



## Notice of meeting of a public meeting of the

### Audit & Governance Committee

<b>To:</b>	Councillors Ayre (Chair), Brooks (Vice-Chair), Potter, Barnes, D'Agorne, Fraser and Scott and Mr Whiteley (Co-opted Non-Statutory Member)
<b>Date:</b>	Wednesday, 10 December 2014
<b>Time:</b>	5.30 pm
<b>Venue:</b>	The George Hudson Board Room - 1st Floor West Offices (F045)

### AGENDA

#### 1. **Declarations of Interest**

Members are asked to declare:

- Any personal interests not included on the Register of Interests
- Any prejudicial interests or
- Any disclosable pecuniary interests

which they may have in respect of business on the agenda.

#### 2. **Minutes** (Pages 1 - 14)

To approve and sign the minutes of the meetings of the Audit and Governance Committee held on 24 September 2014 and 2 October 2014.

#### 3. **Public Participation**

At this point in the meeting members of the public who have registered their wish to speak regarding an item on the agenda or

an issue within the Committee's remit can do so. The deadline for registering is **5:00 pm on Tuesday 9 December 2014.**

### **Filming, Recording or Webcasting Meetings**

Please note this meeting will be filmed and webcast and that includes any registered public speakers, who have given their permission. This broadcast can be viewed at <http://www.york.gov.uk/webcasts>.

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The Council's protocol on Webcasting, Filming & Recording of Meetings ensures that these practices are carried out in a manner both respectful to the conduct of the meeting and all those present. It can be viewed at [http://www.york.gov.uk/downloads/download/3130/protocol\\_for\\_webcasting\\_filming\\_and\\_recording\\_of\\_council\\_meetings](http://www.york.gov.uk/downloads/download/3130/protocol_for_webcasting_filming_and_recording_of_council_meetings)

#### **4. Forward Plan (Pages 15 - 22)**

This paper presents the future plan of reports expected to be presented to the committee during the forthcoming year to September 2015.

#### **5. Mazars Annual Audit Letter 2013/14 (Pages 23 - 34)**

This report summarises the outcome of the 2013/14 audit carried out by Mazars.

#### **6. Mazars Audit Progress Report (Pages 35 - 48)**

This report updates Members on progress made by Mazars in meeting its responsibilities as external auditor. It also includes key emerging national issues and developments which may be of interest to the Committee.

**7. Scrutiny of Treasury Management Mid Year Review Report and Prudential Indicators 2014/15** (Pages 49 - 68)

This paper presents the Treasury Management Mid Year Review and Prudential Indicators 2014/15 report. This information provides an update of treasury management activity for the first six months of 2014/15.

**8. Overview of National Risk Picture** (Pages 69 - 76)

This paper presents Members with an update on the key and emerging risks facing the Council, with a view to Members considering any further information they would wish to receive on these matters.

**9. Audit and Counter Fraud Monitoring Report** (Pages 77 - 178)

This report provides an update on progress made in delivering the internal audit workplan for 2014/15 and on current counter fraud activity.

**10. Information Governance Progress Report** (Pages 179 - 182)

This report provides Members with an update on information governance developments since the last report to the Committee on 25 June 2014.

**11. Freedom of Information (FOI) Update** (Pages 183 - 192)

This report provides an update on the Council's progress and performance in responding to Freedom of Information requests.

**12. Absence Management Update Report** (Pages 193 - 208)

As requested by the Committee at its meeting on 25 June 2014, this report outlines the plans in place and actions undertaken in light of the concerns raised within the Annual Governance Statement relating to sickness absence management across the council.

**13. Partnership Governance Update Report** (Pages 209 - 212)

This report sets out work that is ongoing as part of an action plan to ensure that the council has a methodology and approach to ensure that partnerships operate effectively.

#### 14. Local Government Association Review (Pages 213 - 218)

This report outlines the action taken in response to a motion approved by Council on 9 October 2014. Mark Edgell from the Local Government Association will be in attendance for this item to set out the early findings of the review into member-officer relations.

#### 15. Urgent Business

Any other business which the Chair considers urgent under the Local Government Act 1972.

Democracy Officer:

Name: Jayne Carr

Contact Details:

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For more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting:

- Registering to speak
- Business of the meeting
- Any special arrangements
- Copies of reports and
- For receiving reports in other formats

Contact details are set out above.

**This information can be provided in your own language.**

我們也用您們的語言提供這個信息 (Cantonese)

এই তথ্য আপনার নিজের ভাষায় দেয়া যেতে পারে। (Bengali)

Ta informacja może być dostarczona w twoim własnym języku. (Polish)

Bu bilgiyi kendi dilinizde almanız mümkündür. (Turkish)

یہ معلومات آپ کی اپنی زبان (بولی) میں بھی میا کی جاسکتی ہیں۔ (Urdu)

 (01904) 551550

City of York Council

Committee Minutes

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Meeting	Audit & Governance Committee
Date	24 September 2014 and reconvened on 2 October 2014
Present	Councillors Potter (Chair), Barnes (minute 35), Brooks (Vice-Chair), Ayre (minute 23-34), Fraser, Gunnell, Burton (Substitute for Councillor Barnes minute 23-34), Warters (Substitute for Councillor Wiseman minute 23-43), Watson (Substitute for Councillor Wiseman minute 35) and Cuthbertson (Substitute for Councillor Ayre minute 35) and Mr Whiteley (Co-opted Non-Statutory Member – minute 23-34)
Apologies	Councillors Barnes (for meeting of 24 September 2014) and Wiseman (for meetings of 24 September 2014 and 2 October 2014) and Mr Whiteley for meeting of 2 October 2014

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### **23. Declarations of Interest**

Members were asked to declare any personal interests not included on the Register of Interests, any prejudicial interests or any disclosable pecuniary interests which they may have in respect of business on the agenda. Councillor Brooks declared a personal interest in agenda item 5 – minute 27 refers (Annual Financial Report – Statement of Accounts) as a member of the Teachers' Pension Fund.

### **24. Minutes**

Resolved: That the minutes of the meeting of 30 July 2014 be approved and signed by the Chair as a correct record.

### **25. Public Participation**

It was reported that there were no registrations to speak at the meeting under the Council's Public Participation Scheme.

**26. Audit and Governance Committee Forward Plan**

Consideration was given to a paper which presented the future plan of reports expected to be presented to the committee during the forthcoming year to July 2015.

Members were asked to identify any further items they wished to see added to the Forward Plan.

Referring to the inclusion in the work plan of an update on Absence Management, clarification was sought as to whether it would be appropriate for the committee to also receive information on other staffing issues, including the outcome of staff surveys. Officers explained that the update on Absence Management had been included as a follow-up from an internal audit report on this issue. It had also been identified as an issue in the Annual Governance Statement. Generally, staffing matters were not within the Committee's remit and were more appropriately dealt with via the Corporate and Scrutiny Management Committee. Members could, however, seek further assurance on any issues which they perceived to be a risk to the Authority.

Resolved: That the committee's Forward Plan to the period to July 2015 be approved.

Reason: To ensure the committee receives regular reports in accordance with the functions of an effective audit committee and can seek assurances on any aspect of the Council's internal control environment in accordance with its roles and responsibilities.

**27. Annual Financial Report - Statement of Accounts 2013/14**

Members considered a report which presented:

- A final set of accounts for 2013/14 to reflect changes made since the draft pre-audit accounts had been presented to the committee on 30 July 2014
- The external auditors Audit Completion Report
- The letter of representation

Members' attention was drawn to some changes to the report *[details of the amendments are attached to the on-line agenda papers for the meeting]*.

- Resolved:
- (i) That the matters set out in the Audit Completion Report presented by the external auditor, and the additional amendments circulated, be noted.
  - (ii) That the 2013/14 Statement of Accounts be amended in respect of the identified misstatements in section 10 of the Audit Completion Report and those circulated at the meeting.
  - (iii) That the amended Annual Financial Report be approved for signature by the Chair in accordance with the Accounts and Audit Regulations 2003.
  - (iv) That the letter of representation be approved for signature by the Director of Customer and Business Support Services.
- Reasons:
- (i) To ensure the proper consideration of the opinion and conclusions of the external auditor in respect of the annual audit of accounts and review of the Council's arrangements for ensuring value for money.
  - (ii)-(iv) To ensure compliance with International Auditing Standards and relevant legislative requirements.

## **28. Audit Completion Report**

Members considered the Audit Completion Report from Mazars for the year ended 31 March 2014. The report summarised the audit conclusions.

Members' attention was drawn to the letter to the Director of Customer and Business Support Services dated 24 September 2014 which provided an update to the Audit Completion Report *[a copy of the letter is attached to the online agenda papers for the meeting]*.

Appreciation was expressed of the co-operation which the auditors had received from Council officers.

Members noted that, as an objection had been received to the Council's accounts in relation to the receipts arising from the penalty charge notices for Lendal Bridge and Coppergate, it would not be possible to certify completion of the audit until the objection had been determined.

Members' attention was drawn to the following:

- The significant findings (Section 2 of the report)
- The internal control recommendations (Section 3 of the report)
- The summary of misstatements (Section 4 of the report). It was noted that none of the adjustments identified during the audit resulted in a change to the Council's underlying financial position.
- The Value for Money conclusions (Section 5 of the report), including the issues raised in respect of adult social care as set out in the report.

Referring to the paragraph in the report on Section 106 balances, clarification was sought as to the matters that were taken into account by the auditors when considering this issue. Details were given of the work that had taken place, including examining the recording of the Section 106 balances and plans for future spending. In response to questions, officers confirmed that the Section 106 funding was reflected in the ledger but that detailed spreadsheets were also in place for recording and monitoring purposes.

Officers were asked about the arrangements that were in place to invest Section 106 monies prior to them being utilised for specific schemes. Officers stated that the Section 106 monies were invested as part of the overall treasury management arrangements and were not invested separately.

At the request of Members, the auditors confirmed that they were satisfied with the accounting procedures that had been put in place in respect of Lendal Bridge and drew attention to paragraph 50 (Contingent Liabilities) of the Notes to the Core Financial Statements.

Resolved: That the report be noted.



Reason: To ensure that Members are aware of the audit conclusions.

**29. Update Report on Adult Social Care**

Members considered a report which provided an update on progress made by Adult Social Care against the ten recommendations designed by the External Auditors to assist the service to respond more effectively and quickly to the challenges posed by the continuing demographic growth and by financial constraints.

In response to questions, officers gave details of the financial implications following changes to the Council's Deprivation of Liberty Safeguard (DOLS) responsibilities.

Members noted the progress that had been made to date but agreed that they would wish a further update report to be presented to them.

Resolved: (i) That the report be noted.  
(ii) That a further update be presented to the Committee at their meeting in February 2015<sup>1</sup>.

Reason: To ensure that Members are satisfied with the progress that is being made in addressing the issues raised.

Action Required

1. Include in work plan

EA

**30. Key Corporate Risk Monitor 1**

Members considered a report which presented an update on the key corporate risks, and which highlighted in more detail any emerging risk issues with a view to Members considering any further information they would wish to receive on these matters.

It was noted that the Risk Monitor attached at annex A of the report was currently in draft form and was subject to change. The final version would be presented to the Committee at their meeting in February 2015.

Members were informed that details of training sessions on Risk Management would be forwarded to them.

Resolved: That the issues set out in the report and the risk register (Annex A of the report) be noted.

Reason: To provide assurance that the authority is effectively understanding and managing its key risks.

### **31. Internal Audit Follow Up Report**

Members considered a report which set out the progress made by council departments in implementing actions agreed as part of internal audit work.

Resolved: That the progress made in implementing internal audit agreed actions, as detailed in paragraphs 5-9 of the report, be noted.

Reason: To enable Members to fulfil their role in providing independent assurance on the Council's control environment.

### **32. Audit and Counter Fraud Monitoring Report**

Members considered a report which provided an update on progress made in delivering the internal audit workplan for 2014/15 and on current counter fraud activity.

Members noted that work was on track to complete the plan within the specified timescale. Members were informed that the audit reports referred to in the report were available on the Council's website.

Officers responded to Members' questions in respect of the audit reports on Attendance Management and Apprenticeships.

Resolved: That the progress made in delivering the 2014/15 internal audit work programme, and the results of recent counter fraud activity be noted.

Reason: To enable Members to consider the implications of audit and fraud findings.

**33. Updating the Constitution - Progress Report**

Members considered a report which confirmed progress in respect of reviewing the Constitution. The review was on track to be completed during the current Municipal year.

Resolved: That the report be noted.

Reason: To monitor progress on the refresh of the Constitution.

**Part B - Matters Referred to Council**

**34. Updating the Constitution - New Council Procedure Rules**

Consideration was given to a report which asked Members to make recommendations to Council in respect of revised procedure rules for Full Council.

It was noted that the draft revised rules had been the subject of considerable consultation and sought to address issues including:

- A view that motions were not given sufficient priority and that time should be found within the agenda to allow for them to be debated
- A wish to reinvigorate the system of asking questions of Members
- Suggestions that the current process for dealing with petitions could be improved upon

Members were also asked to consider whether the rules detailed in paragraph 19 of the report should also apply to other bodies.

Members gave consideration to the draft revised procedure rules and put forward a number of changes to the wording.

Members also recommended that consideration be given to the following:

- As there is usually a ten minute break during the course of the meeting, para 11.1 should be amended to read *“All ordinary meetings (including Budget Council) will finish three hours and forty minutes after the start time of the*

*meeting, unless extended by the agreement of the Council”*

- para 15 to include “*Members will be permitted to speak for up to one minute to present a petition*”
- para 24.3 - guidance to be put in place to provide clarity regarding the negating of motions

- Recommend:
- (i) That the rules set out in the attached annex be adopted in place of the existing constitutional provisions.
  - (ii) That the rules set out in paragraph 19 of the report apply to Committees, Cabinet and other groups referred to in the Constitution.
  - (iii) That the recommendations in respect of paragraphs 11.1, 15 and 24.3 (as detailed above) be approved.

Reason: To ensure that the Council meetings operate effectively.

*[Members agreed to adjourn the meeting at this point and reconvene on 2 October 2014 to enable time for full consideration on the remaining agenda item].*

### **35. Arrangements for Petitions**

*[Reconvened meeting held on 2 October 2014]*

Members considered a report that proposed new arrangements for handling petitions to Council.

Discussion took place regarding a proposal that petitions would be reported to a committee of the Council and that, at least initially, this should be the Corporate and Scrutiny Management Committee.

Members’ attention was drawn to paragraph 4 of the report which listed some exceptions. It was noted that these exceptions were in line with the existing criteria.

Members agreed that the current arrangements for dealing with petitions required improvement in order that petitioners were better informed as to the outcome of their petition.

Members suggested that, although in the longer term it may be necessary to establish a Petitions Committee, initially it would be appropriate for the terms of reference of the Corporate and Scrutiny Management Committee to be amended to incorporate this function on a pilot basis. Members also agreed that the arrangements for handling petitions should be better publicised on the Council's website.

Members supported the suggestion that had been put forward by the co-opted member that the arrangements should include notifying the petition organiser of how the petition was being handled. Members suggested that the timescale for responding to the petitioner should be five working days.

- Recommend:
- (i) That Council amends the terms of reference for the Corporate and Scrutiny Management Committee by adding:  
"7. To receive details of petitions received by the Council in line with the Council's published arrangements and responses or proposed responses to those petitions. To consider using its powers as a scrutiny committee to support the Council in responding appropriately to issues raised by such petitions and, in doing so, to promote public engagement"
  - (ii) That, as part of the updating of the petitions scheme to reflect the changes detailed in the report, consideration be given to the inclusion of:
    - A requirement for the petitioner to be notified, within five working days, of how the petition was being handled.
    - A requirement for a report to be presented to Full Council detailing the petitions that had been considered by the committee and

the action that had been taken in response.

Reason: To ensure that the Council responds appropriately to petitions.

Councillor Potter, Chair

[The meeting started at 5.30 pm and finished at 9.00 pm on 24 September 2014. It was reconvened at 7.45pm on 2 October 2014 and finished at 8:10pm].

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Meeting	Audit & Governance Committee
Date	2 October 2014
Present	Councillors Potter (Chair), Brooks (Vice-Chair), Barnes, Fraser, Gunnell, Cuthbertson (Substitute for Councillor Ayre) and Watson (Substitute for Councillor Wiseman)
Apologies	Councillors Ayre and Wiseman and Mr Whiteley
In attendance	Councillor Galvin as Chair of Corporate and Scrutiny Management Committee

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### **36. Declarations of Interest**

Members were asked to declare any personal interests not included on the Register of Interests, any prejudicial interests or any disclosable pecuniary interests which they may have in respect of business on the agenda. None were declared.

### **37. Public Participation**

It was reported that there had been one registration to speak at the meeting under the Council's Public Participation Scheme but that the registered speaker was not in attendance. It was also reported that a Member of the Council had registered to speak.

Councillor Healey gave details of his experiences of scrutiny, in particular as a member of the Community Safety Overview and Scrutiny Committee. He stated that the scrutiny work carried out by task groups had value but that the overview function of the committee tended to be less useful. A number of reports were presented to the scrutiny committees for information, including the monitoring reports, and consideration could be given as to whether this arrangement needed to be revised.

### **38. Enhancing Scrutiny in York**

Members considered a report which sought their views as to whether any changes were required in the governance arrangements for scrutiny.

Councillor Galvin, Chair of the Corporate and Scrutiny Management Committee, had been invited to attend the meeting and his views were sought on issues raised in the report.

Members were asked to comment on the areas highlighted in the report where changes could be considered to the existing governance arrangements for scrutiny. The following recommendations were put forward:

(i) Size of Committees

Whilst it was acknowledged that reducing the size of scrutiny committees may ensure that those Members who did serve on the committees were fully engaged with scrutiny, it was agreed that in view of the important function of scrutiny, it would not be appropriate to reduce the size of scrutiny committees.

(ii) Use of Substitutes, particularly on Task Groups

Members agreed that arrangements should be in place to enable substitutes to serve on Task Groups. They suggested that the substitute should not necessarily have to be from the same political group as the Member for whom they were substituting but should be a Member of the relevant scrutiny committee. Members requested that further consideration be given to the arrangements that were in place in respect of the recording of Member attendance at scrutiny task group meetings.

(iii) Training

Members agreed that training on scrutiny should be given a high priority within the induction training offered to newly appointed Members. It was important that the training included pre-decision scrutiny. Substitute Members should also be encouraged to participate in the training. Members suggested that a toolkit would also be helpful.

(iv) Work Planning and Officer Support

Members suggested that there was a need to review the format of the annual work programme planning session to improve its effectiveness in ensuring that the right topics



were being scrutinised and work programmes properly managed.

Members reiterated the need for there to be strong support from senior officers for scrutiny reviews and work.

(v) Cabinet

Members agreed that it was important for scrutiny committees to be aware of Cabinet priorities when determining topics for scrutiny in order to focus resources and avoid duplication of work. Nevertheless it was also important to recognise the role scrutiny played in holding the Cabinet to account, including pre-decision scrutiny.

When presenting scrutiny reports to Cabinet, Members recommended that Chairs of Scrutiny Committees not be limited to speaking for three minutes and that they also be permitted to take part in the debate (although not the vote) on the report they were presenting.

(vi) Call In Committee

Members recommended that a separate Call In Committee be established. The membership of the committee should be drawn from a pool of scrutiny Members on a proportionality basis. Further consideration would need to be given to the chairing arrangements for the Call In Committee.

(vii) Remit of Scrutiny Committees

Members suggested that there was currently an uneven distribution in the workload of the scrutiny committees and suggested that this issue should be reviewed.

(viii) Chairs and Vice-Chairs

Consideration was given to the arrangements for appointing Chairs and Vice-Chairs to scrutiny committees. Members recommended that no change be made to the current arrangements and that these appointments be made on a proportionality basis.

It was agreed that the views of the Corporate and Scrutiny Management Committee should also be sought on the issues raised in the report and that the Audit and Governance Committee would give further consideration to the scrutiny arrangements in due course.

- Resolved: (i) That the report be noted.
- (ii) That the comments put forward by Members, as detailed above, be taken into account when changes to the present governance arrangements in respect of scrutiny are considered.

Reason: To ensure that overview and scrutiny operates effectively.

Councillor Potter, Chair  
[The meeting started at 5.30 pm and finished at 7.45 pm].



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**Audit and Governance Committee**

10 December 2014

Report of the Director of CBSS

**Audit & Governance Committee Forward Plan to September 2015****Summary**

1. This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to September 2015.

**Background**

2. There are to be six fixed meetings of the Committee in a municipal year. To assist members in their work, attached as an Annex is the indicative rolling Forward Plan for meetings to September 2015. This may be subject to change depending on key internal control and governance developments at the time. A rolling Forward Plan of the Committee will be reported at every meeting reflecting any known changes.
3. A number of amendments have been made to the Forward plan since the previous version was presented to the Committee in September 2014.
4. The Information Security Update Report and Congestion Commission Report have both deferred from December, until the next Committee meeting in February.
5. The Contract Procedure Rules and Access to Information Reports have both also been deferred until February. It is proposed that members consider the inclusion of an additional item regarding general governance matters on the forward plan in response to recent political changes and issues currently being discussed with Group Leaders.

6. An update report on the new Transparency requirements has been added to the February Agenda. This report will update members on the Council's progress in implementing the new requirements.
7. An update report on Adult Social Care has been added to Agenda for the next meeting in February at the request of members at the last Committee meeting.
8. A report on the Local Government Association review has been included on the Agenda for this Committee meeting. As this is not the final report however, members may wish to consider as part of this item how and when they wish to receive the finalised review and consider the inclusion of an additional item for this final report on the forward plan.

### **Consultation**

9. The Forward Plan is subject to discussion by members at each meeting, has been discussed with the Chair of the Committee and key corporate officers.

### **Options**

10. Not relevant for the purpose of the report.

### **Analysis**

11. Not relevant for the purpose of the report.

### **Council Plan**

12. This report contributes to the overall effectiveness of the council's governance and assurance arrangements contributing to an 'Effective Organisation'.

### **Implications**

13.
  - (a) **Financial** - There are no implications

- (b) **Human Resources (HR)** - There are no implications
- (c) **Equalities** - There are no implications
- (d) **Legal** - There are no implications
- (e) **Crime and Disorder** - There are no implications
- (f) **Information Technology (IT)** - There are no implications
- (g) **Property** - There are no implications

### **Risk Management**

14. By not complying with the requirements of this report, the council will fail to have in place adequate scrutiny of its internal control environment and governance arrangements, and it will also fail to properly comply with legislative and best practice requirements.

### **Recommendations**

15. (a) The Committee's Forward Plan for the period up to September 2015 be noted.

Reason

*To ensure the Committee receives regular reports in accordance with the functions of an effective audit committee.*

- (b) Members identify any further items they wish to add to the Forward Plan.

