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AGENDA AUDIT AND GOVERNANCE COMMITTEE

Date: Thursday, 27 June 2013

Time: 6:00 pm

Venue: Collingwood Room - Civic Offices

Members:

Councillor T G Knight (Chairman)

Councillor L Keeble (Vice-Chairman)

Councillors P J Davies

J M Englefield

Miss T G Harper

D L Steadman

P W Whittle, JP

Deputies: D J Norris

K D Evans



1. Apologies

2. Minutes (Pages 1 - 6)

To confirm as a correct record the minutes of the Audit Committee meeting hold on 11 March 2013.

3. Chairman's Announcements

4. Declarations of Interest and Disclosures of Advice or Directions

To receive any declarations of interest from members in accordance with Standing Orders and the Council's Code of Conduct.

5. Deputations

To receive any deputations of which notice has been lodged.

6. External Audit Plan 2012/13 (Pages 7 - 28)

To consider a report by the Director of Finance and Resources on the External Audit Plan 2012/13.

7. Benefits Anti-Fraud Policy (Pages 29 - 56)

To consider a report by the Director of Finance and Resources on the Benefits Anti-Fraud Policy.

8. Counter Fraud Investigation Progress Report (Pages 57 - 66)

To consider a report by the Director of Finance and Resources on the Counter Fraud Investigation Progress.

9. Quarterly Internal Audit Report (Pages 67 - 96)

To consider a report by the Director of Finance and Resources on the Quarterly Internal Audit report.

10. Head of Audits Annual Report (Pages 97 - 110)

To consider a report by the Director of Finance and Resources on the Internal Audit Strategy.

11. Counter Fraud Strategy Progress Report (Pages 111 - 124)

To consider a report by the Director of Finance and Resources on an update to the Counter Fraud Strategy Progress.

12. Financial Regulations Updates (Pages 125 - 152)

To consider a report by the Director of Finance and Resources on the Latest Financial Regulations Updates.

13. Audit and Governance Committee Work Programme (Pages 153 - 158)

To consider a report by the Director of Finance and Resources on the Audit and Governance Committee Work Programme.

P GRIMWOOD Chief Executive Officer

www.fareham.gov.uk 19 June 2013

For further information please contact:
Democratic Services, Civic Offices, Fareham, PO16 7AZ
Tel:01329 236100

democraticservices@fareham.gov.uk





Minutes of the Audit and Governance Committee

(to be confirmed at the next meeting)

Date: Monday, 11 March 2013

Venue: Collingwood Room - Civic Offices

PRESENT:

T G Knight (Chairman)

L Keeble (Vice-Chairman)

Councillors: P J Davies, N R Gregory, Miss T G Harper, Mrs K Mandry and

D J Norris



1. CHAIRMAN'S ANNOUCEMENTS

The Chairman welcomed a number of guests who were in attendance at the meeting. Peter Harper, Head of ICT, Richard Ivory, Solicitor to the Council, Kate Handy and Catherine Morganti from Ernst & Young, and Andy Jefford and Ben Deeley from Deloittes.

2. APOLOGIES

There were no apologies received for this meeting.

3. MINUTES

RESOLVED that the minutes of the meeting of the Audit and Governance Committee held on 26 November 2012, subject to the correction of the spelling error at item 14 which should read as "against", be confirmed and signed as a correct record.

4. DECLARATIONS OF INTEREST AND DISCLOSURES OF ADVICE OR DIRECTIONS

There were no declarations of interest made at this meeting.

5. **DEPUTATIONS**

There were no deputations made at this meeting.

MATTERS SUBMITTED FOR CONFIRMATION

6. LATEST FINANCIAL REGULATIONS UPDATES

The Committee considered a report by the Director of Finance and Resources on the latest Financial Regulations, Regulations 13 - Physical Assets, Regulation 17 – Petty Cash and Regulation 20 – Taxation.

RESOLVED that the Committee recommends to Council that the proposed changes set out in the report be approved.

DECISIONS UNDER DELEGATED POWERS

7. EXTERNAL AUDIT ANNUAL FEE LETTERS 2012/13 AND 2013/14

The Committee considered a report by the Director of Finance and Resources on the External Audit Annual Fee letters 2012/13 and 201314.

At the invitation of the Chairman Kate Handy from Ernst & Young, addressed the Committee for this item and took questions from members on the report.

RESOLVED that he Committee approves the proposed fees for the External Audit coverage in 2012/13 and 2013/14.

8. EXTERNAL AUDIT REPORT OF THOSE CHARGED WITH GOVERNANCE - ANNUAL CERTIFICATION REPORT 2011/12

The Committee considered a report by the Director of Finance and Resources on the External Audit report of those charged with governance — Annual Certification Report 2011/12.

At the invitation of the Chairman Catherine Morganti from Ernst & Young, addressed the Committee on this item and took questions from members on the report which were in regards to the errors made to housing benefit claims that were identified within the report. The Head of Revenue and Benefits also addressed the Committee on this item to reassure members that processes have been put in place to ensure that these errors are reduced in the future.

RESOLVED that the content of the report be noted.

9. QUARTERLY INTERNAL AUDIT REPORT

The Committee considered a report by the Director of Finance and Resources on the Quarterly Internal Audit report.

At the invitation of the Chairman, Ben Deeley from Deloittes addressed the Committee on this item and took questions from members.

