</li> <li>Reports, recommendations and advice from S&amp;AC</li> </ul>	<ul style="list-style-type: none"> <li>e.g. Annual Governance Statement; Policy, Strategy and Framework report and other relevant reports.</li> </ul>	Cabinet, Standards & Audit Committee.	Annually
Cabinet	<ul style="list-style-type: none"> <li>Agree the ROM Policy, Strategy &amp; Framework and receive reports on them.</li> <li>Hold the political responsibility for ROM within each individual portfolio.</li> <li>Identify a lead portfolio holder for ROM</li> </ul>	<ul style="list-style-type: none"> <li>Policy, Strategy &amp; Framework and other relevant reports.</li> <li>Mid and end of year progress/updates on the Strategic/Corporate R&amp;Os (as part of Performance Report)</li> </ul>	Standards & Audit Committee and Directors Board	<ul style="list-style-type: none"> <li>Annually or as required</li> <li>Bi Annual</li> </ul>
Standards & Audit Committee	<ul style="list-style-type: none"> <li>Oversee and challenge assurance and the ROM arrangements</li> </ul>	<ul style="list-style-type: none"> <li>Review of Policy, Strategy &amp; Framework</li> <li>Receive updates on the Strategic/Corporate R&amp;Os and action plans</li> <li>Receive assurance on effectiveness of ROM</li> </ul>	Head of Corporate Finance	<ul style="list-style-type: none"> <li>Annually</li> <li>Bi Annual</li> <li>Annually</li> </ul>
Directors Board	<ul style="list-style-type: none"> <li>Strategic leadership group for ROM</li> <li>Oversee the ROM Policy, Strategy &amp; Framework</li> <li>Responsible for effectiveness of R&amp;O and assurance arrangements and any management or mitigation.</li> <li>Quarterly monitoring of Strategic/Corporate R&amp;Os and associated action plans.</li> </ul>	<ul style="list-style-type: none"> <li>Review of Policy, Strategy &amp; Framework.</li> <li>Reviews of Strategic/Corporate R&amp;Os and action plans.</li> <li>Review / Benchmarking of ROM</li> </ul>	Head of Corporate Finance	<ul style="list-style-type: none"> <li>Annually</li> <li>Quarterly</li> <li>Annually</li> </ul>
Corporate Risk Management	<ul style="list-style-type: none"> <li>Establish the ROM Policy, Strategy &amp; Framework</li> <li>Stewardship of the Strategic/Corporate R&amp;O Register</li> <li>Review / Benchmarking of ROM</li> <li>Establish Service level ROM</li> <li>Provide consultancy and advice on ROM</li> </ul>	<ul style="list-style-type: none"> <li>Review of ROM Policy, Strategy &amp; Framework.</li> <li>Reviews of Strategic/Corporate R&amp;Os and action plans.</li> <li>Review / Benchmarking of ROM</li> </ul>	Corporate Risk & Insurance Manager / Corporate Risk Officer	<ul style="list-style-type: none"> <li>Annually</li> <li>Quarterly</li> <li>Annually</li> </ul>
Directors	<ul style="list-style-type: none"> <li>Monitoring of Strategic/Corporate R&amp;Os for the directorate or Council.</li> <li>Escalation as appropriate of Strategic/Corporate R&amp;Os to DB</li> <li>Monitoring of high level R&amp;Os facing the directorate or Council (e.g. programme, partnership, project and service R&amp;Os)</li> </ul>	<ul style="list-style-type: none"> <li>Reviews of Strategic/Corporate R&amp;Os and action plans to DB</li> <li>Report to Portfolio Holders on the high level R&amp;Os facing the directorate or Council</li> </ul>	Directors	Quarterly or as required
Directorate/Department Management Teams	<ul style="list-style-type: none"> <li>Identification and monitoring of Strategic/Corporate and other key risks/opportunities facing the department</li> <li>Escalation as appropriate of S/C R&amp;Os to Directors Board</li> </ul>	<ul style="list-style-type: none"> <li>Review of R&amp;Os and R&amp;O Registers as a standing agenda item at DMT meetings</li> <li>DMT to receive and approve updates to S/C R&amp;Os and action plans</li> </ul>	Directors, Heads of Service or Lead Officer	Quarterly or as required by Director or DMT
Performance Board	<ul style="list-style-type: none"> <li>Support the review and development of ROM Policy, Strategy &amp; Framework.</li> <li>Support the development/review of the Strategic/Corporate R&amp;Os register.</li> <li>Review / Benchmarking of ROM</li> </ul>	<ul style="list-style-type: none"> <li>Review of Policy, Strategy &amp; Framework.</li> <li>Reviews of Strategic/Corporate R&amp;Os and action plans.</li> <li>Review / Benchmarking of ROM</li> </ul>	Corporate Risk & Insurance Manager / Corporate Risk Officer	<ul style="list-style-type: none"> <li>Annually</li> <li>Quarterly</li> <li>Annually</li> </ul>
Heads of Service	<ul style="list-style-type: none"> <li>Identification, management and review of R&amp;Os within their Service or area of responsibility.</li> <li>Monitoring and escalation as appropriate of R&amp;Os to either Director or relevant DMT</li> </ul>	<ul style="list-style-type: none"> <li>Review of R&amp;Os and R&amp;O Registers as a standing agenda item at Service SMT meetings.</li> <li>Review of Strategic/Corporate R&amp;Os and action plans to DMT</li> <li>Report to DMT on identified R&amp;Os that require consideration for escalation to the S/C R&amp;O Register</li> </ul>	Heads of Service	Quarterly or as required by Director or DMT
Programme & Partnership Boards or Project Managers	Responsible for the identification, management and monitoring of R&Os within their given areas.	Report on the management of R&Os and escalation of high level R&Os as required or necessary	Programme Boards, Partnership Boards and Project Managers	Quarterly or as required by Directors, DMTs or Heads of Service
Employees	To manage risk effectively in their job and report hazards, risks or opportunities to their Heads of Service or Manager.	Report incidents, risks and opportunities following the procedures laid down in corporate policies.	All Employees	As necessary or required.



<b>17 March 2015</b>	<b>ITEM: 6</b>
<b>Standards and Audit Committee</b>	
<b>Regulation of Investigatory Powers Act (RIPA) 2000 – Quarterly Activity Report</b>	
<b>Wards and communities affected:</b> N/A	<b>Key Decision:</b> N/A
<b>Report of:</b> Fiona Taylor, Head of Legal Services and Monitoring Officer	
<b>Accountable Head of Service:</b> Fiona Taylor, Head of Legal Services and Monitoring Officer	
<b>Accountable Director:</b> Graham Farrant, Chief Executive	
<b>This report is public</b>	

## Executive Summary

This report provides an update on the usage and activity of RIPA requests during October 2014 to December 2014.

### 1. Recommendation(s)

**1.1 To note the statistical information relating to the use of RIPA from October 2014 to December 2014.**

### 2. Introduction and Background

2.1 The Regulation of Investigatory Powers Act 2000 (RIPA), and the Protection of Freedoms Act 2012, legislates for the use of local authorities of covert methods of surveillance and information gathering to assist in the detection and prevention of crime in relation to an authority's core functions.

2.2 The council's use of these powers is subject to regular inspection and audit by the Office of the Surveillance Commissioner (OSC) in respect of covert surveillance authorisations under RIPA, and the Interception of Communications Commissioner (IOCCO) in respect of communications data. During these inspections, authorisations and procedures are closely examined and Authorising Officers are interviewed by the inspectors.

2.3 The RIPA Single Point of Contact (SPOC) maintains a RIPA register of all directed surveillance RIPA requests and approvals across the council.

### 3. Issues, Options and Analysis of Options

- 3.1 The number of Thurrock RIPA directed surveillance authorisations processed from October 2014 to December 2014 is 1. Below is a breakdown showing the areas the authorisations relate to for this period (along with year to date figures):

	Oct 14 – Dec 14	2014/15 – Year to date volumes
Trading Standards	0	1
Fraud	1	3
Regulatory	0	0
Covert Human Intelligence Source (CHIS authorisations)	0	0

#### Notes:

Thurrock's Fraud Team provide a shared service within Southend Council. During October 2014 - December 2014, 1 RIPA directed surveillance request and 1 CHIS was authorised for surveillance activity undertaken within the Southend area. The following should be noted in relation to these requests:

- RIPA activity was authorised using Thurrock's RIPA process as Thurrock are considered to be the 'tasking Agency' – i.e. the agency with the lead on the criminal investigation.
- These requests have been excluded from Thurrock's RIPA statistics, as the activity was undertaken on an agency/shared service basis on behalf of another public authority.
- Checks are in the process of being undertaken with Southend Council and the Office of Surveillance Commissioner, to ensure they both are in agreement with the approach our Fraud Team have adopted in relation to the authorisation of RIPA requests for Southend investigations.

The table below shows the number of requests made to the National Anti-Fraud Network (NAFN) for Communication Data requests:

	Oct 14 – Dec 14	2014/15 requests to date
Service Data	1 (Fraud)	1 (Fraud)
Subscriber Data	2 (1 Fraud and 1 Trading Standards)	6 (5 Trading Standards. 1 Fraud)

#### Notes:

- Service Data – Is information held by a telecom or postal service provider including itemised telephone bills and/or outgoing call data.

- Subscriber Data – Includes any other information or account details that a telecom provider holds e.g billing information.

#### **4. Reasons for Recommendation**

4.1 This report provides an update on the usage and activity of RIPA requests for October 2014 – December 2014.

#### **5. Consultation (including Overview and Scrutiny, if applicable)**

5.1 The RIPA SPOC has consulted with the relevant departments to obtain the data set out in this report.

#### **6. Impact on corporate policies, priorities, performance and community impact**

6.1 Monitoring compliance with the Regulation of Investigatory Powers Act 2000, and the Protection of Freedoms Act 2012, supports the council's approach to corporate governance. Ensuring the appropriate use of RIPA in taking action to tackle crime and disorder supports the corporate priority of ensuring a safe, clean and green environment.

#### **7. Implications**

##### **7.1 Financial**

Implications verified by: **Mike Jones**  
**Management Accountant**

There are no financial implications directly related to this report.

##### **7.2 Legal**

Implications verified by: **Chris Pickering**  
**Principal Solicitor – Employment and Litigation**

Legal implications comments are contained within this report above.

##### **7.3 Diversity and Equality**

Implications verified by: **Natalie Warren**  
**Community Development and Equalities Manager**

There are no such implications directly related to this report.

7.4 **Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

Compliance with the requirements of RIPA legislation will ensure the proper balance of maintaining order against protecting the rights of constituents within the borough. There are no implications other than contained in this report.

8. **Background papers used in preparing the report** (including their location on the council's website or identification whether any are exempt or protected by copyright):

- None.

9. **Appendices to the report**

- None.

**Report Author:**

Lee Henley

Information Manager

Chief Executive's Office

<b>17 March 2015</b>	<b>ITEM: 7</b>
<b>Standards &amp; Audit Committee</b>	
<b>Internal Audit Progress Report 2014/2015</b>	
<b>Wards and communities affected:</b> All	<b>Key Decision:</b> Non-key
<b>Report of:</b> Chris Harris – Head of Internal Audit	
<b>Accountable Head of Service:</b> Sean Clark – Head of Corporate Finance	
<b>Accountable Director:</b> Graham Farrant – Chief Executive	
<b>This report is public</b>	

## Executive Summary

The Internal Audit Plan 2014/15 was discussed and noted by the Standards & Audit Committee at their meeting of 5<sup>th</sup> March 2014. This report sets out progress against the Internal Audit Plan 2014/15 and is the third progress report presented to the Standards & Audit Committee. It details reports finalised since the last progress report presented to the Committee on the 9<sup>th</sup> December 2014.

### 1. Recommendation(s)

**That the Standards & Audit Committee:**

- 1.1 Consider reports issued by Internal Audit in relation to the 2014/15 audit plan.**
- 1.2 Note progress against the Internal Audit Plan for 2014/15.**

### 2. Introduction and Background

- 2.1 The Accounts and Audit (England) Regulations 2011 require that a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
- 2.2 The Internal Audit Service carries out the work to satisfy this legislative requirement and part of this is reporting the outcome of its work to the Standards & Audit Committee.
- 2.3 The Standards & Audit Committee has a responsibility for reviewing the Council's corporate governance arrangements, including internal control and

formally approving the Annual Governance Statement. The audit work carried out by the Internal Audit Service is a key source of assurance to the Standards & Audit Committee about the operation of the internal control environment.

- 2.4 The audits contained in the Internal Audit Plan 2014/15 are based on an assessment of risk for each system or operational area. The assessment of risk includes elements such as the level of corporate importance, materiality, service delivery/importance and sensitivity.

### **3. Issues, Options and Analysis of Options**

- 3.1 Following widespread consultation with clients across all service sectors, the reports issued by Internal Audit now provide 4 levels of assurance opinion. The 4 opinions use a Red/Amber/Green assurance level and reports are now categorised as: Green; Amber/Green (positive assurance opinions); Amber/Red (some assurance but a number of weaknesses) and Red (negative assurance opinion).

- 3.2 In the year to date, we have issued 24 reports as final, have 8 reports at draft or debrief stage and have 5 reviews that are work in progress. We have summarised below (3.3 to 3.5), those reports that have been issued as final since the last meeting of the Committee. The key findings of these reports are shown at Appendix 1.

- 3.3 The following reports received a **Green** assurance rating for the control frameworks in their area:

- Leaseholder Charges
- Thurrock Registrar's Office
- Environmental Health (Pollution Control)
- Charges for Non-Residential Services
- Community Hubs
- Housing Rents
- NNDR (National Non Domestic Rates)

- 3.5 The following report received an **Amber/Red** assurance rating for the control framework in its area:

- Change Controls (Serco)

A full copy of the exception report is included at the end of Appendix 1.

- 3.6 We have also carried out a follow up meeting in respect of the review around the Troubled Families Programme and can inform the Committee that a consultant who has been working with a number of other authorities has been brought in to tighten up controls and ensure sufficient evidence is available to confirm claims. We will be working with the consultant to review a sample of the next batch of claims to ensure they comply with DCLG requirements.

- 3.7 Two of the three internal investigations we were supporting have now been completed. These are the joint working with Havering on the school's catering

contract and the whistleblowing disclosure where a member of staff was accused of working whilst off sick and of having a secondary employment that they had not registered. A summary of the outcome of this work is included in the Progress Report at Appendix 1. The third case is still on-going and is being led by the Corporate Fraud team.

#### **4. Reasons for Recommendation**

- 4.1 To assist the Standards & Audit Committee in satisfying itself that progress against the Internal Audit Plan is sufficient as one of the means of assuring itself of the effective operation of internal controls.

#### **5. Consultation (including Overview and Scrutiny, if applicable)**

- 5.1 The audit risk assessment and the plan are periodically discussed with the Chief Executive, Directors and Heads of Service before being reported to Directors Board and the Audit Committee.
- 5.2 All terms of reference and draft reports are discussed and agreed with the relevant Corporate Directors, Heads of Service and/or management before being finalised.
- 5.3 The Internal Audit Service also consults with the Council's External Auditors to ensure that respective audit plans provide full coverage whilst avoiding duplication.

#### **6. Impact on corporate policies, priorities, performance and community impact**

- 6.1 The Council's corporate priorities were used to inform the annual audit plan 2014-15. Recommendations made are designed to further the implementation of these corporate priorities.

#### **7. Implications**

##### **7.1 Financial**

Implications verified by: **Jonathan Wilson**  
**Acting Chief Accountant**

Whilst there are no direct financial implications arising from this report, it is important that the authority maintains adequate internal controls to safeguard the authority's assets. This is not to say that audit recommendations do not have financial implications but these are for management to identify and contain within existing budgets.

## 7.2 Legal

Implications verified by: **David Lawson**  
**Deputy Head of Legal Services**

The contents of this report and appendixes form part of the Council's responsibility to comply with the Audit Commission Act 1998 and the Accounts and Audit (England) Regulations 2011 to at least annually undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practice. The Council has delegated responsibility for ensuring this is taking place to the Standards & Audit Committee. There are no adverse legal implications relating to the reporting progress.

## 7.3 Diversity and Equality

Implications verified by: **Natalie Warren**  
**Community Development and Equalities  
Manager**

There are no direct diversity implications arising from this report as it is for information purposes only.

## 7.4 Other implications (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

In terms of risk and opportunity management, the Internal Audit Plan and its outcomes are a key part of the Council's risk management and assurance framework. The Internal Audit Plan is based on risk assessments that include a review of the Council's risk and opportunity register.

## 8. Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Strategy for Internal Audit 2014/15 to 16/17 and Internal Audit Plan 2014/15
- Internal Audit Reports issued in 2014/15.

## 9. Appendices to the report

- Appendix 1 – Internal Audit Progress Report.

### Report Author:

Gary Clifford

Internal Audit Manager

Baker Tilly – provider of Internal Audit Services to Thurrock Council



## Thurrock Council

### Internal Audit Progress Report

[Audit Committee meeting 17 March 2015]

## Introduction

The internal audit plan for 2014/15 was presented to the Standards & Audit Committee on 5<sup>th</sup> March 2014. This report provides an update on progress against that plan. Those reports in italics have already been reported to the Standards & Audit Committee.

### Summary of Progress against the Internal Audit Plan

Assignment	Status	Opinion	Actions Agreed (by priority)		
			High	Medium	Low
<b>Audits to address specific risks</b>					
Leaseholder Charges	Final	Green	0	2	1
Thurrock Registrars Office	Final	Green	0	1	2
Environmental Health (Pollution Control)	Final	Green	0	1	0
Change Control Process (Serco)	Final	Amber/Red	1	1	1
Charges for Non-Residential Services	Final	Green	0	2	0
Community Hubs	Final	Green	0	1	2
<i>Members' Allowances</i>	<i>Final</i>	<i>Green</i>	<i>0</i>	<i>1</i>	<i>1</i>
<i>Electrical Testing</i>	<i>Final</i>	<i>Amber/Green</i>	<i>1</i>	<i>0</i>	<i>2</i>
<i>Econogas</i>	<i>Final</i>	<i>Green</i>	<i>0</i>	<i>0</i>	<i>4</i>
<i>Public Health</i>	<i>Final</i>	<i>Green</i>	<i>0</i>	<i>0</i>	<i>1</i>
<i>Building Control</i>	<i>Final</i>	<i>Amber/Green</i>	<i>0</i>	<i>4</i>	<i>0</i>
<i>LiquidLogic Adults System (LAS)</i>	<i>Final</i>	<i>Amber/Green</i>	<i>0</i>	<i>3</i>	<i>3</i>
<b>Core Assurance</b>					
Housing Rents	Final	Green	0	2	1
National Non Domestic Rates	Final	Green	0	1	0
<i>Treasury Management</i>	<i>Final</i>	<i>Green</i>	<i>0</i>	<i>0</i>	<i>1</i>
<i>Cash Receipting</i>	<i>Final</i>	<i>Amber/Green</i>	<i>0</i>	<i>3</i>	<i>1</i>
<i>General Ledger (Oracle)</i>	<i>Final</i>	<i>Green</i>	<i>0</i>	<i>0</i>	<i>1</i>
<i>Accounts Payable</i>	<i>Final</i>	<i>Green</i>	<i>0</i>	<i>1</i>	<i>3</i>
<i>Housing Benefits</i>	<i>Final</i>	<i>Amber/Green</i>	<i>0</i>	<i>0</i>	<i>6</i>
<i>Bank Reconciliation</i>	<i>Final</i>	<i>Green</i>	<i>0</i>	<i>0</i>	<i>1</i>
<i>Payroll</i>	<i>Final</i>	<i>Green</i>	<i>0</i>	<i>1</i>	<i>4</i>
<i>Council Tax</i>	<i>Final</i>	<i>Green</i>	<i>0</i>	<i>1</i>	<i>1</i>
<b>Advisory</b>					
<i>Troubled Families Programme</i>	<i>Final</i>	<i>Advisory</i>	<i>8</i>	<i>2</i>	<i>0</i>
<i>Extra Care</i>	<i>Final</i>	<i>Advisory</i>	<i>5</i>	<i>3</i>	<i>0</i>

Those reports receiving an amber/red assurance opinion have been included in more detail at the end of this progress report.

## Other Matters

### Planning and Liaison

Fieldwork is currently being undertaken on the following reviews:

- Educational Visits
- Passenger Transport
- Accounts Payable
- Accounts Receivable
- Deneholm Primary School

The following reports are at draft stage or debrief meetings are being arranged with the client and will be reported when they are finalised:

- Contract Procedures (Response received from client. Report being updated).
- Adoption (Further small piece of work requested to clarify processes).
- Performance Management (Awaiting 1 response from client).
- Sickness Management (Draft)
- Disabled Facilities Grants (Draft)
- Corporate Purchase Cards (Draft)
- Asset Management (Draft)
- Stifford Clays Primary School (Draft)

Of the above, the Educational Visits review was substantially completed but due to in-service issues, Internal Audit was asked to temporarily suspend the work. It has now been agreed that this work can now recommence.

In respect of the three internal investigations where Internal Audit was providing an information gathering and support role, we can now provide a summary of the conclusion of two of these pieces of work.

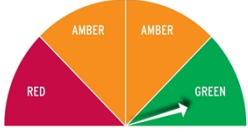
- As a result of some concerns the London Borough of Havering had on the management of the Schools Catering contract, the management of which they provided to Thurrock Council under a Service Level Agreement, a joint review was carried out across both Councils with Havering leading as the employer of the management team. An in-depth review of the service provision covering several years identified that financial procedures had not been complied with in the awarding of contracts and works. The evidence collected by Thurrock was passed to Havering who interviewed staff and as a result, all of the management providing the service resigned. Due to the poor nature of record keeping by the Catering Service, financial impropriety could not be proven. As Havering could not now provide the service, the management was brought back in-house and the Council have appointed a permanent Catering Manager.
- Under the whistleblowing procedures, an accusation was made that a member of staff was working whilst off sick. Further checking revealed they were also a Director of a company and had not declared this in line with Officer's Code of Conduct. Internal Audit were involved in the information gathering for the service and provided a report of findings to the service and HR. This resulted in disciplinary proceedings being undertaken. The member of staff resigned before proceedings were completed.

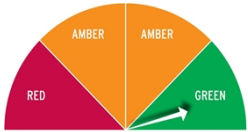
The third piece of work is still an on-going enquiry which is currently being undertaken by the Corporate Fraud Team.

Internal Audit was also requested to carry out an additional piece of work following allegations made by a member of staff against their managers. We assisted the service by providing some initial information but found nothing to substantiate the claims and the service resolved the issue internally.

In addition, Internal Audit has continued to provide the co-ordinating role to set up and assist contacts as part of the work for the National Fraud Initiative. Data matches have now been identified and services will be contacted to investigate matches in their areas.