Reason

*To ensure the Committee can seek assurances on any aspect of the council's internal control environment in accordance with its roles and responsibilities.*

- (c) Members agree to include an additional item on Governance changes on the February Agenda

Reason

*To ensure the Committee receives relevant reports in accordance with the functions of an effective audit committee.*

*(d) Members are asked to consider whether they wish to hold an additional meeting to consider the final outcome of the Local Government Association review*

Reason

*To ensure the Committee receives relevant reports in accordance with the functions of an effective audit committee.*

**Contact Details**

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Customer & Business  
Support Services  
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**Chief Officer Responsible for the report:**

Ian Floyd  
Director of CBSS  
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**Report  
Approved**



**Date** 10/12/2014

**Specialist Implications Officers**

Head of Civic, Democratic & Legal Services

**Wards Affected:** Not applicable

**All**

**For further information please contact the author of the report**

**Background Papers:**

None

**Annex**

Audit & Governance Committee Forward Plan to September 2015

## **Audit & Governance Committee Draft Forward Plan to September 2015**

Training/briefing events will be held at appropriate points in the year to support members in their role on the Committee.

- **Committee 11<sup>th</sup> February 2015**

Key Corporate Risk Monitor Quarters 3 & 4 (Including directorate risks)

Scrutiny of the Treasury Management strategy statement and Prudential indicators

Business Continuity Report

Project Management Report

New Transparency Requirements Update Report

Adult Social Care update Report

Information Security Update Report

Counter Fraud: Risk Assessment and review of policies

Internal Audit Plan Consultation

Congestion Commission Report

Contract Procedure Rules

Access to Information

*External Audit Reports as appropriate*

*Changes to the Constitution (if any)*

- **Committee 15th April 2015**

Approval of Internal Audit Plan

Internal Audit & Fraud Plan Progress Report

Follow up of Audit Recommendations

Information Governance Annual Report

*Audit Commission reports as per agreed Audit & Inspection plan*

*Changes to the Constitution (if any)*

- **Committee June 2015**

Draft Annual Governance Statement

Annual Report of the Audit & Governance Committee

Mazars Audit Progress report

Annual Report of the Head of Internal Audit

*Changes to the Constitution (if any)*

- **Committee July 2015**

Draft Statement of Accounts 2014/15

Mazars Audit progress report

Scrutiny of the Treasury Management Annual Report 2014/15 and review of Prudential indicators

Key Corporate Risks Quarter 1 (including directorate risks)

*Changes to the Constitution (if any)*



- **Committee September 2015**

Final Statement of Accounts 2014/15

Mazars Audit Completion report

Key Corporate Risk Monitor Quarter 2 (including directorate risks)

Follow up of Internal & External Audit recommendations

Internal Audit & Fraud plan progress report

*Changes to the Constitution (if any)*

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# Annual Audit Letter 2013/14

City of York Council



October 2014

Mazars LLP  
Rivergreen Centre  
Aykley Heads  
Durham  
DH1 5TS

Members  
City of York Council  
West Offices  
Station Rise  
York  
YO1 6GA

17 October 2014

Dear Members

**Annual Audit Letter 2014**

We are pleased to present to you the Council's Annual Audit Letter setting out the results of our 2013/14 audit.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies as issued by the Audit Commission and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2011 and the National Audit Office.

2013/14 has been another challenging year for the Council which, like most other local authorities, has faced difficult decisions on its spending priorities and plans for the future. We were pleased to be able to give an unqualified opinion on the statement of accounts. In relation to value for money, we concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for the arrangements for financial management in adult social care. We reflect on this further in the value for money part of this letter.

In addition, we are currently considering an objection by a local elector in relation to the receipts arising from penalty charge notices for Lendal Bridge and Coppergate. We are unable to formally certify completion of the audit until we have determined the objection.

I would like to express my thanks for the assistance of the Council's finance team, as well as senior officers and the Audit and Governance Committee, during the audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300 or [gareth.davies@mazars.co.uk](mailto:gareth.davies@mazars.co.uk).

Yours faithfully

Gareth Davies  
Mazars LLP

# Contents

01 The results of our audit.....	3
02 Fees .....	7
03 Future challenges .....	9

Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales

# 01 The results of our audit

## Purpose of this letter

Our Annual Audit Letter provides a summary of our work and findings for the 2013/14 audit for Members and other interested parties.

In addition to the summary provided in this letter, our Audit Completion Report (presented to the Council's Audit and Governance Committee on 24 September 2014) gives a more detailed analysis of the work we have undertaken as the Council's external auditor in 2013/14.

## Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Council's statement of accounts on 30 September 2014.

The production of the statement of accounts is a significant technical challenge involving a great deal of work by the Council's officers. We appreciate their cooperation in making it possible for us to complete our work by the deadline.

We have identified scope for further improvement in the working papers supporting the financial statements and in the joint arrangements underpinning our shared Audit Protocol and Project Plan. We will work closely with officers to make the required improvements over the next year.

Our main findings from the audit were:

- The overall quality of the final statement of accounts was good;
- There were a number of agreed amendments to the financial statements;
- There were a small number of unadjusted misstatements where errors were not material;
- We identified the need to strengthen the arrangements for the bank reconciliation, to review the accounting treatment of assets under construction and to carry out a further review of leases.

## Outstanding objection to the accounts

On 12 September 2014 we were notified by a local elector of an objection to the Council's accounts in relation to the receipts arising from penalty charge notices for Lendal Bridge and Coppergate. The local elector asks that we apply to the Courts to seek a declaration that an item of account (ie. the penalty charge income) is contrary to law, and that we make a report in the public interest on this matter.

The income relating to the penalty charge notices was £1.8m, which is below the level of materiality for our opinion on the financial statements. Because of this, we were able to issue an unqualified opinion on the financial statements, but we will be unable to certify completion of the audit until the objection has been determined.

We are currently considering the issues raised in the objection and the Council's response to those issues.

## Our Value for Money conclusion

We performed our work in line with the Audit Commission's Code of Audit Practice for Local Government bodies and the Commission's guidance for 2013/14. Our work in this area focused on the two criteria specified by the Audit Commission, and considered whether the Council had proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

## Our conclusion

On the basis of our work, with the exception of the matter reported below, we are satisfied that in all significant respects City of York Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

The exception to this is that there were weaknesses in budgetary control and financial management in Adult Social Care services. There was a lack of understanding and ownership of budgets within the service and performance information was limited. The Council had identified the need for improvement in adult social care and a future savings target of £6m, but during 2013/14 the service did not demonstrate an ability to address the issues that it faced. The Council has since taken action to address the issues identified in 2013/14 and has a clearer understanding of the performance of the service and the scope for future efficiency savings.

It is important to understand the context of our overall conclusion and the Council's response to the issues in relation to adult social care, and this is set out below.

## The Council's overall arrangements

Overall, the Council has responded well to the financial pressures it has faced, at a time of unprecedented reductions in public sector spending.

The Council has delivered £9m of savings in 2013/14 and achieved a small underspend overall (£0.3m), even after absorbing overspends in adult social care and other services.

This is on top of significant savings of £41.9m being delivered in the last 3 years:

- 2010/11 savings £10.2m;
- 2011/12 savings £21.0m;
- 2012/13 savings £10.7m.

The Council expects to have to make a total of £23m further savings during 2014/15 and 2015/16. The prospects are for further reductions to follow in future years.

The Council adopts a prudent approach to its finances and has set aside reserves, both for unforeseen circumstances (£7m) and for specific earmarked purposes (£49.4m). These secure the Council's immediate financial resilience.

As more and more savings are required, it has become increasingly difficult to achieve them without impacting directly on services. Last summer, the Council participated in a Local Government Association (LGA) corporate peer challenge review, which recognised the Council's ambition, but also warned of stretched officer capacity and the need to be clear about priorities and also about non-priorities. In the context of the savings that had been delivered to date and those that will have to be delivered going forward, there was a recognition that difficult choices needed to be made about what to stop doing as well as what to continue doing or do differently.

Part of the response to the peer review process has been a recognition of the need for a council-wide approach to change and transformation, and the Council launched its transformation programme, 'Re-wiring Public Services', in February 2014.

The Council has used VFM profiles and other data, to help identify the service areas to focus on that provide the greatest potential for savings and improved outcomes. Based on our analysis of VFM profiles, most services are relatively low cost in terms of spend per head when compared to similar councils in the CIPFA nearest neighbours grouping. However, the Council recognises that further real savings still need to be delivered and it believes that there is still potential to make improvements and make further savings even where spend per head is relatively low to start with.

The action plans arising from the transformation programme are still developing and the Council sees community engagement as a fundamental part of the process.

The measures that are being taken are the right ones to address the future challenges that the Council faces. The task now is to implement these plans, deliver the savings that are needed, and make improvements in service delivery and outcomes for the citizens of York.

### **Context to our conclusion in relation to adult social care**

Like most councils, City of York Council faces budget pressures arising from an increasing demand from an ageing population. In addition, the Better Care Fund and the Care Act provide both a challenge and an opportunity to work with health colleagues and providers, to develop more integrated and innovative service solutions.

The aim is to help people to live more independent and fulfilled lives where they can, enabling people to take more control of their own care whilst dealing with the reality of decreasing resources.

The Council has recognised these challenges. The Chief Executive and Corporate Management Team sought our assistance in assessing the adult social care service's ability to manage the financial pressures. In addition, the service was identified as a key part of the Council's transformation programme to deliver better services with reduced resources.

We recognise that these are difficult challenges to face, and that the Council has a dedicated workforce that is committed to doing the right things for those requiring adult social care services in the City of York.

However, the view we formed was that the service was not responding quickly enough or effectively enough to the challenges it faced. In particular, we found that there was an urgent need to:

- improve financial management and develop a much better understanding and ownership of budgets within adult social care services;
- improve performance information obtained from the care management system, to make it easier to link activity and costs and manage the service more effectively;
- work jointly with health colleagues to address poor performance on delayed discharge from hospital, with the common objective of ensuring that services are flexible and provide the range of preventative interventions that minimise the need for adult social care support; and
- secure efficiencies and increased flexibility by encouraging user choice through wider use of direct payments. Currently, take up of these options is in the lowest quartile compared to other authorities, although we note that there are high levels of satisfaction amongst users with the services they receive.

### **The Council's response to our conclusion in relation to adult social care**

We are pleased to report that the Chief Executive has recognised that insufficient progress had been made and has instituted an accelerated recovery and improvement process, working closely with the Director of Health and Well-Being and others.

An action plan has been developed in response to our findings, which we believe addresses the areas requiring improvement.



New management has been brought in to help with the improvement process. The new managers recognise that there is scope for improved management and working practices in a number of areas. However, they have compared contract prices against benchmarking data for other authorities, and this indicates that the Council has been getting good value for money from the services it has commissioned. An important focus is for the Council to work closely with its health partners, including NHS Vale of York Clinical Commissioning Group (CCG), to ensure that the overall health and social care economy makes best use of its combined resources to meet the needs of the City and its citizens.

We will continue to assess the Council's progress in improving financial management in adult social care as part of future value for money conclusion work.

### **Whole of Government Accounts (WGA)**

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of the Council's WGA consolidation pack with the audited statement of accounts. We reported that the Council's consolidation pack was consistent with the audited statement of accounts on 3 October 2014.

### **Our other responsibilities**

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Audit Commission Act 1998. These include responding to questions and objections on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. As noted earlier, we are considering an objection raised by a local elector and we are unable to certify completion of the 2013/14 audit until the objection has been determined.

## 02 Fees

As outlined in our Audit Strategy Memorandum presented to the Audit Committee on 16 April 2014, the Audit Commission sets a scale fee for our audit and certification work. The fees applicable to our work in 2013/14 are summarised below.

Element of work	As previously reported	Final Fee
Code audit work <sup>1</sup>	£134,406	£148,546
Certification work <sup>2</sup>	£15,981	£18,304
Non-audit work <sup>3</sup>	£21,000	£21,000
<b>Total</b>	<b>£171,387</b>	<b>£187,850</b>

All fees exclude VAT

<sup>1</sup> There has been an increase in fees for Code audit work since we reported to you in our Audit Strategy Memorandum in April 2014. The increase in fee of £14,140 is explained as follows:

- £10,600 – additional value for money conclusion work in relation to adult social care, this work was carried out from April to September 2014 and followed up on the findings from our previous advisory review (reported under non-audit work below); this additional fee was agreed by officers and approved by the Audit Commission;
- £3,000 – additional work responding to the high volume of issues raised by members of the public; this additional fee was agreed by officers and is awaiting approval by the Audit Commission; and
- £540 - this increase in fee has arisen because the Audit Commission no longer makes certification arrangements for the NNDR 3 return and, as a result we have had to undertake additional audit testing to obtain suitable assurance over relevant entries in the Council's accounts. This assurance would have previously been obtained from work to certify the NNDR 3 return. The Audit Commission advised all audit suppliers of the expected additional fees arising from this additional work and I can confirm that the additional fee we have charged is in line with that prescribed by the Audit Commission.

In addition, the fee reported here does not include any additional charges for our work responding to the objection to the accounts. In accordance with the Audit Commission Act 1998 and the annual letter on fees published by the Audit Commission, the cost of deciding the objection (comprising the firm's time and the cost of any specialist advice) falls on the Council and is in addition to the normal audit fee. We will, of course, seek to keep such costs to a minimum consistent with the proper discharge of our statutory responsibilities. We are unable at present to estimate what the final cost might be.

<sup>2</sup> The previously reported fee is the fee reported to the Audit Committee in June 2014. This reduced from the original estimate of £19,000 reported in the Audit Strategy Memorandum, due to the removal of council tax benefits and teachers pensions from the scope of this work. The final fee of £18,304 outlined above in relation to certification work is an estimate as we are yet to complete our work on certifying the Council's Housing Benefit claim. The increase of £2,323 from the previously reported figure relates to a request for us to carry out work on an additional claim, the Local Transport Plan – Major Projects (TRA11); this additional fee is still subject to Audit Commission approval. We will confirm the final fee charged for certification work when we issue our Annual Certification Report.

<sup>3</sup> The non-audit work relates to the initial advisory work on budget management in adult social care. This is the original review work that was carried out in the summer of 2013 and which was reported to management in July 2013.

There are two additional areas of possible work, which are not yet reflected in the fee table:

- The certification of the Teachers Pensions Return – the arrangements for this have changed and these are still being clarified with officers and with the Teachers Pensions Agency; and
- s256 agreements with the CCG and / or NHS England – we have not yet been asked to carry out any work on these returns.

## 03 Future challenges

The main challenge facing the Council, along with other local authorities and the wider public sector, is the continued pressure on the public purse and the need to plan for further reductions in funding and fewer overall resources, coupled with increased demand for services.

In our comments earlier in this report, we summarised how the Council has dealt with these challenges so far, its existing financial resilience and its plans for the future, including its transformation programme.

It is important that the Council continues to closely monitor the progress of its key projects and initiatives to ensure that options are identified, decisions are based on sound evidence and the benefits envisaged from the decisions that are taken are delivered for the Council and its residents.

We will focus our 2014/15 audit on the risks that these challenges present to the Council's financial statements and its arrangements for securing value for money.

Should you require any further information on this letter or on any other aspects of our work, please contact:

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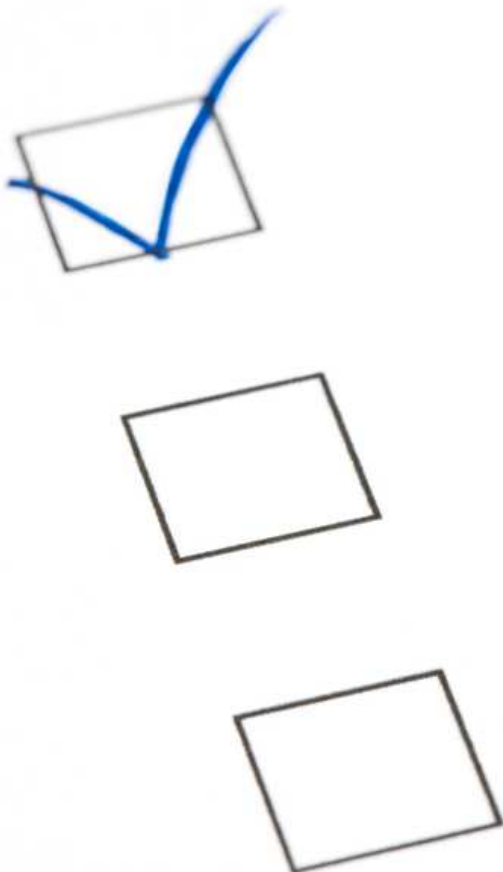
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# City of York Council



## Audit Progress Report

December 2014



# Contents

- 01 Purpose of this paper
- 02 Summary of audit progress
- 03 Emerging issues and developments
- 04 Contact details

Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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# 01

## Purpose of this paper

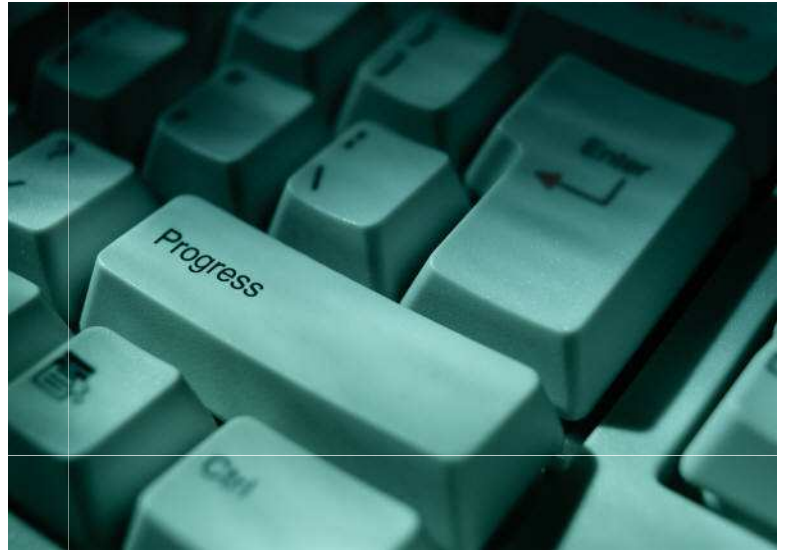


The purpose of this paper is to update the Audit and Governance Committee on progress in meeting our responsibilities as your external auditor. We also include in this paper key emerging national issues and developments which may be of interest to members of the Committee.

If you need any additional information please contact Gareth Davies or Gavin Barker using the contact details at the end of this update.

# 02

## Summary of audit progress



### **Audit of the 2013/14 financial statements**

Following the Committee meeting on 24 September 2014, we issued an audit report including an unqualified opinion on the Council's financial statements on 30 September 2014. Our audit report included a conclusion that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources, except for weaknesses in budgetary control and financial management in Adult Social Care services, as previously explained to this Committee.

We reported to the National Audit Office (NAO) on 3 October 2014 that the Council's 2013/14 Whole of Government Accounts consolidation pack was consistent with the audited financial statements.

Our Annual Audit Letter for 2013/14 has been issued, and is considered separately on the agenda for this Committee meeting.

We are still unable to formally certify completion of the audit.

## **Objection to the accounts**

Members will recall that we had received an objection to the accounts in relation to the receipts arising from penalty charge notices for Lendal Bridge and Coppergate.

The income relating to the penalty charge notices was £1.8m, which is below the level of materiality for our opinion on the financial statements. Because of this, we were able to issue an unqualified opinion on the financial statements, but we will be unable to certify completion of the audit until the objection has been determined.

During October and November we have collected representations from the objector, their representative, and the Council, and we have taken preliminary legal advice.

On 17 November 2014, the objection that had been made to the accounts was unexpectedly withdrawn.

On 25 November 2014, another local elector has made an objection on similar grounds.

We also note that the Council is likely to debate its approach to these issues further.

We will need to consider these developments, and take additional legal advice, before determining the objection.

## **Certification of claims and returns**

Work on the 2013/14 Housing Benefits Subsidy Claim is complete, and we certified the claim before the Department of Work and Pensions deadline of 30 November 2014.

We have begun work on the Local Transport Plan – Major Projects claim. An additional fee of £2,323 plus VAT has been agreed with the Council and approved by the Audit Commission.

## **Additional schemes outside the Audit Commission arrangements**

The Council is required by funding bodies to arrange independent certification of a range of grant claims and returns that are now outside the Audit Commission regime. We included details of such schemes in our Certification Plan, which was presented to the Committee in April 2014.

In recent weeks we have discussed and agreed engagement terms with the Council, including the procedures to be undertaken and the form of our report, for the Teachers Pensions Return, and a fee of £2,750 plus VAT has been agreed. We have begun this work.

We have not been asked to review any s256 agreements.

# 03

## Emerging issues and developments



The following pages outline for your attention some significant emerging issues and developments in respect of:

- Regulatory Compliance and Quality Review Programme - Annual report 2014;
- Annual Regulatory Compliance and Quality Report - Mazars LLP;
- 2015/16 proposed fee scales and work programme, Audit Commission;
- Councils' expenditure on looked after children – VFM Briefing;
- NFI information packs;
- Local Authority Accounting Panel (LAAP) Bulletins;
- Transitional arrangements regarding the Local Audit and Accountability Act 2014;
- Protecting the Public Purse 2014, Audit Commission; and
- Interpreting the Accounts: A Review of Local Government Financial Ratios 2007/08 to 2012/13, Audit Commission.