The Head of ICT took questions and explained the technical items on the ICT audit section of the report.

RESOLVED that the Committee notes the progress of the Contractor Internal Audit Plan, attached as Appendix A to the report.

10. CONTRACTOR INTERNAL AUDIT PLAN 2013/14

The Committee considered a report by the Director of Finance and Resources on the Contractor Internal Audit Plan 2013/14 which summarises the approach taken and the coverage proposed by the Internal Audit Contractor for 2013/14 with a provisional plan for 2014/15.

At the invitation of the Chairman Ben Deeley from Deloittes addressed the Committee on this item and took questions from members on the report.

RESOLVED that the Committee approves the Contractor Audit Needs Assessment and Plan for 2013/14, attached as Appendix 1 to the report.

11. MOTION REFERRED BY COUNCIL

At the agreement of the Committee the Chairman took this item early.

At the invitation of the Chairman, Councillor Gregory presents his motion.

The Committee gave consideration to the following motion which was submitted to Council on 22 February 2013 by Councillor N R Gregory. The

Council agreed to refer the motion to the Audit and Governance Committee, inviting its comments on the proposed review of elected members Code of Conduct:-

"I would like to request that this Council sends a letter to Eric Pickles, Secretary of State for Communities and Local Government.

The letter should request a review of the regulations on the elected members' Code of Conduct to allow sanctions to be implemented by Employed Officers of the Authority and or independent member/s of the public of this Authority without Political intervention.

This move would promote openness, accountability and integrity to the people who elected us to our public office, and ensuring that all elected members Code of Conduct's are fit for purpose.

Whilst the current Code of Conduct and the implementations of sanctions do meet current Government regulations; however the changes adopted last April bring to question the accountability of these due to the sanctioning of breaches. This also brings into question the accountability of members to their residents."

The Solicitor to the Council addressed the Committee on this item to explain how the Localism Act has reformed the methods for authorities to discipline members who breach the code of conduct.

Following a debate and having being put to the vote, with 1 supporting, 5 against, and 1 abstention the motion was declared not supported.

A proposal however was made and seconded that the Monitoring Officer bring a report back to the Committee in one years time to give an update on how the current arrangements are working with possible recommendations for improvement. Onbeing put to the vote with 6 supporting, 0 against and 1 abstention, the proposal was approved.

RESOLVED: that the motion referred from Council to the Audit and Governance Committee is not supported but the Monitoring Officer bring a report back to the Committee in one year's time to give an update on how the current arrangements are working with possible recommendations for improvement.

12. CORPORATE RISK REGISTER 2013

The Committee considered a report by the Director of Regulatory and Democratic Services on the Corporate Risk Register 2013.

RESOLVED that the content of the report be noted.

13. MEMBER TRAINING AND DEVELOPMENT PROGRAMME 2013/14

The Committee considered a report by the Director of Regulatory and Democratic Services on Member Training and Development programme for 2013/14.

RESOLVED that the Committee:

- (a) approves the framework for the 2013/14 programme as set out in Appendix B of the report, subject to the addition of sessions on the scrutinising role of members and corporate risk management; and
- (b) approves the new member induction programme as set out in Appendix C of the report, subject to the addition of member involvement in policymaking.

14. REVIEW OF COMMITTEE WORK PROGRAMME AND ANNUAL REPORT

The Committee considered a report by the Director of Finance and Resources on a review of the Committee Work programme and Annual Report.

RESOLVED that:

- (a) the Committee recommends that the content of the report be noted by the Council; and
- (b) the Committee approves the work programme for 2013/14, as set out in Appendix C of the report with the addition of an item giving an update in one year's time on how the current standards arrangements are working with possible recommendations for improvement.

(The meeting started at 6.00 pm and ended at 8.25 pm).

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Report to Audit and Governance Committee

Date 27 June 2013

Report of: Director of Finance and Resources

Subject: EXTERNAL AUDIT PLAN 2012/13

SUMMARY

This report brings to members' attention the Audit Plan from the Council's external auditors, Ernst & Young Ilp.

The plan provides the Committee with a basis review the proposed audit approach and scope of work for the 2012/13 audit and to ensure that the work is in line with Members' expectations.

RECOMMENDATION

That the Committee approves the Audit Plan, attached as Appendix A to this report.

Appendix A - Audit Plan

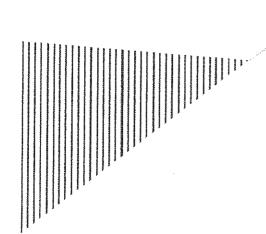
Background Papers: None

Reference Papers: None

Enquiries:

For further information on this report please contact Andrew Wannell, Director of Finance and Resources (Ext 4620)

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Fareham Borough Council

Year ending 31 March 2013

Audit Plan

27 June 2013

■ ERNST & YOUNG

Audit and Governance Committee Fareham Borough Council Civic Offices Civic Way Fareham Hants P016 7PU

27 June 2013

Dear Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2012/ 2013 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, and also to ensure that our audit is in line with the Committee's expectations.

This report summarises our assessment of the key risks driving the development of an effective audit for Fareham Borough Council, and outlines our planned audit strategy in response.

We welcome the opportunity to discuss this report with you on 27 June 2013 and understand any other matters which you consider may influence our audit.