**Key Findings from Internal Audit Work**

<p><b>Assignment: Leaseholder Charges</b></p>	<p><b>Opinion: Green</b></p>	
<p><b>Headline Findings:</b> Our review of Leaseholder Charges identified that there were 2 medium recommendations around the design of the control framework. There was also 1 low recommendation made around the application of the control framework. The 7 recommendations from the previous review, which included 2 high and 2 medium recommendations, had all been implemented. The previous report was a red report so progress has been very encouraging.</p>		
<p><b>Action and Response</b></p>	<p><b>Responsible Officer</b></p>	<p><b>Date</b></p>
<p><b>Action</b> - It is recommended that where the job description is not clear, further clarification is sought as to the works invoiced for. This will help to ensure that the leaseholders are being charged fairly for work carried out and enable the Council to reflect the full repair costs in their charges to Leaseholders.</p> <p><b>Response</b> - New repairs contract starting in April 2015, new processes will be in place. We have already completed the statutory consultation process to recover the actual costs from the leaseholders. The leasehold team will be working with the Repairs team to validate the communal responsive repairs before the notification of the final costs.</p> <p>Sometimes errors do occur in the processing and posting of orders. We are endeavouring to introduce ever more rigorous validation procedures but given the quantity of repairs that are processed annually, it is inevitable that occasional errors may slip through the system. In future we are looking to send out repair listings to leaseholders and we hope that this additional transparency will assist in highlighting any areas of weakness in the validation process. <b>(medium)</b></p>	<p>Home Ownership Service Manager</p>	<p>April 2015</p>
<p><b>Action</b> - Debtors should raise service charge bills promptly when properties are sold as billing in arrears could create financial difficulty for the leaseholders and increase the risk of the Council not being able to recover amounts due.</p> <p><b>Response</b> - There were some issues raised relating to raising of these charges, and various meetings held to address the situation. Liz Gordon is now raising these requests in a timely manner, and raising any issues or points of clarity when these requests are made.</p>	<p>Debt Manager</p>	<p>Immediate</p>

<p><b>Assignment: Thurrock Registrar's Office</b></p>	<p><b>Opinion: Green</b></p>	
<p><b>Headline Findings:</b> Our review of Thurrock Registrar's Office identified 1 medium and 2 low recommendations around the application of the control framework. The 6 medium recommendations from the last review had all been implemented.</p>		
<p><b>Action and Response</b></p>	<p><b>Responsible Officer</b></p>	<p><b>Date</b></p>
<p><b>Action</b> - An amendment to the Scale of Charges to ensure the correct fees are being applied should be submitted to Cabinet at the earliest opportunity. Failure to have the</p>	<p>Superintendent Registrar/Finance Officer</p>	<p>Actioned</p>

<p>correct fees listed in the Scale of Charges could result in lost income to the Council.</p> <p><b>Response</b> - The Finance Officer (budgets) stated that the slight difference was as a result of the 3% inflation uplift. The figures for 2015/16 have already been agreed and were submitted to Cabinet in December 2014. These agree.</p>		
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<p><b>Assignment: Environmental Health (Pollution Control)</b></p>	<p><b>Opinion: Green</b></p>	
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**Headline Findings:** Our review of Environmental Health (Pollution Control) identified 1 medium recommendation around the application of the control framework. There has been no previous review in this area.

<p><b>Action</b> - It is recommended that a decision be made whether the team need to use Uniform. If all the required information can be supplied by the EPA software, consideration should be given to updating the procedures to reflect that Uniform is no longer used. In addition, it should be recorded on the EPA system when the Inspection Report and covering letter were sent to the Operator. This ensures there is an audit trail to show the correct procedures have been followed.</p> <p>A check should be carried out between the EPA system and the Public Register to ensure all inspections and risk assessments have been correctly recorded.</p> <p><b>Response</b> - Procedures will be updated to remove any references to 'UNIFORM'. Copies of all reports were given to the Operators; EPA will be updated to reflect this.</p> <p>Public Register will be updated to record all inspections.</p>	<p>Principal Officer/ Environmental Health Officer</p>	<p>March 15</p>
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<p><b>Assignment: Charges for Non-Residential Services</b></p>	<p><b>Opinion: Green</b></p>	
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**Headline Findings:** Our review of Charges for Non-Residential Services identified 2 medium recommendations around the application of the control framework. There has been no previous review in this area.

<p><b>Action</b> - Consideration should be given to increasing charges each year in line with inflation. This would assist the Authority in being able to set a balanced budget whilst still meeting the needs of service users.</p> <p><b>Response</b> - Agreed. Consideration would need to be given to any on-going contractual obligations that may drive unit cost prices as the Authority cannot charge more than the cost of the service nor can they run a tiered or inequitable charging regime.</p>	<p>Service Manager Commissioning</p>	<p>November 15</p>
<p><b>Action</b> - It is recommended that the charges for day care sessions, transportation and respite care for adults with disabilities be reviewed and compared to the actual cost of providing the service. If charges are not periodically reviewed and uplifted, increased uptake could result in funds having to be diverted from other areas within the Social Care budget to meet these escalating costs.</p> <p><b>Response</b> - There is on-going work that is basing the unit</p>	<p>Service Manager Commissioning</p>	<p>November 15</p>

<p>cost values of day care session at present that will assist in the review of these charges. Respite / short break contracts are also being reviewed to aid marketplace diversity and provide a more transparent charging regime. Recommendations on charging increases are unlikely to be considered until after the elections thus delaying any implementation.</p>		
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<p><b>Assignment: Community Hubs</b></p>	<p><b>Opinion: Green</b></p>	
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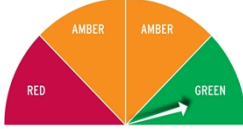
**Headline Findings:** Our review of Community Hubs identified 1 medium and 2 low recommendations around the application of the control framework. There has been no previous review in this area.

<p><b>Action</b> - It is recommended that partnership working with the commercial sector is explored and widened to bring greater expertise and potential funding and training opportunities to the Hubs and the community. This would improve their skills and expertise and assist in sustaining the Hubs for the benefit of all citizens in the longer term.</p> <p><b>Response</b> - Community Hubs, to date have been developed at an individual local level. It has been recognised by the Programme that efficiencies and extended benefits could be achieved through a different approach and therefore as reported to Cabinet, it has been proposed that a parent company be set up to manage the delivery of Hubs and their ongoing support, including supporting back-office functions and providing management support and mentoring. A key element of this is the involvement of larger businesses from across the borough.</p>	<p>Community Development and Equalities Manager</p>	<p>Superseded</p>
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<p><b>Assignment: Housing Rents</b></p>	<p><b>Opinion: Green</b></p>	
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**Headline Findings:** Our review of Housing Rents identified 2 medium and 1 low recommendations around the application of the control framework. The 2 recommendations from the previous review had been implemented.

<p><b>Action</b> - It is recommended that in future, all former tenants' debts are referred to the Debt Recovery team in a timely manner. By not referring debts under £1,000 promptly, these debts could escalate and may become more difficult to recover, particularly if people move.</p> <p><b>Response</b> - These are now being monitored and chased by the Rents Team. There is an on-going discussion with the Head of Service on whether all debts should be transferred to the debt recovery team, not just those over £1,000.</p>	<p>Head of Housing</p>	<p>March 15</p>
<p><b>Action</b> - The procedure for carrying out the weekly cash reconciliation between the Paris Cash Receipting system and the Saffron Rents system should be documented so staff can follow the process in the event of someone being absent or leaving.</p> <p><b>Response</b> - Agreed. Procedures to be developed.</p>	<p>Housing Rents and Welfare Manager</p>	<p>March 15</p>

<p><b>Assignment: NNDR (National Non Domestic Rates)</b></p>	<p><b>Opinion: Green</b></p>	
<p><b>Headline Findings:</b> Our review of NNDR identified 1 medium recommendation around the application of the control framework. The 2 recommendations from the previous review had been implemented.</p>		
<p><b>Action</b> - Care should be taken to ensure all Mandatory and Discretionary Reliefs are properly authorised and adequate documentation to support the awarding of the discount is received. This reduces the likelihood that discounts will be awarded at the wrong rate.</p> <p><b>Response</b> - Accept your comment this is an unusual occurrence. In future more attention will be given to details and authorisation.</p>	<p>Revenues Officer</p>	<p>Immediate</p>

# CHANGE CONTROLS (SERCO)

## 1 Executive Summary

### 1.1 Introduction

An audit of Change Controls (Serco) was undertaken as part of the approved internal audit periodic plan for 2014/15.

The Authority has a fifteen year Strategic Services Partnership (SSP) agreement which commenced with Vertex in April 2005 covering ten service streams: Administration, Customer Services, ICT, HR and Payroll, Property, Procurement, Facilities, Highways Engineering, Financial Services and Revenue/Benefits. In June 2012, Vertex was acquired by Serco Public Services Ltd and is now known as Serco. In August 2013 Property Services and Highways & Engineering were transferred back in-house to the Authority.

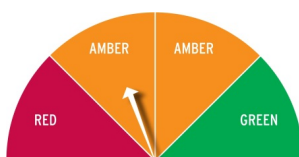
The Partnership Operations Board (POB) is the formal point for approval of change controls. Change controls should be used for all activities relating to the Strategic Services Partnership with Serco that result in changes to workloads, variation of service agreements and additional one-off items to support short term activities. POB meets on a monthly basis.

Commercial Services has responsibility for managing the change control mechanism. The service has published the governance arrangements for the partnership and has created the procedures for completing and complying with the change control process. This review looked at the robustness of the change control mechanism and compliance with the process.

The audit was designed to assess the controls in place to manage the following objectives and risks:

<b>Objective</b>	Review the Change Control process to confirm whether the mechanism in place is complied with and fit for purpose.
<b>Risk</b>	If there is not a formal, open process to action change controls with the strategic partner, the Authority could incur additional charges which may not be due or merited.

### 1.2 Conclusion



**Taking account of the issues identified, whilst Thurrock Council can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.**

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

#### Effectiveness

The new change control system appears to be far more robust than previous methodologies. However, the assessment of benefits to the Authority and its ability to obtain value for money is hampered by non-compliance.

Sample testing demonstrated that the supporting documentation for proposals was at best incomplete or, in some cases, non-existent. A lack of evaluation and risk assessment means that proposals cannot be adequately impact assessed.

Costings are often fragmented and a lack of projected costs over the lifetime of the project means that the Authority is not able to plan for additional expenditure or cost savings accurately.

In addition, some change controls appear to involve applications for temporary support staff. The Authority is monitoring the extensions to temporary posts and implementing an approval for funded posts only, which do not result in additional costs. However, the Authority also operates a contract for temporary staff with Comensura Ltd.



**Design of control framework**

We have identified one '**Medium**' category recommendation relating to the design of the control framework:

- Although Commercial Services have produced two reports for Director's Board this year detailing the volume and type of change controls, there has not been a consistent approach to reporting headline financial data and trends analysis.

The following controls were identified as designed adequately:

- The change control template was available on the intranet, supported by a process flowchart and a pre submission checklist. This was confirmed as fit for purpose, with a few minor amendments suggested.
- The governance arrangements were confirmed as adequate and published on the intranet.
- Roles and responsibilities were identified and terms of reference outlined in the arrangements.
- Commercial Services manage the change control mechanism and record the detail of all change controls submitted.

**Application of and compliance with control framework**

We have made one '**High**' category recommendation addressing the following issues relating to the application of and compliance with the control framework:

- In the majority of cases sampled, there was a lack of documentation, including risk assessments, to support the change control. A checklist was available to guide the sponsor through this but compliance was an issue. It was also noted that not all parts of the form were completed e.g. level of approval sought such as Cabinet, Directors Board, Directorate Management Team etc. There was also evidence to show that, in some cases, the template forms were being adapted to suit the Sponsor i.e. some fields removed.
- In 4 cases out of the sample of 25, it was difficult to determine whether on-going costs had been calculated correctly and over what period they would be charged. This was particularly noted for ICT projects where costs were highlighted in one major proposal sampled, but with a proviso that it was dependent upon a number of factors and subject to change. It was also common practice to apply for add-ons, upgrades and additional work required by the sponsor as a separate change control. It was also noted that a significant number of business administration applications were put through the change control process, despite the existence of a corporate contract with Comensura Ltd for temporary and agency staff. Some applications may have related to Serco positions but an increasing number related to existing, or new, Council establishment posts.

The following controls were identified as compliant:

- Minutes of Operational meetings were confirmed as evident and demonstrated a review of the change controls presented. Significant issues were discussed and action points raised.
- All change controls were presented to POB each month, therefore a prioritisation scheme was not required. A minimum of two Clients and two representatives of Serco were required to approve changes.
- Commercial Services carried out a financial analysis each month and reconciled invoices submitted by Serco. The reports support change control activity and also monitored Europa payments.
- Proposals for contractual changes were recorded and actioned at POB. Challenges were minuted demonstrating open debate rather than a rubber stamping exercise.

**1.3 Scope of the review**

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following controls for review and limitations were agreed:

**Control activities relied upon:**

- Governance, Approvals Hierarchy, Application guidance.

**Limitations to the scope of the audit:**

- This audit will focus on the information presented to us at the time of the review and will not identify if additional relevant information exists in the Council.
- The scope of the work will be limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out in for this review.
- It should not, therefore, be considered as a comprehensive review of all aspects of non-compliance that may exist now or in the future.

- Any testing undertaken as part of this audit will be compliance based and sample testing only.
- The audit is limited to the evaluation of the Change Control Mechanism and will not cover partnership working, performance indicators or escalation matters.
- Our work does not provide an absolute assurance that material errors, loss or fraud do not exist.

The approach taken for this audit was a Risk-Based Audit.

## 1.4 Recommendations Summary

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

### Recommendations made during this audit:

Our recommendations address the design and application of the control framework as follows:

	Priority		
	High	Medium	Low
Design of control framework	0	1	0
Application of control framework	1	0	1
<b>Total</b>	<b>1</b>	<b>1</b>	<b>1</b>

The recommendations address the risks within the scope of the audit as set out below:

Risk	Priority		
	High	Medium	Low
If there is not a formal, open process to action change controls with the strategic partner, the Authority could incur additional charges which may not be due or merited.	1	1	1
<b>Total</b>	<b>1</b>	<b>1</b>	<b>1</b>

## 1.5 Additional Feedback

### Good Practice Identified During the Audit

The pre submission checklist and flowchart was a useful tool to guide sponsors through the change control process.

## 2 Action Plan

The priority of the recommendations made is as follows:

Priority	Description
High	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Medium	
Low	
Suggestion	These are not formal recommendations that impact our overall opinion, but used to highlight a suggestion or idea that management may want to consider.

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
1.1	A member of Legal Services should periodically attend the Partnership Operation Board (POB) to provide guidance as the volume and nature of changes may be significant to the operation of the contract.	Low	N	A member of the legal services team is sent the papers related to POB for review and to provide advice as required. <u>Audit Comment</u> – Accepted but If legal are not required to attend meetings they should be removed from the list of POB members.	N/A	Eldred – Taylor Camara
1.2	The headline data for change controls produced by the Commercial Services Team should be provided to the Directors Board (DB) and the Partnership Operations Board on a regular basis as it provides costs by type and nature. This would assist management in monitoring efficiency and analysing trends, as well as helping to identify opportunities to make further savings.	Medium	Y	A running total of all change control is maintained by Partnership and is available to all members of POB. In addition more regular briefings on SSP have been going to DB since July. The headline changes in the financial cost of the SSP as a result of change control will now in added to any further reports and briefings.	Implemented - November 14	Kathryn Adedeji

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
1.3	<p>It is recommended that the sponsors are made aware that the change control will not be progressed to the client side senior manager until they provide the Commercial Services Team with a detailed business case and relevant supporting documentation. This must include a risk assessment, to evaluate the impact of the proposed changes. On-going costs or savings need to be more clearly documented on the forms. Only when all the documentation is fully completed and received, should it be passed to the client side senior manager for evaluation of the benefits and risks and then they will either approve or reject the proposal and sign off the change control. This will help ensure a robust process has been followed which allows the senior client side manager to make a decision based upon the full information available, including projected on-going costs. The risk assessment should reduce the likelihood of unforeseen costs being incurred in the future.</p> <p>In addition, the Authority should review its strategy with regards to temporary or permanent staff recruitment. It needs to determine whether the partnership contract can be used to recruit staff over and above those posts that transferred to Vertex originally or whether it should be using the Comensura contract. Approval to support or reject the change control proposals around staff posts should be taken through the Matching Panel and this should be documented on the form.</p>	High	Y	<p>The Council submitted to the partnership operations board in October, a revised change control template which will ensure sufficient information is provided for the Council to make informed decisions. This followed discussions and the presentation of this template to the Council Leadership Group in October. The further change suggested by this audit will also be implemented. The commercial services team will take responsibility for evaluation of all contractual and commercial information relating to change controls and service managers and budget holders will be asked to sign off only as it relates to their budgets.</p>	Implemented - November 14	Kathryn Adedeji

### 3 Findings and Recommendations

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all audit testing undertaken.

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
<b>Risk 1: If there is not a formal, open process to action change controls with the strategic partner, the Authority could incur additional charges which may not be due or merited.</b>					
1.1	Schedule 13 is available on the intranet under Commercial Services and outlines the roles and responsibilities of the Partnership Management Board and the Partnership Operations Board. It also outlines the terms of reference for both bodies and the escalation process.	Yes	A review of the governance arrangements confirmed that the roles and responsibilities and terms of reference were outlined. The approvals hierarchy was identified through schedule 13 and the supporting guidance to the change control process. It was noted from a sample of 2 month's minutes from POB, that the Deputy Monitoring Officer was not present although change controls were submitted to Legal Services when appropriate for comment. It was also noted in the recent minutes of POB, that SERCO are challenged and questioned if the Council need to clarify change requests. Some requests had been rejected.	A member of Legal Services should periodically attend the Partnership Operation Board to provide guidance as the volume and nature of changes may be significant to the operation of the contract.	Low
1.2	There is currently no regular reporting of change controls. Reports are only provided when requested.	No	An analysis of change controls was requested by Directors Board (DB) in February 2014 and an additional change control report was produced in June 2014. Reports were not formally produced monthly. A review of the reports created and maintained by the Council's Commercial Services Team showed they were monitoring the volume and detail of change requests. A log was kept recording the details of the request and the officer responsible for submitting it. If evidence was not provided to support the request, it was returned to the sponsor for further supporting documentation. The Commercial Services Team also recorded the payments and journals for Corporate Finance and as part of that process, carried out a reconciliation and data analysis. In addition, elements of financial controls were monitored such as	The headline data for change controls produced by the Commercial Services Team should be provided to the Directors Board and the Partnership Operations Board on a regular basis as it provides costs by type and nature. This would assist management in monitoring efficiency and analysing trends, as well as helping to identify opportunities to make further savings.	Medium

	<b>Controls (actual and/or missing)</b>	<b>Adequate Design (yes/no)</b>	<b>Test Result / Implications</b>	<b>Recommendation</b>	<b>Categorisation</b>
			indexation. The monitoring element now includes a log of staffing costs that extend beyond the original agreed timescales.		
1.3	Change controls are submitted by a sponsor (budget holder) through the change control mechanism and checked by the Commercial Services Team. The proposed changes, together with supporting documentation and business case, are submitted to the relevant client side senior manager for review and evaluation. The client side senior manager then evaluates the business case and change control form to determine the implications of the proposed change. The change is then approved or rejected. It was established that the requirement for risk assessments and identifying risks at the point of implementation were stated in the POB pre submission process checklist. The requirement for a risk assessment should be incorporated into the business case.	Yes	<p>A sample of 25 change controls submitted to the client side senior manager and the business cases associated with them were reviewed. It was found that:</p> <ul style="list-style-type: none"> <li>• As the change control system had recently been updated, it was difficult to assess compliance with the new forms. There were examples where the form was not fully completed. It was clear from sample testing that the presentation of supporting documentation by the change sponsor, to the Commercial Services Team, was not fully embedded in the process.</li> <li>• The introduction of the Client Team process to review and agree or reject change controls is new. The POB pre submission process requires a senior manager on the client side, who has been given specific responsibility for a business area, to carry out a formal evaluation of the business case and change control and approve or reject them, prior to submission to POB. The business case description on the forms was generally brief and sometimes lacked supporting documentation. Whilst there was some email evidence to support challenge of the benefits and costs in some business areas, in others, there was insufficient detailed evidence to support the vetting of the business case and change control application.</li> <li>• It was apparent from the sample that some proposals were challenged more than others. This may be due to the type of changes involved and the experience of the client. It was noted that the Council is looking to employ an ICT Client Manager who will be able to review the proposed changes on</li> </ul>	It is recommended that the sponsors are made aware that the change control will not be progressed to the client side senior manager until they provide the Commercial Services Team with a detailed business case and relevant supporting documentation. This must include a risk assessment, to evaluate the impact of the proposed changes. On-going costs or savings need to be more clearly documented on the forms. Only when all the documentation is fully completed and received, should it be passed to the client side senior manager for evaluation of the benefits and risks and then they will either approve or reject the proposal and sign off the change control. This will help ensure a robust process has been followed which allows the senior client side manager to make a decision based upon the full information available, including projected on-going costs. The risk assessment should reduce the likelihood	High

	<b>Controls (actual and/or missing)</b>	<b>Adequate Design (yes/no)</b>	<b>Test Result / Implications</b>	<b>Recommendation</b>	<b>Categorisation</b>
			<p>a technical and value for money basis.</p> <ul style="list-style-type: none"> <li>• The creation of new change controls to provide for additional expenditure, upgrades or add-ons to existing change controls was diluting the total costs involved. This means the Authority may not have a clear projection of the actual and expected costs for a whole project.</li> <li>• Some departments appear to be using Serco as a staff agency rather than utilising the Comensura contract, both in terms of administrative and other staff.</li> <li>• No formal risk assessments were available.</li> <li>• It was noted that the finance arrangements were not signed. It was assumed by the client that this has been discussed between the budget holder and Corporate Finance in advance. However, it was noted that the Head of Corporate Finance was a member of the Partnership Operations Board.</li> </ul>	<p>of unforeseen costs being incurred in the future.</p> <p>In addition, the Authority should review its strategy with regards to temporary or permanent staff recruitment. It needs to determine whether the partnership contract can be used to recruit staff over and above those posts that transferred to Vertex originally or whether it should be using the Comensura contract. Approval to support or reject the change control proposals around staff posts should be taken through the Matching Panel and this should be documented on the form.</p>	

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report, together with any attachments, is provided pursuant to the terms of our engagement. The use of the report is solely for internal purposes by the management and Board of our client and, pursuant to the terms of the engagement, it should not be copied or disclosed to any third party or otherwise quoted or referred to, in whole in part, without our written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

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<b>17 March 2015</b>	<b>ITEM: 8</b>
<b>Standards &amp; Audit Committee</b>	
<b>Internal Audit Service Contract Update and Draft 3 month Internal Audit Plan 2015/2016</b>	
<b>Wards and communities affected:</b> All	<b>Key Decision:</b> Non-key
<b>Report of:</b> Sean Clark – Head of Corporate Finance	
<b>Accountable Head of Service:</b> Sean Clark – Head of Corporate Finance	
<b>Accountable Director:</b> Graham Farrant – Chief Executive	
<b>This report is public</b>	

## Executive Summary

In October 2006, following a tendering process, the Council’s Internal Audit Service was outsourced to Baker Tilly (formerly RSM Tenon). This contract was extended twice and is due to expire on 31<sup>st</sup> March 2015. This report sets out the decision agreed by Directors Board that the Internal Audit Team will TUPE transfer back in to the Council from the 1<sup>st</sup> April 2015 or as soon after as practicable.