# Emerging issues and developments

Issue / development	Possible action
<p><b>Regulatory Compliance and Quality Review Programme - Annual report 2014</b></p> <p>The Audit Commission recently published the outcomes from its monitoring of the performance of all its audit firms. The report concludes that audit quality was maintained in the year following transfer of staff from the Commission's Audit Practice to firms, and the introduction of new firms to the regime. The Commission is satisfied that the risks of audit failure remain low; that all firms are meeting the Commission's regulatory requirements; and that all firms are continuing to produce work to an acceptable standard.</p>	<p>The results of monitoring by the Commission provides the Council and other stakeholders with assurance that high-quality audits are being delivered.</p> <p>The report can be found at <a href="http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/">http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/</a></p>
<p><b>Annual Regulatory Compliance and Quality Report - Mazars LLP</b></p> <p>This report, published in June 2014, summarises the results of monitoring work by the Audit Commission as described above, for Mazars LLP.</p> <p>The Firm was rated 'Green' overall, and the Audit Commission concluded that the Firm 'has performed well in its first year in the Commission's regime. All of the 2013/14 regulatory compliance indicators have been scored as green. In addition, audited bodies are satisfied with the performance of Mazars as their auditor'.</p>	<p>The report is available from <a href="http://www.audit-commission.gov.uk/wp-content/uploads/2012/11/Mazars-2013-14-Annual-Regulatory-Compliance-and-Quality-Report.pdf">http://www.audit-commission.gov.uk/wp-content/uploads/2012/11/Mazars-2013-14-Annual-Regulatory-Compliance-and-Quality-Report.pdf</a></p>

# Emerging issues and developments

Issue / development	Possible action
<p><b>2015/16 proposed fee scales and work programme, Audit Commission</b></p> <p>The Audit Commission is consulting on its 2015/16 proposed work programme and scales of fees. The Department for Communities and Local Government (DCLG) has asked the Audit Commission to set fees for 2015/16 before the Commission's closure on 31 March 2015.</p> <p>The Commission is proposing to reduce scale fees by a further 25 per cent from 2015/16, based on the scale fees applicable for 2014/15. It does not plan to make changes to the overall work programme. The 25 per cent fee reduction has been achieved as a result of a recent procurement exercise to retender the work undertaken under older contracts with audit firms, and is in addition to the 40 per cent cut in fees made by the Commission in 2012.</p> <p>The consultation document also states: "The new contracts awarded in the 2014 procurement are for two years, with the potential for extension by a further three years. The contracts will finish in 2017, or in 2020 if extended. The Commission's other audit contracts, awarded in 2012, finish at the same time as the 2014 contracts. Extending the contracts to 2020 would 'lock in' reduced audit fees, delivering further savings for audited bodies".</p> <p>The Commission has also highlighted in a press release that it will be returning a further £6 million to its audited bodies in rebates. The consultation ends on 9 January 2015.</p>	<p><b>The proposed scale fee for City of York Council is £101,682, that is, a 25 per cent reduction on the 2014/15 scale fee of £135,476.</b></p> <p><a href="http://www.audit-commission.gov.uk/audit-regime/audit-fees/201516propwpsf/">http://www.audit-commission.gov.uk/audit-regime/audit-fees/201516propwpsf/</a></p>



# Emerging issues and developments

Issue / development	Possible action
<p><b>Councils' expenditure on looked after children</b></p> <p>This Audit Commission VFM briefing provides an overview of councils' expenditure on children's social care and looks in more detail at expenditure on children who are looked after, with a particular focus on foster care. The briefing suggests how councils can use national and local data about activity and costs to identify ways of delivering better value for the money they spend.</p>	<p>We provided the Briefing to our key contacts at the Council.</p> <p>The document is at: <a href="http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/">http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/</a></p>
<p><b>NFI information packs</b></p> <p>The Audit Commission has distributed information packs for elected members with responsibility for finance and audit at councils. Copies were also sent to directors of finance and NFI key contacts for information. The pack brings together key facts about the NFI, the Council's NFI outcomes and comparisons to your nearest neighbours.</p>	<p>Further information on the National Fraud Initiative can be found at <a href="http://www.audit-commission.gov.uk/national-fraud-initiative/nfi-reports/">http://www.audit-commission.gov.uk/national-fraud-initiative/nfi-reports/</a></p>
<p><b>Local Authority Accounting Panel (LAAP) Bulletins</b></p> <p>CIPFA recently published:</p> <ul style="list-style-type: none"> <li>• LAAP Bulletin 99 – Local Authority Reserves and Balances</li> <li>• LAAP Bulletin 100 - Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17</li> </ul>	<p>The bulletins include some significant developments for local authority accountants and Finance departments.</p>



# Emerging issues and developments

Issue / development	Possible action
<p><b>Transitional arrangements regarding the Local Audit and Accountability Act 2014</b></p> <p>At a recent meeting of public sector audit suppliers, the following matters were among those discussed:</p> <ul style="list-style-type: none"> <li>• The Council's 2014/15 audits will be delivered under the Audit commission Act 1998, and the 2015/16 audit will be the first under the LA&amp;A Act 2014;</li> <li>• The existing Code of Audit Practice will continue to apply in 2014/15, moving to the NAO Code (expected April 2015) for 2015/16 onwards;</li> <li>• Under the LA&amp;A Act, auditors must have 'regard to' the guidance issued by the NAO. This is not the same as our current contractual requirement; and</li> <li>• NAO will continue to run technical networks for NHS, local government and smaller bodies.</li> </ul>	<p>We will keep the Committee informed on the implementation of the Act in our Progress Reports and Briefings.</p>
<p><b>Protecting the Public Purse</b></p> <p>The Audit Commission's latest report on fraud in local government revealed the highest value of fraud detected by England's councils since the Audit Commission turned the spotlight on 25 years ago. Fraud valued at £188 million was detected in 2013/14, a ten-fold increase since 1990 and beating all records for the past 25 years.</p>	<p>The Report can be found at <a href="http://www.audit-commission.gov.uk/2014/10/highest-value-of-fraud-detected-by-councils-since-audit-commission-turned-the-spotlight-on-25-years-ago/">http://www.audit-commission.gov.uk/2014/10/highest-value-of-fraud-detected-by-councils-since-audit-commission-turned-the-spotlight-on-25-years-ago/</a></p>

# Emerging issues and developments

Issue / development	Possible action
<p><b>Interpreting the Accounts: A Review of Local Government Financial Ratios 2007/08 to 2012/13</b></p> <p>The report by the Audit Commission invites local government to help armchair auditors interpret accounts. It describes changes in the ratios for English councils during a period of considerable change for local government finance, and calls on local government to compile its own financial ratios data for comparison after the Commission closes in March 2015.</p>	<p>The Report can be found at <a href="http://www.audit-commission.gov.uk/2014/09/audit-commission-invites-local-government-to-help-armchair-auditors-interpret-the-accounts/">http://www.audit-commission.gov.uk/2014/09/audit-commission-invites-local-government-to-help-armchair-auditors-interpret-the-accounts/</a></p>

# 04

## Contact details



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**Audit & Governance Committee****10 December 2014**

Report of the Director of Customer and Business Support Services

**Scrutiny of Treasury Management Mid year Review and Prudential Indicators 2014/15****Summary**

1. The Audit & Governance Committee are responsible for ensuring effective scrutiny of the treasury management strategy and policies, as stated in the Treasury Management Strategy 2013/14 approved by full Council on 27 February 2014. The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance (“the Code”) stipulates that
  - There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved,
  - Those charged with governance are also personally responsible for ensuring they have the necessary skills and training
2. Attached at Appendix A is the Treasury Management Mid Year Review and Prudential Indicators 2014/15 report. This information provides Members with an update of treasury management activity for the first six months of 2014/15.

**Background**

3. The report reviews the economic and market conditions in which the treasury management activities of the council are currently operating. It highlights that the environment in which treasury management operates in markets experiencing significant instability that presents both challenges and opportunities for the Council. The report sets that prospects for any increase in Bank Rate before the end of 2015 calendar year are seen as being limited.
4. The position of short term interest rates for investment opportunities continues to remain low and the counterparty list, where the council’s surplus funds can be invested is limited. The limited counterparty list, to high credit rated

institutions, ensures the security of the Council's capital and the types of investments used provide for the Council's liquidity requirements. The third priority being rate of return on investments remain at 0.5% with speculation of a base rate rise toward the end of 2015. Further details on the Council's investments are included in Appendix A paragraphs 10 to 15.

5. Borrowing rates have seen notable fluctuation throughout the year reaching levels of 4.26% in the 50 year duration but dipping as low as 3.73% Appendix A, paragraph 21 details that at the reporting period covered by this report no loans have been taken in 2014/15. The treasury function continues to monitor the market closely looking for borrowing opportunities and has since undertaken some new borrowing in this year, details of which will be included in the Treasury Management Outturn report.
6. The information provided in the paragraphs above is a brief summary of the "Treasury Management Mid Year Review and Prudential Indicators 2014/15" report at Appendix A for scrutiny by Audit & Governance Committee Members.

### **Consultation**

7. Not applicable

### **Options**

8. It is a statutory requirement under Local Government Act 2003 for the council to operate in accordance with the CIPFA prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice "the Code". No alternative options are available.

### **Council Plan**

9. Treasury management is an integral part of the council's finances providing for cash flow management and financing of capital schemes. It aims to ensure that the council maximises its return on investments, (whilst the priority is for security of capital and liquidity of funds) and minimises the cost of its debts. This allows more resources to be freed up to invest in the Council's priority areas as set out in the council plan. It therefore underpins all of the council's aims.

### **Implications**

10. The implications are
  - Financial – the security of the Council's capital funds is a priority, maximising returns on investments is still key along with minimising the finance costs of debt.

- Human Resources - there are no human resource implications to this report.
- Equalities - there are no equality implications to this report.
- Legal - there are no legal implications to this report.
- Crime and Disorder - there are no crime and disorder implications to this report.
- Information Technology - there are no information technology implications to this report.
- Property –there are no property implications to this report.
- Other – there are no other implications to this report.

### **Risk Management**

11. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

### **Recommendations**

12. (a) Audit & Governance Committee note and scrutinise the Treasury Management Mid year Review and Prudential Indicators 2014/15 at Appendix A

Reason: So that those responsible for scrutiny and governance arrangements are updated on a regular basis to ensure that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

**Contact Details**

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01904 551207

**Chief Officer responsible for the report:**

Ian Floyd  
Director of Customer & Business  
Support Services

Report approved  Date 26/11/14

**Specialist Implications Officer(s)** None

**Wards Affected:** *List wards or tick box to indicate all* **All**

**For further information please contact the author of this report**

**Background Working Papers**

None

**Annexes**

1. Appendix A - Treasury Management Mid Year Review and Prudential Indicators 2014/15
2. Annex A – prudential Indicators 2014/15





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**Cabinet**

**16 December 2015**

**Report of the Cabinet Member for Finance, Performance and Customer Services**

**Treasury Management Mid Year Review and Prudential Indicators 2014/15**

**Summary**

1. This Council is required through regulations issued under Part 1 of the Local Government Act 2003 and the revised 2011 (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management (as revised) to provide members with a mid year update on treasury management activities.
2. This report therefore ensures the Council is undertaking and reporting its treasury activities in accordance with the Code. It also provides updates on the Treasury Management activities for the period 1 April 2014 to October 2014 (where possible) and reviews:
  - An economic update for the 2014/15 financial year to October 2014;
  - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
  - The Council's capital expenditure (prudential indicators);
  - A review of the Council's investment portfolio for 2014/15;
  - A review of the Council's borrowing strategy for 2014/15;
  - A review of any debt rescheduling undertaken during 2014/15;
  - A review of compliance with Treasury and Prudential Limits for 2014/15.

**Background**

3. The Council's Treasury Management function is responsible for the effective management of the Council's investments, cash flows, its banking, money market and capital transactions; the

effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

### **Economic Background and Analysis**

4. The Council's treasury management activities have operated within the following economic background:
  - a) After strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in Q1 and 0.9% in Q2 2014 (annual rate 3.2% in Q2), it appeared very likely that strong growth would continue through 2014 and into 2015 as forward surveys for the services and construction sectors, were very encouraging and business investment looked to be strongly recovering. The manufacturing sector has also been encouraging though the latest figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance.
  - b) This overall strong growth had resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Most economic forecasters were expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016.
  - c) Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the

next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

- d) However following the International Monetary Funds (IMF) slashing of its growth forecast for the Eurozone, October marked a period of significant instability in the financial markets. Investor confidence was rocked by an announcement from the IMF that growth may never again reach its pre-crisis peak and this was confounded by poor German manufacturing data. This was then compounded as Greek government bond yields soared on the back of political instability and uncertainty regarding their intentions towards their EU and IMF bailout packages. The concerns regarding the state of the Eurozone proved contagious though as worries about Chinese economic growth and poor US retail sales knocked confidence in the global economic outlook. Although there was a great deal of volatility in the markets during this short period, there was a significant rebound shortly afterwards. Importantly, the UK came off relatively unscathed by the events and arguably strong news regarding UK unemployment and real wages slipped under the radar
5. Capita Asset Services– the Council’s treasury management advisers – undertook a review of its interest rate forecasts in mid August, after the Bank of England’s Inflation Report. By the beginning of September, a further rise in geopolitical concerns, principally over Ukraine but also over the Middle East, had caused a further flight into safe havens like gilts and depressed PWLB rates further. However, there is much volatility in rates as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 1 of 2015. Table 1 is Capita’s Asset Services Interest Rate forecast for both the bank rate and long term Public Works Loans Board borrowing rates (PWLB – the Debt Management Office subsidiary lending to Local Authorities at preferential rates note all figures are percentages):

	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15	Dec 15	Mar 16	Jun 16	Sep 16	Dec 16	Mar 17	Jun 17
<b>Bank Rate</b>	0.5	0.5	0.5	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.5	1.75
<b>5 Yr</b>	2.5	2.5	2.7	2.7	2.8	2.9	3.0	3.1	3.2	3.3	3.4	3.5

<b>PWLB</b>												
<b>10 Yr PWLB</b>	3.0	3.2	3.4	3.5	3.6	3.7	3.8	3.9	4.0	4.1	4.1	4.1
<b>25 Yr PWLB</b>	3.7	3.9	4.0	4.1	4.3	4.4	4.5	4.6	4.7	4.7	4.8	4.8
<b>50 Yr PWLB</b>	3.7	3.9	4.	4.1	4.3	4.4	4.5	4.6	4.7	4.7	4.8	4.8

**Table 1: Capita Asset Services – Treasury Management Advisers – Interest Rate Forecast (%)**

### **Annual Investment Strategy**

6. Treasury Management Strategy Statement (TMSS) for 2014/15 was approved by Council on 27 February 2014. There are no policy changes to the TMSS; the details in this report do not amend the TMSS. The Council's Annual Investment Strategy, which is incorporated in the Strategy, outlines the Council's investment priorities as follows:

- security of capital
- liquidity
- yield

The Council continues to aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity and the Council's risk appetite.

7. Investments are only placed with high credit rating financial institutions using the creditworthiness matrices described in the Treasury Management Strategy, which includes sovereign credit ratings from the rating agencies, individual institution credit ratings from the respective credit ratings agencies and the credit default swap (CDS) overlay information provided by Capita were appropriate.
8. During the period under review, the continued risk averse approach in light of continued credit caution (the continued Eurozone sovereign debt crisis) made it appropriate to keep investments short term with a maximum duration of 1 year for financial institutions. This limit applies to all entities in which the Council places funds.
9. Investments held during the first six months of 2014/15 were in accordance with Capita's creditworthiness matrices and changes

to Fitch and Moody's credit ratings. All investments were made in accordance with the Council's approved credit criteria limits contained in the Annual Investment Strategy.

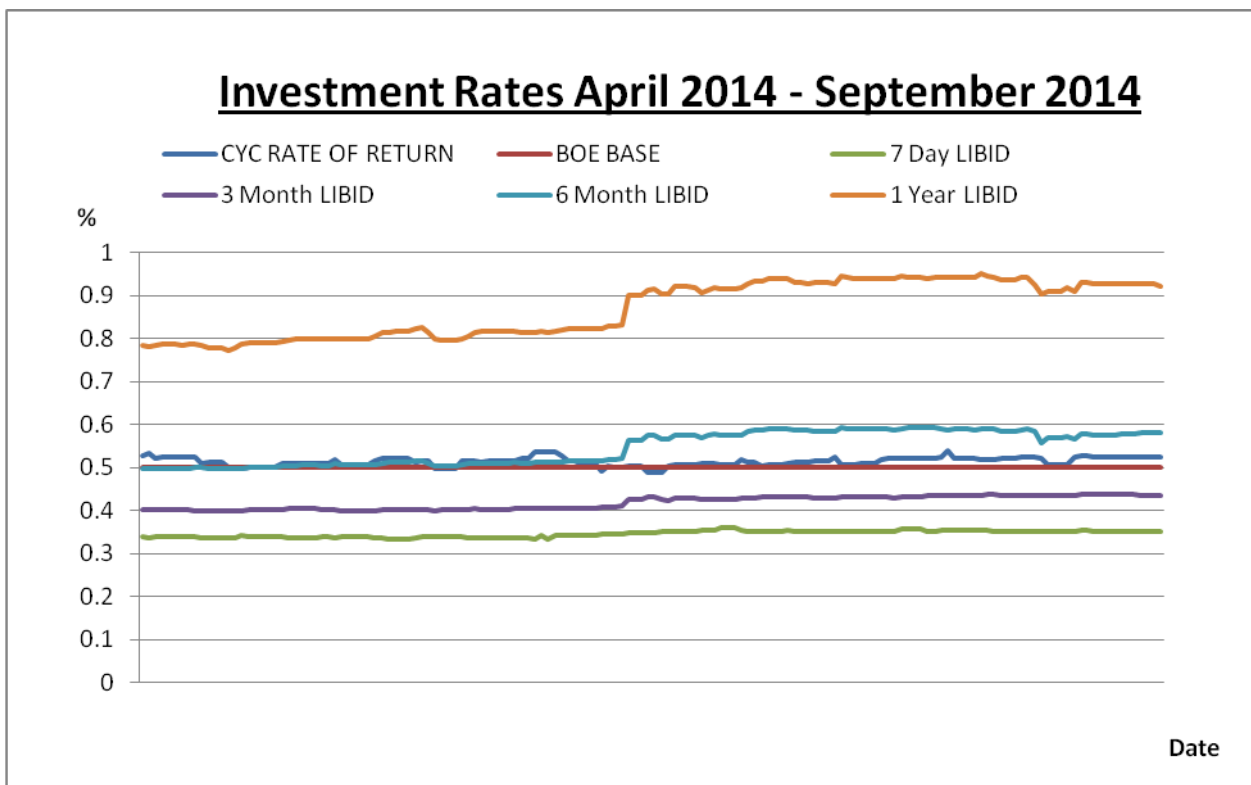
### Investment Portfolio

10. Investment rates available in the market have continued at historical low levels. The average level of cash balances available for investment purposes in the 6 months of 2014/15 was £73.160m (£63.661m for the same 6 month period in 13/14). The level of cash balances available is largely dependent on the timing of the Council's cash flow as a result of precept payments, receipt of grants, receipt of developers contributions, borrowing for capital purposes, payments to its suppliers of goods and services and spend progress on the Capital Programme. These funds are therefore available on a temporary basis dependant on cash flow movement.
11. The average level of cash balances has increased compared to a year ago due to the receipt of developers contributions in advance of the associated profiled spend. This is balanced off to an extent by the use of cash balances instead of taking long term debt to finance the Council's capital programme. This strategy remains a prudent one as investment rates continue to be lower than borrowing rates when viewed on a short term projection but consideration is being given to securing long term funding currently as long term rates are at attractive levels.
12. Investment return (calculated as the amount of interest earned against the average cash balance for the period) during the first six months of 2014/15 is shown in table 3:

	<b>2013/14 (full year)</b>	<b>2014/15 (part year to date)</b>
CYC Rate of return	0.48%	0.52%
<b><u>Benchmarks</u></b>		
Bank of England Base Rate	0.50%	0.50%
7 Day LIBID	0.35%	0.35%
30 Day LIBID	0.39%	0.44%

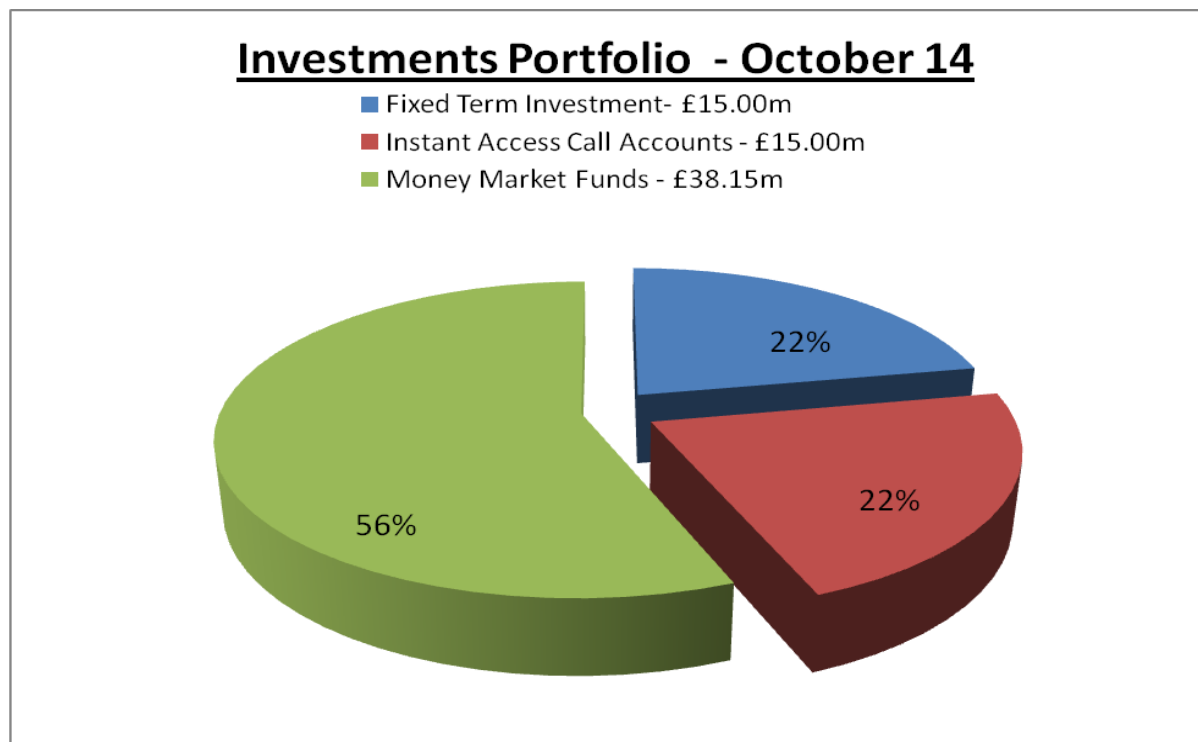
**Table 3: CYCs investment rate of return performance vs. benchmarks**

13. The average rate of return is broadly comparable to 2013/14 reflective of the continued uncertainty regarding the rate of growth in both the Eurozone and UK and the continue uncertainty over the Eurozone sovereign debt positions.
14. Figure 1 shows the interest rates available on the market between 7 days and 1 year and also the rate of return that the Council has achieved for the first six months of 2014/15. It shows that favourable / competitive interest rates have been obtained for investments whilst ensuring the required liquidity and security of funds for the Council.



**Figure 1 CYC Investments vs Money Market Rates**

15. Figure 2 shows the investments portfolio by type split deposits in short term call accounts, fixed term investments and money market funds (MMFs). All of the MMFs are have an AAA credit rating, the call accounts are all A or AA- rated and the fixed terms investments are A rated.



**Figure 2 Investment Portfolio by type at October 2014**

### **Borrowing Portfolio**

16. The Council undertakes long term borrowing in accordance with the investment requirements of the capital programme and all borrowing is therefore secured for the purpose of its asset base.
17. The level of borrowing taken by the Council is determined by the Capital Finance Requirement (the Council's underlying need to borrow for capital expenditure purposes). Borrowing needs to be affordable, sustainable and prudent and the treasury management budget supports the borrowing finance costs in the longer term.
18. Under regulation, the Council can borrow in advance of need in line with its future borrowing requirements in accordance with the Capital Financing Requirement. Markets are therefore constantly monitored and analysed to ensure that advantage is taken of favourable rates and the increased borrowing requirement is not as dependant on interest rates in any one year.
19. On the reverse side, the Council's level of borrowing can also be below the Capital Financing Requirement. This would mean that instead of increasing the Council's level of borrowing, surplus funds held for investment purposes would be utilised instead, decreasing the level of surplus funds being available for

investment. In the current interest rate environment where investment rates on holding investments are significantly below borrowing rates consideration is given to the value of taking borrowing or whether it is better for the council to keep investment balances lower.