Yours faithfully

Kate Handy For and behalf of Ernst & Young LLP Enc

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1. Overview

Context for the audit

This audit plan covers the work we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Fareham Borough Council give a true and fair view of the financial position as at 31 March 2013 and of the income and expenditure for the year then ended; and
- ► A statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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

In part 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to the audit of financial statements, and outline our plans to address them.

We will provide an update to the Audit and Governance Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2013.

Our process and strategy

- Financial Statement Audit
 - We will apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. We set our materiality based on the Council's level of gross expenditure. We also consider qualitative issues, such as the impact on the public's and other stakeholder understanding of your accounts and the information contained. Our audit is designed to identify errors above materiality.
 - ▶ We aim to rely on the Council's internal controls in the key financial systems. We identify those controls we consider important and seek to place reliance on internal audit's testing of those controls. Where control failures are identified we consider the most appropriate steps to take.
 - ➤ To the fullest extent permissible by auditing standards, we will seek to rely on the work of internal audit wherever possible. We have liaised with Internal Audit over their coverage of controls. We will review their work and assess where further work is required.
- Arrangements for securing Economy, Efficiency and Effectiveness
 - We adopt an integrated audit approach. Our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

2. Financial Statement Risks

We outline below our assessment of the key strategic or operational risks and the financial statement risks facing Fareham Borough Council identified through our knowledge of your operations and discussion with members and officers.

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

Significant risks (including fraud risks)

Our audit approach

None

Other financial statement risks

Our audit approach

Accounting for your interest in Portchester Crematorium

Fareham Borough Council is a constituent council of the Joint Committee for Portchester Crematorium.

We are clarifying with you the ownership of the assets.

We have been liaising with you on your plans for disclosing your interest in the crematorium.

Risk of misstatement due to fraud and error

The following risk is generic to all financial statements audits and is brought to your attention as those charged with governance.

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

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

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

- ldentifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks.

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

3. Economy, Efficiency & Effectiveness

Our work will focus on:

- Whether there are proper arrangements for securing financial resilience at Fareham Borough Council; and
- 2. Whether there are proper arrangements at Fareham Borough Council to secure economy, efficiency and effectiveness in the use of resources.

The table below provides a high-level summary of our risk assessment and our proposed response to those risks. At this stage of our audit we have not identified any significant audit risks.

Other risks		Our audit approach	
Financial standing		ลายเปลี่ยงสมบัตรแบบเมืองสมบัตรและเลืองเลืองสามารถสามารถสามารถ	
The Council continues to experience challenges from reduced government funding.	Financial resilience Economy, efficiency and effectiveness	We will review the Council's medium term financial strategy and the 2013/14 budget and evaluate the reasonableness of key assumptions.	
Developments:		We will assess the Council's arrangements for ensuring financial resilience in the medium to long term.	
The Council is a key facilitator in several projects such as Welborne - the New Community North of Fareham (NCNF) and the development of the	Economy, efficiency and effectiveness	Our approach will focus on: Reviewing the Council's arrangement for managing its risks.	
Daedelus site.	Financial resilience	Assessing the financial implications of the developments for the Council, particularly for financial resilience.	

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

- i) financial statements; and
- ii) arrangements for securing economy, efficiency and effectiveness in your use of resources.

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

i) Financial Statement Audit

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

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

ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

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

4.2 Audit process overview

As part of our audit planning procedures we have assessed the design of your internal controls determining that an effective audit strategy will be to take a controls reliance approach. Therefore we will test the controls we determine as key to preventing and detecting material misstatement in the processes we list below.

In implementing this strategy, we intend to place reliance on the work of internal audit as much as possible, while complying with the requirements of auditing standards. We will review their files and reperform a sample of their work to assess if we can do this.

Processes

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

- Accounts receivable
- Accounts payable
- Business rates
- Council tax
- Cash processing
- Housing Benefits
- Payroll (including pensions)

Analytics

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

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

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Governance Committee.

Internal audit

We will review internal audit plans and the results of its work. We will reflect the findings from these, together with reports from other work completed in the year, where issues are raised that could have an impact on the year-end financial statements.

Use of experts

We will use specialist Ernst & Young resource as necessary to help us to form a view on judgments made in the financial statements. Our plan currently includes the involvement of specialists in pensions and property valuations.

Other procedures

We have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Mandatory procedures required by auditing standards on:

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

Procedures required by the Code

- Reviewing, and reporting as appropriate, other information published with the financial statements, including the Annual Governance Statement.
- Reviewing and reporting on the Whole of Government accounts return, in line with NAO instructions.
- Reviewing, and where appropriate, examining evidence relevant to your corporate performance management and financial management arrangements and reporting on these arrangements.

4.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

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

ISA (UK & Ireland) 450 (revised) requires us to record all misstatements identified except those that are "clearly trivial". We intend to treat misstatements less than £60,123 as clearly trivial. All uncorrected misstatements found above this amount will be presented to you in our year-end report.

4.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for your audit is £63.407

4.5 Your audit team

The engagement team is led by Kate Handy. She is supported by Catherine Morganti who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the chief accountant.