As a result of this decision, it was agreed with the Head of Corporate Finance that an initial 3 month Draft Audit Plan 2015/16 should be presented to the Standards & Audit Committee with a full Three Year Strategy and Annual Plan 2015/16 being presented to the first meeting in the new municipal year.

### 1. Recommendation(s)

**That the Standards & Audit Committee:**

- 1.1 Note the decision to TUPE transfer the Internal Audit Team from Baker Tilly back into the Council.**
- 1.2 Receive the Draft 3 month Internal Audit Plan 2015/16 and agree for officers to report back to the Standards & Audit Committee at the first meeting in the new municipal year with a full Three Year Strategy and Annual Plan 2015/16.**

### 2. Introduction and Background

- 2.1 With the success of some of the Council’s services in working in partnership with other local authorities e.g. the Corporate Fraud Team’s partnership

arrangements with Southend, and the close alignment between the work of the Fraud Team and Internal Audit, initial discussions were held with the Head of Internal Audit from Southend to determine whether there was a common interest in exploring partnership working between the two Internal Audit Teams further. It was agreed there were potential advantages to both authorities. Therefore, a paper was presented to Directors Board and it was agreed that the Internal Audit Team should TUPE transfer back in to the Council and potential opportunities to work with other local authorities be explored further.

- 2.2 At its meeting of the 5<sup>th</sup> March 2014, a Draft Strategy for Internal Audit 2014/15 to 2016/17 was presented to the Standards & Audit Committee. This followed a comprehensive Audit Needs Assessment process involving Directors and Heads of Service which resulted in the development of a new Strategy for Internal Audit 2014/15 to 2016/17. The Annual Plan 2014/15 was the first year of this new three year plan.
- 2.3 Due to the issues highlighted at 2.1 above, it was agreed by the Head of Corporate Finance that it would be prudent to present a draft 3 month Internal Audit Plan to the Standards & Audit Committee to ensure that come the 1<sup>st</sup> April 2015, there was an agreed programme of work which would allow the Internal Audit Team to start delivering reviews. This would also allow some scope to develop the team and look at new ways of working, including getting automated software and relevant training as the current software is provided by Baker Tilly.

### **3. Issues, Options and Analysis of Options**

- 3.1 With the contract for the provision of internal audit services, currently being provided by Baker Tilly, due to end on the 31<sup>st</sup> March 2015, the Council has had to look at how the service can be provided in the future. A number of options were considered including the use of a framework agreement, a full tendering exercise and having the service provided by an in-house team.
- 3.2 With the team coming back in-house, Internal Audit will revisit the Three Year Strategy this year to reflect the changes that have occurred through restructures, new legislation and changes in working practices. This will involve further meetings with Directors and Heads of Service. These meetings will be scheduled in for April/May. Once these meeting have been carried out and the strategy and plan updated to reflect management priorities, the report will be presented to Directors Board for final comments. As a result of the above, some changes will be made to the plan and it is likely that some work will be brought forward from future years to the current year and some reviews will be moved back or cancelled, as they are no longer applicable.

#### **4. Reasons for Recommendation**

- 4.1 To provide the Standards & Audit Committee with an update as to the future provision of the Council's Internal Audit Service.
- 4.2 For the Standards & Audit Committee to satisfy itself that provisions have been put in place to provide members with assurance that work will continue to be carried out to satisfy the legislative requirements of "The Accounts and Audit (England) Regulations 2011" whilst the service is being brought back in-house.

#### **5. Consultation (including Overview and Scrutiny, if applicable)**

- 5.1 The decision to agree to bring the Internal Audit Team back in-house was discussed and agreed by Directors Board on 19<sup>th</sup> February 2015. Discussions were also held with the Head of Audit Services from Southend Council.
- 5.2 Whilst no formal consultation took place around the 3 month Draft Internal Audit Plan 2015/16, full consultation did take place when the three year strategy was agreed and management have been contacted to ensure the timing of the work in the 3 month plan can be met.
- 5.3 The Internal Audit Service also met with the Council's External Auditors on 7<sup>th</sup> January 2015 to ensure that respective audit plans provide full coverage whilst avoiding duplication and to determine that the Internal Audit Plan 2015/16 would provide them with some assurance for the preparation of their Annual Account work at the end of the financial year 2015/16.

#### **6. Impact on corporate policies, priorities, performance and community impact**

- 6.1 The achievement of corporate priorities is a key consideration of the senior management and internal audit when they are discussing the areas that need to be included within the annual audit plan.

#### **7. Implications**

##### **7.1 Financial**

Implications verified by: **Jonathan Wilson**  
**Acting Chief Accountant**

Whilst there will be financial implications arising from this report, they are unknown at this stage. However, they will be contained within existing budgets.

## 7.2 Legal

Implications verified by: **David Lawson**  
**Deputy Head of Legal Services**

The Council has the legal obligation to maintain an adequate and effective system of internal audit and the Council has delegated this responsibility to the Standards & Audit Committee. The report recommends that the Standards & Audit Committee receives the Draft 3 month Internal Audit Plan 2015/16. The final Strategy and the Annual Plan which will be presented to the next Standards & Audit Committee will identify how the Section 151 Officer will deliver an effective internal auditing service for the Council, therefore there are no obvious adverse legal implications associated with receiving this report.

## 7.3 Diversity and Equality

Implications verified by: **Teresa Evans**  
**Equalities and Cohesion Officer**

There are no direct diversity implications arising from this report.

## 7.4 Other implications (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

In terms of risk and opportunity management, the Internal Audit Plan and its outcomes are a key part of the Council's risk management and assurance framework. The Internal Audit Plan is based on risk assessments that include a review of the Council's risk and opportunity register.

## 8. Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Internal Audit Strategy 2013/14 to 2015/16
- Accounts and Audit (England) Regulations 2011.

## 9. Appendices to the report

- Appendix 1 - Draft 3 month Internal Audit Plan 2015/2016.

### Report Author:

Sean Clark  
Head of Corporate Finance

## **Standards & Audit Committee**

### **Draft 3 month Internal Audit Plan 2015/16**

Date: 17<sup>th</sup> March 2015

## **3 month Draft Plan 2015/16**

This Draft 3 month Internal Audit Plan has been developed to provide Thurrock Council with assurance that the Internal Audit Team will continue to deliver a service during the period when it is being brought back in-house.

<b>Auditable Area</b>	<b>Coverage</b>	<b>Audit Basis</b>	<b>Proposed Timing</b>	<b>Days</b>
<b>Contracts Procedures</b>	Procurement of contracts is in compliance with legislation and the Council's Constitution. The awarding of contracts is backed up by appropriate documentation and evidence.	Assurance	May/June	30
<b>School Visits</b>	Cyclical school visits programme to review financial management arrangements.	System	On-going	25
<b>Direct Payments</b>	To review the assessment, monitoring and reporting processes to ensure payment are only being used for appropriate expenditure and outcomes are being achieved.	Assurance	Mid April	10
<b>Risk Management</b>	A maturity review to consider the approach to risk appetite and identifying controls and assurances on key risks.	Advisory	April	10
<b>Car Parking Service</b>	Follow up of the in-service review to determine implementation status of recommendations as requested by senior management.	Follow up	May/June	4
<b>Highways and Environment Service</b>	Follow up of the in-service review to determine implementation status of recommendations as requested by senior management.	Follow up	May/June	10
<b>Housing Benefits</b>	<ul style="list-style-type: none"> <li>• Processes and procedures</li> <li>• Processing of forms</li> <li>• Entitlement checks</li> <li>• Reconciliation</li> <li>• Year-end balancing</li> </ul>	System	April	18
<b>Extra Care Follow up</b>	Review to follow up on the report issued in 2014/15.	Follow up	April	3

<b>17 March 2015</b>	<b>ITEM: 9</b>
<b>Standards &amp; Audit Committee</b>	
<b>Counter Fraud &amp; Investigation Service Update Report</b>	
<b>Wards and communities affected:</b> All	<b>Key Decision:</b> No.
<b>Report of:</b> David Kleinberg, Group Counter Fraud & Investigation Manager	
<b>Accountable Head of Service:</b> Sean Clark, Head of Corporate Finance	
<b>Accountable Director:</b> Sean Clark, Head of Corporate Finance	
<b>This report is Public</b>	

## Executive Summary

This report provides an update to the Committee on the Council's continued compliance with requirements of the government's Fighting Fraud Locally strategy, and progress made in delivering the Council's Corporate Counter Fraud & Investigation Plan.

### 1. Recommendation(s)

- 1.1 That the committee notes the developments being made in the counter fraud & investigation service.**
- 1.2 The Committee notes the progress made in delivering the requirements of Fighting Fraud Locally and the Corporate Counter Fraud & Investigation Plan 2014/15.**

### 2. Introduction and Background

- 2.1 The provision of a corporate-wide service targeting fraud risk was agreed by Directors Board on 10<sup>th</sup> February 2015. The new service named the Counter Fraud & Investigation Service, moves away from the traditional benefits only fraud service to ensure a strategy is in place to ensure all the council's fraud risks are mitigated.
- 2.2 The service also successfully bid for central government funding of £594k to develop the Counter Fraud & Investigation Service, designed to share best practice and specialist resources from Thurrock Council with other public authority partners in the region, such as local councils, housing associations

and charities over the next 2 year period. A project plan for that Counter Fraud Fund Project is shown at **Appendix 1**.

- 2.3 This Counter Fraud Fund project will see the service:
- acquire a data aggregation tool to use internal and government data more effectively to prevent and detect fraud;
  - increase the capacity for financial investigation and confiscation, taking redress against offenders where proportionate and appropriate; and
  - advance joint working with other agencies to prevent, detect and deter fraud.
- 2.4 In October 2014, a Service Level Agreement was signed with Southend-on-Sea Borough Council to provide a counter fraud and investigation service jointly across both authorities. The service, incorporating central government partners, is named publicly as the Counter Fraud & Investigation Directorate (“CFID”), a public authorities collaboration hosted at Thurrock Council. The service will provide expert resources to prevent, detect and deter attacks on the public purse by economic crime across central and local government organisations with particular focus with Thurrock Council & Southend Borough Council.
- 2.5 The focus of the service has now moved onto bringing the counter fraud operational arrangements of the two Councils together, which includes:
- formalising working arrangements with internal departments;
  - exploring the options available to introduce a more up to date IT system to support the combined team; and
  - updating publicity material and combining reporting lines.
- 2.6 This partnership approach, led by the CFID will ensure that the new powers provided to Local Authorities under the Prevention of Social Housing Fraud Act 2013 can be accessed by registered providers offering social housing as a pre-funded intelligence bureau service.
- 2.7 The expectation is that this project will help the Council:
- support more vulnerable families by providing accommodation to those on the waiting list as properties are recovered as a result of investigations undertaken; and
  - by recovering cash funds from people, where this line of action is appropriate, who have obtained property that they are not entitled to or are using it in a manner that contravenes their tenancy agreement.
- 2.8 The CFID project will also target heightened fraud risk to the National Non-Domestic Rates (“NNDR”) system installing methodologies to prevent and detect fraud in this arena, particularly organisations using NNDR to launder criminal proceeds.
- 2.9 The intention is now to extend this work with the grant funding monies received from government.



## Future Developments

- 2.10 The national local government counter fraud and investigation landscape is changing with:
- the demise of the Audit Commission in March 2015 and the transfer of its National Fraud Initiative to the Cabinet Office in due course;
  - the creation of CIPFA's new Counter Fraud Centre, who will inherit the Audit Commission's staff and functions that support the production of Protecting the Public Purse; and
  - the Department for Work and Pensions creating the Single Fraud Investigation Service.
- 2.11 The **CIPFA Counter Fraud Centre** has been established to work with the Department for Communities and Local Government (DCLG), the National Crime Agency (NCA), the Cabinet Office and other agencies, to be a 'one stop shop' for fighting fraud. It is developing new tools, good practice and guidance as well as a CIPFA Accredited Counter Fraud Specialist qualification. It has also taken over responsibility for and is in the process of updating Fighting Fraud Locally, the Local Governance Strategy.
- 2.12 Attached as information items, are two recent national publications:
- Code of Practice on Managing the Risk of Fraud and Corruption by CIPFA's Counter Fraud Centre; and
  - Protecting the Public Purse 2014, Fighting Fraud Against Local Government by the Audit Commission.
- 2.13 Both reports set out good practice that should be applied by local authorities. The Council's Anti Fraud & Corruption Policy's compliance with these good practice requirements will be confirmed when it is refreshed in the coming months to reflect the new working arrangements.
- 2.14 In October 2010, the Department for Work and Pensions (DWP) and HM Revenue and Customs (HMRC) published *The Fraud & Error Strategy: Tackling fraud and error in the benefit and tax credits systems*.
- 2.15 The strategy recommended that all welfare benefit fraud be investigated by one organisation taking all existing responsibility from the DWP, HMRC and Local Authorities. The new service named the **Single Fraud Investigation Service** (SFIS) is to be:
- located in the DWP as a newly formed department; and
  - staffed by those employees from the DWP, HMRC and Local Authorities, who those organisations determine are 'in scope' to transfer over.
- 2.16 So from the 1<sup>st</sup> November 2015, CFID will no longer investigate housing benefit fraud. Any existing investigations will simply be handed over to SFIS to continue. As has been pointed out during the consultation process, establishing the SFIS goes against the principles set out in Fighting Fraud Locally, the government's overall strategy to tackle fraud, error and debt in

local government. The indications are that many authorities will lose the majority if not all of their fraud investigation teams to SFIS leaving limited capacity to deal with any other fraud risks.

- 2.17 At present, no Council staff have been formally identified as "in scope" and therefore at risk of transfer to the SFIS. The strategy over the coming months is to re-profile the teams' work into other areas, primarily via the projects outlined above. However this situation will continue to be monitored until a final decision is required during the summer 2015.

### **Fighting Fraud Locally**

- 2.18 Currently the key document that sets out how local authorities should operate to mitigate the risk of fraud and corruption is **Fighting Fraud Locally, the Local Government Fraud Strategy**. The Council has a good level of compliance with them although some documents need updating now to reflect:

- the joint operating arrangements now being implemented; and
- national guidance issued recently or due shortly.

- 2.19 Overall, the main areas of work for the Council are:

- refreshing the Anti Fraud & Corruption, Whistleblowing and Money Laundering Policies / Strategies in conjunction with other services;
- informing the staff Code of Conduct and systems that evidence compliance in certain areas (e.g. arrangements for declaring hospitality and gifts and interests); and
- reviewing Privacy Notices (Fair Processing Notices) to enable more effective, appropriate, sharing of data.

### **Corporate Counter Fraud Plan**

- 2.20 **Appendix 2** summarises:

- outstanding actions identified from the Fighting Fraud Locally assessment; and
- the proactive work delivered so far this year and activities planned.

#### *Bribery Act 2010 and Money Laundering*

- 2.21 The Bribery Act 2010 created specific offences under Sections 1 and 2 of 'bribing' and being 'bribed' which apply to both private and public organisations where "*a person accepts a payment in return for manipulating the process or outcome of a public procurement in favour of a particular bidder*".
- 2.22 Section 7 of the Bribery Act created an offence "*of a commercial organisation failing to prevent bribery*". Although the offence by definition applies to commercial organisations, guidance states that it covers organisations that are incorporated (by whatever means) or partnerships. It does not matter if

the organisation pursues primarily charitable, educational aims or purely public functions. It will be caught if it engages in commercial activities, irrespective of the purpose for which profits are made. It is clear that some public sector organisations will fall within the definition set out in Section 7 of the Act e.g. a company established by a local authority under the Local Government Act 2003.

- 2.23 The key defence, should a bribery allegation arise, is that adequate procedures are in place to prevent this occurring. One aspect of this is to:
- undertake risk assessments that are periodic, informed, documented and includes financial risks but also other risks such as reputational damage; and
- 2.24 In February 2015 new CIPFA guidance was issued which outlines:
- continuing obligations on public authorities in relation to money laundering; and
  - the interpretation of the provisions of the Money Laundering Regulations 2007 and the United Kingdom's response to the European Union Third Money Laundering Directive.
- 2.25 The Council is now formally assessing its risks in both these areas as, it is important that the:
- impact of the new money laundering guidance on both the Policy and the risk assessment is considered; and
  - the service risk assessments are updated in both areas.
- 2.26 Therefore all Senior Managers will be asked to complete a short survey in due course to assess whether their service activities have characteristics that might make them more of a potential target for bribery or money laundering. The purpose of this assessment is to confirm whether the Council has sufficient arrangements in place to counter these potential risks.
- 2.27 It will also be an opportunity to remind staff that breaches of the Bribery Act 2010 are punishable by unlimited fines and / or up to 10 years' imprisonment in the case of individuals. Further action can also be brought against "senior officers" of an organisation where it can be demonstrated that the offence took place with their consent or connivance.

### **3. Issues, Options and Analysis of Options**

- 3.1 The joint, government funded service will ensure that the Council meets its obligations for protecting the public funds it administers. The corporate counter fraud plan also ensures that the Council's response to fraud risk is current and valid based on national threats from economic crime.
- 3.2 The Council is responsible for ensuring that it complies with the government's Fighting Fraud Locally Strategy. The proposed corporate plan ensures that the council has in place a strategy to test its counter fraud strategy.

#### **4. Reasons for Recommendation**

4.1 The report is for information only with no recommendations attached.

#### **5. Consultation (including Overview and Scrutiny, if applicable)**

5.1 Not applicable.

#### **6. Impact on corporate policies, priorities, performance and community impact**

6.1 Work undertaken to reduce fraud and enhance the Council's anti fraud and corruption culture contributes to the delivery of all its aims and priorities. This report is consistent with the Council's corporate priorities, particularly "build pride, responsibility and respect."

#### **7. Implications**

##### **7.1 Financial**

Implications verified by: **Sean Clark**  
**Head of Corporate Finance**

Proactive fraud and corruption work acts as a deterrent against financial impropriety and might identify financial loss and loss of assets. Any financial implications arising from identifying and managing the fraud risk will be considered through the normal financial management processes. Proactively managing fraud risk can result in reduced costs to the Council by reducing exposure to potential loss and insurance claims.

##### **7.2 Legal**

Implications verified by: **David Lawson**  
**Deputy Head of Legal Services**

The Accounts and Audit (England) Regulations 2011 section 4 (2) require that:

*The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes the arrangements for the management of risk.*

This proactive and investigative work undertaken by the team as well as the regular monitoring of compliance with the requirements of Fighting Fraud Locally discharges this duty.

### 7.3 **Diversity and Equality**

Implications verified by: **Rebecca Price,**  
**Community Development Officer.**

There are no implications within this report.

### 7.4 **Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

N/A.

### 8. **Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Fighting Fraud Locally, The Local Government Fraud Strategy
- CIPFA Publication: Managing the Risk of Fraud
- Audit Commission Publication: Protecting the Public Purse: Local Government Fighting Fraud.

### 9. **Appendices to the report**

- Appendix 1: Counter Fraud Fund Project Plan
- Appendix 2: Counter Fraud & Investigation Directorate Thurrock Council Work Programme 2014/15

#### **For Information**

- Information 1: Protecting the Public Purse 2014
- Information 2: Managing the risk of Fraud and Corruption

#### **Report Author:**

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Group Counter Fraud & Investigation Manager  
Counter Fraud & Investigation

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## Appendix 1: Status Report, Counter Fraud Grant Funding Project

<b>Business Case Extract Actions</b>	<b>Current Status</b>
<b>Acquire a Data Aggregation System</b>	
<p>1 Identify and acquire a data aggregation system to enable Thurrock Council, Southend Borough Council and their partners to share fraud risk data.</p> <p>It should capture all data concerning the delivery of social housing and compare it against other data types to identify fraud risk indicators. It should have its own 'casework management' module built in to track the progression of action against those fraud risk indicators.</p> <p>Once the core system has been designed, additional organisations wishing to join the scheme will simply be given user accounts with limited access to data relevant to their job function.</p>	<p>Considerable work has been completed with a supplier who has developed a system that delivers the core specification, which is scalable across the UK as more partners sign-up to the anti-fraud hub.</p> <p>The system is due to be delivered to the Directorate on 10<sup>th</sup> April 2015.</p> <p>The Group Manager, Counter Fraud &amp; Investigation and the Proactive Fraud Specialist will then commence User Acceptance Testing (UAT), which is due to be completed by 17<sup>th</sup> April 2015.</p> <p>Feedback will then be provided to the supplier on any 'snagging' with the system and its outputs against the specification. A further five days have been scheduled for the resolution of any issues.</p> <p>It is anticipated that this system will go live for Thurrock Council and Southend Borough Council on 27<sup>th</sup> April 2015.</p>
<b>Increase the size of the Intelligence Bureau</b>	
<p>2 Expand the Intelligence Bureau capability by two additional officers so that the 'matched data' in point 1 can be tested and analysed. This will generate additional investigative actions for team to review.</p>	<p>Two additional posts have been created linked to this funding. It is anticipated that staff will be in post by June 2015.</p>
<b>Increase the size of the Investigation and Forensic Computing Unit</b>	
<p>3 Increase the Investigation and Forensic Computing Unit capacity by two additional officers.</p>	<p>The Job Evaluation Process has been concluded providing the roles to be recruited to. These two additional posts are also linked to this funding. It is anticipated that these staff will be in post by June 2015.</p>

## Appendix 1: Status Report, Counter Fraud Grant Funding Project

	Business Case Extract Actions	Current Status
<b>Increase the size of the Directorate's Financial Investigation Unit</b>		
4	<p>Increase the financial investigation capacity by two additional Accredited Financial Investigators so that the increased investigative actions can be resolved in a more timely manner.</p> <p>The Financial Investigation Team is responsible for utilising the specialist powers available to law enforcement agencies, such as local authorities to take redress against offenders, where proportionate legal and necessary.</p>	<p>So far, one of the two Accredited Financial Investigator roles has been filled following a competitive recruitment process.</p> <p>The remaining vacant post will be advertised again on 9<sup>th</sup> March 2015 for a period of 2 weeks, on the specialist government Financial Investigation Gateway.</p> <p>It is anticipated that interviews will take place on 7<sup>th</sup> April 2015 by the Group Manager, Counter Fraud &amp; Investigation and Head of Internal Audit.</p>
<b>Provide counter fraud and investigation services to other public authorities</b>		
02	<p>Provide a two tier counter fraud and investigation service framework for other public bodies to use, at cost.</p> <p>The two tier solution has been split into the 3 sectors: Local Authority, Registered Housing Providers and Government Departments and Agencies.</p> <p><b>Tier 1</b> is a complete framework including a suite of policies, proactive plans and reactive specialist investigative support where fraud and corruption is suspected through to possible sanction and redress.</p> <p><b>Tier 2</b> is a menu of individual elements of that service in support of existing counter fraud and investigation functions in that organisation.</p>	<p>In exploring the potential to do this:</p> <ul style="list-style-type: none"> <li>• the individual elements that will make up the governance framework are being reviewed jointly by the Group Manager, Counter Fraud &amp; Investigation and the Head of Internal Audit against new guidance issued by bodies such as CIPFA</li> <li>• legal opinion has been sought from Counsel in respect of taking any investigation to sanction stage in the criminal courts as the Group Manager, Counter Fraud &amp; Investigation believes that prosecution on behalf of other bodies e.g. government departments (excluding Registered Housing Providers) sits outside the existing powers held by Local Authorities. This legal opinion is due to be received from Counsel on 12th March 2015</li> <li>• discussions have been had with nine Registered Housing Providers who have expressed an interest in buying a full counter fraud and investigation service from the Directorate (Tier 1)</li> <li>• the Directorate is seeking Cabinet Approval at its host authority, Thurrock Council to work with Registered Housing Providers under Service Level Agreements. It is anticipated that the result of this consideration will be known by 12th March 2015.</li> </ul>



**Appendix 1: Status Report, Counter Fraud Grant Funding Project**

<b>Business Case Extract Actions</b>	<b>Current Status</b>
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**Appendix 2: Counter Fraud & Investigation  
Thurrock Council Work Programme 2014/15**

Work Stream	Priority	Activities	Current Status 20 February 2015
<b>Overall Arrangements (Fighting Fraud Locally)</b>			
Policies	High	Refresh the Anti Fraud & Corruption Policy taking into account the new working arrangements and national guidance.	The Group Counter Fraud & Investigations Manager has commenced the review of the policies against current case law and the proposed new guidance from CIPFA. New draft policies will be produced by June 2015
		Refresh the Money Laundering Policy taking into account the new guidance.	
		Check for consistency, any references to these policies within Contract Procedure Rules, Financial Regulations or other elements of the Constitution.	
		Produce a communication strategy regarding all policies for staff, members and schools and implement it.	Group Counter Fraud & Investigations Manager. 2015/16
Awareness Raising Material	High	Update the posters and leaflets to reflect the new operating arrangements and distribute as required.	Group Counter Fraud & Investigations Manager. June 2015
Bribery Act & Money Laundering	High	Evaluate the new CIPFA Money Laundering Guidance when published in February 2015.	Group Counter Fraud & Investigations Manager. June 2015
		Update the risk assessment survey if necessary.	