20. Although the treasury management function has not taken any new borrowing during 2014/15 it continues to closely monitor the borrowing environment for opportunities that arise and receive daily updates from Capita services in respect of borrowing timings and amounts. Long term borrowing rates (that is interest rates payable on debt over 10 years) are at comparably low values offering good opportunities to secure long term funding for the Council. Consideration is currently being given to the suitable periods for new borrowing and it is expected that new loans will be taken before the end of the calendar year should rates continue to hold at current levels.
21. The Council's long-term borrowing started the year at a level of £258.615m. A single Public Works Loans Board (PWLB) loan to the value of £4.5m became due for repayment in this financial year. No new borrowing has been taken in the 1<sup>st</sup> 7 months of 2014/15. The HRA amounts to 55% of the borrowing portfolio at £139.944m and the GF is 45% with borrowing at £114.171m, a current total of £254.115m. Table 4 shows the Council's opening borrowing position, movements and current position for debt split by fund:

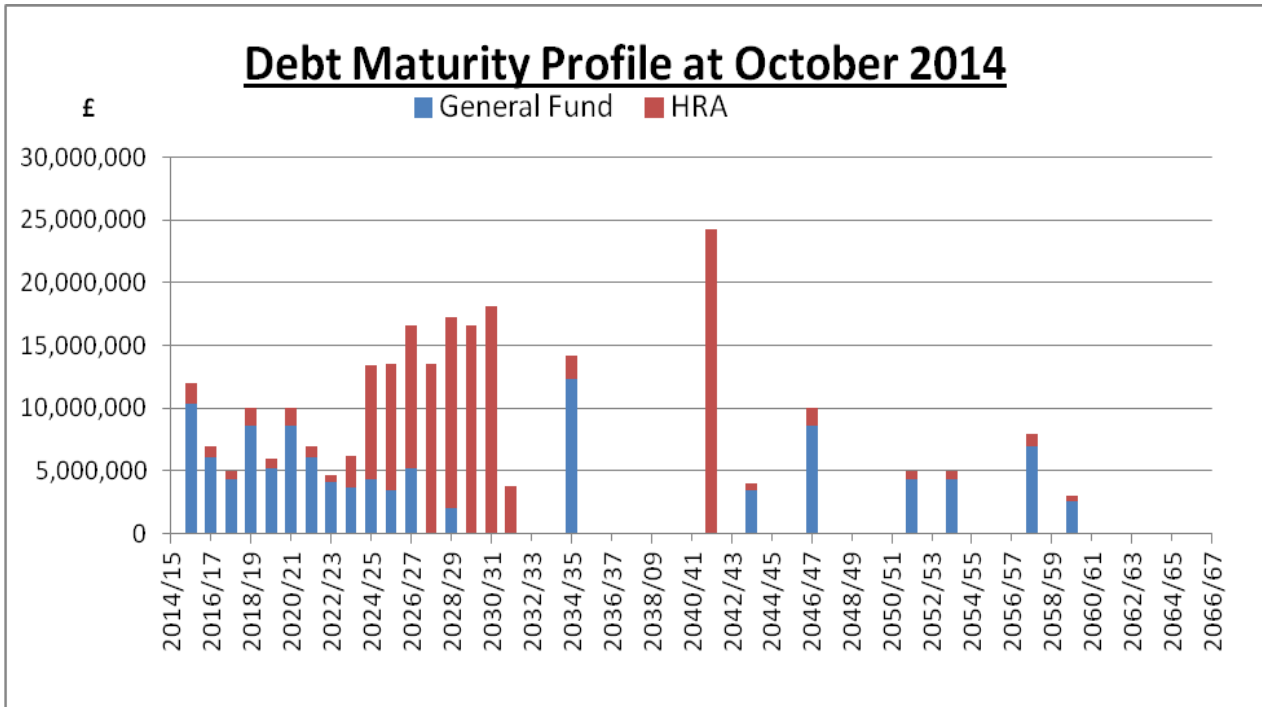
	<b>General Fund</b>	<b>Housing Rev Acc</b>	<b>Total</b>	<b>Interest Rate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
<b>Opening Debt April 14</b>	<b>118.671</b>	<b>139.944</b>	<b>258.615</b>	<b>3.76</b>
Repaid	(4.500)	0.000	(4.500)	3.910
New	0.000	0.000	0.000	0.00
<b>Closing Debt Sept 14</b>	<b>114.171</b>	<b>139.944</b>	<b>254.115</b>	<b>3.75</b>

**Table 4 – CYCs current debt position October 14**

22. Figure 3 illustrates the 2014/15 maturity profile of the Council's debt portfolio to Mid October 2014 split by general fund and HRA.



The maturity profile shows that there is no large concentration of loan maturity in any one year, thereby spreading the interest rate risk dependency.



**Figure 3 – Debt Maturity Profile 14/15**

23. As ever there is volatility in the borrowing markets (PWLB in the main) reflective of the needs of investors and such continued fluctuations over the coming months may present opportunities for borrowing at advantageous levels as set out above.

24. Table 4 shows there has been significantly fluctuations to the end of September 14. This is highlighted in the longer dates that all have spreads of over 0.5%, however as a point of reference, for the same period last year the spread in similar periods was 1.0%. Table 4 shows the variations in PWLB borrowing rates over the course of the year to date:

	<b>PWLB borrowing rates by duration of loan</b>				
	<b>1 Year</b>	<b>5 Year</b>	<b>10 Year</b>	<b>25 Year</b>	<b>50 Year</b>
<b>Yr High</b>	1.48%	2.86%	3.66%	4.29%	4.26%
<b>Yr Low</b>	1.20%	2.48%	3.16%	3.75%	3.73%
<b>Yr Avg</b>	1.34%	2.65%	3.53%	4.10%	4.17%

<b>Spread</b>	0.28%	0.38%	0.50%	0.54%	0.53%
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**Table 4 – PWLB Borrowing Rates (%) – to 30 September 14**

### **Compliance with Prudential Indicators**

25. The Prudential Indicators for 2014/15, included in the Treasury Management Strategy Statement are based on the requirements of the Council's capital programme and approved at Budget Council on 27 February 2014.
26. It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits" included in the Prudential Indicators. The monitoring of the Prudential Indicators is attached at Annex A. During the financial year 2014/15 to date the Council has operated within the treasury limits and Prudential Indicators set out.

### **Consultation and Options**

27. The report shows the six month position of the treasury management portfolio in 2014/15. The treasury management budget was set in light of the council's expenditure plans and the wider economic market conditions, based on advice from Capita - the Council's Treasury Management advisors. It is a statutory requirement to provide the information detailed in the report.

### **Analysis**

28. The report is a statutory requirement and as such there are no specific options to analyse.

### **Council Plan**

29. The Council Plan has five priorities which all require a budget to achieve. The treasury management function aims to achieve the optimum return on investments commensurate with the proper levels of security, and endeavours to minimise the interest payable by the Council on its debt structure. It thereby contributes to all Council Plan priorities.

**Financial**

30. The financial implications are in the body of the report.

**Human Resources Implications**

31. There are no HR implications as a result of this report.

**Equalities**

32. There are no equalities implications as a result of this report.

**Legal Implications**

33. Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the *Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008* (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

**Crime and Disorder Implications**

34. There are no crime and disorder implications as a result of this report.

**Information Technology Implications**

35. There are no IT implications as a result of this report.

**Property Implications**

36. There are no property implications as a result of this report.

**Risk Management**

37. The Treasury Management function is a high-risk area because of the level of large money transactions that take place. As a result of this there are procedures set out for day to day treasury management operations that aim to reduce the risk associated with high volume high value transactions. These are detailed in

the Treasury Management Strategy Statement at the start of each financial year.

### Recommendations

38. Members are required, in accordance with the Local Government Act 2003 (revised), to:

- Note the Treasury Management activities to date in 2014/15
- Note the Prudential Indicators set out at Annex A and note the compliance with all indicators.

Reason – to ensure the continued performance of the Council's Treasury Management function.

### Contact Details

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Debbie Mitchell Corporate Finance Manager 01904 554161	<b>Report Approved</b>	√	<b>Date</b> 22/10/14
<b>Wards Affected:</b> All			
<b>For further information please contact the author of the report</b>			

<b>Specialist Implications:</b>
<b>Legal – Not Applicable</b>
<b>Property – Not Applicable</b>
<b>Information Technology – Not Applicable</b>

### Annexes

Annex A – Prudential Indicators 2014/15



## Annex A

	Prudential Indicator		2013/14 actual	2014/15 projection	2015/16 projection	2016/17 projection	2017/18 projection	2018/19 projection
4	<b>CFR as at Mid Year Review</b> Indicates the Council's underlying need to borrow money for capital purposes. The majority of the capital programme is funded through government support, government grant or the use of capital receipts. The use of borrowing increases the CFR.	GF HRA <hr/> Total	£170.9m £140.3m <hr/> £311.2m	£192.6m £140.3m <hr/> £332.9m	£201.7m £140.3m <hr/> £342.0m	£201.6m £140.3m <hr/> £341.9m	£197.7m £140.3m <hr/> £338.0m	£193.6m £140.3m <hr/> £333.9m
5	<b>External Debt</b> To ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose and so not exceed the CFR.	Gross Debt Invest <hr/> Net Debt	£264.0m £44.2m <hr/> £219.8m	£274.4m £68.0m <hr/> £206.4m	£284.3m £25.0m <hr/> £259.3m	£294.1m £25.0m <hr/> £269.1m	£294.0m £25.0m <hr/> £269.0m	£293.8m £20.0m <hr/> £273.8m
6a	<b>Authorised Limit for External Debt</b> The authorised limit is a level set above the operational boundary in acceptance that the operational boundary may well be breached because of cash flows. It represents an absolute maximum level of debt that could be sustained for only a short period of time. The council sets an operational boundary for its total external debt, gross of investments, separately identifying borrowing from other long-term liabilities for 3 financial years.	Borrowing Other long term liabilities Total	£321.3m £30.0m <hr/> £351.3m	£321.3m £30.0m <hr/> £351.3m	£352.0m £30.0m <hr/> £382.0m	£351.9m £30.0m <hr/> £381.9m	£348.1m £30.0m <hr/> £378.1m	£343.9m £30.0m <hr/> £373.9m

## Annex A

	Prudential Indicator		2013/14 actual	2014/15 projection	2015/16 projection	2016/17 projection	2017/18 projection	2018/19 projection
6b	<p><b>Operational Boundary for external debt</b></p> <p>The operational boundary is a measure of the most likely, prudent, level of debt. It takes account of risk management and analysis to arrive at the maximum level of debt projected as part of this prudent assessment. It is a means by which the authority manages its external debt to ensure that it remains within the self-imposed authority limit. It is a direct link between the Council's plans for capital expenditure; our estimates of the capital financing requirement; and estimated operational cash flow for the year.</p>	Borrowing Other long term liabilities Total	£311.3m	£311.3m	£342.0m	£341.9m	£338.1m	£333.9m
			£10.0m	£10.0m	£10.0m	£10m	£10.0m	£10.0m
			<u>£321.3m</u>	<u>£321.3m</u>	<u>£352.0m</u>	<u>£351.9m</u>	<u>£348.1m</u>	<u>£343.9m</u>
7	<b>Adoption of the CIPFA Code of Practice for Treasury Management in Public Services</b>		✓					
8a	<p><b>Upper limit for fixed interest rate exposure</b></p> <p>The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly exposed to fluctuations in interest rates which can have an adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts.</p>		116%	126%	110%	109%	109%	107%
8b	<p><b>Upper limit for variable rate exposure</b></p> <p>The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly exposed to fluctuations in interest rates which can have an</p>		-16%	-26%	-10%	-9%	-9%	-7%

## Annex A

	Prudential Indicator		2013/14 actual	2014/15 projection	2015/16 projection	2016/17 projection	2017/18 projection	2018/19 projection
	adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts.							
9	<p><b>Upper limit for total principal sums invested for over 364 days</b></p> <p>The Council sets an upper limit for each forward financial year period for the level of investments that mature in over 364 days. These limits reduce the liquidity and interest rate risk associated with investing for more than one year. The limits are set as a percentage of the average balances of the investment portfolio.</p>		£0	£0	£0	£0	£0	£0
10	<p><b>Maturity structure of new fixed rate borrowing</b></p> <p>To minimise the impact of debt maturity on the cash flow of the Council. Over exposure to debt maturity in any one year could mean that the Council has insufficient liquidity to meet its repayment liabilities, and as a result could be exposed to risk of interest rate fluctuations in the future where loans are maturing. The Council therefore sets limits whereby long-term loans mature in different periods thus spreading the risk.</p>	Maturity profile of debt against approved limits	<b>Maturity Profile</b>	<b>Debt (£)</b>	<b>Debt (£)</b>	<b>Approved Minimum Limit</b>	<b>Approved Maximum Limit</b>	
			Less than 1 yr	£10.0m	4%	0%	30%	
			1 to 2 yrs	£7.0m	3%	0%	30%	
			2 to 5 yrs	£20.0m	8%	0%	40%	
			5 to 10 yrs	£30.9m	12%	0%	40%	
			10 yrs and above	£186.2m	73%	30%	90%	
			<b>Total</b>	<b>£254.1m</b>	<b>100%</b>	<b>-</b>	<b>-</b>	





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**Audit & Governance Committee****10 December 2014**

Report of the Assistant Director of CBSS Customers and Employees

**Overview of National Risk Picture****Summary**

1. The purpose of this paper is to present to Audit & Governance Committee (A&G) an update on the key and emerging risks facing the council, with a view to members considering any further information they would wish to receive on these matters.

**Background**

2. The risk management process at the council ensures that all key and emerging risks are reported regularly to A&G on at least a quarterly basis.
3. The work started earlier this year in which A&G members were involved to refresh the corporate risk register supported by Zurich Municipal is nearly complete. The revised register is scheduled to be brought to A&G in February 2015.

**The National Risk Landscape**

4. The corporate risk register previously reported to A&G is now out of date and no longer maintained. As the refreshed register is not due at A&G until February 2015 there is an opportunity for members to consider the wider risk landscape and risks affecting local authorities nationally. The information set out in the following paragraphs is based on the publication 'New world of risk: change for good' (2014) published by Zurich Municipal. The information provided within the document comes from a survey of 70 local authority chief executives and Senior Management Teams

(SMT) undertaken by Zurich Municipal in association with Ipsos MORI.

5. The background to the survey is that financial pressures have continued to escalate for local government. There is a growing recognition that austerity is not a short-term solution to economic problems but a long-term 'here to stay' approach to public sector funding.
6. This is the second risk survey undertaken by Zurich and follows up on their initial 'Tough Choices' paper in 2010/11. This second survey helps to illustrate changes in perceived risk priority between 2010 and 2014 from a chief executive and SMT perspective. Table 1 below sets out an analysis of the top ten perceived risks from the two surveys for comparison purposes:

**Table 1**  
**Top Ten perceived risks identified by Local Authority Senior Management Teams**

<b>Risk</b>	<b>2014</b>	<b>2010</b>
Budget Pressures	1	1
Changes in Government policy, legislation & regulation	2	2
Workforce (attracting, retaining, right skills, rewards)	3	5
Business and Organisational transformation	4	-
Working with other organisations (Partnerships, Outsourcing, Supply Chains)	5	6
Reputation Management	6	3
Social Risk e.g. crime, population changes, antisocial behaviour	7	7
Data protection or security	8	8
Operational risk management including health & safety	9	4
Environmental challenges e.g. Extreme weather, climate change	10	9

7. The table shows that the top two perceived risks have not changed since 2010. Economic growth and the creation of more jobs in recent years coupled with skills shortages in

certain areas e.g. IT would appear to be impacting on staff retention pushing it further up the list. The addition of a new risk in 2014 (Transformation) would indicate that many authorities have implemented transformation programmes in the last 4 years to deal with financial pressures and austerity but that these themselves are perceived risks. The chief executives and directors were then asked to grade these risks in order of importance and the output from this is shown at Table 2 below:

Risk	Importance %		
	High	Medium	Low
Budget Pressures	94	6	0
Changes in Government policy, legislation & regulation	53	41	4
Workforce (attracting, retaining, right skills, rewards)	50	37	13
Business and Organisational transformation	49	44	7
Working with other organisations (Partnerships, Outsourcing, Supply Chains)	44	44	11
Reputation Management	39	51	10
Social Risk e.g. crime, population changes, antisocial behaviour	39	44	17
Data protection or security	23	53	24
Operational risk management including health & safety	21	49	29
Environmental challenges e.g. Extreme weather, climate change	20	50	30

8. It is clear that public sector austerity measures are by far the single most important risk to both chief executives and SMT's across the authorities surveyed. This risk is likely to be ongoing for some considerable time. The risk also acts as a driver or catalyst for the top five risks in both ranking and importance. Local government plans and priorities seek to mitigate the risks national policy such as welfare reform, endeavour to retain staff as the private sector grows, look to organisational transformation to achieve efficiency savings and also move some elements of council services into outsourced or shared provision with other private sector organisations or public authorities.

9. This is a council-centric view of risk and the survey looked to provide a more rounded picture by consulting with the public. It is interesting to compare chief executive and SMT perceived risks with the public view. Table 3 below sets out the public's () top three risks that they had concerns about. 977 people took part in the survey:

**Table 3**

<b>Greatest public concerns</b>	<b>%</b>
Quality of services will decline	31
People most in need of services will get poorer services or less help	29
Protecting vulnerable groups (e.g. older people, children)	25
Maintaining delivery of core services	25
Fewer frontline staff	20
Social change (e.g. ageing population, immigration, changing lifestyle)	19
Bureaucracy/top heavy management	17
Overall quality of staff will decline/good people will leave	16
Changes in government policy	15
Rising public expectations	9
Encouraging local business investment	7
Technological change (e.g. storing personal data electronically)	5

10. It is interesting that the public have a perception that there is a risk to the quality of council services as their highest ranked risk. This would suggest that for all the cuts that local authorities have delivered so far the general public have not noticed any significant changes or deterioration of service provision. The cuts in the early days of austerity fell very much in the back office and administrative areas of council services and yet the public still rank bureaucracy and top heavy management quite highly in their top ten risks.
11. The final part of the survey harnessed Zurich's experience of working with the local government sector. Their experts assessed the risks and impact for the generic council organisations, the wider sector and local communities as a whole over the next five years. The end result represents

their best assessment of the risks and challenges facing the local government sector. The risk ranking is generic and does not reflect the specific risk profile of any one organisation:

**1 Financial sustainability:** effective management of finances through ongoing austerity (the new 'normal') and increasing demand on services.

**2 Transformation:** the business processes of transforming from the existing model to the desired outcome, looking at innovative ways of meeting business objectives and service delivery.

**3 Commissioning:** including partnership working, supply chain and contract management.

**4 Welfare reform:** delivery of services through ongoing welfare reform (e.g. the Care Bill and Council Tax Support) and potential demand pressures as changes come to fruition.

**5 Public health and social care:** public health integration and managing new responsibilities.

**6 Environmental:** risks (some regional) including climate change, extreme weather events, escape of water, flooding, coastal erosion, fracking, sinkholes and waste management, with increased frequency and severity of loss.

**7 Statutory responsibilities:** compliance with statutory responsibilities, including health and safety, safeguarding infrastructural issues, maintenance, regulatory framework, information governance and transactions.

**8 Technology:** using new technology/ systems to reduce costs and fulfil today's communications, accessibility and transaction requirements.

**9 Pandemic:** a rapid and widespread infection/disease, affecting the health and wellbeing of a significant number of people over a large area.

**10 Fraud:** deliberate actions by criminals to seek financial gain at the taxpayer's expense.

- 12 The risks set out in paragraph 4 – 11 of this paper provide a comprehensive view across local government from chief executives, senior managers to members of the public and sector experts of the current risk landscape. This is informative and will allow the revised risk register due at A&G in February to be considered against the national risk picture to see if the perceived risks in York mirror those elsewhere.

### **Options**

13. This is an information only report.

### **Council Plan 2011 - 2015**

14. The effective consideration and management of risk within all of the council's business processes helps support achieving 'a confident collaborative organisation' and aid the successful delivery of the five priorities.

### **Implications**

- (a) **Financial** - There are no implications
- (b) **Human Resources (HR)** - There are no implications
- (c) **Equalities** - There are no implications
- (d) **Legal** - There are no implications
- (e) **Crime and Disorder** - There are no implications
- (f) **Information Technology (IT)** - There are no implications
- (g) **Property** - There are no implications

### **Risk Management**

15. In compliance with the council's Risk Management Strategy, there are no risks directly associated with the recommendations of this report. The activity resulting from this report will contribute to improving the council's internal control environment.

**Recommendation**

- 16. The committee is asked to consider the national risk landscape set out within the paper for use in assessing the corporate risk register when it is presented to members in February 2015.

Reason

*To provide a more informed view of risks nationally in comparison to locally identified risks*

**Contact Details**

**Author:**

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Phone No. 01904 552261

**Chief Officer Responsible for the report:**

Ian Floyd  
Director Customer and Business  
Support Services

**Report Approved**      ✓      **Date** 2.12.14

**Specialist Implications Officer(s)** Not applicable

**Wards Affected** Not applicable

**All**

**For further information please contact the author of the report**

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**Audit and Governance Committee**

10 December 2014

Report of the Head of Internal Audit

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**Audit & Counter Fraud Monitoring Report**

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**Summary**

- 1 This report provides an update on progress made in delivering the internal audit workplan for 2014/15 and on current counter fraud activity.

**Background**

- 2 The work of internal audit is governed by the Accounts and Audit (England) Regulations 2011 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the standards, periodic reports detailing the outcomes of internal audit work are presented to this committee.

**Internal Audit**

- 3 To date, internal audit has delivered 35% of the 2014/15 audit plan based on the number of reports issued. It is anticipated that the 93% target for the year will be exceeded by the end of April 2015 (the cut off point for 2014/15 audits).
- 4 Details of the audits completed and reports issued since the last progress report to this committee in September 2014 are given in annex 1.

**Counter Fraud**

- 5 Counter fraud work has been undertaken in accordance with the approved plan. Annex 2 provides a summary of the work completed in the period.

6 Also attached at annexes 5 and 6 are two recent publications relating to counter fraud management:

- Cipfa have produced a Code of Practice on Managing the Risk of Fraud (annex 5). This represents good practice, and includes suggestions for reflecting adherence with the code within the Annual Governance Statement.
- The Audit Commission have published their latest annual report summarising fraud activity in local government, Protecting the Public Purse (annex 6).

### **Breaches of Financial Regulations**

7 One breach of the council's financial regulations has been identified during the course of recent audit work. This is summarised in annex 3. The breach does not represent a significant risk to the council.