4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the whole of government accounts; and the deliverables we have agreed to provide to you through the Audit and Governance Committee cycle in 2013. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a formal report to the Audit and Governance Committee in September 2013 incorporating the outputs from our year-end procedures. From time to time matters may arise that require immediate communication with the Audit and Governance Committee and we will discuss them with the committee Chairman as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

	October	November	Annual Audit Letter
			Audit completion certificate
			securing economy, efficiency and effectiveness in its use of resources).
			Council has put in place proper arrangements for
			statements and a conclusion as to whether the
		The David Addition	Audit report (including our opinion on the financial
		September Committee	Report to those charged with governance
Year-end audit	July – September		
Testing of routine processes and controls	February to April		
Risk assessment and setting of scopes	January to April	June Committee	Audit Plan
High level planning:	January	March Committee	
Audit phase	Timetable	Audit and Governance Committee timetable	Deliverables

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

5. Independence

5.1 Introduction

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

	Required communications			
Pla	nning stage	Final stage		
	The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; The overall assessment of threats and safeguards;	 ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged for them; 		
	Information about the general policies and process within EY to maintain objectivity and independence.	 Written confirmation that we are independent; Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and An opportunity to discuss auditor independence issues. 		

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

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

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

5.2 Relationships, services and related threats and safeguards

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

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long-outstanding fees.

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

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

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

Self-review threats

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

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

Management threats

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

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

Other threats

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

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

Overall Assessment

Overall, we consider that the adopted safeguards appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence. Kate Handy your audit engagement partner and the audit engagement team have not been compromised.

5.3 Other required communications

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm must publish by law. The most recent version of this Report is for the year ended 29 June 2012 and can be found here:

UK 2012 Transparency Report

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2012/13 £'000	Actual Fee 2011/12 £'000	Explanation of variance
Total Audit Fee – Code work	63,407	105,678	40% reduction achieved by the Audit Commission outsourcing its audit practice.
Certification of claims and returns*	17,900	45,492	Our fee for the 2012/13 certification of grant claims is based on the indicative scale fee set by the Audit Commission.
			Additional testing will be charged separately
			Prior year fee represents actual hourly rates
Non-audit work	0	0	

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

- The level of risk in relation to the audit of the financial statements is consistent with that in the prior year;
- We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- ▶ The financial statements will be available to us in line with the agreed timetable;
- Working papers and records provided to us in support of the financial statements are provided in line with our agreed timetable, are of a good quality, consistent with the accounts provided for audit, and are reviewed by an appropriate officer;
- Prompt responses are provided to our draft reports;
- ➤ An effective control environment operating for the whole of the financial year;
- No significant changes are being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- Our accounts and use of resources conclusion being unqualified.

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

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

Appendix B UK required communications with those charged with governance

There are certain communications we must provide to the Audit and Governance Committee of audited clients. These are detailed here:

Required communication	Reference
Planning and audit approach	
Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit	Report to those charged with
 Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures 	governance
Significant difficulties, if any, encountered during the audit	,
Significant matters, if any, arising from the audit that were discussed with management	
Written representations that we are seeking	
Expected modifications to the audit report	
▶ Other matters if any, significant to the oversight of the financial reporting process	
Findings and issues regarding the opening balance on initial audits	
Misstatements	Report to those charged with
Uncorrected misstatements and their effect on our audit opinion	governance
► The effect of uncorrected misstatements related to prior periods	
► A request that any uncorrected misstatement be corrected	
In writing, corrected misstatements that are significant	
Fraud	Report to those charged with
► Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity	governance
Any fraud that we have identified or information we have obtained that indicates that a fraud may exist	
A discussion of any other matters related to fraud	
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:	Report to those charged with governance
Non-disclosure by management	
Inappropriate authorisation and approval of transactions	
Disagreement over disclosures	
Non-compliance with laws and regulations	
Difficulty in identifying the party that ultimately controls the entity	
External confirmations	Report to those charged
Management's refusal for us to request confirmations	with governance
Inability to obtain relevant and reliable audit evidence from other procedures	
Consideration of laws and regulations	Report to those charged with
Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off	governance
► Enquiry of the Audit and Governance Committee into possible instances of non- compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of	

Independence	
Communication of all significant facts and matters that bear on Ernst & Young's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:	Audit Plan Report to those charged with governance
The principal threats	
Safeguards adopted and their effectiveness	
An overall assessment of threats and safeguards	
Information about the general policies and process within the firm to maintain objectivity and independence For listed companies, communication of minimum requirements as detailed in the ethical standards:	
▶ Relationships between Ernst & Young, the audited body and senior management	
Services provided by Ernst & Young that may reasonably bear on the auditors' objectivity and independence	
➤ Related safeguards	
► Fees charged by Ernst & Young analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees	
A statement of compliance with the ethical standards	
➤ The Audit and Governance Committee should also be provided an opportunity to discuss matters affecting auditor independence	
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:	Report to those charged with governance
➤ Whether the events or conditions constitute a material uncertainty	
Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements	
The adequacy of related disclosures in the financial statements	
Significant deficiencies in internal controls identified during the audit	Report to those charged with governance
Opening Balances (initial audits)	Report to those charged with
Findings and issues regarding the opening balance of initial audits	governance
Certification work	Annual Report to those
Summary of certification work undertaken	charged with governance summarising grant certification, and Annual Audit Letter if considered necessary
Fee Information	
Breakdown of fee information at the agreement of the initial audit plan Breakdown of fee information at the completion of the audit	Audit Plan Report to those charged with governance and Annual Audit Letter if considered necessary

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Report to Audit and Governance Committee

Date 27 June 2013

Report of: Director of Finance and Resources

Subject: BENEFITS ANTI-FRAUD POLICY

SUMMARY

The Council is required to maintain and review its Benefits Anti-Fraud Policy which demonstrates the measures that will be taken to prevent, detect and deter benefit fraud.