## Appendix 2: Counter Fraud & Investigation Thurrock Council Work Programme 2014/15

Work Stream	Priority	Activities	Current Status 20 February 2015
		Distribute to Group Managers, collate the results and identify current, potential risk areas.	Group Counter Fraud & Investigations Manager. June 2015
		Deliver targeted training to those services who have a high exposure to those risks.	Group Counter Fraud & Investigations Manager. September 2015
Thurrock Council: Internal Operating Arrangements	High	<p>Evaluate the effectiveness of the CF&amp;I teams operating arrangements with:</p> <ul style="list-style-type: none"> <li>• Legal Services</li> <li>• Revenues</li> <li>• Community Protection.</li> </ul>	<p>The Service Level Agreement with Southend Council was signed on 1 October 2014, for a period of three years.</p> <p>This work will be undertaken over the next six months.</p>
		Align the working policies for a shared Prosecution Manual that takes into consideration the improved ability to take criminal redress under the Proceeds of Crime Act that will also be accessed by Trading Standards, Revenues & Benefits services.	
<b>Planned Proactive and Fraud Awareness Exercises</b>			
Procurement / Contracts Letting and Management	High	Undertake further enquires where there are indications that purchases / contracts let have not fully complied with the Council's Contract Procedure Rules.	A procurement specialist has been engaged by the service at one of its partner's who will be consulting to Thurrock Council's Fraud Service as part of that piece of work. The potential implications for developing proactive fraud work in this area will now be considered.
Housing	High	Undertake a data	A broader programme of work has

## Appendix 2: Counter Fraud & Investigation Thurrock Council Work Programme 2014/15

Work Stream	Priority	Activities	Current Status 20 February 2015
Tenancy		matching exercise with data aggregator provider.	been devised for completion by 1 June 2015 on social housing tenancy fraud, in conjunction with other relevant organisations including South Essex Homes.
Housing Benefit	Medium	Explore possibilities to develop in house data matching routines.	This work has been linked to the Council's participation in the National Fraud Initiative.
		Undertake targeted exercises if themes arise via investigations being undertaken.	The team are continuing a proactive exercise with the Department of Works & Pensions using 'Real Time Information' from HM Revenues and Customs.
Payroll	Medium	Confirm that appropriate pre-employment checks have been completed.	The service will be engaging with Human Resources to 'dip-sample' a random 30 files to check compliance with the vetting and recruitment processes.  It is anticipated that this will be complete by June 2015.
		Check national insurance numbers for relevant new appointments to confirm they have the right to work in the UK.	Refer to section on the Audit Commission's National Fraud Initiative (NFI) exercise.
Blue Badge	Medium	Undertake data matching to identify blue badge holders who have died but their badges have not been returned.	Refer to section on the Audit Commission's National Fraud Initiative (NFI) exercise below.
		A periodic exercises to check the validity of Blue Badges being displayed is being devised jointly with Social care and Parking Enforcement.	An operation in this area has been designed to commence by July 2015, using national best practice targeting specific criminality in the system i.e. fraudulent applications, counterfeit badges, stolen badges etc.

## Appendix 2: Counter Fraud & Investigation Thurrock Council Work Programme 2014/15

Work Stream	Priority	Activities	Current Status 20 February 2015
Council Tax Discount & Exemptions	High	Undertake a data matching exercise with Revenues on Single Person Discounts.	Refer to section on the Audit Commission's National Fraud Initiative (NFI) exercise.
Business Rates	Medium	Conduct a review of all exemptions in place across the borough by category to produce a list to check against data sources such as Charity Commission for those businesses claiming charity status etc.	The threat assessment in this area is being analysed against national best practice, including the use of proactive data matching tools to identify potential issues.  This area will be included in the proof of concept stage detailed in the Counter Fraud Fund project (Appendix 1).
Right to Buy	Medium	Continue to work with the Housing team to check the validity of Right to Buy applications when initial request is made.	The team continue to investigate concerns re individual applications as and when they are referred to them.  The new Proactive Investigation Specialist will be reviewing the assessment and referral practice against national best practice, jointly with the Group Counter Fraud & Investigation Manager.
<b>Other Data Matching Exercises</b>			
National Fraud Initiative	High	Investigate high level recommended data matches in the 2015 exercise.	The team have already began working with Internal Audit in processing these high risk matches.

# Protecting the public purse 2014

Fighting fraud against local government

October 2014



**The Audit Commission's role is to protect the public purse.**

**We do this by appointing auditors to a range of local public bodies in England. We set the standards we expect auditors to meet and oversee their work. Our aim is to secure high-quality audits at the best price possible.**

**We use information from auditors and published data to provide authoritative, evidence-based analysis. This helps local public services to learn from one another and manage the financial challenges they face.**

**We also compare data across the public sector to identify where services could be open to abuse and help organisations fight fraud.**



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## Summary and recommendations

**This is the last report in the *Protecting the public purse (PPP)* series from the Audit Commission before we close in March 2015. It draws on the learning from the Commission's 25-year experience in counter-fraud in local government.**

- The Commission published *PPP* reports from 1991 to 2000 and again from 2009 to 2014. *PPP* reports have:
  - raised awareness of the importance of fighting fraud;
  - promoted transparency and accountability about counter-fraud in local government bodies;
  - improved data on fraud detection, including benchmarking; and
  - promoted good practice in fighting fraud.

**The scale of fraud against local government is large, but difficult to quantify with precision.**

- In 2013, the National Fraud Authority estimated that fraud cost local government £2.1 billion, but this is probably an underestimate.
- Each pound lost to fraud reduces the ability of local authorities to provide public services.
- The more councils look for fraud, and follow good practice, the more they will find. Increasing levels of detection may be a positive sign that councils take fraud seriously rather than a sign of weakening of controls.

**In total, local government bodies detected fewer cases of fraud in 2013/14 compared with the previous year, continuing the decline noted in *PPP 2013*. However, their value increased by 6 per cent.**

- The number of detected cases fell by 3 per cent to just over 104,000, while their value increased by 6 per cent to over £188 million.
- The number of detected cases of **housing benefit and council tax benefit fraud** fell by 1 per cent to nearly 47,000, while their value rose by 7 per cent to nearly £129 million.
- The number of detected cases of **non-benefit** fraud fell by 4 per cent to just over 57,400, while their value rose by 2 per cent to £59 million.

**In the past 5 years, councils have shifted their focus from benefit fraud to non-benefit fraud. From 2016, they will no longer deal with benefit fraud.**

- Between 1991 and 2000, nearly all fraud detected by councils was for housing benefit and later council tax benefit. During this time, councils had financial incentives to look for those frauds.
- These incentives ended in 2006, and councils have increasingly focused on non-benefit fraud in the past five years. Benefit frauds still comprise 45 per cent of all cases of detected fraud, and 69 per cent of their value.
- By 2016, all benefit fraud investigation will have transferred from councils to the Single Fraud Investigation Service (SFIS), run by the Department for Work and Pensions. The government's funding of £16 million from 2014, awarded under competitive bidding, to help councils refocus their efforts on non-benefit fraud during the transition will end at the same time.

**Councils will need to focus on the non-benefit frauds that present the highest risk of losses, including those that arise from the unintended consequences of national policies.**

- Between 2009/10 and 2013/14, councils consistently detected more **council tax discount fraud** than any other type of non-benefit fraud. In the most recent year, nearly 50,000 cases were found, worth £16.9 million.
- Detected **Right to Buy** fraud cases have increased nearly five-fold since 2009/10 to 193 per year. In 2013/14 these were worth £12.3 million. The rise in the number of these frauds followed large increases in the discount threshold over this period.
- The number of detected cases of **social care** fraud has more than trebled since 2009/10 to 438. In 2013/14, they were worth £6.2 million.
- Detected cases of **insurance** fraud rose from 72 in 2009/10 to 226 in 2013/14 and were worth £4.8 million.

**Overall, councils are detecting more non-benefit frauds, but detection rates for some types of frauds have fallen.**

- In 2010/11, councils detected 319 cases of **business rates** fraud worth £5.7 million. In 2013/14, they detected 84 cases worth £1.2 million.
- In 2010/11, councils detected 145 cases of **procurement** fraud worth nearly £14.6 million. In 2013/14, they detected 127 cases worth less than £4.5 million.

- A small minority of 39 councils **failed to detect any non-benefit frauds** in 2013/14. This number is down by more than half since 2012/13, which is encouraging. Our experience suggests it is extremely unlikely that no non-benefit fraud occurred at these councils.
- Councils believe that organised criminals present a low risk of fraud, but there is concern that organised crime is more prevalent in procurement fraud.

### **Councils are detecting more housing tenancy fraud**

- The number of social homes recovered from tenancy fraudsters increased by 15 per cent in the last year to 3,030.
- In 2013/14, councils outside London recovered more than two in five (40 per cent) of these homes. This represents a marked improvement in their performance. In 2009, when the Audit Commission's *PPP* reports first highlighted this issue, councils outside London accounted for less than 5 per cent of all social homes recovered.
- These figures do not include fraud against housing associations, which provide the majority of social homes.

### **. . . and more fraud in schools.**

- Detected cases of fraud in maintained schools have risen by 6 per cent to 206, worth £2.3 million. We have no data on fraud in non-maintained schools.
- Most of these frauds were committed by staff, suggesting that some schools may have weak governance arrangements that mean they are more vulnerable to fraud.

### **Local government bodies have a duty to protect the public purse. A corporate approach to tackling fraud helps them to be effective stewards of scarce public resources and involves a number of core components.**

- **Prevention and deterrence:** it is not currently possible to quantify accurately the financial benefit from deterring fraud, but professionals in the field believe the prospect of detection is the most powerful deterrent. Councils should widely publicise what fraud is, the likelihood of detection, and the penalties fraudsters face.
- **Investigation and detection:** between 2009/10 and 2013/14, the mean average number of full time equivalent (FTE) fraud investigators employed by councils declined steadily from 5.2 to 4.7, a fall of 10 per cent over the period. Our analysis suggests that a fall in FTE numbers is associated with lower fraud detection levels (see Chapter 4).

- **Recovery and redress:** after 2016, when central government no longer contributes funds for counter-fraud activity, councils will need to recover more losses than they have in the past. They can use legislation such as the Proceeds of Crime Act to do so.
- **Openness and transparency:** councils should look for fraud and record how many frauds they detect. Doing so would show leadership, allow them to compare their performance with other organisations, and alert them to emerging fraud risks more effectively.
- In 2013, only three in five (62 per cent) councils took up the offer of receiving one of the Commission's new **fraud briefings**, which contain comparative information on their detection levels.

**From April 2015, the Commission's counter-fraud activities will transfer to new organisations.**

- When the Commission closes, the National Fraud Initiative's (NFI) data matching service will transfer to the Cabinet Office.
- The remainder of our counter-fraud staff and functions, including the *PPP* series and fraud briefings, will transfer to the Counter Fraud Centre, run by the Chartered Institute of Public Finance and Accountancy (CIPFA).

## Recommendations

### All local government bodies should:

- a) use our checklist for councillors and others responsible for audit and governance (Appendix 2) to review their counter-fraud arrangements (Para. 120);
- b) adopt a corporate approach to fighting fraud, to ensure they fulfil their stewardship role and protect the public purse from fraud (Para. 78);
- c) actively pursue potential frauds identified through their participation in the National Fraud Initiative (NFI) (Para. 6);
- d) assess themselves against the framework in CIPFA's new Code of Practice on Managing the Risk of Fraud and Corruption (Para. 115); and
- e) engage fully with the new CIPFA Counter Fraud Centre (Para. 132).

### Councils in particular should:

- f) protect and enhance their investigative resources, so that they maintain or improve their capacity to detect fraud (Para. 100);
- g) be alert to the risk of organised crime, notably in procurement (Para. 31);
- h) be alert to the risks of fraud, particularly in growing risk areas such as Right to Buy (Para. 51) and social care (Para. 54);
- i) apply the lessons from the approach encouraged by *PPP* to tackle housing tenancy fraud, to other types of fraud (Para. 57);
- j) focus on prevention and deterrence as a cost-effective means of reducing fraud losses to protect public resources (Para. 80);
- k) focus more on recovering losses from fraud, using legislation such as the Proceeds of Crime Act (Para.114); and
- l) take up the Commission's offer of receiving a fraud briefing to help them benchmark their performance and promote greater transparency and accountability (Para. 129).

**The government should consider:**

- m) mandating local government bodies to complete the annual survey of detected fraud and corruption, to ensure it remains a comprehensive and robust source of data on fraud in the local public sector (Para. 125);
- n) extending the requirement to report information on detected cases of fraud to academies and free schools (Para. 48);
- o) commissioning research into the extent of the annual loss to local authority fraud and the costs and benefits of fraud prevention activities (Para. 83);
- p) encouraging CIPFA to use the detected fraud and corruption survey in the future to investigate the extent to which fraudsters use digital and on-line technology to defraud local government (Para. 85);
- q) extending powers for councils to investigate all frauds, to protect the public purse (Para. 91); and
- r) working with councils to anticipate and mitigate any unintended risks of fraud created by new policies (Para. 42).

# Chapter 1: Introduction

## **This is the last report in the *Protecting the public purse (PPP)* series from the Audit Commission before it closes at the end of March 2015.**

1 The first series of *PPP* reports ran from 1991 to 2000. After a gap of nine years, we relaunched the series following requests from local government bodies. Since then, we have reported figures on fraud detected by those organisations each year.

2 As in earlier reports, *PPP 2014* describes year-on-year changes in cases and values of detected fraud, based on the Commission's annual survey of local government bodies. As it is the last report in this series, it also describes trends in the past five years, and draws on the learning from the Commission's 25-year experience in counter-fraud in local government.

3 *PPP 2014* aims to inform the development of effective counter-fraud in local government after the Commission closes. It is designed for those responsible for governance in local government, particularly councillors, and describes:

- the amount of detected fraud reported by local government bodies<sup>i</sup> in 2013/14, compared with 2012/13 (Chapter 2);
- longer term trends (up to 25 years) in levels of detected fraud, and the lessons local government bodies can draw from this information (Chapter 3);
- the effective stewardship of the public purse, including taking measures to recover losses from fraud (Chapter 4); and
- measures to build on *PPP*'s legacy, so that local government bodies can continue to protect the public purse (Chapter 5).

<sup>i</sup> For the purposes of this survey we define fraud as an intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss. We include cases where management authorised action has been taken including, but not limited to, disciplinary action, civil action or criminal prosecution.



4 Appendices to this report contain:

- data tables of detected frauds and losses by region (Appendix 1);
- an updated counter-fraud checklist for those responsible for governance (Appendix 2); and
- case studies highlighting use of legislation, in particular the Proceeds of Crime Act, to recover monies from fraudsters (Appendix 3).

5 Each *PPP* report has identified the scale of detected fraud and the damage it causes<sup>i</sup>.

### The scale and impact of fraud

- Local government fraud involves substantial loss to the public purse. The most recent estimate of the annual loss to local government was £2.1 billion, excluding benefit fraud (Ref.1).
- This almost certainly underestimates the true cost of fraud. For example, it does not include fraud in major services such as education and social care.
- Each pound lost to fraud represents a loss to the public purse and reduces the ability of local government bodies to provide services to people who need them. Fraud is never a victimless crime.

*Source: Audit Commission*

### The changing counter-fraud landscape

6 When the Commission closes, its National Fraud Initiative (NFI) data matching service will transfer to the Cabinet Office. The remaining counter-fraud functions of the Commission will transfer to the new Counter Fraud Centre, launched in July 2014 by the Chartered Institute of Public Finance and Accountancy (CIPFA).

7 The CIPFA Counter Fraud Centre will also publish the next *Fighting Fraud Locally* strategy for local government, following the closure of the National Fraud Authority (NFA) in March 2014. However, there are no arrangements to continue the NFA's *Annual Fraud Indicator*, in particular, which is the annual estimate of the level of fraud committed against local authorities.

<sup>i</sup> Audit Commission reports can be obtained through this link: <http://www.audit-commission.gov.uk/information-and-analysis/national-studies/>

8 Other changes include the creation of the National Crime Agency, established in 2014, which has taken over some of the activities previously carried out by the Serious and Organised Crime Agency (SOCA).

9 For councils, the most important change in their counter-fraud arrangements is the transfer of most of their benefit fraud investigators to the Single Fraud Investigation Service (SFIS), which is managed by the Department for Work and Pensions (DWP). The transition to the SFIS began in July 2014 and will be complete by March 2016.

10 The Department for Communities and Local Government (DCLG) has awarded £16 million through a challenge fund for two years from 2014. Councils whose bids were successful will receive a share of this fund to support their efforts to refocus their counter-fraud activities on non-benefit fraud during the implementation of the SFIS. Similar funding may not be available to councils in the future.

### The main issues councils face in tackling fraud

11 Because of these changes, the 2014 survey asked councils to identify the top three issues they face in tackling fraud. Councils report that the single most important issue is the need to ensure they have enough counter-fraud capacity (Figure 1).

Figure 1: **Main issues faced by councils in tackling fraud**



**Top 3**  
issues for councils:  
capacity, data-sharing and corporate recognition of the financial benefits of tackling fraud

Source: Audit Commission (2014)

12 In the survey, councils identified other concerns that indicate a need for a more effective corporate approach to fighting fraud. These include:

- collecting and using data effectively;
- understanding the importance of the financial benefits of fighting fraud;
- the need for effective risk management;
- improving counter-fraud staff skills; and
- partnership working.

13 *PPP 2014* addresses all these issues. Chapter 2 sets out the scale of the fraud they relate to, and how this has changed since 2012/13.

## Chapter 2: The latest figures on detected fraud in councils

**Local government bodies detected fewer cases of fraud in 2013/14 compared with the previous year, continuing the decline noted in *PPP 2013*. However, the value of losses from detected fraud increased.**

**14** Each *PPP* report draws on data collected by the Commission's annual survey of detected fraud in local government bodies. *PPP 2014* uses data from the 2014 survey, which covered the 2013/14 financial year.

**15** The latest survey achieved a 100 per cent response rate, with responses from 494 local government bodies<sup>i</sup>. These results:

- map the volume and value of different types of detected fraud;
- provide information about emerging and changing fraud risks; and
- help to identify good practice in tackling fraud.

**16** Local government bodies detected fewer frauds in 2013/14 (just over 104,000) compared to the previous year (just under 107,000) (Table 1). The value of fraud detected in 2013/14 increased over the previous year, rising from £178 million to £188 million.

**100%** of  
local  
government  
bodies  
surveyed for  
*PPP 2014*  
responded

**£188  
million,**  
of local  
government  
fraud detected  
in 2013/14, the  
highest value  
on record

<sup>i</sup> All English principal councils, local authorities for parks, waste, transport, fire and rescue, and Police and Crime Commissioners are required to complete the survey.

Table 1: **Cases and value of detected fraud, excluding tenancy fraud<sup>i</sup> - Change between 2012/13 and 2013/14**

Type of fraud	For detected fraud in 2013/14 (excludes tenancy fraud)	For detected fraud in 2012/13 (excludes tenancy fraud)	Change in detected fraud 2012/13 to 2013/14 (%)
<b>Total fraud</b>			
Total value	£188,249,422	£177,966,950	+6
Number of detected cases	104,132	106,898	-3
Average value per case	£1,808	£1,665	+9
<b>Housing and council tax benefit<sup>ii</sup></b>			
Total value	£128,973,530	£120,100,854	+7
Number of detected cases	46,690	46,964	-1
Average value per case	£2,762	£2,557	+8
<b>Council tax discounts</b>			
Total value	£16,895,230	£19,567,665	-14
Number of detected cases	49,428	54,094	-9
Average value per case	£342	£362	-6
<b>Other frauds</b>			
Total value	£42,380,662	£38,298,431	+11
Number of detected cases	8,014	5,840	+37
Average value per case	£5,288	£6,558	-19

Source: Audit Commission

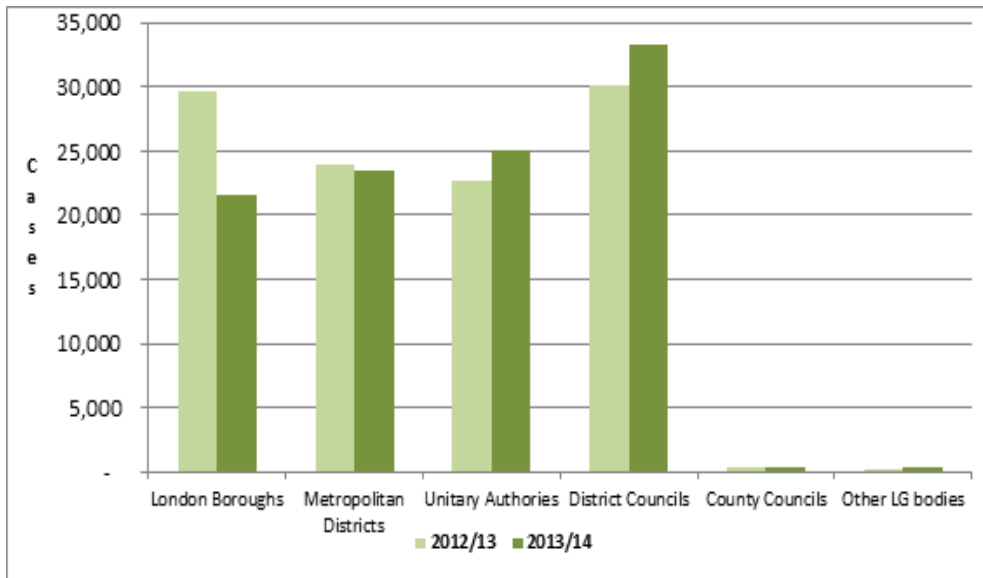
<sup>i</sup> We report housing tenancy fraud in Table 3.