### **Internal Audit Charter**

8 The Audit Charter was approved by this Committee in November 2013. A review of the Charter has now been completed and a minor change is considered necessary to clarify the fact that auditors will not be assigned to review areas where they have had any direct operational or managerial involvement within the last year. A copy of the revised Charter with the tracked changes showing is attached at appendix 4.

### **Audit Opinions**

9 The standard internal audit report format has been reviewed and a number of changes made. The changes are relatively minor but include adopting 'reasonable' assurance instead of 'moderate' assurance as part of the ranking of opinions. The number and definition of the opinions otherwise remains unchanged. The change to the opinion is considered necessary to more closely reflect the wording of the definition and to avoid possible misinterpretation.

### **Consultation**

10 Not relevant for the purpose of the report.

### **Options**

- 11 Not relevant for the purpose of the report.

### **Analysis**

- 12 Not relevant for the purpose of the report.

### **Council Plan**

- 13 The work of internal audit and counter fraud helps to support overall aims and priorities by promoting probity, integrity and accountability and by helping to make the council a more effective organisation.

### **Implications**

- 14 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

### **Risk Management Assessment**

- 15 The council will be non-compliant with the PSIAS if the results of audit work are not periodically reported to an appropriate committee. The failure to provide ongoing assurance to those responsible for the council's framework of governance, risk management and control may diminish the council's overall effectiveness.

### **Recommendation**

- 16 Members are asked to:

- a) note the progress made in delivering the 2014/15 internal audit work programme, and the results of recent counter fraud activity.

Reason

*To enable members to consider the implications of audit and fraud findings.*

- b) Approve the proposed changes to the Audit Charter, and note the change to audit opinions and recent counter fraud publications.

Reason

*In accordance with the responsibility of the committee to consider reports dealing with the management of the internal audit function, and to comply with proper practice for internal audit.*

**Contact Details**

**Author:**

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01904 552940

**Chief Officer Responsible for the report:**

Ian Floyd  
Director of CBSS  
Telephone: 01904 551100

**Report  
Approved**



**Date** 25/11/14

**Specialist Implications Officers**

Not applicable

**Wards Affected:** Not applicable

**All**

**For further information please contact the author of the report**

## **Background Papers**

- 2014/15 Internal Audit, Counter Fraud, and Information Governance Plan
- Copies of all final Internal Audit reports included in Annex 1 are available on the council's website as background papers to this report.

## **Annexes**

Annex 1 – 2014/15 Audits completed and reports issued

Annex 2 – Counter Fraud activity

Annex 3 – Identified breaches of Financial Regulations

Annex 4 – Internal Audit Charter

Annex 5 – CIPFA Code of Practice on Managing the Risk of Fraud

Annex 6 – Audit Commission report 'Protecting the Public Purse'

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## AUDITS COMPLETED AND REPORTS ISSUED

The following categories of opinion are used for audit reports.

<b>Opinion</b>	<b>Level of Assurance</b>
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable <sup>1</sup>	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

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<sup>1</sup> Previously 'moderate'

Actions to address issues are agreed with managers where weaknesses in control are identified. The following categories are used to classify agreed actions.

<b><u>Priority</u></b>	<b><u>Long Definition</u></b>	<b><u>Short Definition – for use in Audit Reports</u></b>
1 (High)	<p>Action considered both critical and mandatory to protect the organisation from exposure to high or catastrophic risks. For example, death or injury of staff or customers, significant financial loss or major disruption to service continuity.</p> <p>These are fundamental matters relating to factors critical to the success of the area under review or which may impact upon the organisation as a whole. Failure to implement such recommendations may result in material loss or error or have an adverse impact upon the organisation's reputation.</p> <p>Such issues may require the input at Corporate Director/Assistant Director level and may result in significant and immediate action to address the issues raised.</p>	<p>A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.</p>
2	<p>Action considered necessary to improve or</p>	<p>A significant system weakness, whose impact</p>



**Priority**

**Long Definition**

**Short Definition – for use in Audit Reports**

implement system controls so as to ensure an effective control environment exists to minimise exposure to significant risks such as financial or other loss.

or frequency presents risks to the system objectives, and which needs to be addressed by management.

Such issues may require the input at Head of Service or senior management level and may result in significantly revised or new controls.

3

Action considered prudent to improve existing system controls to provide an effective control environment in order to minimise exposure to significant risks such as financial or other loss.

The system objectives are not exposed to significant risk, but the issue merits attention by management.

Such issues are usually matters that can be implemented through line management action and may result in efficiencies.

### Draft Reports Issued

Nineteen internal audit reports are currently in draft. These reports are with management for consideration and comments. Once the reports have been finalised, details of the key findings and issues will be reported to this committee. The draft reports are categorised as follows:

Opinion	Number
High Assurance	3
Substantial Assurance	8
Moderate Assurance	6
Limited Assurance	2
No Assurance	0
Not given	0

### Final Reports Issued

The table below shows audit reports finalised since the last report to this committee in September 2014. The findings have been accepted by management, and actions agreed with them to address issues found.

Audit	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
		Total	Priority 1	
Corporate Procurement	Substantial Assurance	2	0	Controls were generally found to be appropriate and operating effectively.

Audit	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
		Total	Priority 1	
				The two issues identified relate to monitoring compliance with corporate contracts and maintaining records of waivers from Financial Regulations.
Danesgate Community	Substantial Assurance	7	0	A schools audit. The control environment was generally effective although a number of areas requiring improvement were identified.
Poppleton Road Primary School	High Assurance	4	0	A schools audit. No significant weaknesses were found.
Ralph Butterfield Primary School	Substantial Assurance	8	0	A schools audit. The control environment was generally effective although a number of areas requiring improvement were identified.
Staff Lottery	Substantial Assurance	4	0	The lottery has been successful in providing support to projects promoting staff wellbeing. Financial records clearly show what projects have been funded by the lottery. Information on the operation of the lottery and use of funds is made available to lottery members.

Audit	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
		Total	Priority 1	
				It was found that the arrangements relating to preparation and checking of information for draws are generally sound. Some improvements could be made to ensure processes are accurate and transparent. In addition, updates to the constitution would ensure that the administration of the lottery and decisions about spend suggestions are made as fairly as possible.
York High School	High Assurance	3	0	A schools audit. No significant weaknesses were found.

**COUNTER FRAUD ACTIVITY 2014/15**

The table below shows the savings calculated as a result of investigative work. The indicators include the full range of counter fraud work undertaken.

	<b>2014/15 (as at 31/10/14)</b>	<b>2014/15 (Target: Full Yr)</b>	<b>2013/14 (Actual: Full Yr)</b>
To identify actual fraud savings of £100k (quantifiable savings) eg CTS	£78,165	£100,000	£97,947
To identify notional fraud savings of £600k (estimated savings) eg housing tenancy fraud	£324,700	£600,000	£810,000

**Caseload figures for the period are:**

	<b>As at 1/4/14</b>	<b>As at 31/10/14</b>
Awaiting allocation	40	50
Under investigation	184	173

**Summary of counter fraud activity:**

<b>Activity</b>	<b>Work completed or in progress</b>
Data matching	<p>The National Fraud Initiative (NFI) data provision has now been completed. Data matches will be returned in February 2015 for investigation.</p> <p>Housing Benefit Matching Service (HBMS) referrals continue to be investigated - the counter fraud team has received 350 HBMS referrals this year. HBMS referrals have resulted in 1 benefit fraud prosecution and 2 sanctions to date in 2014/15.</p>
Fraud detection and investigation	<p>The service continues to promote the use of criminal investigation techniques and standards to respond to any fraud perpetrated against the council. Activity to date includes the following:</p> <ul style="list-style-type: none"> <li>• <b>Housing fraud</b> – working in conjunction with housing officers, 13 properties have been recovered since April. In addition, 12 properties were prevented from being let where the prospective tenants had provided fraudulent information in their housing applications. There are 49 current investigations in this area.</li> <li>• <b>Internal fraud</b> - the team received 9 referrals for internal frauds and completed 9 investigations in the 7 month period to 31 October 2014. There are 7 cases currently under investigation.</li> <li>• <b>Council Tax fraud</b> – 25 cases of suspected Council Tax/NNDR fraud have been referred in the period to 31 October. Working with the Council Tax Team Veritau has helped to recover</li> </ul>

Activity	Work completed or in progress
	<p>over £10,000 to date from people or companies attempting to evade their liability.</p> <ul style="list-style-type: none"> <li>• <b>Benefit fraud</b> - 4 people have been prosecuted for benefit fraud offences and a further 12 have received formal sanctions (cautions and administrative penalties). Benefits have been corrected in a further 8 cases.</li> <li>• <b>Council Tax Support Scheme fraud</b> – Veritau has identified overpayments of over £47,000 from the CTS scheme and legacy Council Tax Benefit cases since April.</li> <li>• <b>York Financial Assistance Scheme fraud</b> – 3 referrals have been received since April. Veritau is working with the service to assess levels of fraud within the scheme.</li> <li>• <b>Adult Social Care fraud</b> – The fraud team have received 13 referrals regarding suspected adult social care fraud since April. There are currently 13 ongoing investigations in this area and Veritau have assisted in the recovery of over £16,000.</li> <li>• <b>Parking fraud</b> – 17 cases of suspected parking fraud have been referred to the team since April. 5 people have received warnings for the misuse of disabled badges and 2 people have been formally cautioned.</li> </ul>

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**SUMMARY OF BREACHES OF FINANCIAL REGULATIONS  
IDENTIFIED DURING INTERNAL AUDIT WORK COMPLETED  
IN THE PERIOD**

<b>Description of Breach</b>	<b>Instances</b>
Failure to obtain 3 quotes when incurring expenditure over £5k	1

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Annex 4



# City of York Council Internal Audit Charter

10 December 2014

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## 1 Introduction

- 1.1 There is a statutory duty on the council to maintain an adequate and effective internal audit of its accounting records and of its system of internal control. The Accounts and Audit (England) Regulations 2011 also require that internal audit is undertaken in accordance with proper practices. The Chartered Institute of Public Finance and Accountancy (Cipfa) is responsible for setting standards for proper practice for local government internal audit in England.
- 1.2 From 1 April 2013 Cipfa adopted new Public Sector Internal Audit Standards (PSIAS)<sup>1</sup> compliant with the Institute of Internal Auditors' (IIA) International Standards. The PSIAS and Cipfa's local government application note for the standards represent proper practice for internal audit in local government. This charter sets out how internal audit at City of York Council will be provided in accordance with this proper practice.
- 1.3 This charter should be read in the context of the wider legal and policy framework which sets requirements and standards for internal audit, including the Accounts and Audit Regulations, the PSIAS and application note, and the council's constitution and financial regulations.

## 2 Definitions

- 2.1 The standards include reference to the roles and responsibilities of the "board" and "senior management". Each organisation is required to define these terms in the context of its own governance arrangements. For the purposes of the PSIAS these terms are defined as follows at City of York Council.

"Board" – the Audit and Governance Committee fulfil the responsibilities of the board, in relation to internal audit standards.

"Senior Management" – in the majority of cases, the term senior management in the PSIAS should be taken to refer to the Director of CBSS in his role as s151 officer. This includes all functions relating directly to overseeing the work of internal audit. In addition, senior management may also refer to any other director of the council individually (including the Chief Executive) or collectively as Council Management Team (CMT) in relation to:

- having direct and unrestricted access for reporting purposes
- consulting on risks affecting the council for audit planning purposes
- approving the release of information arising from an audit to any third party.

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<sup>1</sup> The PSIAS were adopted jointly by relevant internal audit standard setters across the public sector.

2.2 The standards also refer to the “chief audit executive”. This is taken to be the Head of Internal Audit (Veritau).

### **3 Application of the standards**

3.1 The PSIAS defines internal audit as follows.

*“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

3.2 The council acknowledges the mandatory nature of this definition and confirms that it reflects the purpose of internal audit in York. The council also requires that the service be undertaken in accordance with the code of ethics and standards set out in the PSIAS.

### **4 Scope of internal audit activities**

4.1 The scope of internal audit work will encompass the council’s entire control environment<sup>2</sup>, comprising its systems of governance, risk management, and control.

4.2 The scope of audit work also extends to services provided through partnership arrangements, irrespective of what legal standing or particular form these may take. The Head of Internal Audit, in consultation with all relevant parties and taking account of audit risk assessment processes, will determine what work will be carried out by the internal audit service, and what reliance may be placed on the work of other auditors.

### **5 Responsibilities and objectives**

5.1 The Head of Internal Audit is required to provide an annual report to the Audit and Governance Committee. The report will be used by the committee to inform its consideration of the council’s annual governance statement. The report will include:

- the Head of Internal Audit’s opinion on the adequacy and effectiveness of the council’s framework of governance, risk management, and control
- any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)
- any particular control weakness judged to be relevant to the preparation of the annual governance statement

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<sup>2</sup> For example the work of internal audit is not limited to the review of financial controls only.

- a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
- an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme
- a statement on conformance with the PSIAS.

5.2 To support the opinion the Head of Internal Audit will ensure that an appropriate programme of audit work is undertaken. In determining what work to undertake the service should:

- adopt an overall strategy setting out how the service will be delivered in accordance with this charter
- draw up an indicative risk based audit plan on an annual basis which takes account of the requirements of the charter, the strategy, and proper practice.

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5.3 In undertaking this work, responsibilities of the internal audit service will include:

- providing assurance to the board and senior management on the effective operation of governance arrangements and the internal control environment operating at the council
- objectively examining, evaluating and reporting on the probity, legality and value for money of the council's arrangements for service delivery
- reviewing the council's financial arrangements to ensure that proper accounting controls, systems and procedures are maintained and, where necessary, for making recommendations for improvement
- helping to secure the effective operation of proper controls to minimise the risk of loss, the inefficient use of resources and the potential for fraud and other wrongdoing
- acting as a means of deterring all fraudulent activity, corruption and other wrongdoing; this includes conducting investigations into matters referred by members, officers, and members of the public and reporting findings to directors and members as appropriate for action
- advising the council on relevant counter fraud and corruption policies and measures, for example the counter fraud and corruption policy.

5.4 The Head of Internal Audit will ensure that the service is provided in accordance with proper practice as set out above and in accordance with any other relevant standards – for example council policy and legal or professional standards and guidance.

5.5 In undertaking their work, internal auditors should have regard to:

- the code of ethics in the PSIAS
- the codes of any professional bodies of which they are members
- standards of conduct expected by the council
- the Committee on Standards in Public Life's *Seven Principles of Public Life*.

## 6 Organisational independence

6.1 It is the responsibility of directors and service managers to maintain effective systems of risk management, internal control, and governance. Auditors will have no responsibility for the implementation or operation of systems of control and will remain sufficiently independent of the activities audited to enable them to exercise objective professional judgement.

6.2 Audit advice and recommendations will be made without prejudice to the rights of internal audit to review and make further recommendations on relevant policies, procedures, controls and operations at a later date.

6.3 The Head of Internal Audit will put in place measures to ensure that individual auditors remain independent of areas they are auditing for example by:

- rotation of audit staff
- ensuring staff are not involved in auditing areas where they have recently been involved in operational management, or in providing consultancy and advice<sup>3</sup>
- seeking external oversight of any audit of functional activities managed by the Head of Internal Audit through Veritau client management arrangements.

## 7 Accountability, reporting lines, and relationships

7.1 Internal audit services are provided under contract to the council by Veritau. The company is a separate legal entity. Staff undertaking internal audit work are employed by Veritau or are seconded to the company from the council. The Assistant Director CBSS (finance asset management & procurement) acts as client officer for the contract, and is responsible for overall monitoring of the service.

7.2 In its role in providing an independent assurance function, Veritau has direct access to members and senior managers and can report uncensored to them as considered necessary. Such reports may be made to the:

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<sup>3</sup> [auditors will not be used on internal audit engagements where they have had direct involvement in the area within the previous 12 months.](#)

- Council, Cabinet, or any committee (including the Audit & Governance Committee)
- Chief Executive
- Director of CBSS (s151 officer)
- monitoring officer
- other directors, assistant directors and managers.

7.3 The Director of CBSS (as s151 officer) has a statutory responsibility for ensuring that the council has an effective system of internal audit in place. In recognition of this, a protocol has been drawn up setting out the relationship between internal audit and the Director of CBSS. This is included in Appendix 1.

7.4 The Head of Internal Audit will report independently to the Audit and Governance Committee<sup>4</sup> on:

- proposed allocations of audit resources
- any significant risks and control issues identified through audit work
- his/her annual opinion on the council's control environment.

7.5 The Head of Internal Audit will informally meet in private with members of the Audit and Governance Committee, or the committee as a whole as required. Meetings may be requested by committee members or the Head of Internal Audit.

7.6 The Audit and Governance Committee will oversee (but not direct) the work of internal audit. This includes commenting on the scope of internal audit work and approving the annual audit plan. The committee will also protect and promote the independence and rights of internal audit to enable it to conduct its work and report on its findings as necessary<sup>5</sup>.

## **8 Fraud and consultancy services**

8.1 The primary role of internal audit is to provide assurance services to the council. However, the service is also required to undertake fraud investigation and other consultancy work to add value and help improve governance, risk management and control arrangements.

8.2 The prevention and detection of fraud and corruption is the responsibility of directors and service managers. However, all instances of suspected fraud and corruption must be notified to the Head of Internal Audit, who will decide on the course of action to be taken in consultation with relevant service managers

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<sup>4</sup> The committee charged with overall responsibility for governance at the council.

<sup>5</sup> The relationship between internal audit and the Audit and Governance Committee is set out in more detail in Appendix 2.



and/or other advisors (for example human resources). Where appropriate, cases of suspected fraud or corruption will be investigated by Veritau.

- 8.3 Where appropriate, Veritau may carry out other consultancy related work, for example specific studies to assess the economy, efficiency, and effectiveness of elements of service provision. The scope of such work will be determined in conjunction with service managers. Such work will only be carried out where there are sufficient resources and skills within Veritau and where the work will not compromise the assurance role or the independence of internal audit.

## **9 Resourcing**

- 9.1 As part of the audit planning process the Head of Internal Audit will review the resources available to internal audit, to ensure that they are sufficient to meet the requirements to provide an opinion on the council's control environment. Where resources are judged to be insufficient, recommendations to address the shortfall will be made to the Director of CBSS and to the Audit and Governance Committee.

## **10 Rights of access**

- 10.1 To enable it to fulfil its responsibilities, the council gives internal auditors employed by Veritau the authority to:

- enter all council premises or land, at any reasonable time
- have access to all data, records, documents, correspondence, or other information - in whatever form - relating to the activities of the council
- have access to any assets of the council and to require any employee of the council to produce any assets under their control
- be able to require from any employee or member of the council any information or explanation necessary for the purposes of audit.

- 10.2 Directors and service managers are responsible for ensuring that the rights of Veritau staff to access premises, records, and personnel are preserved, including where the council's services are provided through partnership arrangements, contracts or other means.

## **11 Review**

- 11.1 This charter will be reviewed periodically by the Head of Internal Audit. Any recommendations for change will be made to the Director of CBSS and the Audit and Governance Committee, for approval.

**Appendix 1**

**Relationship between the Director of CBSS  
(the s151 Officer) and internal audit**

- 1 In recognition of the statutory duties of the council's Director of CBSS (the director) for internal audit, this protocol has been adopted to form the basis for a sound and effective working relationship between the director and internal audit.
  - (i) The Head of Internal Audit (HoIA) will seek to maintain a positive and effective working relationship with the director.
  - (ii) Internal audit will review the effectiveness of the council's systems of control, governance, and risk management and report its findings to the director (in addition to the Audit and Governance Committee).
  - (iii) The director will be asked to comment on those elements of internal audit's programme of work that relate to the discharge of his/her statutory duties. In devising the annual audit plan and in carrying out internal audit work, the HoIA will give full regard to the comments of the director.
  - (iv) The HoIA will notify the director of any matter that in the HoIA's professional judgement may have implications for the director in discharging his/her s151 responsibilities.
  - (v) The director will notify the HoIA of any concerns that he/she may have about control, governance, or suspected fraud and corruption and may require internal audit to undertake further investigation or review.
  - (vi) The HoIA will be responsible for ensuring that internal audit is provided in accordance with proper practice.
  - (vii) If the HoIA identifies any shortfall in resources which may jeopardise the ability to provide an opinion on the council's control environment, then he/she will make representations to the director, as well as to the Audit and Governance Committee.
  - (viii) The director will protect and promote the independence and rights of internal audit to enable it to conduct its work effectively and to report as necessary.

**Appendix 2**

**Relationship between the Audit and Governance Committee and internal audit**

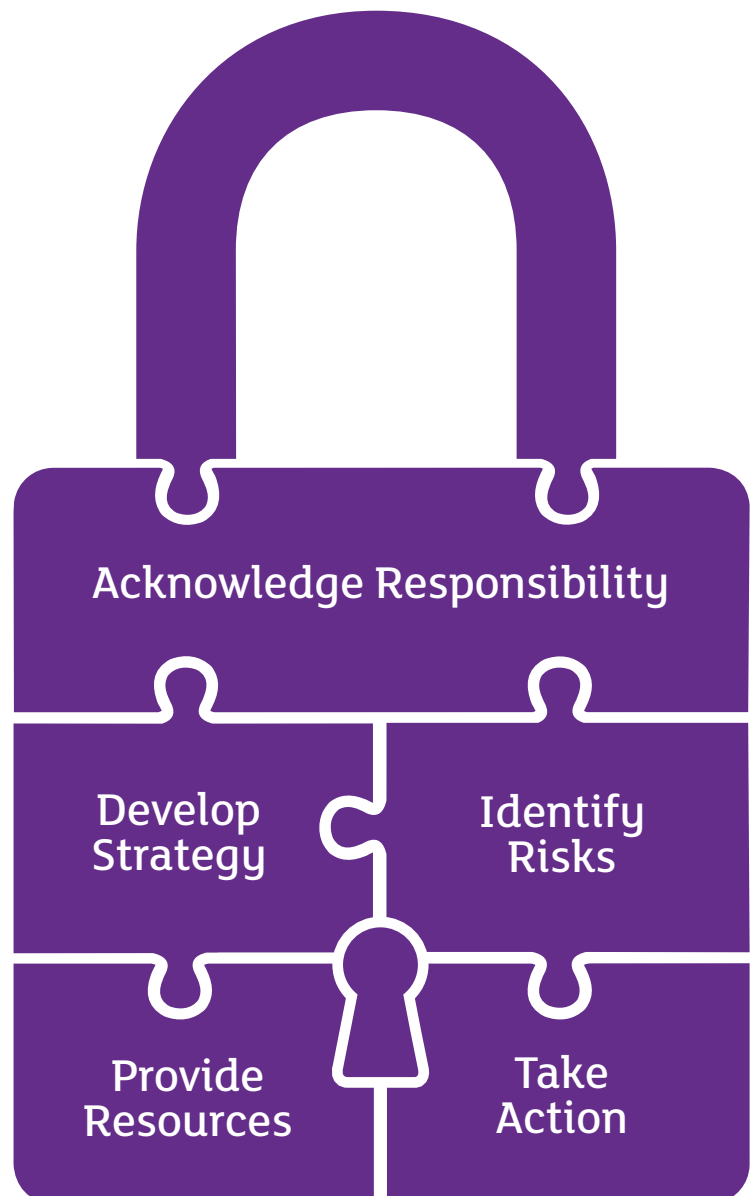
- 1 The Audit and Governance Committee plays a key role in ensuring the council maintains a robust internal audit service and it is therefore essential that there is an effective working relationship between the committee and internal audit. This protocol sets out some of the key responsibilities of internal audit and the committee.
- 2 The Audit and Governance Committee will seek to:
  - (i) raise awareness of key aspects of good governance across the organisation, including the role of internal audit and risk management
  - (ii) ensure that adequate resources are provided by the council so as to ensure that internal audit can satisfactorily discharge its responsibilities
  - (iii) protect and promote the independence and rights of internal audit to conduct its work properly and to report on its findings as necessary.
- 3 Specific responsibilities in respect of internal audit include the following.
  - (i) Oversight of, and involvement in, decisions relating to how internal audit is provided.
  - (ii) Approval of the internal audit charter.
  - (iii) Consideration of the annual report and opinion of the Head of Internal Audit (HoIA) on the council's control environment.
  - (iv) Consideration of other specific reports detailing the outcomes of internal audit work.
  - (v) Consideration of reports dealing with the performance of internal audit and the results of its quality assurance and improvement programme.
  - (vi) Consideration of reports on the implementation of actions agreed as a result of audit work and outstanding actions escalated to the committee in accordance with the approved escalation policy.
  - (vii) Approval (but not direction) of the annual internal audit plan.
- 4 In relation to the Audit and Governance Committee, the HoIA will:
  - (i) attend its meetings and contribute to the agenda
  - (ii) ensure that overall internal audit objectives, workplans, and performance are communicated to, and understood by, the committee
  - (iii) provide an annual summary of internal audit work, and an opinion on the council's control environment, including details of unmitigated risks or other issues that need to be considered by the committee

**Appendix 2**

- (iv) establish whether anything arising from the work of the committee requires consideration of the need to change the audit plan or vice versa
  - (v) highlight any shortfall in the resources available to internal audit and to make recommendations to address these to the committee
  - (vi) report any significant risks or control issues identified through audit work which the HoIA feels necessary to specifically report to the committee
  - (vii) participate in the committee's review of its own remit and effectiveness
  - (viii) consult with the board on how external assessment of the internal audit service will be conducted (required once every five years).
- 5 The Head of Internal Audit will informally meet in private with members of the Audit and Governance Committee, or the committee as a whole as required. Meetings may be requested by committee members or the HoIA.