The Welfare Reform Act 2012 contained provisions for the abolition of Council Tax Benefit from 31 March 2013 and the Local Government Finance Bill made provision for the localisation of Council Tax Support in England by imposing a duty on all billing authorities to introduce a localised Council Tax Reduction scheme. Fareham Borough Council's local scheme was approved by Full Council on 24 January 2013 and successfully implemented from 1 April 2013.

The review of this policy is now required due to amendments to the existing sanctions that can be imposed on Housing Benefit claims and the fundamental legislative changes that are effective from 1 April 2013 to enable the investigation of fraudulent Council Tax Support claims. Approval is sought for these amendments.

RECOMMENDATION

It is recommended that the Council approves and adopts the Benefits Anti-Fraud Policy as set out in <u>Appendix A</u> to this report.

INTRODUCTION

- 1. Fareham Borough Council's Benefits Service aims to reduce fraud and error in the Benefits system through:
 - (a) **Prevention** by establishing systems of control and procedures that seek to ensure that only genuine claims are processed and paid
 - (b) **Detection** by investigating and, where appropriate, recommending the disallowance or reassessment of fraudulent or irregular applications and existing claims
 - (c) **Deterrence** by creating and developing a culture which discourages applicants from making fraudulent claims and ensuring that existing benefit claimants fulfil their responsibilities to continue to provide accurate information including any and all relevant changes of circumstances.
- 2. The Investigation Team, within the Benefits Service, is responsible for the prevention, detection and deterrence of Benefit fraud in accordance with current legislation. It is committed to contributing to the provision of a secure, efficient and accurate Benefits Service that meets the needs of its customers and the wider statutory duties placed upon Local Authorities under Section 151 of the Local Government Act 1972.
- 3. Under the Government's Welfare Reforms a new Single Fraud Investigation Service (SFIS) is to be created, which will ensure that all Social Security Benefits, including Housing Benefit, will be investigated at the same time by one investigating body, lead by the Department for Work & Pensions (DWP). This is currently being piloted with a projected roll-out date of April 2014.
- 4. However, until such time that SFIS is rolled-out and all Housing Benefit cases are transferred to Universal Credit, which has a gradual transference date between 2013 and 2017, it is expected that all Local Authorities maintain a local Anti-Fraud Policy that sets out their continuing approach to reduce fraud and error in the claims they are still administering and detail the steps taken to prevent and detect fraud.
- 5. With the abolition of Council Tax Benefit and replacement with Local Council Tax Support, local councils have been granted powers to investigate fraud in Council Tax Support and administer sanctions in accordance with its anti-fraud policy.

BENEFITS ANTI-FRAUD POLICY

- 6. A review of the existing policy has been carried out to ensure all recent legislative and procedural changes are accounted for. This includes new and revised sanctions that will be considered in cases where fraud and error has been uncovered. A new section has been added to include these new sanctions.
- 7. Amendments have also been made to the Policy to exclude Council Tax Benefit as this was abolished 31 March 2013 and replace it with Local Council Tax Support and detail the relevant legislation that enables the investigation of fraudulent claims.
- 8. Minor amendments have also been made to update job titles and reporting lines, taking into account any re-structures within the Council that have taken place since the policy was last updated.

CONCLUSION

9. The revised policy will serve to clarify the Council's commitment to reducing fraud and error within the administration of Housing Benefit and Council Tax Support Scheme and sets out our use of all available legal sanctions and prosecutions.

Background Papers:

None

Reference Papers:

Report to the Audit Committee <u>1 December 2009</u>- Benefits Anti-fraud Policy
Joint report of the Cabinet Officer and HMRC, <u>Tackling Fraud and Error in Government</u>
National Fraud authority, <u>Fighting Fraud Together</u>
DCLG, <u>Localising council tax support- Administrative matters-guidance note</u>

Appendices:

Appendix A Benefits Anti-Fraud Policy

Enquiries:

For further information on this report please contact Andrea Bloomfield (Ext 4618)

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APPENDIX A

BENEFITS ANTI-FRAUD POLICY 2013/14

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Statement of Intention

Fareham Borough Council (the Council) is committed to the delivery of Housing Benefit and Council Tax Support to its residents. Housing Benefit and Council Tax Support are for those who are most vulnerable in society and should be assessed and paid within Government guidelines and the relevant legislation.

The Council is committed to ensuring that claimants receive the benefits and support to which they are entitled and will ensure that these are taken up by those people who need access to the service.

However, the Council acknowledges that some people will attempt to obtain money to which they are not entitled. The Council will not tolerate abuse of the benefits system and will take proactive and reactive steps with a view to the prevention and detection of fraud and recovery of overpayments.

This Benefits Anti-Fraud Policy details our approach to reduce the opportunity for fraud and error to occur within the benefits system and sets out our commitment to use all legal sanctions available, including prosecution.