<sup>ii</sup> In April 2013, the government introduced Council Tax Reduction, to replace Council Tax Benefit (CTB). Council Tax Reduction is not a benefit, but to aid year-on-year comparisons, it is included in housing benefit and council tax benefit fraud figures for 2013/14.

17 The 3 per cent reduction in the total number of cases of detected fraud over the previous year was not uniform across councils. It is largely due to falls in London boroughs and metropolitan districts. Unitary authorities and district councils detected more fraud in 2013/14 than the previous year (Figure 2).

Figure 2: **Detected fraud cases**

Comparison by local government organisation 2012/13 and 2013/14

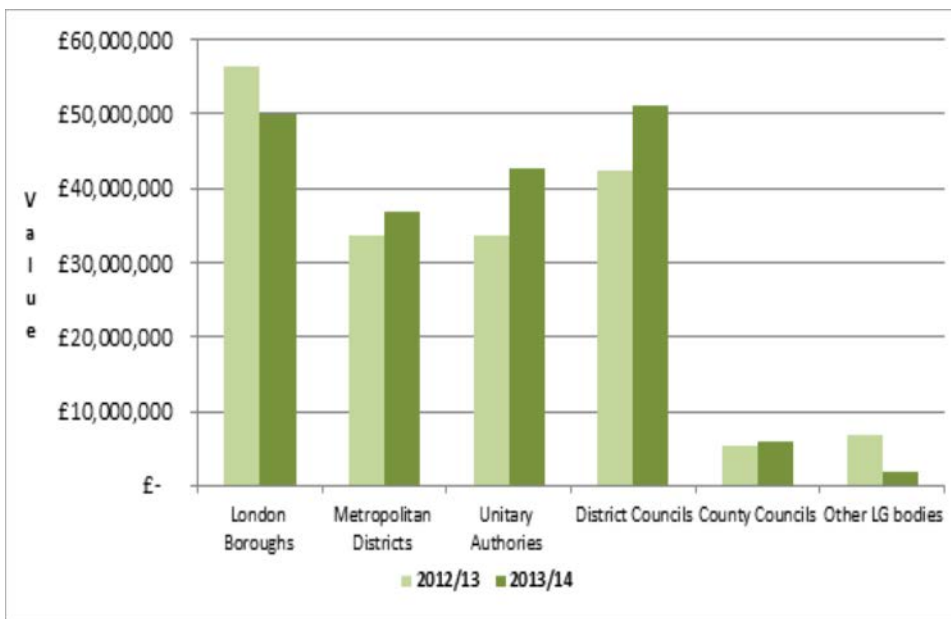


Source: *Audit Commission (2014)*

18 A similar picture emerges for changes in the value of detected frauds. This has increased by 6 per cent overall, from £178 million to £188 million, but varies across council types (Figure 3).

Figure 3: **Detected fraud by value**

Comparison by local government organisation in 2012/13 and 2013/14



Source: Audit Commission (2014)

19 The value of detected fraud rose in metropolitan district councils, unitary authorities, district councils and county councils compared with the previous year. It fell in London boroughs by 11 per cent.

## Benefit fraud

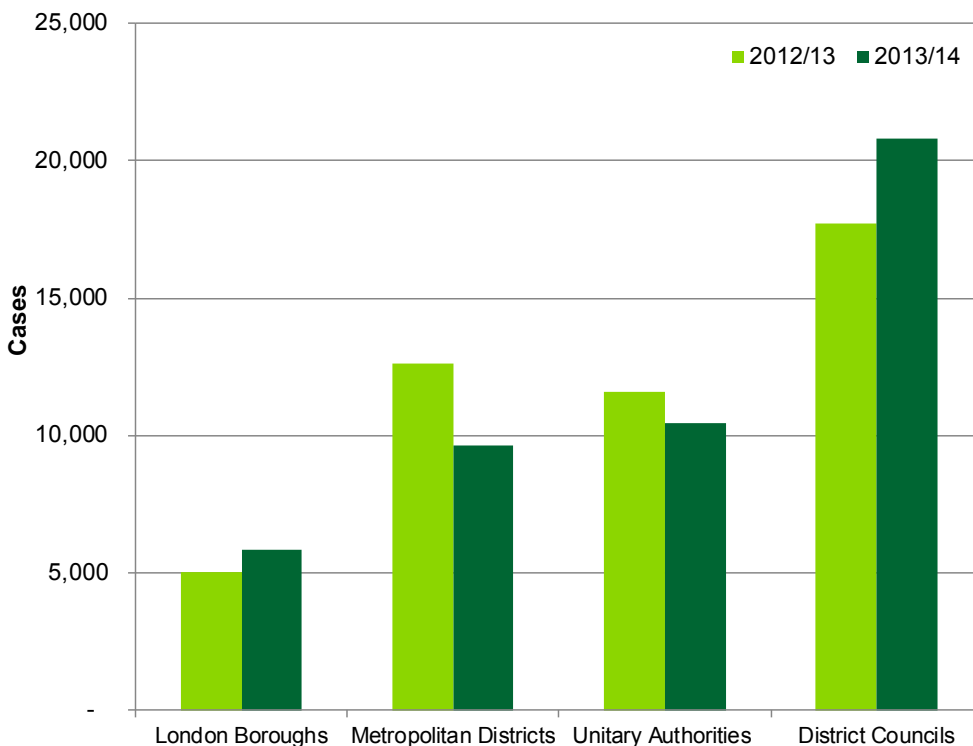
20 In 2013/14, housing benefit and council tax benefit frauds comprised 45 per cent of all fraud cases, but accounted for 69 per cent of the value of all detected frauds.

21 In 2013/14, district councils detected 20,798 benefit fraud cases; an increase of 17 per cent compared to the previous year (Figure 4). They detected not just the highest total overall compared with other councils, but also the highest as a proportion of their benefit caseloads (1.6 per cent). In contrast, London boroughs recorded both the lowest overall number of detected cases of benefit fraud (despite a rise of 16 per cent over the previous year) and the lowest as a proportion of their caseload, at 0.7 per cent.

**17% rise**  
in the number  
of cases of  
benefit fraud  
detected by  
district  
councils

Figure 4: **Detected benefit fraud cases**

Comparison of council types in 2012/13 and 2013/14



Source: *Audit Commission (2014)*

22 Both metropolitan district councils and unitary authorities reported substantially fewer cases of benefit fraud than the previous year; down 24 per cent and 10 per cent respectively. Each detected around the same proportion of their overall caseload, at 0.9 per cent and 1.0 per cent respectively.



## Non-benefit fraud

23 Table 2 highlights the largest frauds in the 'other' group in Table 1, which between them account for £36.5 million of the £188.2 million detected by councils in 2013/14.

Table 2: Other frauds against councils in 2012/13 and 2013/14

Fraud type	Number of cases 2013/14	Value 2013/14 (£ million)	Number of cases 2012/13	Value 2012/13 (£ million)	Change in case number 2012/13 to 2013/14 (%)	Change in case value 2012/13 to 2013/14 (%)
Right to Buy	193	12.4	102	5.9	+89	+110
Social care	438	6.3	200	4.0	+119	+58
Insurance	226	4.8	74	3.0	+205	+60
Procurement	127	4.4	203	1.9	-37	+132
Abuse of position	341	4.0	283	4.5	+20	-11
Disabled parking concessions (Blue Badge)	4,055	2.0	2,901	1.5	+40	+33
Business rates	84	1.2	149	7.2	-44	-83
Payroll	432	1.4	319	2.4	+35	-42

Source: Audit Commission (2014)

24 Care is needed in interpreting these results, as annual percentage changes in value can be affected by a few very costly frauds in either year. For example, the value of business rates fraud fell by 83 per cent, largely because there was an unusually high value (£5 million) single fraud in one council in 2012/13. Procurement fraud is another example of a few costly frauds; cases have fallen by over a third (37 per cent), but their value has more than doubled (132 per cent).

25 Taken together, the number of cases of non-benefit fraud in Table 2 has risen by 39 per cent between the two years, while their overall value has risen by 20 per cent.

26 In 2013/14, the largest non-benefit frauds by value were for:

- Right to Buy – this fraud has seen a marked increase in cases (up 89 per cent) and a more than doubling in value to £12.4 million (up 110 per cent);
- social care – cases have more than doubled to 438 (up 119 per cent) and their value has increased by more than half (58 per cent) to £6.3 million;
- insurance<sup>i</sup> – cases have more than tripled (up 205 per cent) and their value has risen by more than half (60 per cent) to £4.8 million; and
- disabled parking (also known as ‘Blue Badge’ fraud) – as in 2012/13, this produces the largest number of “other” cases, and in 2013/14, cases increased by 40 per cent to 4,055 with a value of £2 million.

**205%**  
increase in the  
number of  
cases of  
insurance  
fraud for  
2013/14 worth  
£4.8 million

<sup>i</sup> This fraud arises most commonly from members of the public who make false claims for compensation for accidents (known as ‘trips and slips’).

## Housing tenancy fraud

27 The number of social homes recovered from tenancy fraudsters increased by 15 per cent in the last year (Table 3).

Table 3: **Detected tenancy fraud by region**

2012/13 to 2013/14

Region	Number of properties in housing stock (% of national housing stock)	Number of properties recovered in 2013/14	Number of properties recovered in 2012/13	Percentage change in the number of properties recovered 2012/13 to 2013/14
London	419,238 (25)	1,807	1,535	+18
West Midlands	208,740 (12)	425	416	+2
South East	174,313 (10)	129	132	-2
East of England	159,216 (9)	187	133	+41
East Midlands	182,950 (11)	136	102	+33
Yorkshire & the Humber	234,335 (14)	140	108	+30
South West	100,867 (6)	111	56	+98
North East	112,444 (7)	59	34	+74
North West	109,045 (6)	36	126	-71
<b>Total</b>	<b>1,701,148 (100)</b>	<b>3,030</b>	<b>2,642</b>	<b>+15</b>

Source: Audit Commission (2014)

28 All but two regions detected more tenancy frauds in 2013/14 than in the previous year. The exceptions were the North West, where councils detected 71 per cent fewer cases, and the South East, where councils detected slightly fewer cases (down 2 per cent).

## Organised and opportunistic fraud

**29** The 2013/14 survey asked councils to indicate the extent to which they believed fraud was due to organised criminal activity, rather than to individuals acting alone. The survey used the National Crime Agency definition of organised crime as 'crime planned, coordinated and conducted by people working together on a continuing basis. Their motivation is often, but not always, financial gain' (Ref. 2).

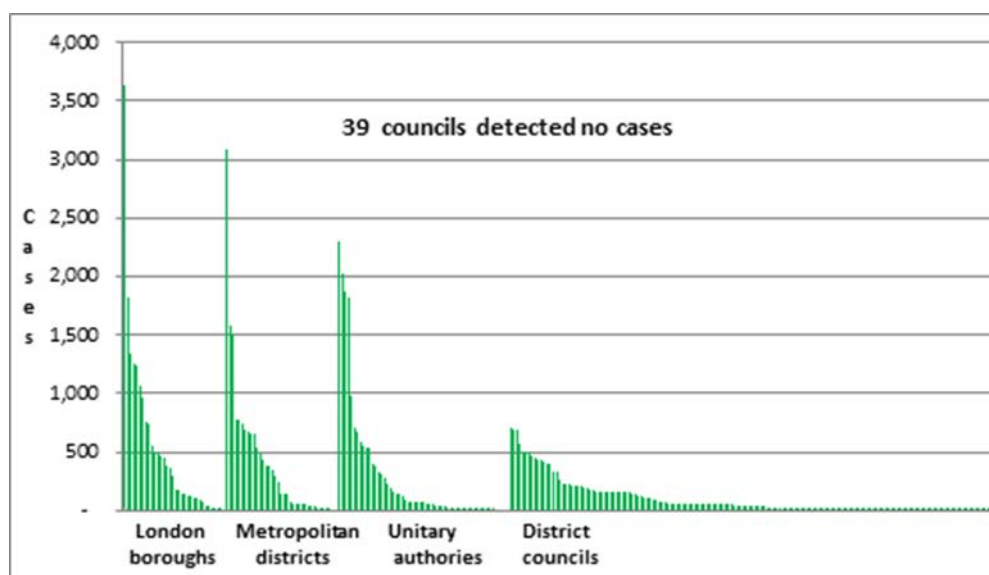
**30** Only 32 of 353 councils reported frauds they believed were linked to organised crime. They were most likely to detect the involvement of organised crime in housing benefit (11 councils), which probably reflects the greater number of detected frauds in this category.

**31** These results suggest that organised criminals do not commit much fraud against councils. Most local authority fraud investigators believe that opportunistic fraudsters pose the greatest risk. However, there is growing concern about organised criminals tendering for public service contracts, for example, to launder money (Ref. 3, p 55). Councils should be alert to the risk of organised crime and ensure their defences remain appropriate for the task.

## Failing to detect fraud

32 In *PPP 2013* (Ref. 4), we reported that 79 district councils had not detected a single non-benefit fraud, compared with only 9 councils among London boroughs, metropolitan districts and unitary authorities combined. In 2013/14, the equivalent figures were 35 district councils 3 unitary authorities and 1 metropolitan district (Figure 5)<sup>i</sup>.

Figure 5: **Number of detected non-benefit cases by council type (excluding county councils) in 2013/14**



Source: *Audit Commission (2014)*

33 While it is encouraging that the number of councils that did not detect any non-benefit fraud has fallen by half, it remains disappointing that 39 councils failed to detect any non-benefit fraud. 21 district councils and one unitary authority reported no detected non-benefit frauds in both years. Our experience suggests it is extremely unlikely that no non-benefit fraud was committed against them.

34 Year-on-year trends help local government bodies manage current fraud risks. Longer term trends better enable them to understand whether they are matching their resources to risks effectively. Chapter 3 covers fraud detection over the medium to long terms.

**39 councils** did not report any detected cases of non-benefit fraud in 2013/14, less than half the number of the previous year

<sup>i</sup> Figure 5 excludes county councils as they do not provide high-volume services such as council tax.

## Chapter 3: Longer term trends in frauds detected by councils

**Trends in detected fraud since 1991 show how councils have changed the way they tackle fraud in response to changing national policies and incentives. This chapter draws on the learning from the Commission's 25 years' experience in counter-fraud.**

**35** This chapter considers trends in detected fraud over the last 25 years, with more detailed information about the last five years from 2009/10 to 2013/14. It also highlights how the Commission's approach to tackling tenancy fraud could be applied in other areas, where risks are growing.

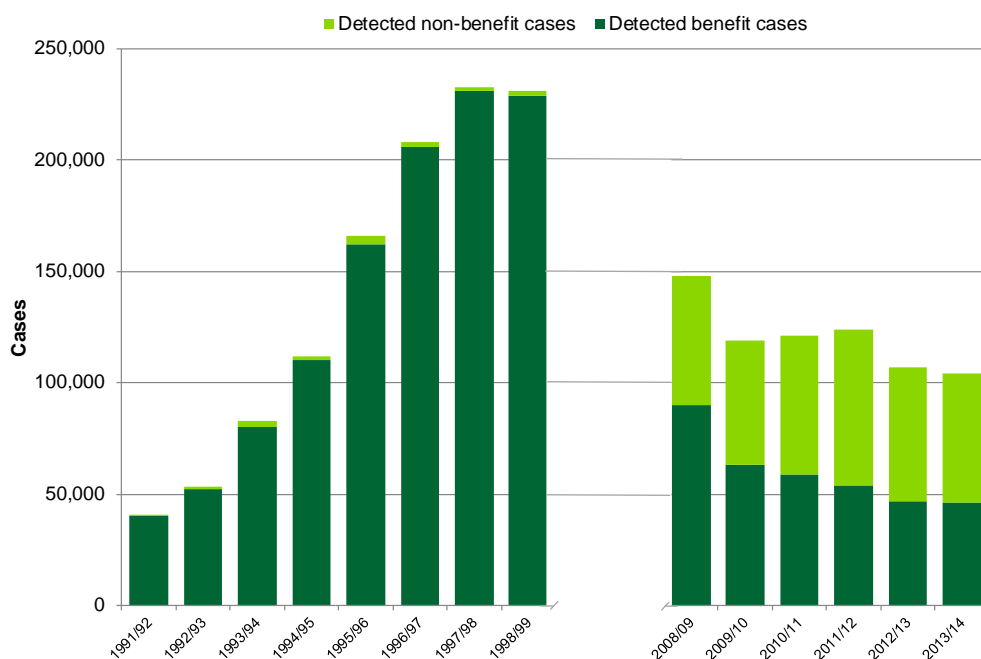
### **The shift in focus from benefit fraud to non-benefit fraud**

**36** Between 1991 and 2000, councils prioritised detecting benefit fraud. In 1991, only 2 per cent of cases of detected fraud related to non-benefits. When the *PPP* series restarted in 2009, nearly two in five (39 per cent) of all cases detected were of non-benefit fraud. By 2013/14, this had risen to over half (56 per cent) of all frauds detected (Figure 6)

**In the last  
5 years, the  
focus has  
shifted from  
benefit to non-  
benefit fraud**

Figure 6: **The shift from benefit to non-benefit fraud<sup>i</sup>**

Detected cases 1991/92 to 2013/14



Source: Audit Commission (2014)

**37** In 1993, the government introduced Weekly Benefit Savings (WBS), which created an incentive for councils to focus on benefit fraud. WBS ceased in 2002 and its replacement – Security Against Fraud and Error (SAFE) – ended in 2006<sup>ii</sup>. This removed a direct financial incentive for councils to focus on benefit fraud.

**38** The transition to the SFIS in 2016 means, from that year, councils will focus solely on non-benefit fraud. Some councils, particularly small and medium-sized organisations, have traditionally relied on benefit fraud investigators to tackle non-benefit frauds. It is unclear if these councils, and some others, will be able to refocus their efforts and resources on non-benefit frauds once the SFIS is in place.

**39** From 2009, *PPP* reports contained information about a wider range of non-benefit frauds than the earlier series, such as fraud detected within procurement or social care. This was to help local government bodies better understand the extent of the risks they face.

<sup>i</sup> Data are not available from 1999/2000 to 2007/08 because *PPP* did not operate in this period.

<sup>ii</sup> Under WBS, councils received funding, or were penalised, depending upon their achieving baseline levels of detected benefit fraud set by the government. Under SAFE, councils received additional funding based on the number of prosecutions and sanctions.

**40** Table 4 provides further information about the more recent history of the detected cases and values of these non-benefit frauds. Between 2009/10 and 2013/14, the main findings are that:

- councils have consistently detected more council tax discount fraud than any other type of non-benefit fraud (nearly 50,000 cases in 2013/14);
- council tax discount frauds have the lowest average value of all non-benefit frauds (£342 in 2013/14), but the scale of fraud in this area means they generate the biggest losses – £16.9 million in 2013/14;
- detected Right to Buy fraud cases have substantially increased in the last two years to 193 in 2013/14. Because their average value is over £64,000, they generate substantial losses of £12.4 million in that year;
- the number of detected cases of social care fraud more than trebled over the period to 438. With an average value in 2013/14 of £14,297, they account for £6.3 million in losses;
- the number of detected business rates frauds has fluctuated, rising from only 29 in 2009/10 to 319 in 2011/12 and then declining to 84 in 2013/14<sup>i</sup>; and
- the number of detected cases of insurance fraud similarly fluctuated over the last five years, but in 2013/14 councils detected three times as many of these frauds as in 2009/10.

**Right to Buy  
fraud cases  
increased in  
number by  
over 400%  
between April  
2012 and  
March 2014**

<sup>i</sup> This recent decline is unexpected, especially given the impact of the change in financial incentives from April 2013 for councils to tackle this fraud.



Table 4: **Cases and value (adjusted for inflation) of detected non-benefit fraud between 2009/10 and 2013/14**

		<b>Council tax discount</b>	<b>Business rates</b>	<b>Right to Buy</b>	<b>Procurement</b>	<b>Insurance</b>	<b>Social care</b>	<b>Economic/ third sector</b>	<b>Blue badge</b>
2013/14	Cases	49,428	84	193	127	226	438	36	4,055
	Value	£16,895,230	£1,220,802	£12,361,858	£4,437,965	£4,776,300	£6,261,930	£741,867	£2,027,500
	Average	£342	£14,533	£64,051	£34,945	£21,134	£14,297	£20,607	£500
2012/13	Cases	54,094	149	102	203	74	200	36	2,901
	Value	£19,905,056	£7,348,809	£5,959,424	£1,910,317	£3,026,996	£4,040,356	£1,299,707	£1,475,510
	Average	£368	£49,321	£58,426	£9,410	£40,905	£20,202	£36,103	£509
2011/12	Cases	60,891	319	38	187	132	122	45	4,809
	Value	£21,338,364	£2,651,726	£1,219,439	£8,297,496	£2,107,680	£2,216,681	£1,808,287	£2,472,366
	Average	£350	£8,313	£32,090	£44,372	£15,967	£18,170	£40,184	£514
2010/11	Cases	56,198	319	49	145	149	102	51	3,007
	Value	£23,599,729	£6,010,804	£1,090,538	£15,314,712	£3,905,680	£2,333,326	£1,361,079	£1,580,820
	Average	£420	£18,843	£22,256	£105,619	£26,213	£22,876	£26,688	£526
2009/10	Cases	48,253	29	34	165	72	131	47	4,097
	Value	£16,412,858	£660,891	£739,881	£2,962,701	£3,077,562	£1,534,013	£968,077	£2,210,152
	Average	£340	£22,789	£21,761	£17,956	£42,744	£11,710	£20,597	£539

41 Councils have to be alert to both the intended and unintended consequences of government policies. Some are directly intended to change local practice, such as the introduction of the SFIS. Others create new services or means of delivery that may produce unintended incentives and opportunities for fraudsters, such as raising the discount threshold for Right to Buy.

42 Central and local government can work together to anticipate and mitigate the risks of fraud created by new policies. This helps councils to adapt their counter-fraud approach to meet both intended and unintended consequences of government policies.

43 Frauds committed in schools and those committed by staff are included in all fraud categories. For this reason, we do not identify them separately in Table 4, but give more information in the following sections.