Code of practice on

# managing the risk of fraud and corruption



**CIPFA COUNTER  
FRAUD CENTRE**

# 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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# 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.**

# Contents

<b>Summary and recommendations .....</b>	<b>2</b>
Recommendations.....	6
<b>Chapter 1: Introduction .....</b>	<b>8</b>
The changing counter-fraud landscape.....	9
The main issues councils face in tackling fraud .....	10
<b>Chapter 2: The latest figures on detected fraud in councils .....</b>	<b>12</b>
Benefit fraud .....	16
Non-benefit fraud.....	17
Housing tenancy fraud.....	19
Organised and opportunistic fraud.....	20
Failing to detect fraud .....	21
<b>Chapter 3: Longer term trends in frauds detected by councils .....</b>	<b>22</b>
The shift in focus from benefit fraud to non-benefit fraud .....	22
Internal fraud .....	27
Fraud in maintained schools.....	28
Councils' response to national policies .....	29
Housing tenancy fraud.....	30
<b>Chapter 4: Effective stewardship of public funds .....</b>	<b>34</b>
Prevention and deterrence .....	34
Investigation and detection .....	37
Sanction and redress (recovery of losses).....	40
CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.....	42
Fraud briefings .....	45
CIPFA Centre for Counter Fraud .....	45
<b>Appendix 1: Data tables of detected frauds and losses by region .....</b>	<b>47</b>
<b>Appendix 2: Checklist for councillors and others responsible for governance .....</b>	<b>48</b>
<b>Appendix 3: Case studies: targeting fraudsters, financial recovery (in particular use of POCA) .....</b>	<b>53</b>
<b>References .....</b>	<b>61</b>

## 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).

**i** 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

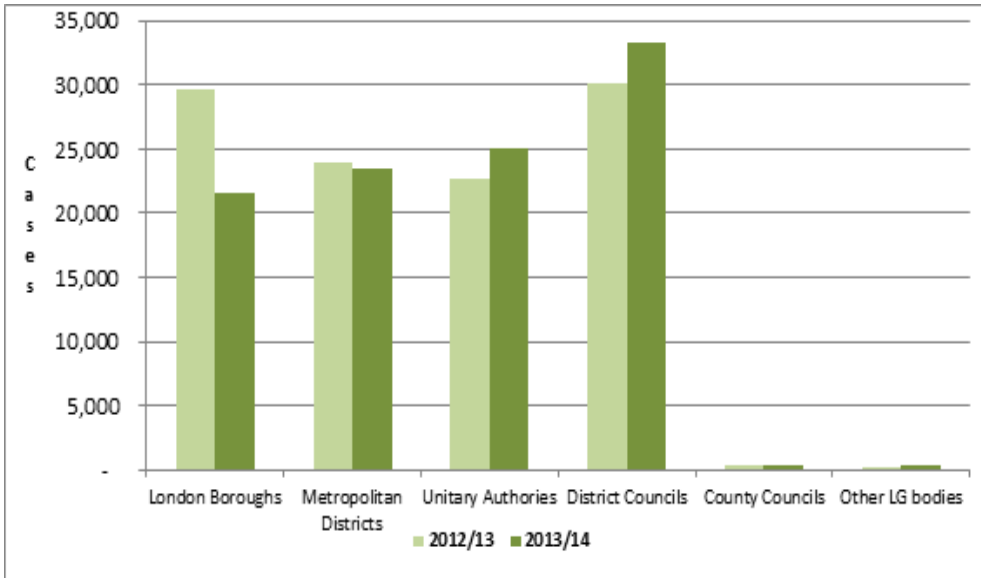
<sup>i</sup> We report housing tenancy fraud in Table 3.

<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

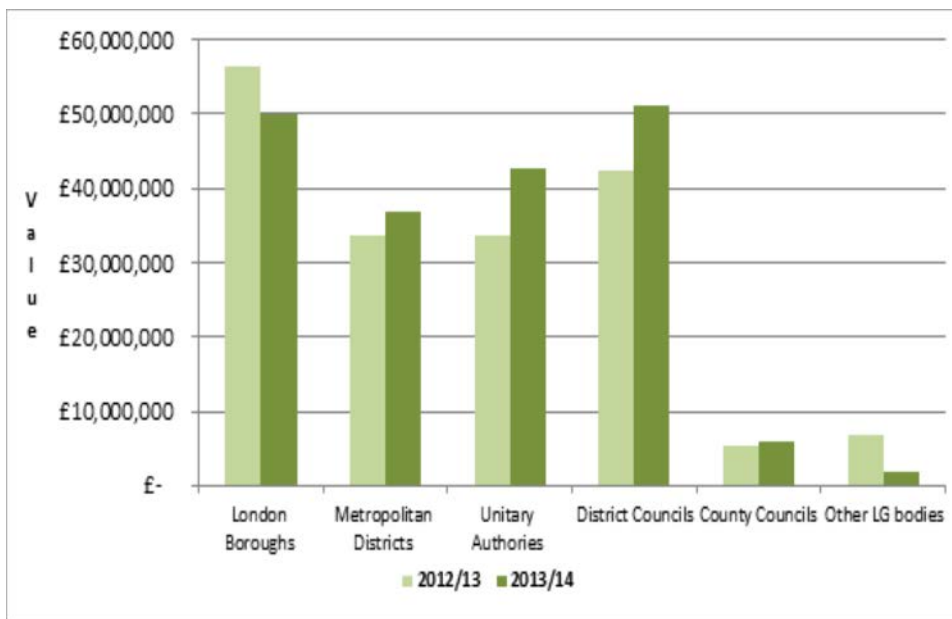


Source: *Audit Commission (2014)*

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

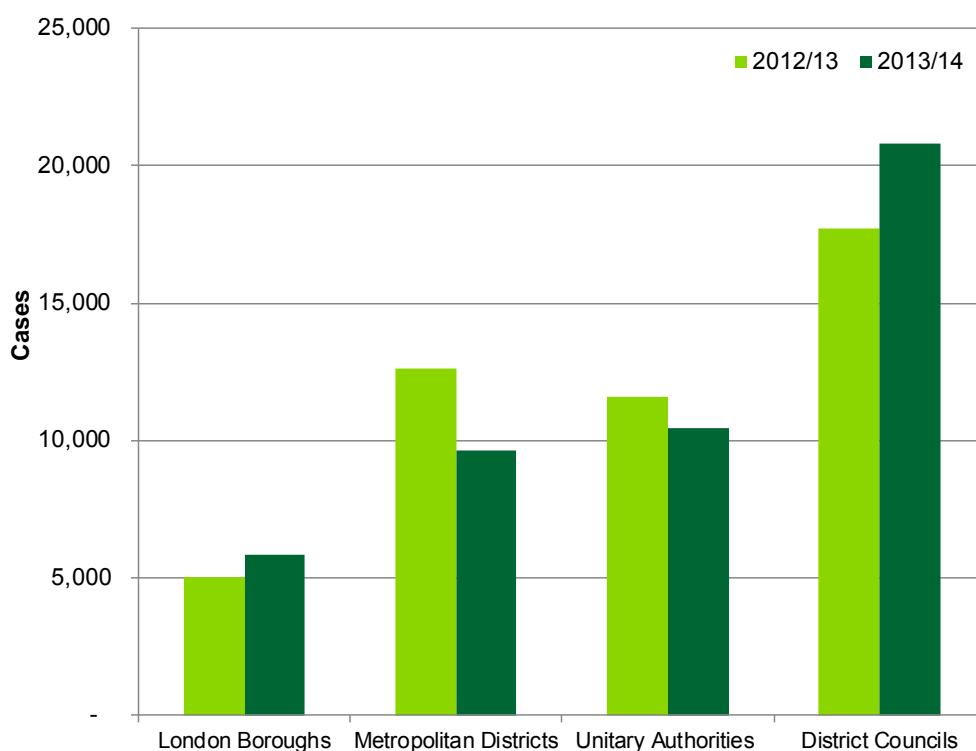
**20** In 2013/14, housing benefit and council tax benefit frauds comprised 45 per cent of all fraud cases, but accounted for 69 per cent of the value of all detected frauds.

**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).

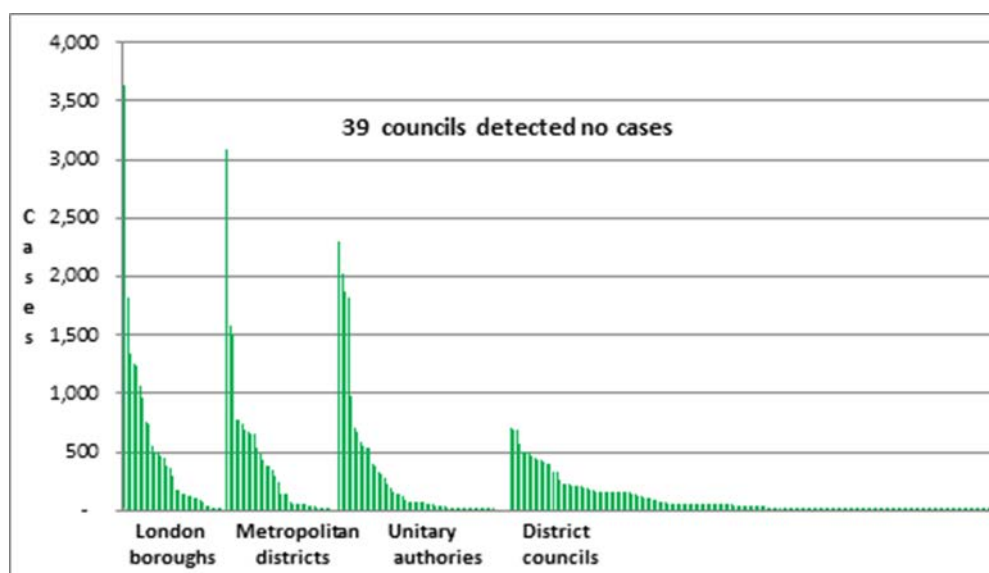
**30** Only 32 of 353 councils reported frauds they believed were linked to organised crime. They were most likely to detect the involvement of organised crime in housing benefit (11 councils), which probably reflects the greater number of detected frauds in this category.

**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.

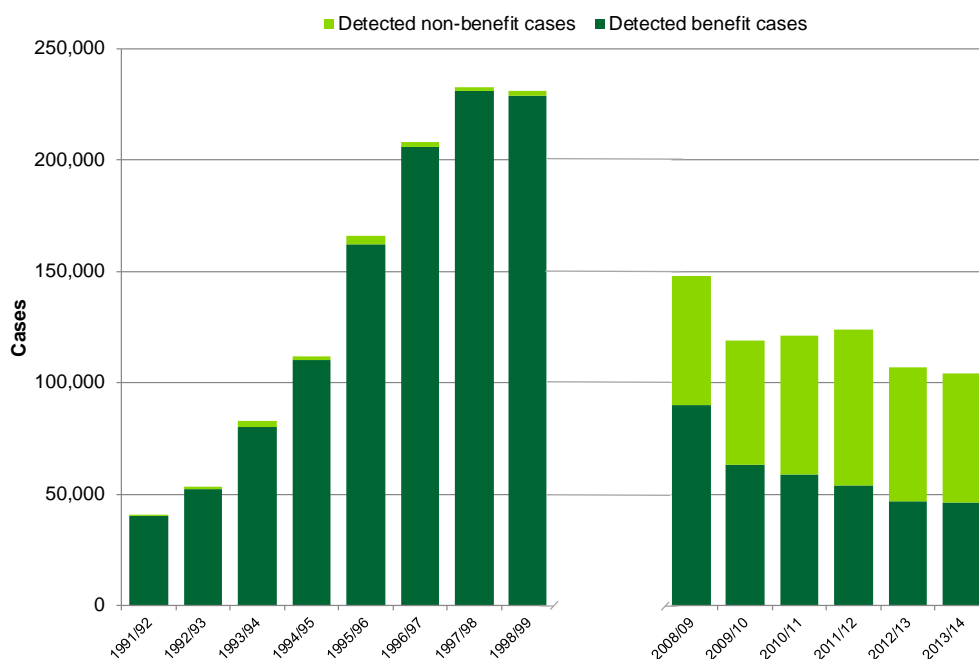
### **The shift in focus from benefit fraud to non-benefit fraud**

**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.

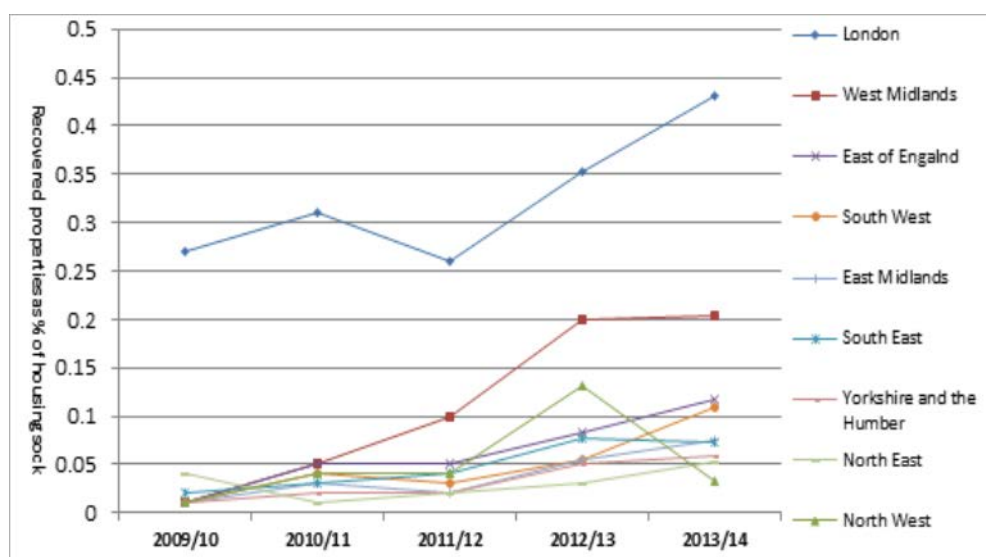
65 We believe that this approach helped to publicise the issues and encouraged social housing providers to combat tenancy fraud more effectively. Between 2009/10 and 2013/14, the total number of detected cases of housing tenancy fraud increased by 92 per cent.

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.

**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.

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



## 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.

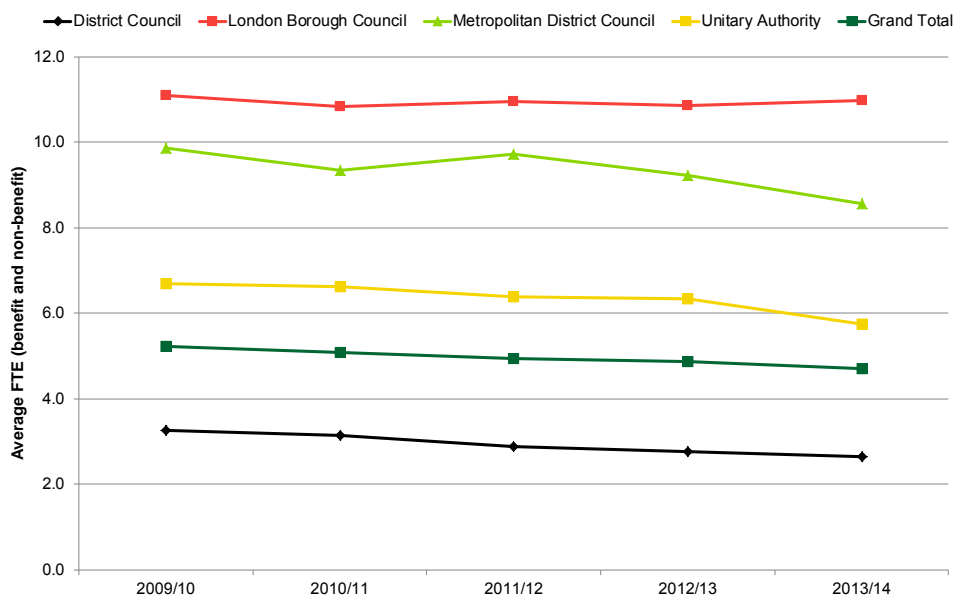
**92** Over the past 25 years, councils have substantially increased the number of benefit fraud investigators they employ. Between 1994 and 1997, staff numbers rose from 200 to over 2,000 (Ref. 14). The government encouraged councils to enhance the skills and training of these new staff. In 1998, the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

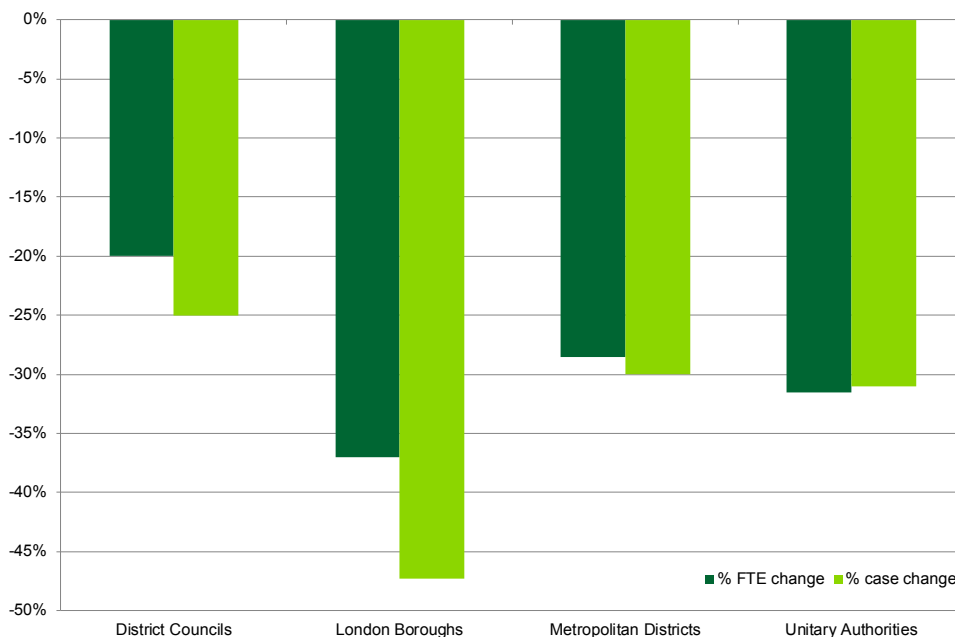
95 London councils employ the most investigators and have seen little change at around 11 FTE staff over the whole five years. District councils have employed the fewest fraud investigators, and have seen their average FTE numbers reduce by 19 per cent, with unitary authorities and metropolitan districts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

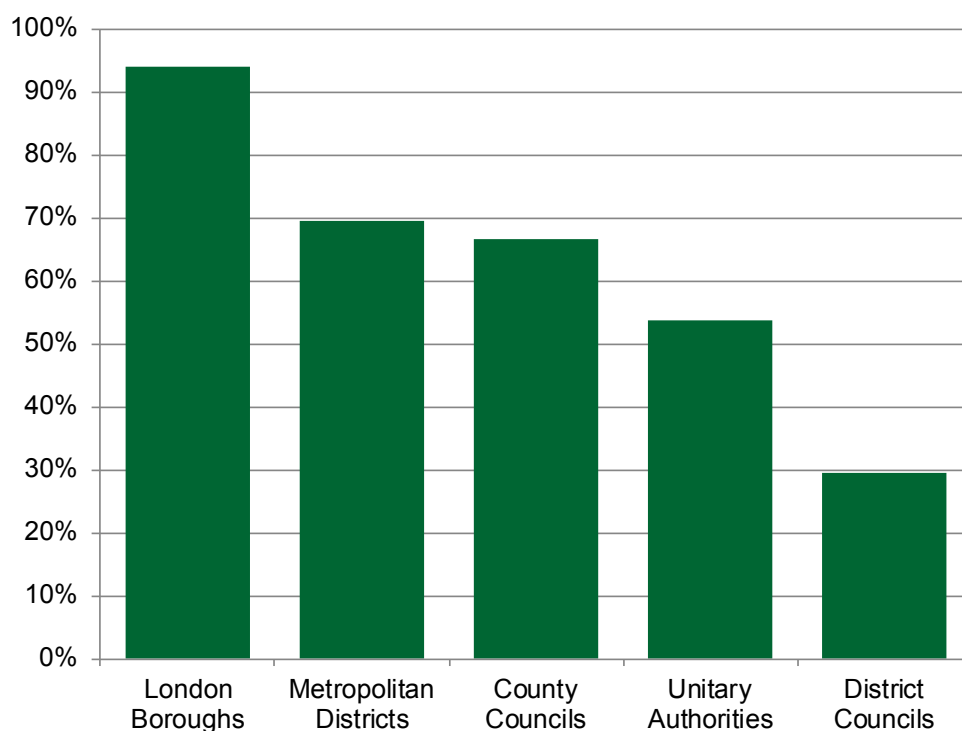
**106** Councils can pursue recovery through the civil or criminal courts, but they can consider alternative means to punish fraudsters, deter potential fraudsters and also generate funds to reinvest in tackling fraud.