Background and introduction

- 1. Local authorities have a statutory duty under section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs. This statutory duty includes the prevention, detection and deterrence of Housing Benefit and Council Tax fraud. With the abolition of Council Tax Benefit from 31 March 2013 and the requirement to devise a Council Tax Support scheme under Section 10 of the Local Government Finance Act 2012, there are new offences under this new scheme (Detection of Fraud and Enforcement) (England) Regulations 2013.
- 2. This policy represents a commitment by Fareham Borough Council to implement a revised robust anti-fraud strategy to take into account these new Regulations in order to protect public funds and to ensure that Housing Benefit and Council Tax Support are delivered to those who have a true entitlement to them.
- 3. This policy outlines the mechanisms whereby the Council will deliver the above commitment to its citizens and demonstrate how it meets its duty to prevent, detect and deter benefit fraud as required in law.

Key Outcomes

- 4. The Council's vision is that Fareham remains a 'prosperous, safe and attractive place to live and work' and to achieve this vision, the Council focuses its efforts and resources on achieving seven corporate priorities, two of which are applicable to this policy:
 - > To build strong and inclusive communities
 - > To be a dynamic, prudent and progressive council
- 5. An important contributor to both these priorities is the payment of the **right** benefits to the right people at the right time.

Service objectives

- 7. Housing Benefit and Council Tax Support are administered in Fareham by the Benefits Service in the Department of Finance and Resources. Dedicated Investigation Officers work with other Benefit Officers to carry out counter-fraud initiatives.
- 8. The Benefits Service Unit has the following service objectives:
 - Provide a Housing Benefit and Council Tax Support Service that meets the needs of claimants whilst reflecting the constraints of existing legislation.
 - Ensure that the correct benefits and support are being paid to those who are entitled to them.
 - To provide an efficient and effective investigation function

Definition of Fraud

- 9. In this policy, the definition of "fraud" shall be *knowingly and intentionally obtaining or attempting to obtain Benefits or Support to which there is no entitlement through:*
 - Making false declarations about the circumstances of a claim
 - Failing to report a change of circumstances
 - Colluding with others to commit Benefit fraud
 - Any other criminal actions for the purpose of facilitating the commission of Benefit fraud

Aims of the Investigation Function

- 10. The Benefits Service will strive to:
 - prevent fraud by establishing systems of control and procedures that seek to ensure that only genuine claims are processed and paid;
 - detect fraud by investigating and, where appropriate, recommending the disallowance or reassessment of fraudulent or irregular applications and existing claims; and
 - deter fraud by creating and developing a culture which discourages applicants from making fraudulent claims and ensuring that existing benefit claimants fulfil their responsibilities to continue to provide accurate information including any and all relevant changes of circumstances.

Legislation

- 11. For the purposes of this policy, all Members and officers will be expected to comply with all codes of practice, legislation and corporate policies when dealing with issues relating to benefit fraud. These include:
 - Codes of conduct for employees and Members.
 - Social Security legislation including the Housing Benefit Regulations.
 - Council Tax Reduction Schemes (Prescribed Requirements (England) Regulations 2012
 - Fareham Borough Council's Local Council Tax Support Scheme
 - The Theft Act 1968, The Fraud Act 2006 and supporting Circulars.
 - The Forgery and Counterfeiting Act 1981
 - Verification guidance and codes of practice.
 - Health and Safety Acts with the supporting Statutory Instruments.
 - Public Interest Disclosure Act.
 - Regulation of Investigatory Powers Act.
 - Financial Regulations and Standing Orders.
 - Corporate Customer Care policy.
 - Anti Fraud and Corruption policy.
 - Discrimination and Race Relations legislation.

- The Human Rights Act
- The Data Protection Act.
- The Police and Criminal Evidence (PACE) Act and the Criminal Procedure and Investigations Act.
- The Proceeds of Crime Act
- Local Authority Fraud Investigators' Code of Practice produced by the Department for Work and Pensions.(DWP)
- Departmental Health and Safety policy and other relevant corporate policies.
- Disciplinary Code of Practice.
- Any other relevant policies.

Anti-fraud measures

12. The following are some of the anti-fraud measures that are taken to prevent, detect and deter benefit fraud in Fareham:

12.1 Verification

The Housing Benefit Regulations permit rather than require Local Authorities to ask for such verification as is needed to put benefit into payment, subject to what it is reasonable to request. Whilst Fareham Borough Council's Benefits Service respects this, as we are accountable for Fraud and Error within Housing Benefit and Local Council Tax Support, we have sufficient controls in place to provide assurance that correct decisions have been made. We obtain original documentation when assessing benefit entitlement and proof of identity when the claimant first applies. All employees responsible for receiving and verifying documents are trained on the latest evidence requirements including identifying false documents.

12.2 Dedicated Anti-Fraud Investigations Team

A dedicated team of investigation officers has been appointed who are accredited Counter Fraud Officers through the National Professionalism in Security qualifications (foundation and advanced). They are also "Authorised Officers" therefore are able to use investigative powers in accordance with the Social Security Administration Act 1992 and The Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013.

12.3 Interventions

Inevitably there will be some changes that are not reported by customers, and not identified through data-matching. Fareham Benefits Service will use risk based data on claims as provided by the DWP on a monthly basis and local based risk criteria to carry out reviews of existing benefit claims. We will also undertake specific checks on claims and request ad-hoc data scans.

12.4 Data-Matching

Fareham's benefits data is matched against other data sources on a monthly basis with external data obtained by the Department for Work & Pensions to identify inconsistencies that may indicate the existence of incorrectness on a Housing Benefit award. This data will also be used for cases where Council Tax Support has been awarded. Fareham Borough Council also

takes part in the Government's National Fraud Initiative, where data is matched every 2 years (internal & external) with agencies, including other Local Authorities, across the country.