## Internal fraud

44 Since 2009/10, councils have detected broadly similar numbers of internal fraud, although their values have fluctuated. In 2013/14, councils detected nearly 1,500 cases of this type of fraud, generating £8.4 million in losses (Table 5).

**£8.4**  
**million** of  
internal fraud  
detected by  
councils

Table 5: **Detected cases and values of internal (staff) fraud<sup>i</sup>**  
2009/10 to 2013/14

Financial year		Cases and values (and as a % of total for each)
2013/14	Cases	1,474 (1.4%)
	Value	£8.4m (4.5%)
	Average	£5,750
2012/13	Cases	1,315 (1.2%)
	Value	£16.8m (9.3%)
	Average	£12,751
2011/12	Cases	1,459 (1.2%)
	Value	£15.9m (8.8%)
	Average	£10,917
2010/11	Cases	1,581 (1.3%)
	Value	£20.5m (10.5%)
	Average	£12,969
2009/10	Cases	1,659 (1.4%)
	Value	£8.6m (5.9%)
	Average	£5,207

Source: Audit Commission (2014)

<sup>i</sup> Total and average fraud values for years between 2009/10 and 2012/13 are adjusted for inflation using HM Treasury's GDP Deflator. These values will thus differ from those in previous PPP reports.

## Fraud in maintained schools

45 Schools<sup>i</sup> can be defrauded by those working in them, for example, staff who embezzle school funds, commit payroll fraud, or who claim false expenses. Externally, schools may be victims of procurement fraud and mandate fraud<sup>ii</sup>, among other types.

46 In 2013/14, we report a total of 206 cases of schools fraud worth £2.3 million. This is an 8 per cent increase in cases over the previous year, and a less than 1 per cent increase in value (Table 6).

**Councils report a rise of 8% in the value of fraud detected at maintained schools**

Table 6: **Detected fraud in maintained schools**

Change from 2012/13 to 2103/14

Fraud in maintained schools	2013/14	2012/13	Percentage change 2012/13 to 2013/14
Total value	£2,330,416	£2,323,856	+1
Number of detected cases	206	191	+8
Average value per case	£11,313	£12,167	-7

Source: *Audit Commission (2014)*

47 Of these frauds, over half (54 per cent) of cases and nearly two-thirds (62 per cent) of the value involved fraud by staff. These are substantially higher proportions than in other local government services. These findings are similar to those in *PPP 2013*, which suggests that schools may have weaker governance arrangements and less effective controls than larger organisations to detect and prevent fraud.

48 It is important for maintained schools to continue to report the number and value of detected fraud to keep focus on this issue. The Commission would like to see similar transparency across all non-maintained schools to protect the public purse. The risk of fraud in non-maintained schools is becoming more apparent (Ref. 5).

49 The CIPFA Centre for Counter Fraud has recently published good practice guidance on tackling schools fraud (Ref. 6).

<sup>i</sup> In our annual fraud survey, we only collect data from maintained schools. Free schools, foundations and academies are outside the Commission's remit.

<sup>ii</sup> Mandate fraud is where fraudsters divert payments, by deception, from the bank account of legitimate companies into the fraudster's own bank account.

## Councils' response to national policies

50 The unintended consequence of some changes in government policy is to make some frauds more attractive to fraudsters. In *PPP 2012*, for example, we suggested that significant increases in the Right to Buy discount implemented in that year is likely to increase the financial incentive to commit fraud in this area.

51 Table 4 shows that councils detected nearly six times as many Right to Buy frauds in 2013/14 as in 2009/10. From April 2012, the government brought in measures to encourage tenants to use the Right to Buy scheme. These included relaxing the qualifying rules and raising the discount threshold, which will rise in line with inflation.

52 These changes encouraged substantially more Right to Buy applications. They also led to more detected frauds. Between April 2012 and March 2014, councils detected 295 cases, a 144 per cent increase over the three years before.

53 Social care provides another example of the effect of national policies. Since 2007, the government has consistently aimed to give people more choice and control over the social care they receive, and to enable them to live independently at home for as long as possible (Ref. 7).

54 The policy of more choice and local control has, however, changed the scale of the fraud risks councils face. Cases of detected social care fraud increased from 131 in 2009/10 to 438 in 2013/14. In 2013/14, however, a majority of all councils except London boroughs did not detect a single social care fraud (Table 7).

**Changes in government policy can have unintended consequences**

Table 7: Councils reporting no detected social care fraud in 2013/14

Council type	Proportion not reporting any detected social care fraud
Unitary authorities	62%
Metropolitan districts	53%
County councils	52%
London boroughs	39%

Source: *Audit Commission (2014)*

55 Councils are detecting more cases of detected fraud in social care (see Table 4). This suggests that the risks of fraud in this service are growing, and also that some councils are taking this risk seriously. If all councils did so, the number of detected cases might rise further.

56 More research is needed to identify the nature and quantify the extent of frauds in education and social care, which together account for 62 per cent of all councils spending in 2012/13 (excluding benefit payments) (Ref. 8, Figure 1, page 2). Similarly, more research would also help councils to quantify the extent of fraud in business rates, for which they collected £21.9 billion in 2012/13 (Ref. 9, Para.1).

57 The increased detection of housing tenancy fraud provides a good example of the benefits greater information and attention brings. Since 2009, tenancy fraud has been a regular focus of *PPP* reports. We believe that councils can apply the learning from our approach to tenancy fraud to new and emerging fraud threats.

## Housing tenancy fraud

58 Tenancy fraud is now recognised as the second largest area of annual fraud loss in English local government, valued at £845 million. There is a further £919 million of annual loss to housing associations (Ref. 1).

59 *PPP*'s focus on tenancy fraud shows the benefit of regular reporting on rates of detected fraud, combined with supporting research. This approach has produced more reliable estimates of the extent and value of this type of fraud. It has also challenged myths and misconceptions about tenancy fraud and encouraged organisations to work together to share innovative approaches to tackling it. Similar action would help councils to tackle other types of fraud.

60 Prior to 2009, there was no national estimate of the scale of tenancy fraud, or of the value of a social home recovered from a fraudster, and no regional information on detection. Some social housing providers were reluctant to recognise this type of fraud, on the grounds that as long as the fraudster occupying the property was paying rent, they suffered no financial loss.

61 This encouraged many myths to build up, for example, that tenancy fraud was only a problem in London. This led some councils outside the capital to conclude they did not need to take any action to prevent or detect it.

62 The Commission published the first robust research in the UK that challenged such myths. *PPP* reports contained good practice examples of social housing providers within and outside the capital that had increased cases of detected tenancy fraud.

63 We published a cautious estimate of the extent of tenancy fraud in *PPP 2009* (updated in *PPP 2012*), which is widely accepted across England. Our research was used as the principal evidence base for a new offence specific to tenancy fraud, contained in the Prevention of Social Housing Fraud Act 2013.

**At £845 million, tenancy fraud represents the second largest yearly loss to councils from fraud**

64 Above all, we worked in partnership with key stakeholders, such as the Chartered Institute of Housing (CIH), the National Fraud Authority and the national Tenancy Fraud Forum, to identify and promote good practice and to encourage councils and housing associations to work together to fight fraud.

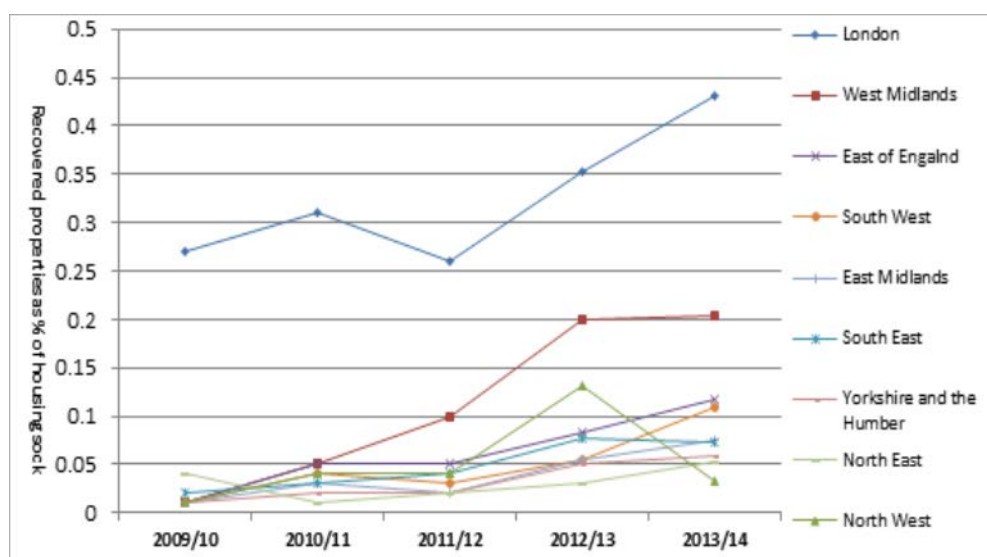
65 We believe that this approach helped to publicise the issues and encouraged social housing providers to combat tenancy fraud more effectively. Between 2009/10 and 2013/14, the total number of detected cases of housing tenancy fraud increased by 92 per cent.

66 The rate of improvement outside London has been substantial: in 2009/10, these councils only recovered 228 properties, but in 2013/14, this had risen to 1,223, an increase of 436 per cent.

67 Between 2009/10 and 2013/14, while the overall trend of recovery increased, the rate of recovery was uneven across regions (Figure 7).

**436%**  
increase in properties recovered, from housing tenancy fraudsters, outside of London in the last five years

Figure 7: Recovered properties as a proportion of council housing stock in each region 2009/10 to 2013/14



Source: Audit Commission (2014)

68 London has consistently detected the most tenancy frauds, measured as a proportion of total housing stock. The North West now detects proportionately the fewest tenancy frauds, which is the result of a decline in the last year. Had councils in this region maintained the same rate of detection as a proportion of their housing stock as in 2012/13, around 90 additional homes would have been available for families on the waiting list.

69 If all councils assigned resources to tackle tenancy fraud proportionate to their total stock, and adopted recognised good practice, then regional detection rates should be broadly similar. The fact they are not suggests that some councils can raise their performance.

**70** In 2014, the Chartered Institute of Housing published updated good practice on tackling tenancy fraud (Ref. 10).

**71** The Commission reports detection rates by councils and Arm's Length Management Organisations only. Information from housing associations is not universally available. However, as previous *PPP* reports have shown, some housing association partnerships have made good progress.

### Case study 1

#### Tenancy Fraud Forum – partnership working

- The Gloucestershire Tenancy Fraud Forum (GTFF) was formed in 2012 by seven social housing providers in the local area (Cheltenham Borough Homes, Gloucester City Homes, Severn Vale Housing Society, Two Rivers, Rooftop Housing Group, Stroud District Council and Guinness Hermitage). Prior to forming GTFF, individual member organisations detected few tenancy frauds.
- From 2012, GTFF members started sharing good practice, carrying out joint staff training and in particular undertook a local media-based awareness raising campaign. This resulted in a large increase in reports of suspected tenancy fraud.
- Following the campaign, GTFF recovered 107 homes from tenancy fraudsters in 2013/14. To build an equivalent number of homes from new would have cost the public purse over £16 million<sup>i</sup>.

*Source: Audit Commission (2014)*

**72** Some innovative housing providers used the launch of the 2013 Prevention of Social Housing Fraud Act as an opportunity to publicise their own tenancy fraud amnesties.

<sup>i</sup> In PPP 2011, we calculated the replacement cost of an average social housing unit to be £150,000.



## Tenancy fraud amnesties

**73** Amnesty can be a useful option for social housing providers to recover properties from tenancy fraudsters. When implemented properly, they can have considerable impact at low cost.

**Tenancy fraud amnesties may have longer term benefits**

**74** In 2013, the London Borough of Camden offered an amnesty lasting two months. In this time, tenancy fraudsters could hand back the keys to properties they had unlawfully occupied or sub-let, without further action taken on cases that were not being prosecuted for other offences.

Fraudsters returned seven properties (with a replacement value of over £1 million) to the Council. This represented a good return on the £25,000 spent on publicising the amnesty. LB Camden recovered 103 properties subject to tenancy fraud in total during 2013/14.

**75** The publicity had wider benefits. Prior to the campaign, the Council had received just six referrals from the public to its tenancy fraud hotline. In the two months during the campaign, it received 50 calls, with many more in the months that followed. The Council launched a number of investigations as a direct result of the increased hotline referrals and has so far recovered four more properties from these referrals with a further four pending prosecution.

**76** The Peabody Housing Association saw similar benefits from an amnesty. In 2012, 40 properties were handed back to the Association. In 2013, it held a two-month amnesty, during which 42 properties with a replacement value of £6.3 million were returned. In the whole year, tenants handed back 130 properties, suggesting the amnesty possibly had a longer term effect.

**77** The approach to housing tenancy fraud in *PPP* reports since 2009 illustrates how social housing providers can change their approach to fighting one type of fraud, based on robust information and greater transparency. Adopting a similar approach to other frauds would help them fulfil their duty to protect the public purse, which Chapter 4 explores in more detail.

## Chapter 4: Effective stewardship of public funds

**A corporate approach to tackling fraud in all areas supports councils to carry out the core functions of effective counter-fraud. This helps them fulfil their role as stewards of public resources, to the benefit of local and national taxpayers.**

**78** Councils are stewards of public funds and have a duty to protect the public purse from fraud. Better performing councils acknowledge this responsibility and put in place the core components of an effective corporate counter-fraud approach. These are contained in CIPFA guidance (Ref. 11) and the government Fraud Review (Ref. 12) and are:

- prevention and deterrence;
- investigation and detection; and
- sanction and redress (recovery of funds or assets).

**79** Councils face a challenge in carrying out these functions as their funding declines. This chapter considers each component in more detail and highlights examples of good practice showing how councils can develop a long-term and sustainable approach to tackling fraud.

### Prevention and deterrence

**80** Investigating fraud can be expensive for councils. They also incur costs in prosecuting fraudsters and in attempting to recover money, which is not always successful. It is usually more cost-effective to prevent fraud than to take action afterwards.

**81** In 2014, we asked over 200 fraud investigators and auditors from English local government how well their councils, or the councils they audit, prevent fraud. They believed that the strongest fraud prevention arrangements were found in housing benefits and council tax discounts, and the weakest in social care and schools.

**82** Better performing councils learn from fraud investigations, and address the weaknesses that enabled the fraud to occur. Such councils strengthen fraud prevention arrangements as a result, including deterrence.

**83** Some councils may be sceptical about the value of fraud prevention; for this reason, the sector would benefit from an agreed methodology to measure its cost-effectiveness. The government should commission such research.

**84** Even where councils obtain no direct financial benefit from preventing frauds, they should still fulfil their duty to protect the public purse by pursuing fraudsters.

## Case study 2

### Fraud prevention - Right to Buy

- In 2014, Sandwell Metropolitan Borough Council successfully prosecuted two people for a fraudulent Right to Buy application worth nearly £50,000. The fraudsters initially claimed the Right to Buy discount in 2011, making false statements about their eligibility indicating they were sisters and stating they both lived at the address. Their initial claim was refused on the grounds of failing to comply with residency requirement.
- In 2012, the fraudsters again claimed the Right to Buy discount, and again supplied false information about their relationship. The fraud was initially identified through National Fraud Initiative data matches. This enabled the Council to stop the Right to Buy before the sale was processed.
- Subsequent enquiries by the Council established that the fraudulent tenant was falsely claiming benefits, stating that she was resident at other addresses, while still claiming to be a Sandwell resident.
- The fraudsters were found guilty under the Fraud Act and each given a 20 month custodial sentence. This is one of the first successful prosecutions of Right to Buy fraud outside London.

*Source: Audit Commission (2014)*

**85** Councils increasingly use digital technology across services and functions. This reduces costs and can improve service quality, but also brings new fraud risks. Each year we adapt our annual fraud survey to gather new information about emerging fraud risks. The government should encourage the organisation carrying out the survey in the future, CIPFA, to investigate the extent to which fraudsters use digital and on-line technology to defraud local government.

**86** Innovative councils also use technology to prevent and detect fraud:

### Case study 3

#### Using technology to prevent fraud

- The London Borough of Southwark increased vetting checks at the point of application for a number of its services, to help protect valuable resources. The London Borough of Southwark is the third largest social landlord in the UK and has a large transient population.
- In 2013, The London Borough of Southwark implemented passport and identity scanners across the council at key customer contact points, including One Stop Shops, Housing Options and the Registrar's office. A mobile scanning system is also used by The London Borough of Southwark anti-fraud services and by council departments conducting specific projects. In total, 6,690 document scans were conducted in 2013/14, with 4 per cent requiring additional checks and verification as result.
- The London Borough of Southwark implemented additional verification checks on the council's waiting list, including veracity of application form information. This has reduced the number of accepted applications by 20 per cent. Additional verification checks have also been conducted on prospective tenants before they collect the keys to the tenancy. This prevented 12 per cent of all such allocations going to fraudsters.

*Source: Audit Commission (2014)*

**87** Councils can deter people from committing fraud if they set out clearly what fraud is and make clear it is likely fraudsters will be caught and punished. Professional fraud investigators believe the prospect of detection is the most powerful deterrent to committing fraud. This supports the need for councils to maintain adequate investigative capacity in a period of financial restraint.

**88** It is not currently possible to quantify accurately the financial benefit from deterring fraud. Councils can look to other indicators that may show its impact. The number of households claiming single person discount is one example, first highlighted in *PPP 2013* (Ref. 4).

**89** One-third of households in England claim single person discount. Our research (Ref. 13) suggests that typically between 4 per cent and 6 per cent of households claiming single person discount do so fraudulently.

**90** Between 2008 and 2013, the number of councils where 40 per cent or more households claimed single person discount reduced from 23 to 7. The council with the highest proportion of households claiming single person discount experienced a reduction in claims from 48 per cent to 41 per cent. One possible explanation for the decline in single person discount claims is the greater publicity from councils about this fraud in recent years.

**4% to 6%**  
of council tax  
single person  
discount  
claims are  
typically  
fraudulent

## Investigation and detection

**91** Fraud investigators have legal powers to investigate Council Tax Reduction frauds and housing tenancy frauds. The powers do not extend to other fraud types. This restricts their ability to investigate and detect fraud across all services, including social care and procurement. Councils need equivalent powers for all fraud types to protect the public purse effectively.

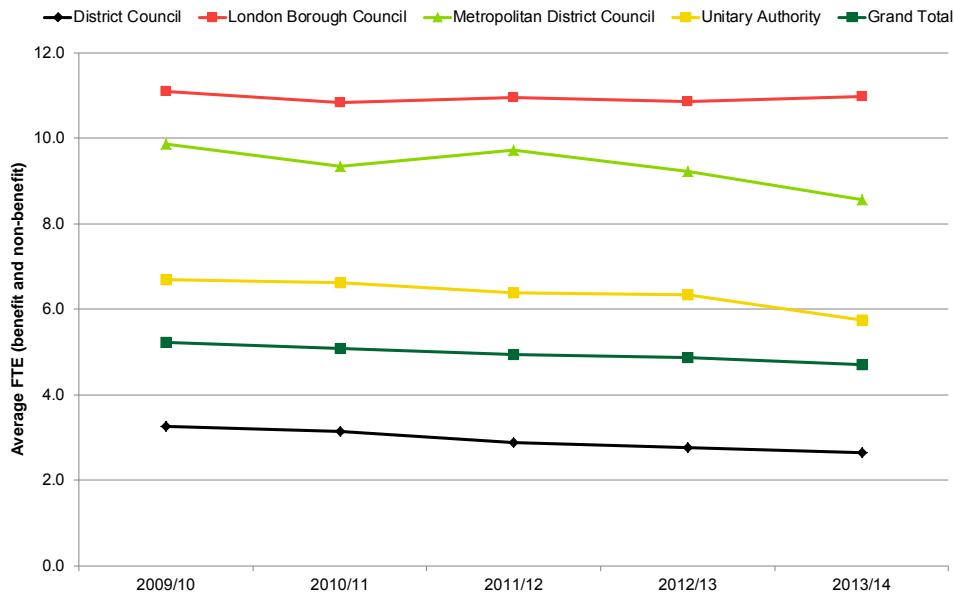
**92** Over the past 25 years, councils have substantially increased the number of benefit fraud investigators they employ. Between 1994 and 1997, staff numbers rose from 200 to over 2,000 (Ref. 14). The government encouraged councils to enhance the skills and training of these new staff. In 1998, the DWP launched the Professionalism in Security (PINS) qualification and associated training for benefit fraud investigators.

**93** *PPP 2013* (Ref. 4) reported a decline in detected fraud over the previous year; the first such fall since 2009. That report suggested further research to see whether falls in detection were linked with changes in councils' investigative capacity. Since 2010, councils have cut total staff numbers in response to reduced income<sup>i</sup> (Ref. 15).

<sup>i</sup> Across the United Kingdom, full-time equivalent staff numbers employed by local government fell from 2,160,000 in 2010 (Quarter 1) to 1,787,000 in 2014 (Quarter 1), a fall of 21 per cent.

94 Between 2009/10 and 2013/14, the mean average number of full-time equivalent (FTE) fraud investigators employed by councils declined steadily from 5.2 to 4.7, a fall of 10 per cent (Figure 8).

Figure 8: Average numbers of FTE fraud investigators, by council type 2009/10 to 2013/14



Source: Audit Commission (2014)

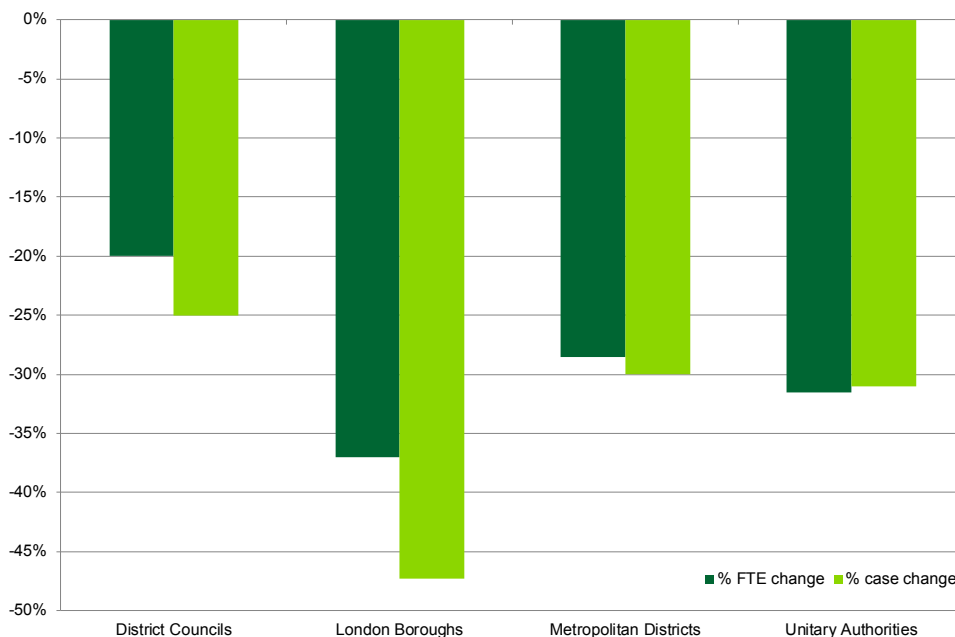
95 London councils employ the most investigators and have seen little change at around 11 FTE staff over the whole five years. District councils have employed the fewest fraud investigators, and have seen their average FTE numbers reduce by 19 per cent, with unitary authorities and metropolitan districts reducing by 14 per cent and 13 per cent respectively.