**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.

## 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.

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

**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:				
<ul style="list-style-type: none"> <li>■ reporting fraud?</li> </ul>				
<ul style="list-style-type: none"> <li>■ recording fraud?</li> </ul>				
16. Do we have effective whistle-blowing arrangements. In particular are staff:				
<ul style="list-style-type: none"> <li>■ aware of our whistle-blowing arrangements?</li> </ul>				
<ul style="list-style-type: none"> <li>■ have confidence in the confidentiality of those arrangements?</li> </ul>				
<ul style="list-style-type: none"> <li>■ confident that any concerns raised will be addressed?</li> </ul>				
17. Do we have effective fidelity insurance arrangements?				

II. Fighting fraud with reduced resources	Yes	No	Previous action	2014 Update
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?				
III. Current risks and issues	Yes	No	Previous action	2014 Update
<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:				
<ul style="list-style-type: none"> <li>■ National Fraud Initiative;</li> </ul>				
<ul style="list-style-type: none"> <li>■ Department for Work and Pensions Housing Benefit matching service;</li> </ul>				
<ul style="list-style-type: none"> <li>■ internal data matching; and</li> </ul>				
<ul style="list-style-type: none"> <li>■ private sector data matching?</li> </ul>				
<b>IV. Other fraud risks</b>	Yes	No	Previous action	2014 Update
30. Do we have appropriate and proportionate defences against the following fraud risks:				
<ul style="list-style-type: none"> <li>■ business rates;</li> </ul>				
<ul style="list-style-type: none"> <li>■ Right to Buy</li> </ul>				
<ul style="list-style-type: none"> <li>■ council tax reduction;</li> </ul>				
<ul style="list-style-type: none"> <li>■ schools; and</li> </ul>				
<ul style="list-style-type: none"> <li>■ grants?</li> </ul>				



## 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)*

## Case study 5

**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)*

## Case study 6

**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)*

## Case study 7

**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)*

## Case study 8

**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)*

## Case study 9

**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)



## Case study 10

**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)*

## Case study 11

**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)*

## References

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- 18 Chartered Institute of Public Finance & Accountancy, Code of Fraud Risk Management, CIPFA, 2014

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**Audit and Governance Committee**

10 December 2014

Report of the Head of Internal Audit

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**Information Governance Progress Report**

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**Summary**

- 1 This report provides members with an update on information governance developments since the last report to this committee on 25 June 2014.

**Background**

- 2 The council recognises that information is a key business asset and that reliable information is important to support the provision of good quality services and the discharge of statutory obligations. Information governance (IG) plays a key role in ensuring that information is properly valued, used and protected.
- 3 The Audit and Governance committee approved an information governance strategy in 2011. The objectives of the strategy were to help the council to manage its information risks more effectively and to ensure it can meet its legal obligations in respect to information handling and processing (including the Data Protection and Freedom of Information Acts). The strategy reflected best practice developed by the government and the Information Commissioner's Office (ICO). Since that date, the council has made good progress to develop and implement a range of measures to address information risks.
- 4 Further guidance and best practice has been developed since that date so a review of the strategy will now be undertaken by the Corporate Information Governance Group (CIGG). A revised action plan will also be developed.

## Work Completed in the Period

- 5 The following work has been undertaken since the last report to this committee in June:
- A revised approach to quarterly data breach reporting has been adopted;
  - A draft data sharing protocol has been developed in conjunction with North Yorkshire County Council, North Yorkshire Police, the York Teaching Hospital Foundation Trust and North Yorkshire Fire and Rescue Service. The protocol is an overarching framework designed to ensure information is shared lawfully, appropriately and in compliance with best practice. It aims to establish consistent principles and practices to govern the sharing of personal and non-personal information between partner agencies. Once approved, other partner agencies will be encouraged to adopt it;
  - An audit of information security is in progress and will be completed shortly. The audit included a review of governance arrangements, data sharing, mobile working, physical security and incident management;
  - Further data security compliance audits have also been completed. The audits involve unannounced checks of areas within West Offices or to other council establishments to determine whether personal data and other information assets are properly secured. A draft report detailing the results of the most recent visits was issued in September 2014 and, where significant issues were identified, responsible service managers and assistant directors were contacted to agree specific actions. A final report will be issued shortly detailing where actions have been agreed. Further visits are due to take place within the next month;
  - A review of the council's information governance policies, and its IG Strategy and Action Plan, are being undertaken to reflect new guidance and best practice developments, and emerging priorities;
  - Other activities completed in the period include QA reviews of Fol requests, ongoing awareness raising



through regular shouts on COLIN, the delivery of a training session for information governance practitioners and the development of an e-learning package (to support the roll-out of lcomply).

### **Consultation**

- 6 Not relevant for the purpose of the report.

### **Options**

- 7 Not relevant for the purpose of the report.

### **Analysis**

- 8 Not relevant for the purpose of the report.

### **Council Plan**

- 9 The council's information governance framework offers assurance to its customers, employees, contractors, partners and other stakeholders that all information, including confidential and personal information, is dealt with in accordance with legislation and regulations, and its confidentiality, integrity and availability is appropriately protected.

### **Implications**

- 10 There are no implications to this report in relation to:
- **Finance**
  - **Human Resources (HR)**
  - **Equalities**
  - **Legal**
  - **Crime and Disorder**
  - **Information Technology (IT)**
  - **Property**

## Risk Management Assessment

- 11 The council may face financial and reputational risks if the information it holds is not managed and protected effectively. For example, the ICO can levy fines up to £500k for serious data security breaches. The failure to identify and manage information risks may diminish the council's overall effectiveness.

## Recommendation

- 12 Members are asked to:
- a) note the progress made to maintain and develop the council's information governance framework.

### Reason

*To enable members to consider the effectiveness of the council's information governance arrangements.*

## Contact Details

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Veritau Limited  
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### Chief Officer Responsible for the report:

Ian Floyd  
Director of CBSS  
Telephone: 01904 551100

Report  
Approved



Date 25/11/14

## Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

## Background Papers

None

## Annexes

None



## Audit & Governance Committee

10 December 2014

Report of the Director of Customer & Business Support Services

### FREEDOM OF INFORMATION (FOI) UPDATE

#### Summary

1. In June 2014, members received an update on progress against the council's review of FOI processes to respond to the draft Annual Governance Statement, including information governance risks around the processing of FOIs and also on progress made with planned improvements to address the findings from the related 2013 internal audit report. This is a six monthly update on progress and performance, and includes the financial information on the costs of FOIs that members of the Committee requested.

#### Background

2. As reported to two previous committee meetings and since commencing a centralised approach from September 2012, the total amount of business passing through the Customer Feedback Team, has risen by 400%. The majority is related to complaints but with an evident increase in number of FOIs received. There was a reported 72% increase in the number of FOI enquiries in 2013/14 from the number received in 2011/12 two years before.
3. The FOI transactions for City of York Council (CYC) for the financial years 2011 to 2014 and to September 2014 are summarised in the table below with the percentage answered shown within the 20 day prescribed deadline set by the Freedom of Information Act 2000.

Financial Year	Number of FOIs	% Completed Within 20 Days
2011/12	804	87%
2012/13	954	75%
2013/14	1384	81%
2014/15 (April to Sept only)	879	92.6%

4. According to a survey of councils carried out by University College London (UCL) in 2010, the average percentage of requests completed by unitary authorities within 20 days was 83.2%.

## Update

5. It is important to note that following the changes to FOI processes and the introduction of improved monitoring processes, which were described to members at September 2013 and June 2014 meetings, considerable and sustained improvements in the % of FOI enquiries responded to in time has been achieved as demonstrated in the table below:

	April	May	June	July	August	Sept	Average for 2014/15
Percentage 'In Time'	92.0%	91.9%	92.5%	97.4%	91.9%	89.7%	92.6%

Quarterly and monthly performance data is shown at Annex A and B of this report.

6. The improvements were made through the introduction of :
- a) The introduction of an internal deadline of 15 days and escalation procedures;
  - b) All FOIs are sent to Heads of Service and copied to Assistant Directors;
  - c) An improved and clear mechanism in place for cross council enquiries;
  - d) An independent review process, conducted by Veritau Ltd, the council's auditors;
  - e) Quarterly quality assurance monitoring conducted by Veritau;
  - f) Monthly performance reports for Directorate Management Teams including follow up information on out of time responses;
  - g) Quarterly performance reports for Directorate Management Teams and Corporate Management Team;
  - h) Corporate monitoring being undertaken by the Director of Customer & Business Support Services and the cross –council Corporate Information Governance Group (CIGG);
  - i) Annual and interim reports to Audit & Governance Committee.
7. Further improvements have been made since the last report to this committee. This has been achieved by:
- a) The FOI practitioner qualification obtained by staff within the Customer Feedback Team;
  - b) The development of training and toolkit information (including a “handy guide to getting it right”) which has been delivered to a pilot staff group to inform a wider rollout of sessions.
  - c) An online FOI enquiry form has been developed and is available through the council website, increasing the contact channels available to make a FOI enquiry. This can be found at the following link:  
[http://www.york.gov.uk/forms/form/10/freedom\\_of\\_information\\_request](http://www.york.gov.uk/forms/form/10/freedom_of_information_request)

- d) The very recent introduction of the requirement for all late responders to complete an action plan, giving information on why the response was late, as well as any actions or lessons learned they can do to ensure this is avoided in the future. This is submitted to the Director of Customer and Business Support Services.
  - e) Workshops have been held across the council to support the completion of the audit of published data against CYC's own and nationally prescribed publication schemes. This will ensure that the council is publishing as much as possible in a clear and understandable way, on its website. This will further inform the changes still needed to be made to improve the transparency and accessibility of such information.
  - f) Gathering of information on how long it takes to compile full FOI responses which will be published in future.
8. At the meeting of this Committee in June 2014 members requested information on the costs of processing FOIs; the average cost of producing an FOI is £136.45. Using the FOI figures for April to September 2014, the approximate cost to the council for responding to FOIs is £119,939 to date, and was £190,211 in the previous year.

### **Work in progress**

9. The following areas of work are in progress or planned:
- a) Inclusion of cost information for FOI enquiry responses to be included on performance reports.
  - b) Publication on the council website of performance reports (including costs).\*
  - c) Publication of data that is themed to allow easier identification of information which should result in a corresponding reduction in volume of FOI enquiries.\*
  - d) Website pages being improved to enable easier identification of previous FOI enquirers made and responses.\*
  - e) Further improvements to our performance reports to show month on month totals rather than separate totals only.
  - f) Mapped out initial actions to improve our approach and processes for complying with Data Protection subject access to records requests.
  - g) Working jointly with Veritau on improvements to our ICO casework handling process including responses.
- \*All website content and changes are being reviewed and planned in line for a refreshed look and feel of the council's website scheduled for April 2015.
10. With regard to FOI reviews undertaken by Veritau, in the current financial year 26 reviews have been carried out compared to 70 in 2013/14. 7 were reviews of the application of exemptions and the remaining of late or partial

responses. Of the 7 reviews of the application of exemptions, Veritau upheld the council's decision in 5 cases, ruled against the council in 1 and ruled partially in favour of the council in 1 case.

11. With regard to referrals of FOI complaints to the ICO in April to September 2015, the following case decisions are available, none as yet from September. The close monitoring of responses within the council should improve 'no response' performance over time.

REASONS FOR REVIEW	Total	April			May			June			July			August		
		F	P	A	F	P	A	F	P	A	F	P	A	F	P	A
No response	4						3						1			
Response > 20 working days	0															
Incomplete response	2							1							1	
Application of exemption	4		1									3				
Information inaccurate	0															
<b>Total</b>	<b>10</b>	0	1	0	0	0	3	1	0	0	0	3	1	0	1	0

Key

F= outcome in favour of the Council,

P= outcome partially in favour of the Council,

A= outcome against the Council

## Consultation

12. The report is for information only.

## Options

13. The report is for information only.

## Analysis

14. All analysis is contained in the report.

## Council Plan

15. Compliance with the Freedom of Information Act is a legal requirement. Failure to deliver a good quality FOI service can have reputational damage for the council.

## Implications

16.

- **Financial** –None
- **Human Resources (HR)** - None
- **Equalities** – None
- **Legal** Implementation of the actions arising from the internal and external reviews will assist in meeting the statutory requirements of the Freedom of Information Act.
- **Crime and Disorder** None
- **Information Technology (IT)** None
- **Property** None
- **Other** None

## Risk Management

17. The information, update and actions outlined in this report are intended to reduce the time taken in processing FOIs and publication improvements may reduce the overall number of FOIs received, therefore introducing no new risk. Failing to sustain current performance however will again increase the risk of criticism or intervention from the Information Commissioner which can include financial penalties.

## Recommendations

18. Members are asked to consider and note the contents of this report.

*Reason: To ensure the council meets the requirements of FOI legislation, and is open and transparent in its publishing of information.*

## Contact Details

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Director of CBSS

**Pauline Stuchfield**  
**AD Customers & Employees**  
Tel No. 01904 551706

**Report**  
**Approved**



**Date** 28 November  
2014

**Wards Affected:** *List wards or tick box to indicate all*

**All**

## Annexes

Annex A - FOI Quarterly Performance Report April to June 2014

Annex B - FOI Quarterly Performance Report July to September 2014

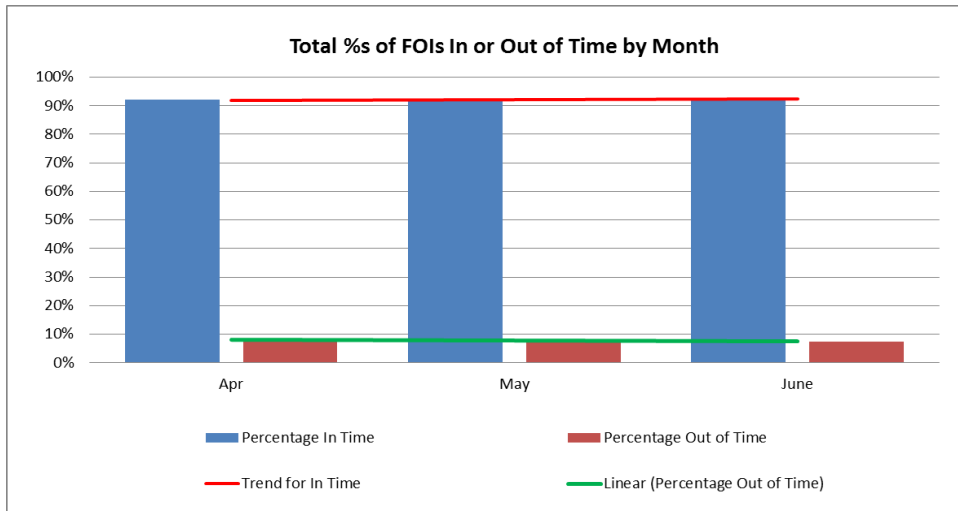
## Background Information

Previous reports to Audit & Governance Committee:

- Information Governance Strategy Update – Audit & Governance Committee 25 June 2014
- Information Governance Strategy Update, Including Freedom of Information Processes – Audit & Governance Committee 26 September 2013



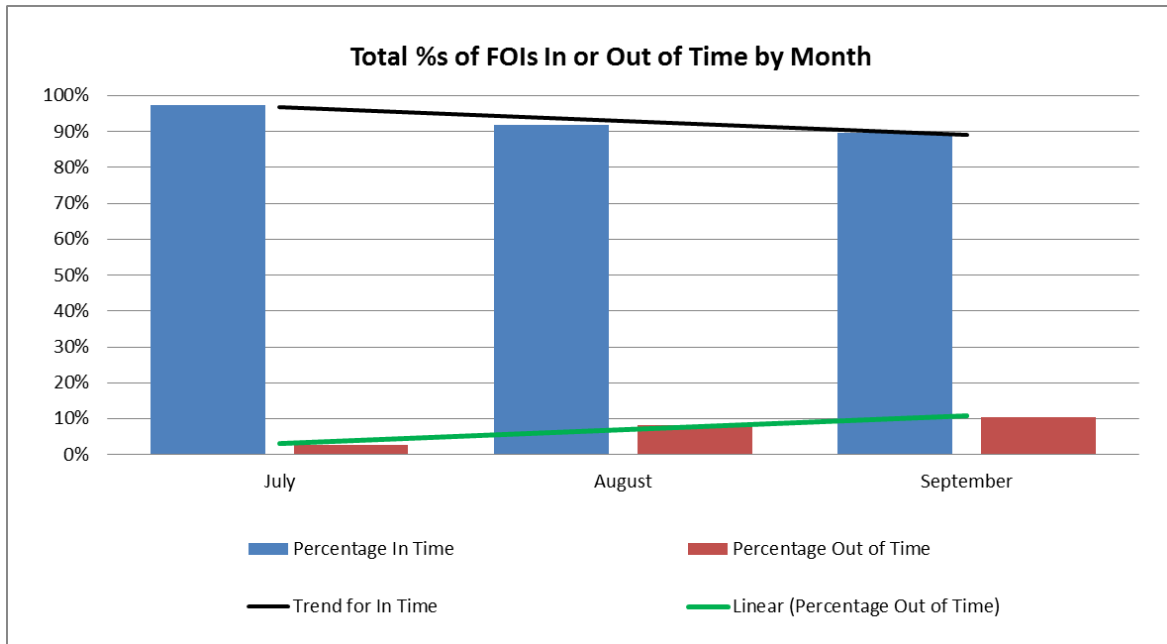
**FOI Quarterly Performance Report April to June 2014**



<b>FOI's (20 working days)</b>		
	<b>Totals</b>	<b>%age of Total</b>
Response In Time	259	60
Partial Exemption In Time	105	24
Exemption In Time	30	7
Not Pursued	3	1
<b>Sub Total</b>	<b>397</b>	<b>92</b>
Response Out of Time	13	3
Partial Exemption Out of Time	2	0.5
Exemptions Out of Time	2	0.5
No Response Sent	17	4
<b>Sub-Total</b>	<b>34</b>	<b>8</b>
<b>Total</b>	<b>431</b>	<b>100</b>

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**FOI Quarterly Performance Report July – September 2014**



<b>FOI's (20 working days) – July to September</b>		
	<b>Totals</b>	<b>%age of Total</b>
Response In Time	353	79
Partial Exemption In Time	39	9
Exemption In Time	18	4
Not Pursued	7	2
<b>Sub Total</b>	<b>417</b>	<b>94</b>
Response Out of Time	12	3
Partial Exemption Out of Time	4	1
Exemptions Out of Time	1	0 (0.2%)
No Response Sent	14	3
<b>Sub-Total</b>	<b>31</b>	<b>7</b>
<b>Total</b>	<b>448</b>	<b>100</b>

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**Audit & Governance Committee****10th December 2014**

Report of the Director of Customer and Business Support Services

**Absence Management****Summary**

1. As requested by this Committee at its meeting held on 25 June 2014, this report outlines the plans in place and actions undertaken in light of the concerns raised within the Annual Governance Statement relating to sickness absence management across the council. It covers the response to the recent audit report which gave a 'Limited Assurance' rating to compliance to with the council's policies in place.

**Background****The council's policies and practice for sickness absence**

2. In March 2013 Corporate and Scrutiny Management Committee concluded a review of the council's sickness absence policy and its recommendations for improvement were approved by Cabinet in May 2013. The recommendations made in that report were enshrined within the revised policies finalised in October 2013 that the council has in place today.
3. Members are asked to note that whilst sickness returns from managers are input into the council's Human Resources (HR) system, iTrent, and that Management Information is available for managers, direct input is not yet available. The iTrent project has focussed on payroll implementation for the council and its payroll customers, people manager, employee self service, time and expenses claims, performance management and recruitment. Resources for the project are currently being reviewed to identify the resources and timescales needed to implement the absence management module next which is a complex implementation covering all forms of leave arrangements in the council.

## **Internal Audit Findings**

4. It was against the revised policies that an audit was undertaken this year and a report finalised in July 2014, the outcomes were reported to this Committee in 2014 and the report can be found at Annex A.
5. The report states:

‘A number of weaknesses have been identified during the audit. They all relate to weaknesses and inconsistencies in practice between managers across the council rather than any inaccuracy of processing within the HR Business Centre. The most significant weakness is that not all sickness absence is being recorded on iTrent and therefore any management information produced is currently understating the amount of sickness absence across the council.’

## **Response to the Internal Audit Report**

6. See below for the recommendations and actions undertaken since the production of the audit report:

### **a) Instances of sickness are not all being included on iTrent**

Action:

Sickness statistics are now produced regularly and taken to the Council and Directorate Management Teams along with details of submission of sickness returns. Any discrepancies suggesting inaccurate recording are discussed with them. Internal Audit will carry out follow up audits and continue to be involved with the implementation of new iTrent modules to ensure that issues related to completeness and accuracy of recording are taken into account.

### **b) Self certification forms are not always being completed for instances of sickness.**

Action:

Training is and will continue to be provided through the Workforce Development Unit (see details below) and regular emails are issued to all managers reminding of the importance of accurate recording and compliance with the attendance management policy

and procedures, together with reports back to Council Management Team. Training has been strengthened also to support the advice given in induction procedures.

**c) Appropriate action is not taken when trigger points are reached**

Action:

The existing procedure requires managers to review past absence at the return to work meeting and if a trigger point has been reached to take appropriate action. This requirement has been reinforced in manager toolkit guidance documents which have been launch to support the implementation of the policy amendments. It will be investigated whether an automatic alert can be set up on iTrent to notify managers when trigger points have been reached. Other actions are outlined in b) above and below in paragraph 7.

**d) 'Statements of fitness for work' are not always present to support absences over seven days.**

Action:

It will be investigated whether an alert can be set up on iTrent to notify managers of their requirements for when an absence is over 7 calendar days to ensure a fit note is obtained and retained. Other actions are outlined in c) above and below in paragraph 7.

**Full Range of Activity Undertaken to Improve Control**

7. Council Management Team (CMT) have received the audit report and required actions and with the support of HR the following actions have been implemented:

- a) CMT now receive regular sickness absence information with HR management information bulletins, and have agreed that a corporate sickness target needs to be established and will received a recommendation on this target in January 2015.
- b) Issues and actions raised at Corporate Leadership Group with Assistant Directors and at Directorate Management Teams.