12.5 Publicity

Fareham Borough Council's Benefit Service takes every opportunity to remind benefit claimants to report changes in their circumstances. We use a variety of methods to publicise the requirements to report changes.

The Investigation Team maximises the use of a range of publications to inform Fareham's residents, Fareham Borough Council staff and Members of successful investigations as well as the provision of information about how to report a suspected fraud.

12.6 Telephone Hot Line

The public is encouraged to disclose information, confidentially or otherwise, that may assist in the identification of potentially fraudulent claims. The provision of the dedicated "telephone hot-line" assists this aim.

12.7 Employees' Duty to Report & Whistleblowing Policy

All employees have a duty to report any suspicious circumstances which may affect a claimant's entitlement to benefit and to report this to the investigators. The Council's Disciplinary Procedure applies in all such cases. Failure to report suspicious circumstances may result in disciplinary action being taken against the officer who failed to carry out their duty to report.

The Council has an agreed Code of Practice for Confidential Reporting (also known as the "Whistleblowing Policy") which encourages and protects members and employees who wish to raise concerns or disclose irregularities.

12.8 Targeting Specific Groups

Under Human Rights legislation, it is not considered to be good practice to target or pursue unjustified reviews on specific groups of people. However, if a high level of benefit fraud is established within a particular area or amongst a particular group, it may be appropriate to carry out a detailed review to ensure that there are no further cases.

12.9 Redirected Benefit Mail

Fareham Borough Council participates in the Royal Mail 'Do Not Redirect' scheme, whereby benefits correspondence is sent out using distinctive envelopes. Any benefit recipient who has moved away from the address where he or she was claiming will not have any mail sent on to their forwarding address and the correspondence will be returned to the Benefits Service for further investigation.

12.10 Service Level Agreements (SLAs) with the DWP

A Partnership Agreement has been agreed with the DWP until the rollout of the Single Fraud Investigation Service (SFIS) in 2014, which will be the main investigative body for investigating all Social Security Benefits. This agreement sets out the principles for effective partnership working between the DWP Fraud Investigation Team and the Local Authority. The agreement covers the main

aspects of how each organisation will work together on matters of Administration, Security and Fraud on claims which have a joint Jobcentre Plus and Local Authority interest. It sets out the reasons *why* we should work together and *what* we are jointly trying to achieve in doing so.

12.11 Documentation

We endeavour to provide all documentation in plain English and in a format that claimant's can understand, to ensure that they are aware of their responsibilities to provide accurate and timely information. Facilities are also available to have documents translated or made available in large print.

12.12 Electronic Payments

Claimants and landlords are encouraged to accept payments by electronic transfer, so that payments are made directly to bank/building society accounts.

12.13 Random Checking and Visits

Regular random checking of claims is undertaken to ensure that claims have been processed correctly and that all supporting documentation is correct.

Overpayments

- 13. In order to prevent excessive overpayments, overpayments will be kept to a minimum by:
 - ensuring that original evidence supports the application for benefit;
 - accurately calculating the entitlement from the outset;
 - undertaking reviews at appropriate times; and
 - encouraging claimants to report changes in their circumstances at the time they occur.
- 14. We will take robust steps to recover overpayments that relate to charges of fraud and in the collection of any resulting administrative penalties.
- 15. In accordance with the Corporate Recovery and Collection Policy, when an instalment plan to recover a fraud overpayment is needed, we will seek to secure maximum recovery rates.
- 16. Deductions from ongoing Housing Benefit will be set at the maximum rate outlined in the DWP's overpayment recovery guidelines, unless a reduced rate has been agreed on hardship grounds.
- 17. We will be equally robust in our collection of administrative penalties and collection of the penalty will commence immediately following repayment in full of the fraud overpayment.

Investigations

18. Investigations are to be undertaken in accordance with agreed written procedures and at all times with full consideration of the Human Rights Act. At all times, it must be possible to demonstrate that the investigation is necessary, that

- enquiries are not excessive (i.e. are proportionate to the potential fraud) and that there is no harassment of individual claimants as set out in the provisions of the Criminal Procedure and Investigations Act 1996.
- 19. The Investigation Officers are expected to treat all persons suspected of benefit fraud with respect and courtesy at all times, in line with the Council's standard policies on customer care.
- 20. Written records of all investigations must be maintained and updated with any supporting evidence as the investigation progresses. The outcome must also be recorded.
- 21. The Investigation Team will ensure that information held by the Council is only disclosed in line with the Data Protection Act and associated procedures concerning confidentiality.
- 22. At all times during an investigation, the Investigation Team should consider and observe the rights of any individual they are interviewing or investigating. It is the duty of the Investigation Officers to establish the facts of the case and not reach conclusions based solely on intuition or supposition.
- 23. Where fraud is suspected and it appears reasonable to prosecute in accordance with this policy, only employees trained in the Police and Criminal Evidence Act (PACE) procedures (as amended or substituted) must undertake the Interview Under Caution (IUC) with the claimant. Where appropriate, interviews should be conducted in conjunction with the police.
- 24. The PACE code of practice, a national standard produced in accordance with the Police and Criminal Evidence Act 1984 must be used to conduct IUC's and this will ensure compliance with the Human Rights Act. Copies of the code of practice are held by the Investigations Team and are available for examination on request.