96 We wanted to investigate whether annual changes in staff numbers are associated with changes in the numbers of reported detected benefit and non-benefit fraud in each year within this period.

97 Not enough councils reported separate staff numbers for non-benefit fraud staff to enable analysis of this type of fraud. For benefit fraud, all council types<sup>i</sup> saw a substantial reduction in both FTE staff numbers and detected benefit fraud cases (Figure 9).

Figure 9: **Councils' capacity to detect benefit fraud**

Changes in median benefit fraud FTE numbers and detected benefit fraud cases in 2009/10 and 2013/14



Source: Audit Commission (2014)

98 Taking all councils in the analysis together, the median percentage fall in detected cases of benefit fraud exceeded that for FTE benefit fraud investigators. This was true in all councils except unitary authorities, where the percentage reductions were similar in each category.

99 London boroughs saw the largest reductions, losing nearly two in five (37 per cent) of their benefit fraud investigation staff, and nearly half (45 per cent) of their detected benefit fraud cases over the whole period. It is likely that some of this decline is due to councils in the capital refocusing their fraud investigation resources on non-benefit fraud in preparation for the introduction of the SFIS (Ref. 4, Para. 46).

100 Other councils also saw a substantial decline in their capacity to detect benefit fraud of between 20 and 30 per cent over this period. They also detected between 23 and 31 per cent fewer cases of benefit fraud. These differences are not statistically significant and data are patchy in 2010/11 and 2011/12. However, they indicate a clear decline in both counter-fraud capacity and detection rates between the two years.

**Counter fraud capacity and cases of benefit frauds detected both fell between 2009/10 and 2013/14**

<sup>i</sup> This analysis excludes county councils, which do not administer housing and council tax benefits.

**101** Levels of reported detected fraud can only give an indication of the extent of fraud committed against councils. In our experience, the more councils look for fraud, and follow good practice, the more they will find. Increasing levels of detection may therefore be a positive sign that councils take fraud seriously, rather than evidence of weak counter-fraud controls.

**102** It is becoming increasingly urgent for councils to recover losses to fraud. In 2016, the funding to aid councils refocus their activities on non-benefit frauds during the transition to the SFIS will end. Without this money, councils will need alternative means of financing counter-fraud investigation and prevention. Recovery of losses offers one way to do this.

## **Sanction and redress (recovery of losses)**

**103** Councils can invoke a range of criminal and civil sanctions against fraudsters. They can impose fines (for example, a £70 fine for fraudulently claiming single person discount), and withdraw benefits, contracts or licences. In some cases, stopping the discount or service provided may be the limit of the action taken.

**104** The vast majority of frauds committed against local authorities are never pursued through the criminal courts. There are many frauds against councils (104,132 detected cases in 2013/14). With fewer staff and resources, it is appropriate for councils to follow different courses of action. This is consistent with good stewardship of public funds.

**105** Recovering funds lost to fraud can be difficult. Research suggests that, across all sectors of an economy, more than half of all fraud victims do not recover any monies. Fewer than one in ten achieves full financial restitution (Ref. 16).

**106** Councils can pursue recovery through the civil or criminal courts, but they can consider alternative means to punish fraudsters, deter potential fraudsters and also generate funds to reinvest in tackling fraud.

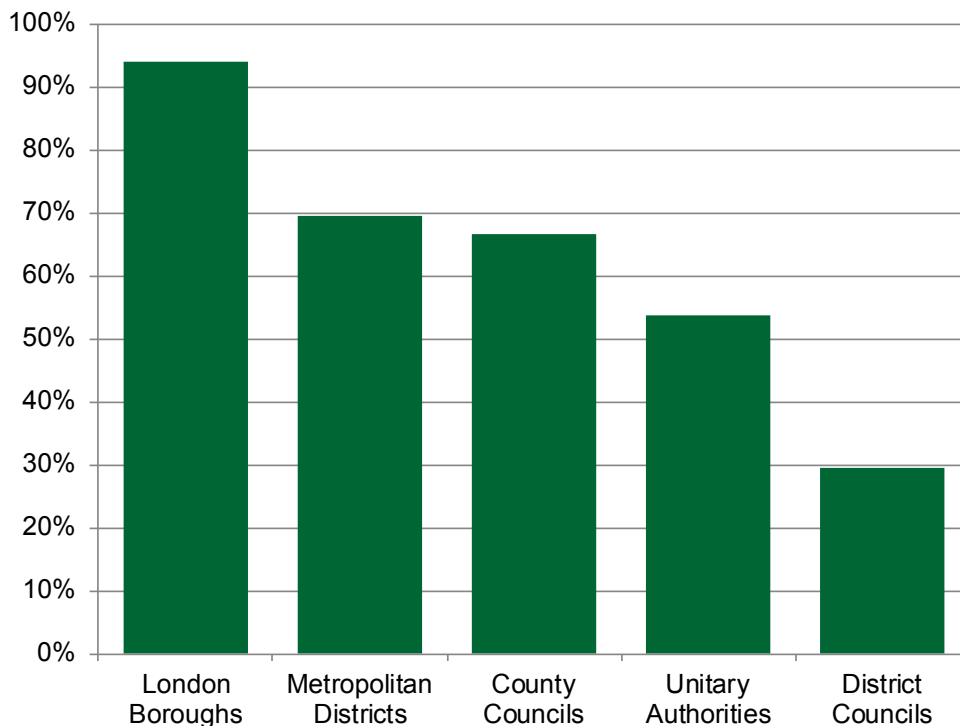
**107** In 2014, the Local Authority Investigating Officers Group (LAIOG) published guidance on estimating potential loss to fraud in specific areas of local authority activity. Councils can utilise this guidance to estimate their own local losses (Ref. 17).

**108** Appendix 3 contains case studies that illustrate how councils can use legislation, notably but not solely the Proceeds of Crime Act 2002 (POCA), to recover money from fraudsters.



**109** POCA offers one means of recovering fraud losses through criminal law. Around two in five (43 per cent) of councils employ, or have access to, specialist POCA financial investigators to recover money from fraudsters through the courts (Figure 10).

Figure 10: **Proportion of councils in 2013/14 with access to POCA financial investigators, by council type**



Source: *Audit Commission (2014)*

**110** The proportion of councils in each group with access to financial investigators varies widely. All but two London boroughs use them and most employ their own. In contrast, just over a quarter (28 per cent) of district councils used a financial investigator.

**111** Financial investigators have typically focused on trading standard offences and benefit fraud, but they also enable councils to use POCA to recover funds lost to other frauds.

**112** For example, in 2014, the financial investigator at the London Borough of Lewisham<sup>i</sup> used a POCA confiscation hearing to establish the link between social housing fraud and additional costs the Council had incurred in housing homeless people. We had previously identified this link in *PPP* reports. The court agreed and set a precedent by awarding Lewisham £10,000 per fraudulently sub-let property in this case.

<sup>i</sup> This case was undertaken by the financial investigator on behalf of Lewisham Homes, the Arm's Length Management Organisation (ALMO) that manages the social housing stock for the council.

**113** The court's judgement creates case law that will help social housing providers to punish offenders, recover funds and, equally importantly, deter others from committing such frauds in the future.

**114** Local authorities should give greater consideration as to how best to use POCA financial investigators, especially in cases where councils incur substantial financial loss.

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

**115** The six key components of effective stewardship of public funds highlighted in this chapter are incorporated within the newly published CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (Ref. 18). The Code will be supported by a self-assessment framework. CIPFA also intend to publish good practice guidance. We encourage all public bodies, including local authorities, to assess themselves against this Code.

## Chapter 5: Building on *PPP*'s legacy

***The Commission's PPP reports have made an important contribution to the fight against public sector fraud. The CIPFA Counter Fraud Centre is well placed to continue this work, and intends to publish future annual PPP reports on the extent of detected fraud in local government.***

**116** Throughout its existence, the Commission has played an active part in helping public bodies tackle fraud effectively. For example, early *PPP* reports identified low levels of fraud detection in the NHS, which led in part to the creation of the NHS Counter-Fraud Service in 1998 (now NHS Protect). Our research on the scale of tenancy fraud and council tax single person discount fraud has been widely used to support improvements in the response to such fraud.

**117** *PPP* reports use the Commission's statutory powers to collect and publish data on local counter-fraud detection. They have changed the way local government bodies and other organisations think about and approach fighting fraud, and achieved a number of important outcomes.

### ***PPP reports raise awareness of the importance of fighting fraud***

**118** When the Commission resumed *PPP* in 2009, there was little research available on the nature and extent of most types of non-benefit fraud affecting local government bodies. We developed robust estimates, now widely used by national and local government, of the scale of both tenancy fraud and council tax single person discount fraud.

**119** Many organisations did not acknowledge that fraud is a problem or understand its scale and impact. *PPP* reports attracted publicity and interest, which help officers and councillors to argue for more effective resources to protect the public purse.

**120** Each *PPP* report contain a checklist for those charged with governance to help them understand and assess their risks and performance. The latest version is in Appendix 2. Councils should continue to use this checklist, which is updated annually with each new *PPP* report.

## **PPP reports promote transparency and accountability**

**121** The information in *PPP* reports, combined with individual fraud briefings (see paragraphs 126 to 129), help to create greater transparency and accountability in local public services. *PPP* reports have been widely used by audit committees.

## **PPP reports improve data about fraud**

**122** Prior to 2009, there was no sector-wide definition, or sub-categorisation, of fraud affecting local government. The annual fraud survey for *PPP* reports foster a common understanding of fraud across local government, and require local government bodies to record the numbers and values of all the frauds they detected.

## **PPP reports enable local government bodies to benchmark their performance in detecting fraud**

**123** *PPP* reports contain regional and national data on detection rates and values for all types of benefit and non-benefit frauds. This allows English councils to compare their performance against national, regional and local norms. Understanding fraud detection performance helps local government bodies to adopt a proportionate and effective approach to fighting fraud.

## **PPP reports promote good practice in fighting fraud**

**124** Each *PPP* report contains case studies that illustrate the actions local government bodies, often in partnership, take and the outcomes they achieve in fighting fraud. Every year, we work with councils to promote good practice across the sector.

**125** All these benefits were possible because the Commission could mandate councils to complete and return the annual questionnaire for the fraud and corruption survey. Going forward, unless the survey is mandated by DCLG, response rates will probably fall. This would reduce the reliability of the survey results.

## Fraud briefings

**126** In 2013, we published for the first time individually tailored fraud briefings to support external auditors' communication with those responsible for governance at each council, principally locally elected councillors on audit committees. The briefings contained comparative benchmark information on each council's detection results. External auditors could provide these briefings on request and on a confidential basis, to ensure that the information they contained was not available to fraudsters<sup>i</sup>.

**127** All 353 English local authorities were able to receive their fraud briefing, without charge, through a presentation from their external auditor in late 2013 and early 2014. Around three in five councils (62 per cent) received a briefing and presentation, but it is disappointing that many councils did not.

**128** We believe these briefings make an important contribution to improving transparency and accountability in local fraud detection performance. Some councils are reluctant to discuss fraud, or unwilling to accept it occurs, which may help to explain why not all councils opted to receive their fraud briefing.

**129** In November 2014, we will again make fraud briefings available free to all councils, via their external auditor. We encourage all local authorities to use these fraud briefings to inform their local counter-fraud priorities and strategies.

**62% of councils compared their detection levels with their peers, using our tailored fraud briefings**

## CIPFA Centre for Counter Fraud

**130** Fraud risks are constantly changing. New ways of delivering public services, in particular through digital technology, bring new threats. Local government's counter-fraud approach needs to adapt and evolve to meet these new challenges. A key requirement for local bodies is to improve their counter-fraud capability.

<sup>i</sup> In 2012, the Audit Commission cited an exemption under section 31(1)(a) of the Freedom of Information (FOI) Act (that disclosure would be likely to prejudice the prevention or detection of crime) to refuse an FOI request for council-specific annual detected fraud survey results. Our concern was that disclosure of the data could prejudice the ability to prevent or detect fraud if any particular authority's track record in this regard were to become public. The Information Commissioner's Office upheld this exemption. It is for individual organisations to seek their own advice and determine their response to any FOI requests.

**131** Auditors and fraud investigators already have many of the skills required to provide an effective counter-fraud service. Although some councils use such resources effectively, this is far from universal.

**132** From April 2015, the Audit Commission's strategic counter-fraud activities and team will transfer to CIPFA's Counter Fraud Centre. The Centre is a source of expertise and leadership for local government and the wider public sector to help organisations meet challenges in the future.

**133** With the support of the new Counter Fraud Centre, the sector can enhance investigative capability, even with fewer staff. The Centre can support measures to improve in several important areas:

- **Continuing to publish PPP.** The Centre intend to publish a similar *PPP* report based on an annual survey of detected fraud and corruption in English local authorities.
- **Benchmarking performance.** Benchmarking is critical to understanding how well an organisation performs. The Centre for Counter Fraud intend to continue to publish individual fraud briefings. It will also draw on CIPFA's expertise in comparing data.
- **Professional training.** The Centre will develop and offer professional accredited training for the public sector with specific bespoke focus for local government investigators.
- **Tools and other services.** The Centre will offer e-learning in anti-corruption and whistleblowing, supported by counter-fraud specialists. Other services will include professional networks, thought leadership and fraud alerts.

**134** CIPFA does not have the same breadth of powers that the Audit Commission has been able to deploy to support local government, including powers to mandate submission of information on fraud detection results. This could weaken the comparative data used in fraud briefings.

**135** We encourage all councils and other public bodies to maximise the potential benefits of participation with the CIPFA Counter Fraud Centre.

**136** The Audit Commission leaves a strong legacy in counter-fraud. CIPFA is well placed to continue this work and help local government in its fight against fraud.

## Appendix 1: Data tables of detected frauds and losses by region

Table 8: **Detected frauds and losses 2013/14 by region compared to regional spend by councils**

Region	Council spending by region as percentage of total council spending in 2012/13 <sup>i</sup>	Regional percentage of the total value of all detected frauds in 2013/14	Regional percentage of the number of all cases of detected frauds in 2013/14
(TOTAL)	(£111.7 billion)	(£188.3 million)	(104,132)
East of England	10.3	9.9	10.3
East Midlands	7.7	6.4	8.6
London	18.2	27.1	20.8
North-East	5.4	4.1	6.5
North-West	13.6	10.9	8.3
South East	15.0	14.5	15.7
South-West	9.1	9.0	9.6
West Midlands	10.8	9.8	12.5
Yorkshire and Humber	10.1	8.3	7.7

Source: Audit Commission (2014)

<sup>i</sup> Regional spending data for 2013/14 are not yet available. However, the proportions of spending in each region do not change much from year to year. For this reason, Table 8 includes 2012/13 spend data as a benchmark against fraud losses and detected cases in 2013/14.

## Appendix 2: Checklist for councillors and others responsible for governance

I. General	Yes	No	Previous action	2014 Update
1. Do we have a zero tolerance policy towards fraud?				
2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with <i>Fighting Fraud Locally</i> ?				
3. Do we have dedicated counter-fraud staff?				
4. Do counter-fraud staff review all the work of our organisation?				
5. Does a councillor have portfolio responsibility for fighting fraud across the council?				
6. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?				
7. Have we received the latest Audit Commission fraud briefing presentation from our external auditor?				
8. Have we assessed our management of counter-fraud work against good practice?				
9. Do we raise awareness of fraud risks with:				
■ new staff (including agency staff);				
■ existing staff;				
■ elected members; and				
■ our contractors?				



I. General	Yes	No	Previous action	2014 Update
10. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?				
11. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?				
12. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?				
13. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on our outcomes?				
14. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?				
15. Do we have effective arrangements for:				
■ reporting fraud?				
■ recording fraud?				
16. Do we have effective whistle-blowing arrangements. In particular are staff:				
■ aware of our whistle-blowing arrangements?				
■ have confidence in the confidentiality of those arrangements?				
■ confident that any concerns raised will be addressed?				
17. Do we have effective fidelity insurance arrangements?				

<b>II. Fighting fraud with reduced resources</b>	<b>Yes</b>	<b>No</b>	<b>Previous action</b>	<b>2014 Update</b>
18. Are we confident that we have sufficient counter-fraud capacity and capability to detect and prevent fraud, once SFIS has been fully implemented?				
19. Did we apply for a share of the £16 million challenge funding from DCLG to support councils in tackling non-benefit frauds after the SFIS is in place?				
20. If successful, are we using the money effectively?				
<b>III. Current risks and issues</b>	<b>Yes</b>	<b>No</b>	<b>Previous action</b>	<b>2014 Update</b>
<b>Housing tenancy</b>				
21. Do we take proper action to ensure that we only allocate social housing to those who are eligible?				
22. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?				
<b>Procurement</b>				
23. Are we satisfied our procurement controls are working as intended?				
24. Have we reviewed our contract letting procedures in line with best practice?				
<b>Recruitment</b>				
25. Are we satisfied our recruitment procedures				
<ul style="list-style-type: none"> <li>■ prevent us employing people working under false identities;</li> </ul>				
<ul style="list-style-type: none"> <li>■ confirm employment references effectively;</li> </ul>				
<ul style="list-style-type: none"> <li>■ ensure applicants are eligible to work in the UK; and</li> </ul>				
<ul style="list-style-type: none"> <li>■ require agencies supplying us with staff to undertake the checks that we require?</li> </ul>				

III. Current risks and issues (continued)	Yes	No	Previous action	2014 Update
<b>Personal budgets</b>				
26. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?				
27. Have we updated our whistle-blowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?				
<b>Council tax discount</b>				
28. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?				
<b>Housing benefit</b>				
29. When we tackle housing benefit fraud do we make full use of:				
■ National Fraud Initiative;				
■ Department for Work and Pensions Housing Benefit matching service;				
■ internal data matching; and				
■ private sector data matching?				
IV. Other fraud risks	Yes	No	Previous action	2014 Update
30. Do we have appropriate and proportionate defences against the following fraud risks:				
■ business rates;				
■ Right to Buy				
■ council tax reduction;				
■ schools; and				
■ grants?				



## Appendix 3: Case studies: targeting fraudsters, financial recovery (in particular use of POCA)

### Case study 4

#### **Recruitment payroll fraud - pension pot recovered (total value £414,415)**

- In July 2012, a council successfully prosecuted the Head of their Youth Offending team and several co-conspirators for payroll fraud. In collusion with employees at a recruitment agency, the employee authorised payments for several non-existent temporary agency staff. The fraud was first brought to the attention of the council by a whistleblower.
- The employee was found guilty of conspiracy to defraud the council and sentenced to five years and six months in prison. The co-conspirators were also found guilty and sentenced to four years, two years, and 18 months respectively.
- In 2014, the council was awarded a total of £414,415 in financial restitution from the fraudsters, in part through successful POCA judgements. This included £286,415 recovered from the fraudsters' pension under provisions within the Local Government Pension Scheme.

*Source: Audit Commission (2014)*

### **Prevention of Social Housing Fraud Act - unlawful profit order of £31,000**

- In early 2014, a predominantly London-based housing association was one of the first social housing providers to gain an Unlawful Profit Order under the Prevention of Social Housing Fraud Act. This allows social landlords to seek a money judgement against their tenant where illegal sub-letting has occurred.
- On a routine visit, a housing officer became suspicious about illegal sub-letting after seeing an unfamiliar person in a property. The officer discovered that the official tenant had lived and worked in Spain for at least the last two and a half years.
- The court ordered the tenant to pay the housing association £31,000, plus costs. The property was recovered and immediately re-let.

*Source: Audit Commission (2014)*

### Procurement fraud and POCA

- In 2014, a council successfully obtained a confiscation order under the Proceeds of Crime Act for £75,000. This related to the amount an employee had been illegally paid to provide confidential contract information.
- The employee's responsibilities included awarding council contracts for ICT equipment. In this role, the employee introduced two new suppliers to the council's approved tender list, subsequently advising them of tender submissions by competing companies. This enabled the two companies concerned to underbid competitive rivals to secure the contracts.
- The fraud was identified as a result of information provided by an anonymous informant.
- The employee was dismissed, subsequently found guilty under the Fraud Act and sentenced to two years imprisonment.

*Source: Audit Commission (2014)*

### **Benefit fraud (£43,000), POCA award of nearly £1.2 million**

- Over a four-year period a husband and wife made false statements as to their relationship and stole somebody else's identity (to create a non-existent landlord), to fraudulently claim housing benefit worth £43,000 from a council.
- The money claimed was used to finance an extravagant lifestyle, including purchases of two sports cars, expensive watches and nearly £100,000 of musical equipment. Subsequent enquiries by the council's financial investigator established that the husband owned a property abroad worth in excess of £1 million, had further land holdings and several businesses in the UK and abroad, including two money transfer companies. He also had several business and bank accounts.
- The fraudsters pleaded guilty to 19 Fraud Act, Theft Act, perjury and immigration offences. The fraudsters were sentenced to 30 months in prison and 12 months' suspended sentence respectively.
- Using the findings of the financial investigator's enquiries into the financial history of the fraudsters, a subsequent POCA hearing awarded £1,197,000 in a confiscation order, to be paid by the husband. The council is due £497,000 of this award.
- The fraudster husband subsequently paid £11,849 of the amount awarded. In late 2013, he left the UK and is now resident abroad. An arrest warrant has been issued.

*Source: Audit Commission (2014)*



### Recovery of 23 council houses from fraudsters

- In 2011, a council's fraud team uncovered one of the country's biggest ever tenancy fraud cases. Over a three year period, a council employee dealing with homeless people had operated a scheme to process bogus housing applications to fraudulently obtain council homes. Properties were subsequently allocated to the fraudster's family, close associates and later those willing to pay. The fraudster used fake identities, false personal data and fraudulently adjusted housing application forms to make the co-defendants "high priority" for housing.
- The fraud was first identified through National Fraud Initiative data 'Operation Amberhill' matches. Subsequent investigations found a pattern of false documentation being used to obtain social housing. Enquiries with the UK Borders Agency and HMRC established that seven of the properties were allocated to people not legally allowed to be in the UK.
- Council investigators found a pattern where significant one-off payments would be made to the fraudster's bank account. A few days later a property would be allocated to the individual making the payment.
- In total, 23 properties were fraudulently allocated, most of which have already been recovered by the council.
- The fraudster pleaded guilty to transferring criminal property and in January 2014 he was sentenced to four years in prison. The co-defendants, who included the mother and a former wife of the culprit, received suspended sentences ranging from six to eight months, and other penalties including curfews and community service.