- c) Robust sickness monitoring is contained within a 'key management essentials' document issued to all service managers in setting expectations of managers to get basic reporting right.
- d) Embedded in the council's Organisational Development Plan being managed through the Rewiring Public Services transformation programme.
- e) Monthly reminders are issued to all staff about payroll deadlines with monthly sickness return as an attachment. A staff magazine article has been issued on the process.
- f) Monitoring of all Heads of Service asking them to confirm that sickness absence returns are complete.
- g) New Occupational Health contract provides for improved and detailed quarterly reporting on referrals.
- h) Sickness absence policy and managers toolkit has been updated and reissued to reflect the new Occupational Health arrangements and this is more explicit about the sickness reporting process.
- i) A training plan has been developed through the Workforce Development Unit involving delivery of courses through the Occupational Health Nurse, the induction course and a specific programme being developed for absence management.

### **Response to previous Member Questions**

8. Concern was raised at this Committee in June that inaccurate sickness absence information could lead to incorrect decisions being made for selection of compulsory redundancy on the basis that absence in the proceeding 12 months is one of the criteria used for redundancy selection.
9. It can be confirmed that the process for redundancy selection requires managers to make available to employees full details of the absence dates which are would be used for the redundancy selection decision. Should there be a discrepancy in the reported dates it would be identified at this stage, before a decision is made.



## **Consultation**

10. Negotiations took place with the recognised trade unions through the council's Joint Consultative Committee (CJCC) in order to reach agreement on the 2013 changes to the council's sickness absence policies

## **Analysis**

11. All analysis is contained in the body of this report

## **Council Plan**

12. The information outlined in this report is in line with the council plan core capabilities and the workforce strategy which has health and wellbeing as an area of priority.

## **Implications**

### **Financial**

13. Failure to record sickness accurately can lead to miscalculation of occupational sick payments for individual officers, and an inability to fully account for the full cost of sickness absence for the council.

### **Legal**

14. See Human Resources implications.

### **Human Resources**

15. If sickness absence is not tracked and managed appropriately, the implications for staff members could be significant if appropriate support or responses are not put into place either through worsening absence or symptoms, or through litigation action taken against the council. The implication for the council is that absence reasons and volumes recorded in the HR system are not accurate and cannot be relied to inform for management decision making and actions based on the results.

### **Equalities**

16. The poor recording of sickness absence reasons and related management action could result in reasonable adjustments or

occupational health advice not being provided where staff are covered by the Equalities Act in relation to any disability.

### **Crime and Disorder**

17. There are no Crime and Disorder implications

### **Information Technology (IT)**

18. Matters relating to the HR system are covered in the report.

### **Property**

19. There are no property implications.

### **Risk Management**

20. The main risks relate to failure to record, track, monitor and put in place actions to monitor sickness at service levels are that sickness levels are not accurate and the response to intentions are not proportionate. Risks of litigation against the council are increased as a result.

### **Recommendations**

21. Members are asked to note and comment on the contents of the report.

*Reason: To understand the key issues and response to recommendations to secure improvements in control arrangements around sickness absence.*

**Contact Details**

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**Ian Floyd**  
Director of CBSS

**Report Approved**



**Date** 2nd December 2014

**Pauline Stuchfield**  
**AD Customers & Employees**  
Tel No. 01904 551706

**Wards Affected:** *List wards or tick box to indicate all*

**All**

**Background Papers:**

Cabinet Report – Staff Sickness Absence Final Report – 7 May 2013

**Appendices:**

Annex A – Sickness Absence Internal Audit Report

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# Attendance Management

## City of York Council

### Internal Audit Report 2013/14

Business Unit: Corporate and Cross Cutting  
 Responsible Officer: Assistant Director - Customers & Employees  
 Service Manager: Head of Business HR  
 Date Issued: 09/07/2014  
 Status: Final  
 Reference: 19160/002

	P3	P2	P1
<b>Findings</b>	<b>0</b>	<b>3</b>	<b>1</b>
<b>Overall Audit Opinion</b>	<b>Limited Assurance</b>		

# Summary and Overall Conclusions

## Introduction

The council's Attendance Management policy was updated in October 2013. The policy document details the council's approach to encourage attendance at work through managing short and long term sickness absences. The main objective of this policy is to maximise attendance at work whilst recognising that staff should not attend work if they cannot perform their normal job role due to sickness. The council aims to achieve this through early intervention, employee support and through the promotion of health, safety and well being initiatives.

## Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system would ensure that:

- Sickness cases have been recorded correctly onto iTrent.
- Appropriate supporting documentation is retained for all instances of sickness.
- Absences are monitored and appropriate action is taken in relation to trigger points.
- Performance information for absence is regularly produced for managers and Directorate Management Teams.
- Appropriate absence management training and guidance is given to managers and employees.

## Key Findings

A number of weaknesses have been identified during the audit. They all relate to weaknesses and inconsistencies in practice between managers across the council rather than any inaccuracy of processing within the HR Business Centre. The most significant weakness is that not all sickness absence is being recorded on iTrent and therefore any management information produced is currently understating the amount of sickness absence across the council. This, and other issues relating to a lack of supporting documentation for absences and insufficient action being taken at trigger points, is discussed in more detail in the rest of the report.

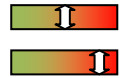
In addition, there is currently a significant issue with the time taken for documentation submitted to the HR Business Centre to be scanned, indexed and available to view on Documentum in employee HR files. This issue has been raised in the Payroll audit report for 2013/14 and no further action is therefore included here.

## Overall Conclusions

It was found that there is a poor management of risk with significant control weaknesses in key areas and major improvements are required before an effective control environment will be in operation. Our overall opinion of the controls within the system at the time of the audit was that they provided **Limited Assurance**.

## Area Reviewed: Recording of sickness absence on iTrent

Severity  
Probability



### 1 Issue/ Control Weakness

### Risk

Instances of sickness are not all being included on iTrent.

Inaccurate management information leading to incorrect reporting and failure to manage sickness absence appropriately, potential overpayments to employees.

### Findings

Each month managers are required to complete a monthly absence return form listing all instances of sickness within their team during the past month. The details on these returns are then input onto iTrent by staff in the HR Business Centre.

Testing showed that although the monthly returns received by HR are being accurately input onto iTrent, not all periods of sickness are being included by managers on monthly returns and the sickness information on iTrent is therefore incomplete.

A sample of twenty employees was taken and their HR files were reviewed. Within these files, three self certification forms and two fit notes (five separate periods of absence) were identified that had no corresponding entry on iTrent. Given the other issues raised in this report about the weaknesses in completing and retaining self certification forms, it is likely that the number of sickness absences that are not recorded is significantly higher than this sample test would suggest. Unfortunately, with the current weaknesses in documentation and the nature of the devolved, manual sickness recording process it is not possible to obtain an accurate picture of how much sickness is currently not being recorded.

There is no master list of all managers who should be submitting monthly returns and therefore no log of who has not submitted. There is also no process which could be maintained, due to ongoing restructuring, which would identify which services are due to submit a monthly return. This would mean different people would be expected to submit monthly returns so any list could quickly become out of date. The number of returns received varies each month despite nil returns being requested, which suggests there are a number of managers not returning but, again, with the current processes it is not possible to estimate how many returns are not submitted each month.

### 1.1 Agreed Action

Sickness statistics will be produced regularly and taken to DMTs. Any discrepancies suggesting inaccurate recording will be discussed with the relevant service manager. Internal Audit will continue to be involved with the implementation of new iTrent modules to ensure that issues related to completeness and accuracy of recording are taken into account.

Priority

1

Responsible Officer

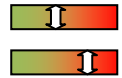
Head of Business HR

Timescale

30/11/2014

## Area Reviewed: Self certification forms and return to work documentation

Severity  
Probability



### 2 Issue/ Control Weakness Risk

Self certification forms are not always being completed for instances of sickness. Lack of supporting documentation for instances of sickness, return to work interviews may not be being held.

#### Findings

Self certification forms should be completed and signed by employees and their managers after each period of sickness absence. Details of the absence should be recorded along with a record of the return to work discussion and details of any further action required. The forms clearly state that they must be sent to the HR Business Centre to be scanned onto the employee's HR file.

A sample of absences was taken from iTrent and the relevant employee's HR file was checked to locate the corresponding self certification form. Due to the current issue of delays in documentation being scanned onto Documentum and added to HR files (as discussed on page 2) absences since August 2013 were excluded from the testing sample. Even after excluding recent absences, the relevant documentation could not be located for 64% of absences tested. Therefore for a high proportion of absences self certification forms are either not being sent to HR, meaning no record of discussions and actions will be retained, or the forms are not being completed at all.

#### 2.1 Agreed Action

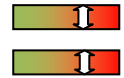
When the iTrent absence management module is implemented, paper forms will no longer be required and an electronic alternative will be implemented. In the meantime, training will continue to be provided through the Workforce Development Unit and an email will be issued to all managers reminding of the importance of accurate recording and compliance with the attendance management policy and procedures.

<b>Priority</b>	2
<b>Responsible Officer</b>	Head of Business HR
<b>Timescale</b>	30/11/2014



**Area Reviewed: Action is not being taken when trigger points are reached.**

**Severity**  
**Probability**



**3 Issue/ Control Weakness Risk**

Appropriate action is not taken when trigger points are reached

Non-compliance with the Attendance Management policy, failure to appropriately manage employee attendance.

**Findings**

The Attendance Management policy sets out a series of trigger points that, when reached, should initiate either informal or formal review meetings to be held between the employee and their manager. A sample of absences that caused trigger points to be reached was taken from iTrent and the employee HR files were reviewed for evidence of review meetings or other action taken. For the ten cases tested, only three had any evidence that appropriate action had been taken. A further two incorrectly stated on the self certification form that a trigger point had not been reached and the remaining five had either no documentation or no mention on the form of any trigger point discussion or review meeting.

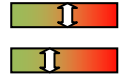
**3.1 Agreed Action**

It will be investigated whether an automatic alert can be set up on iTrent to notify managers when trigger points have been reached. In the meantime, training will continue to be provided through the Workforce Development Unit and an email will be issued to all managers reminding of the importance of accurate recording and compliance with the attendance management policy and procedures.

<b>Priority</b>	2
<b>Responsible Officer</b>	Head of Business HR
<b>Timescale</b>	30/11/2014

## Area Reviewed: Documentation to support absences over seven days

Severity  
Probability



### 4 Issue/ Control Weakness

### Risk

'Statements of fitness for work' are not always present to support absences over seven days.

Absences may not be legitimate sickness absence and managers may not have the required information to make reasonable adjustments or facilitate a return to work for the employee.

### Findings

For absences that last longer than seven calendar days, the employee must obtain a 'statement of fitness for work' (fit note) from a medical practitioner and submit this to their line manager. The line manager should then forward this document to the HR Business Centre to be scanned onto the employee's HR file.

A sample of absences over seven days was taken from iTrent, excluding recent cases where documentation may not yet have been scanned. For the 30 absences tested, there were fit notes present covering the entire period of absence in only 17 cases, 7 cases where the records covered some but not all of the period of absence and 6 cases where no fit notes were present.

### 4.1 Agreed Action

It will be investigated whether an alert can be set up on iTrent to notify managers when absence are over 7 calendar days to ensure a fit note is obtained and retained. In the meantime, training will continue to be provided through the Workforce Development Unit and an email will be issued to all managers reminding of the importance of accurate recording and compliance with the attendance management policy and procedures.

Priority

2

Responsible Officer

Head of Business HR

Timescale

30/11/2014

## Audit Opinions and Priorities for Actions

Audit Opinions	
<p>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Moderate assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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**Audit & Governance Committee**12<sup>th</sup> December 2014

Report from the Office of the Chief Executive

**Partnerships Update****Summary**

1. This report sets out work that is ongoing as part of an action plan to ensure that the council has a methodology and approach to ensure that partnerships operate effectively. This means that the council will assess the importance and risk that partnerships present and ensure that an appropriate level of visibility and governance is in place. Work will also be undertaken to ensure that decisions continue to be made in line with the council constitution.
2. Audit & Governance Committee are asked to note the progress made and a further report will be brought to committee in April 2015 when the majority of actions will have been implemented.

**Background**

3. The council wants to participate in strong and co-operative partnerships that provide good outcomes for York's residents. Sometimes the council will run partnerships and on other occasions it will be a participant. It is key that the council enters into partnerships in a way that avoids risk (both financial and reputational) and follows the correct financial and legal protocols.
4. The approach to partnerships has changed significantly in local government over recent years. Most local authorities have moved away from a city wide LSP (Local Strategic Partnership), in our case Without Walls. They have been replaced in part with new strategic partnerships such as the Health & Wellbeing Board or different less formal partnerships. We recognise that the council will increasingly work in partnership to deliver its outcomes and therefore needs to ensure that it has a flexible approach to how it works with others. But that flexibility must always be underpinned by a need for good governance, transparency and adherence to

the council's financial regulations and decision making protocols. We recognise that we need to ensure effective use of officer and partner time.

5. Partnerships are extremely hard to define as there are many, many definitions. The council is already involved in a wide variety of different partnerships ranging from and including voluntary partnerships; statutory partnerships; executive and non-executive partnerships; strategic delivery and strategic partnering for private sector purchases.
6. Where partnerships are statutory, there is clear guidance on the governance and meeting processes/protocols to be followed. Non statutory partnerships tend to be less formal but still require good governance and processes. In relation to the Without Walls Partnership and sub groups, the council revised the governance arrangements 18 months ago to try and ensure that good governance arrangements were in place, particularly where the council no longer provided secretariat support. This guidance has had mixed success.
7. Work (set out below) is ongoing to try and ensure that the council undertakes an assessment of each partnership to determine what the appropriate level of governance should be. As part of this assessment, it will be determined whether the council will provide or contribute to the secretariat support that the partnership requires.

### **Action Plan**

8. The council committed to a range of actions to improve partnership working. They include;
  - Establishment of a directory of partnerships
  - Visibility of the agendas and papers for significant partnerships on the council website
  - Revised Guidance
  - Review of administrative/secretariat support to statutory boards
9. **Directory of Partnerships.** We recognised that there is not a single definitive list of all the partnerships that the council is

participating in. By 31<sup>st</sup> December 2014, a full list will be available on a new partnership's portal on the CYC website. It will hold details of the partnership, frequency of meeting and the contact details of a council officer who either supports or attends the partnership.

10. **Visibility of Agendas/Papers.** Although the agenda and papers for statutory boards are available on the council or linked websites, there are other significant boards where the papers are not readily available. By 31<sup>st</sup> March 2015, we will have a new web based calendar that will provide the opportunity for partnership board agendas and papers to be posted. It has to be recognised that although the council has the ability to ensure that papers are posted for meetings that it supports, there will be a need for partners to agree to post agendas and documents.
11. **Revised Guidance.** There is a significant amount of partnership guidance available to council staff. However it is found in several different places and some of it requires updating. In particular the guidance has been written to reflect the current operating environment and it needs to address the changing way in which partnerships are evolving. There is a risk that although partnerships are currently managed well that they are not in the future. The guidance will introduce a risk assessment tool to determine the level of governance and sign off that is required for future partnerships. It will clarify the terms of reference and sign off arrangements within the council. The guidance will seek to establish how meetings are conducted and the protocols that should be place. For example, the council would wish to see residents have the opportunity to participate in partnership meetings. All statutory partnerships allow this opportunity but we would encourage other less formal ones to provide this opportunity too. The guidance will also set out further advice on the publication of meeting dates.
12. A draft of the guidance has been produced and is currently being reviewed by partners. It is obviously our intention, as much as is possible, to bring forward guidance that is supported by partners. We expect to issue new guidance on February 1<sup>st</sup> 2015.
13. **Review of administrative support to statutory partnerships.** There is insufficient resource within the council to support the administration of every partnership. Beyond the statutory partnerships that the council will support, we are considering what

capacity is available to support other significant partnerships. We will undertake this review with our partners. Thought is being given to different operational structures within the council to make best use of the resources that are available.

### Implications

14. At this point there are no specific implications to the work. It is not intended to change the level of investment made on Partnerships and their support but proposals could emerge to use that funding in a different way. For example proposals may emerge to consolidate the administrative support to boards.

### Recommendations

Audit & Governance Committee are –

- Asked to note the work currently being undertaken
- Indicate whether they wish to review the draft partnership guidance
- Note that a further report will be produced in April 2015.

Reason: To ensure that Members are kept updated on the work that is taking place in respect of governance arrangements for partnership working.

### Contact Details

**Author:**

Stewart Halliday  
Assistant Director  
Transformation & Change

**Chief Officer Responsible for the report:** Kersten England **Chief Executive**

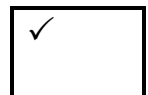
**Report  
Approved**



**Date**

2<sup>nd</sup> December  
2015

**All**



**Wards Affected:** *List wards or tick box to indicate all*

**For further information please contact the author of the report**





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**Audit and Governance Committee**10<sup>th</sup> December 2014

Report of the Chief Executive

**Local Government Association Report****Summary**

1. Mark Edgell from the Local Government Association will be attending Audit & Governance Committee meeting to set out early findings of the review into member-officer relations. Member-Officer relations are key to the effective running of council services.
2. Members have the right to hold officers of the council to account. These processes are clearly defined by the constitution, and Member-Officer relationships are governed through the Code of Conduct.
3. Where scrutiny is applied outside of these channels, it can cause friction within the Member-Officer relationships and can be counter-productive to the running of the council.
4. A motion was submitted and approved by Council on the 9<sup>th</sup> October 2014, calling for an independent body to review actions of members which *“falls below that which staff and residents expect”*.

**Background**

The following motion was submitted & approved by council on the 9<sup>th</sup> October 2014.

**“40. Notice of Motion - Organisational Development Plan****Minutes:****A Motion submitted for consideration directly by Council, in accordance with Standing Order 12.1(b)**

- (i) Organisational Development Plan (proposed by Cllr Steward)

“Council notes with concern the results of the Organisational Development Action Plan, in particular the Leadership section and the current position re ‘Concern about the Behaviour of some Members’. This follows last year’s Peer Challenge review which also expressed concern regarding members’ understanding of council priorities and the lack of clarity within the council.

Council requests that an independent body be appointed to report back to the Audit and Governance Committee no later than its meeting of 10 December 2014 and that the report is delivered directly to this committee, investigating these concerns and whether Members have acted in a manner which falls below that which staff and residents expect.”

An amendment was proposed by Councillor Alexander as follows:

The **addition** of the following final paragraph:

This report should take into account the personalised politics being exhibited within York by elected members and their supporters – most notably on social media.

On being put to the vote the amendment was declared CARRIED.”

The original motion, as amended on being put to the vote, was also declared CARRIED.

Resolved: That the motion, as amended, be approved. <sup>1</sup>.

Following this motion, the Leader wrote to the Chief Executive to ask the Local Government Association to carry out the review.

The Chief Executive contacted the LGA to commission the current review. This was lead by Mark Edgell, Principal Advisor for North East, Yorkshire & Humber and East Midlands. He was supported by the lead political peers for the LGA.

Mark Edgell and LGA peers have spoken to their respective Group Leaders, and Mark Edgell has spoken to the Council's Management Team. The LGA is preparing a report based on these conversations.

Mark Edgell is to attend Audit & Governance to provide an update on the review on the 10<sup>th</sup> December as per the motion.

### **Consultation**

5. The LGA has met with both members and officers as part of their work.

### **Options**

6. Not relevant for the purpose of the report.

### **Analysis**

7. Not relevant for the purpose of the report.

### **Council Plan**

8. This report contributes to the overall effectiveness of the council's governance and assurance arrangements contributing to an 'Effective Organisation'.

### **Implications**

9.
  - (a) **Financial** – This report reflects upon the employer-employee relationship, with significant financial risks in the form of any potential claims by employees against the council. Costs of the LGA review will be met from council budgets.
  - (b) **Human Resources (HR)** – This report reflects on the employer-employee relationship, with significant HR risks in the form of cost, disruption of the normal business of the council, and reputational damage.
  - (c) **Equalities** – This report reflects on the employer-employee relationship and the requirement of all parties to operate within the legal duties and policies of the council relating to Equality.

(d) **Legal** – The employer-employee relationship is set down in employment legislation. Contravention of this would leave the council open to legal challenge.

(e) **Crime and Disorder** - There are no implications

(f) **Information Technology (IT)** - There are no implications

(g) **Property** - There are no implications

### **Risk Management**

10. By not complying with the requirements of this report, the council will fail to have in place adequate scrutiny of its internal control environment and governance arrangements, and it will also fail to properly comply with legislative and best practice requirements.

### **Recommendations**

11.  
(a) The Committee is requested to take note of the emerging findings and to accept a subsequent written report.

Reason: To update Members on the action that has been taken in response to the motion passed by Council.

### **Contact Details**

**Author:**

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Aide to the Chief Executive  
Office of the Chief  
Executive

**Chief Officer Responsible for the  
report:**

Kersten England  
Chief Executive  
Telephone: 01904 552000

**Report  
Approved**



**Date** 02/12/2014

**Specialist Implications Officers**

Head of Civic, Democratic & Legal Services

**Wards Affected:** Not applicable

**All**

**For further information please contact the author of the report**

**Background Papers:**

None

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## Glossary

A&G	Audit and Governance
AD	Assistant Director
BOE	Bank of England
CBSS	Customer and Business Support Service
CCG	Clinical Commissioning Group
CDS	Credit Default Swap
CFR	Capital Financing Requirement
CIGG	Corporate Information Governance Group
CIH	Chartered Institute of Housing
CIPFA	Chartered Institute of Public Finance and Accountancy
CJCC	Council's Joint Consultative Committee
CMT	Council/Corporate Management Team
CTB	Council Tax Benefit
CTS	Council Tax Support
CYC	City of York Council
DCLG	Department for Communities and Local Government
DWP	Department for Work and Pensions
EU	European Union
FoI	Freedom of Information
FTE	Full Time Equivalent
GDP	Gross Domestic Product
GF	General Fund
GTFE	Gloucestershire Tenancy Fraud Forum
HBMS	Housing Benefit Matching Service
HoIA	Head of Internal Audit
HR	Human Resources
HRA	Housing Revenue Account
ICO	Information Commissioner's Office
IG	Information Governance
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
IT	Information Technology
LAAP	Local Authority Accounting Panel
LAIOG	Local Authority Investigating Officers Group
LB	London Borough
LGA	Local Government Association
LIBID	London Interbank Bid Rate
LSP	Local Strategic Partnership

MMF	Money Market Funds
MPC	Monetary Policy Committee
NAO	National Audit Office
NFA	National Fraud Authority
NFI	National Fraud Initiative
NHS	National Health Service
NNDR	National Non-Domestic Rates
PINS	Professionalism in Security
POCA	Proceeds of Crime Act
PPP	Protecting the Public Purse
PSIAS	Public Sector Internal Audit Standards
PWLB	Public Works Loans Board
Q	Quarter
QA	Quality Assurance
SAFE	Security Against Fraud and Error
SFIS	Single Fraud Investigation Service
SI	Statutory Instrument
SMT	Senior Management Team
SOCA	Serious and Organised Crime Agency
TMSS	Treasury Management Strategy Statement
VAT	Value Added Tax
VFM	Value for Money
WBS	Weekly Benefit Savings
WGA	Whole of Government Accounts