*Source: Audit Commission (2014)*

### **Benefit fraudster with over 30 bank accounts – POCA confiscation order of £150,000**

- In 2011, a council initially identified through data matching that a benefit claimant had two undeclared bank accounts. Further enquiries established the claimant had over 30 such undeclared bank accounts in operation over a ten year period. During that time the claimant had received over £43,000 in benefits. A restraint order was placed on these bank accounts under the Proceeds of Crime Act, to prevent them being used.
- The individual was subsequently found guilty of two counts of benefit fraud under the Social Security Administration Act and received a six month custodial sentence.
- In 2014, a POCA confiscation order of £150,000 was made against the fraudster, of which over £43,000 related to the council for the fraudulent housing benefit payments. These monies have now been paid back by the fraudster.

Source: Audit Commission (2014)

### Right to Buy fraud and benefit fraud

- In 2010, a couple applied to purchase their council home under Right to Buy for £185,000, with a discount of £38,000. The purchase was not consistent with their financial circumstances, as they were long term benefit claimants on low income. As part of the council's anti-money laundering policy, enquiries were then made to establish how the property purchase would be financed.
- Enquiries revealed the couple had savings in excess of £30,000, which had not been declared in the course of claiming benefits. The mortgage to fund the purchase was to be £147,000. To obtain the mortgage, one defendant inflated his income and a completely false income was declared for the other, who had not worked for over 15 years.
- In March 2012, the defendants pleaded guilty to benefit fraud offences and money laundering totalling over £10,000. They received a 12 month Community Order, 150 hours unpaid work, an evening curfew and electronic tagging.
- At a subsequent confiscation hearing, the council were awarded over £40,000 in relation to both the Right to Buy and benefit frauds, which has been repaid in full.

*Source: Audit Commission (2014)*

## Housing officer fraudulently sub-letting council house

- In 2010, a council housing officer created false documents, forged signatures and copied confidential council-held information to create the false impression of a voluntary tenancy exchange for two council homes. Instead, the housing officer used the subsequent control over one property (that had supposedly been transferred to a new tenant), to fraudulently sub-let that property for £700 per month.
- The fraud came to the attention of the local authority as a result of an unrelated enquiry by the tenant of the fraudster to the council.
- The original tenant had returned the keys of the property to the council in 2010 and was now living abroad. He had no knowledge of the tenancy exchange, and his signature had been falsified on transfer documents.
- The housing officer was dismissed for gross misconduct, pleaded guilty to two offences of fraud by abuse of position and making and supplying articles for use in fraud. The fraudster was sentenced to two years and ten months' imprisonment.
- In 2014, a POCA confiscation hearing found the fraudster had obtained a lifestyle benefit of over £88,000. As a result, the council was awarded £16,631, representing half of the equity available on the fraudster's own property, which he jointly owned with his wife.

*Source: Audit Commission (2014)*

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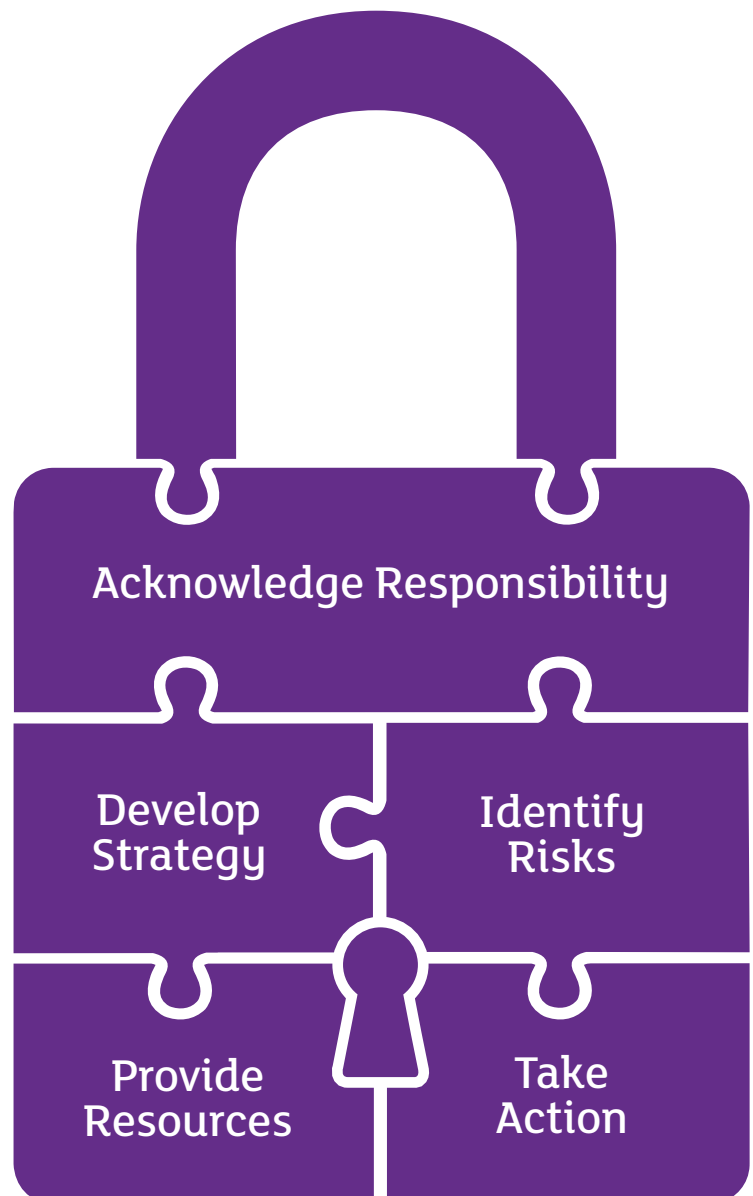
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Code of practice on

# managing the risk of fraud and corruption



# Code of practice on managing the risk of fraud and corruption

Published by:

**CIPFA \ The Chartered Institute of Public Finance and Accountancy**

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# Code of practice principles

Leaders of public sector organisations have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management.

**The five key principles of the code are to:**

- 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
- take action in response to fraud and corruption.

## **A Acknowledge responsibility**

The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.

### **Specific steps should include:**

- A1** The organisation's leadership team acknowledge the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users.
- A2** The organisation's leadership team acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the principles of good governance.
- A3** The governing body acknowledges its responsibility for ensuring the management of its fraud and corruption risks and will be accountable for the actions it takes through its governance reports.
- A4** The governing body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption and explores opportunities for financial savings from enhanced fraud detection and prevention.

## **B Identify risks**

Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.

### **Specific steps should include:**

- B1** Fraud risks are routinely considered as part of the organisation's risk management arrangements.
- B2** The organisation identifies the risks of corruption and the importance of behaving with integrity in its governance framework.
- B3** The organisation uses published estimates of fraud loss, and where appropriate its own measurement exercises, to aid its evaluation of fraud risk exposures.
- B4** The organisation evaluates the harm to its aims and objectives and service users that different fraud risks can cause.

## C Develop a strategy

An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.

### Specific steps should include:

- C1 The governing body formally adopts a counter fraud and corruption strategy to address the identified risks and align with the organisation's acknowledged responsibilities and goals.
- C2 The strategy includes the organisation's use of joint working or partnership approaches to managing its risks, where appropriate.
- C3 The strategy includes both proactive and responsive approaches that are best suited to the organisation's fraud and corruption risks. Proactive and responsive components of a good practice response to fraud risk management are set out below.

#### Proactive

- Developing a counter-fraud culture to increase resilience to fraud.
- Preventing fraud through the implementation of appropriate and robust internal controls and security measures.
- Using techniques such as data matching to validate data.
- Deterring fraud attempts by publicising the organisation's anti-fraud and corruption stance and the actions it takes against fraudsters.

#### Responsive

- Detecting fraud through data and intelligence analysis.
  - Implementing effective whistleblowing arrangements.
  - Investigating fraud referrals.
  - Applying sanctions, including internal disciplinary, regulatory and criminal.
  - Seeking redress, including the recovery of assets and money where possible.
- C4 The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight.

## D Provide resources

The organisation should make arrangements for appropriate resources to support the counter fraud strategy.

### Specific steps should include:

- D1 An annual assessment of whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk.
- D2 The organisation utilises an appropriate mix of experienced and skilled staff, including access to counter fraud staff with professional accreditation.
- D3 The organisation grants counter fraud staff unhindered access to its employees, information and other resources as required for investigation purposes.
- D4 The organisation has protocols in place to facilitate joint working and data and intelligence sharing to support counter fraud activity.

## E Take action

The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud.

### Specific steps should include:

- E1 The organisation has put in place a policy framework which supports the implementation of the counter fraud strategy. As a minimum the framework includes:
  - Counter fraud policy
  - Whistleblowing policy
  - Anti-money laundering policy
  - Anti-bribery policy
  - Anti-corruption policy
  - Gifts and hospitality policy and register
  - Pecuniary interest and conflicts of interest policies and register
  - Codes of conduct and ethics
  - Information security policy
  - Cyber security policy.
- E2 Plans and operations are aligned to the strategy and contribute to the achievement of the organisation's overall goal of maintaining resilience to fraud and corruption.
- E3 Making effective use of national or sectoral initiatives to detect fraud or prevent fraud, such as data matching or intelligence sharing.
- E4 Providing for independent assurance over fraud risk management, strategy and activities.
- E5 There is a report to the governing body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy from the lead person(s) designated in the strategy. Conclusions are featured in the annual governance report.

# Applying the code in practice

Where organisations are making a statement in an annual governance report about their adherence to this code, one of the following statements should be approved according to whether the organisation conforms with the code or needs to take further action.

The statement should be approved by the governing body and signed by the person responsible for signing the annual governance report<sup>1</sup>.

## Statement 1

Having considered all the principles, I am satisfied that the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Or

## Statement 2

Having considered all the principles, I am satisfied that, subject to the actions identified below, the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

### Actions to be taken to manage the risk of fraud:

Action:	Responsibility:	Target date:

<sup>1</sup> Guidance notes on the implementation of the code to support evaluation are available at [www.cipfa.org](http://www.cipfa.org).

# Glossary

As the code can apply to a wide range of organisations generic terms are used to describe governance and leadership responsibilities.

## *Governing body:*

The person(s) or group with primary responsibility for overseeing the strategic direction, operations and accountability of the organisation. Examples include, the Board, Council.

## *The organisation's leadership team:*

Leadership team: comprises the governing body and management team.

Examples or relevant roles include, cabinet members, chair of board, accounting officer, chief executive, executive directors, vice-chancellor, principal, headteacher.



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<b>17 March 2015</b>	<b>ITEM: 10</b>
<b>Standards and Audit Committee</b>	
<b>External Audit Plan 2014/2015.</b>	
<b>Wards and communities affected:</b> All	<b>Key Decision:</b> No
<b>Report of:</b> Sean Clark, Head of Corporate Finance	
<b>Accountable Head of Service:</b> Sean Clark, Head of Corporate Finance	
<b>Accountable Director:</b> Graham Farrant, Chief Executive	
<b>This report is public</b>	

## Executive Summary

This report is for noting: attached is the Annual Audit Plan from Ernst & Young, the Council's external auditors, that partly duplicates the papers considered at the last meeting but pulls together a number of considerations.

### 1. Recommendations:

#### 1.1 That the report be noted.

### 2. Introduction and Background:

2.1 This report introduces the Audit Plan that will cover the audit of the 2014/15 financial statements and the assessment of the Council's arrangements to secure economy, efficiency and effectiveness.

2.2 The plan clearly sets out the key risks and the areas the auditors will focus on.

2.3 The key financial statement risks identified are noted below along with steps taken by the Council to address them:

- Risk of Management Override

There is a need for the external auditors to address the inherent risk of fraud present in all financial systems. There have been no concerns in these areas identified in previous years and no material weaknesses in the system of internal control have been identified to date in 2014/15.

- **Changes in Accounting for Schools**

There has been clarification to the guidance on the accounting for schools from CIPFA. The impact of this is that schools may need to be reassessed to ensure they are correctly held on or off of the Council's balance sheet.

The Council has undertaken a complete review of the treatment of all types of school in the Borough. In light of the guidance issued during 2014/15 a decision has been made to bring one foundation school and two voluntary controlled schools on to the Council's balance sheet. This has been discussed with the external auditors.

- 2.4 The external auditors have identified a significant value for money risk in respect of the pressures from the economic downturn in their initial assessment of the Council's arrangements to secure economy, efficiency and effectiveness.
- 2.5 The Council has developed a detailed medium-term strategy to meet the significant financial challenges over next three years and continues to monitor all financial developments closely.
- 2.5. The auditors will be available at tonight's meeting to answer any questions that Members may have.

**3. Issues, Options and Analysis Of Options:**

- 3.1 The report is only for noting as it is the report of the external auditors.

**4. Reasons for Recommendation:**

- 4.1 So the Committee acknowledge the Audit Plan put forward from the Council's external auditors.

**5. Consultation (including Overview and Scrutiny, if applicable)**

- 5.1 There has been an ongoing dialogue between officers and the external auditors and the plan has been reviewed in detail.

**6. Impact on Corporate Policies, Priorities, Performance and Community Impact**

- 6.1 Robust financial processes safeguard the Council's assets that support the Council in delivering its policies and priorities

## **7. Implications**

### **7.1 Financial**

Implications verified by: **Jonathan Wilson**  
**Acting Chief Accountant**

These are included in the body of the report.

### **7.2 Legal**

Implications verified by: **David Lawson**  
**Deputy Head of Legal Services**

There are no specific implications from this report.

### **7.3 Diversity and Equality**

Implications verified by: **David Lawson**  
**Deputy Head of Legal Services**

### **7.4 Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

There are no specific implications from this report.

## **8. Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- None

## **9. Appendices to the report**

- Appendix 1 - Ernst and Young Audit Plan 2014/2015

### **Report Author:**

Jonathan Wilson  
Acting Chief Accountant, Corporate Finance

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# Thurrock Council

Year ending 31 March 2015

Audit Plan

2 March 2015

Ernst & Young LLP



Building a better  
working world

Standards and Audit Committee  
Thurrock Council  
Civic Offices  
New Road  
Grays  
RM17 6SL

2 March 2015

Dear Committee Members

## **Audit Plan**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Standards and Audit Committee with a basis to review our proposed audit approach and scope for the 2014/15 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, Standing Guidance, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

We welcome the opportunity to discuss this plan with you on 17 March 2015 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

**Debbie Hanson**  
*For and behalf of Ernst & Young LLP*  
Enc

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission's website.

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual 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

## Context for the audit

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

- ▶ Our audit opinion on whether the financial statements of Thurrock Council give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended;
- ▶ A statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness;

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

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

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

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In parts three and four of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section five.

We will provide an update to the Standards and Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2015.

## Our process and strategy

### Financial statement audit

We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.

To the fullest extent permissible by auditing standards, we will seek to rely on the work of internal audit wherever possible.



**Arrangements for securing economy, efficiency and effectiveness**

Our approach to the value for money (VFM) conclusion for Thurrock Council for 2014/15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place within the Council for:

- ▶ Securing financial resilience
- ▶ Challenging how the Council secures economy, efficiency and effectiveness.

We adopt an integrated audit approach, so our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

Further detail is included in section four of this Audit Plan.

## **2. The Local Audit and Accountability Act 2014**

The Local Audit and Accountability Act 2014 (the 2014 Act) closes the Audit Commission and repeals the Audit Commission Act 1998.

The 2014 Act requires the Comptroller and Auditor General to prepare a Code of Audit Practice. This must be laid before Parliament and approved before 1 April 2015.

Although this new Code will apply from 1 April 2015, transitional provisions within the 2014 Act provide for the Audit Commission's 2010 Code to continue to apply to audit work in respect of the 2014/15 financial year. This plan is therefore prepared on the basis of the continued application of the 2010 Code of Audit Practice throughout the 2014/15 audit.

### 3. Financial statement risks

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

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

Significant risks (including fraud risks)	Our audit approach
<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>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <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;</li> <li>▶ Evaluating the business rationale for significant unusual transactions; and</li> <li>▶ Reviewing capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</li> </ul>

#### Other financial statement risks

<b>Change in accounting for schools</b>	
<p>In December 2014, CIPFA/LASAAC issued LAAP Bulletin 101 <i>Accounting for Non-Current Assets Used by Local Authority Maintained Schools</i> which provided further guidance on the practical application of the Accounting Code of Practice to non-current assets used by schools, where the assets are owned by a third party.</p> <p>The Council will need to consider the nature of the agreements in place locally for each of their schools to determine the appropriate accounting approach and whether the land and buildings should be recognised in the Council's accounts.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ The Council's assessment of their accounting treatment for each relevant school against the LAAP bulletin;</li> <li>▶ Review of accounting treatment for any changes required to balance sheet assets; and</li> <li>▶ The valuation expertise used by the Council.</li> </ul>

#### Respective responsibilities in relation to 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 fraud risks.

We will consider the results of the National Fraud Initiative and may refer to it in our reporting to you.

## 4. Economy, efficiency and effectiveness

Our approach to the value for money (VFM) conclusion for Thurrock Council for 2014/15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place at Thurrock Council for securing:

1. Financial resilience, and
2. Economy, efficiency and effectiveness in the use of resources.

The Audit Commission VFM guidance for 2014/15 requires that auditors consider and assess the significant risks of giving a wrong conclusion and carry out as much work as is appropriate to enable them to give a safe conclusion on arrangements to secure VFM.

Our assessment of what is a significant risk is a matter of professional judgement, and is based on consideration of both quantitative and qualitative aspects of the subject matter in question.

For those significant risks identified by our risk assessment that are relevant to our VFM conclusion, where these risks will not be addressed by our financial statements audit work or work undertaken by the Council, Audit Commission or other review agency, we consider the need to undertake local VFM work.

The table below provides a high-level summary of our risk assessment and our proposed response to those risks.

Significant risks	Impacts arrangements for securing	Our audit approach
<b>Pressures from economic downturn</b>		
<p>To date the Council has responded well to the financial pressure resulting from the continuing economic downturn.</p> <p>However, the Council continues to face significant financial challenges over the next three to four years, due to loss of Central Government funding and pressures from inflation, demographics and the impact of new legislation.</p>	Financial resilience	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ The adequacy of the Council's budget setting process, including review of any work done by Internal Audit in this area.</li> <li>▶ The robustness of any assumptions.</li> <li>▶ The effectiveness of the approach taken to assessing the impact of and managing risk within the budget setting process.</li> <li>▶ The effectiveness of in year monitoring against the budget.</li> <li>▶ The Council's approach to prioritising resources.</li> <li>▶ The Council's ability to deliver against their MTFS.</li> </ul>

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

## 5. Our audit process and strategy

### 5.1 Objective and scope of our audit

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

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

We issue a two-part audit report covering both of these objectives.

#### i Financial statement audit

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

We will also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

#### ii Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, we will rely as far as possible on the reported results of the work of other statutory inspectorates on corporate or service performance.

In examining the Council's corporate performance management and financial management arrangements, we consider the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

### 5.2 Audit process overview

Our approach is to assess the Council's level of internal controls and to place reliance upon those controls where our assessment allows.

In doing so, we will look to rely on the work of Internal Audit as much as possible whilst complying with the requirements of auditing standards. We have discussed your requirements with Internal, establishing which financial systems they are reviewed this year and have built this in to our work plan.

### **Processes**

Our initial assessment of the key processes across the Council has identified the following key processes where we will seek to test key controls, both manual and IT:

- ▶ Accounts receivable (Oracle)
- ▶ Accounts payable (Oracle)
- ▶ Housing benefits

### **Analytics**

We will use our computer-based analytics tools [tailor as appropriate] to enable us to capture whole populations of your financial data, in particular payroll and journal entries. These tools:

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

### **Internal audit**

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

### **Use of experts**

We will use specialist EY resource as necessary to help us to form a view on judgments made in the financial statements. Our plan currently includes involving specialists in pensions.

### **Mandatory procedures required by auditing standards**

As well as the financial statement risks outlined in 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.
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.
- ▶ Reviewing and examining, where appropriate, evidence relevant to the [audited body's] corporate performance management and financial management arrangements, and its reporting on these arrangements.

## **5.3 Materiality**

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. We have determined that overall materiality for the financial statements of the Council is £7.05 million based on 2% of gross operating expenditure.

We will communicate uncorrected audit misstatements greater than £0.35 million to you.

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

## **5.4 Fees**

The Audit Commission has published a scale fee for all authorities. This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of Thurrock Council is £178,297. Further information is provided in Appendix A.

## **5.5 Your audit team**

The engagement team is led by Debbie Hanson, who has significant experience on Thurrock Council. Debbie is supported by Christine Connolly who is responsible for the day-to-day direction of audit work and is the key point of contact for the Head of Corporate Finance.

## **5.6 Timetable of communication, deliverables and insights**

We have set out below a timetable showing the key stages of the audit, including the VFM work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Standards and Audit Committee's cycle in 2014/15. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

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

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



<b>Audit phase</b>	<b>Timetable</b>	<b>Audit Committee timetable</b>	<b>Deliverables</b>
High level planning	<b>April 2014</b>		Audit Fee letter
Risk assessment and setting of scopes	<b>January/February 2015</b>	<b>March 2015</b>	Audit Plan
Testing routine processes and controls	<b>February to April 2015</b>		Progress report
Year-end audit	<b>July to September 2015</b>		
Completion of audit	<b>September 2015</b>	<b>September 2015</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 2015</b>	<b>December 2015</b>	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.

## 6. Independence

### 6.1 Introduction

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

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <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 Audit Commission’s Standing Guidance 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.

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

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

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

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

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

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with the Audit Commission's Standing Guidance.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 12.2%. Further details of the non-audit fees are included in Appendix A. No additional safeguards are required.

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

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

***Self-review threats***

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

There are no 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 Debbie Hanson, the audit engagement Director and the audit engagement team have not been compromised.

### **6.3 Other required communications**

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

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended 27 June 2014 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2014>

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2014/15 £	Out-turn 2013/14 £	Published fee 2013/14 £	Explanation
Opinion Audit and VFM Conclusion	178,297	178,297	177,227	Supplementary fee of £1,070 for audit work required on business rates billed in 2013/14 which is included in the scale fee for 2014/15.
<b>Total Audit Fee – Code work</b>	<b>178,297</b>	<b>178,297</b>	<b>177,227</b>	
Certification of claims and returns <sup>1</sup>	21,010	21,367	21,367	As reported in our grant certification report.
Non-audit work				
• Teachers' Pension claim	11,750	-	-	
• Advisory work with Xantura on development of Children's Safeguarding Profiling Model	10,000			

*All fees exclude VAT.*

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

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The operating effectiveness of the internal controls for the key processes outlined in section 5.2 above;
- ▶ We can rely on the work of internal audit as planned;
- ▶ The Audit Commission making no significant changes to the use of resources criteria on which our conclusion will be based;
- ▶ Our accounts opinion and use of resources conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

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

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

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

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

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

Required communication	Reference
<p><b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.</p>	▶ Audit Plan
<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>	▶ Report to those charged with governance
<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>	▶ Report to those charged with governance
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the Standards and 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>	▶ Report to those charged with governance
<p><b>Related parties</b> 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>	▶ Report to those charged with governance
<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>	▶ Report to those charged with governance
<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 Standards and 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 Standards and Audit Committee may be aware of</li> </ul>	▶ Report to those charged with governance

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>▶ Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</li> </ul>

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