Appointment of Authorised Officers

- 25. Legislation allows the Council to appoint existing employees as "Authorised Officers". An Authorised Officer is able to enter premises to make enquiries and examine records relating to any person believed to be a benefit claimant, or, after a test of reasonableness, a person who could supply information relating to the investigation, for example partners of claimants or employers. The Council can prosecute the company or any third party who has relevant information but refuses to co-operate with such an investigation.
- 26. The Council has appointed employees within the benefits Investigation Team as Authorised Officers.

Use of surveillance

27. Surveillance will be undertaken by trained officers where it is justified and in accordance with the statutory code of practice. Corporate surveillance procedures will be adhered to at all times.

- 28. Authority to carry out surveillance for Housing Benefit claims, Council Tax Support claims and other Council Tax or Business Rates matters where it is believed a criminal offence may be being committed, may only be granted when initially agreed by an Authorised Officer as set out in the Council's Surveillance Policy and then authorised by a Magistrate as required by the provisions with The Protection of Freedoms Act 2012.
- 29. All surveillance requests, agreements, cancellations and amendments must be recorded and retained, and signed by an Authored Officer where appropriate. All surveillance requests will be time-limited, and all amendments and renewals to authorised surveillance requests must be re-authorised by an Authorised Officer and a Magistrate as highlighted above.
- 30. All records must be kept accurately and conveniently so that they are readily available for inspection on request by the Office for the Commissioner for Surveillance or by other auditing bodies,
- 31. A central record will be kept by the Director of Regulatory and Democratic Services of all authorised surveillance,

Recording and checking previous cautions and administrative penalties

- 32. Best practice on the application of sanctions/prosecutions states it is essential that records on previous convictions, cautions and administrative penalties are checked before a sanction/prosecution action is taken. It is also a requirement that all sanction/prosecution activity is logged to allow others to check an individual claimant's records.
- 33. The DWP maintains a sanctions and penalties database that records the issue and acceptance of cautions and administrative penalties. The database allows access to information on previous administration penalties and cautions administered by the DWP and other local authorities.
- 34. Basic disclosures of past convictions may be sought prior to the appointment of certain positions within the Council. Evidence of previous convictions for benefit fraud may be relevant to the decision to appoint individuals to vacant posts.

Recording and checking previous convictions

- 35. For checks on previous convictions, DWP fraud investigators obtain information, under agreement from the Home Office, via the Crown Prosecution Service. Local authorities may not legally have access to this information independently. Therefore, to meet the requirement to check previous convictions on benefit cases, joint interviews under caution need to be carried out.
- 36. If no DWP benefits are involved, investigations officers must approach the local Police force which has access to previous convictions information.

Joint-working

- 37. Due to the nature of the checking involved in correctly applying sanctions/prosecutions, it is recommended by the DWP that joint working is applied wherever possible.
- 38. The Council has agreed a Partnership Agreement with the DWP to assist in the process of joint-working.
- 39. In general, where there is a fraud investigation which involves more than one benefit, the organisation which discovers the fraud will take the lead with decisions regarding prosecution, cautions or administrative penalties.
- 40. The Council will abide by an agreed set of protocols for joint-working so that all legal action which involves solicitors or investigations officers is undertaken in an agreed and efficient manner.

Factors to be considered when deciding to prosecute or administer administration penalties or cautions

- 41. The aim of this policy is to provide a framework which will allow each incident of fraud to be considered for prosecution in a fair, reasonable and consistent manner taking into account circumstances relating to the case.
- 42. After a full investigation and collection of evidence, including an IUC, a decision will be made on whether to prosecute or if another penalty is appropriate.
- 43. Before making this decision, officers will have regard to all the factors and in particular to:
 - the mental and physical condition of the claimant;
 - the other social factors relating to the claimant or other members of the household:
 - ensuring that there is sufficient evidence for the prosecution and that there has been no undue delay in completing the investigation;
 - the administration of the benefit;
 - the period of the overpayment;
 - the amount of the overpayment and the entitlement to other benefits; and
 - any previous history of benefit fraud.
- 44. As a general rule, where the overpayment is less than £2000, a prosecution will not occur. For most frauds of less than £2000 it may be more appropriate to use an administration penalty or a caution.
- 45. When considering the net loss to public funds, due regard must be given to the underlying entitlement to other public benefits. This is a factor that the defendant could use in mitigation to minimise the offence.
- 46. A fraud carried out over a long period of time would be viewed as seriously as one involving a large sum, discovered shortly after it occurred.

- 47. The Sanctions Panel (Terms of Reference can be seen at Appendix A) will ensure that sufficient evidence has been obtained and in a manner which will support a prosecution. This includes conducting IUC's where it is appropriate. All the evidence which forms the basis of the sanction must be admissible in a court of law and obtained within the current legislation and supporting regulations.
- 48. Any delay in starting the investigation or in conducting the investigation that is directly attributable to administration will be taken into account. A prosecution will not proceed where the delay has been unreasonable.
- 49. Where the fraud has occurred or has been allowed to continue due to poor administration it would not normally be appropriate to prosecute. Examples would include:
 - where benefit has been paid on incomplete information;
 - where the form has been badly completed by the interviewing officer; or
 - where there has been a failure to observe flaws in a statement or document.
- 50. A decision to prosecute would not normally be appropriate where the claimant or partner:
 - is suffering from medically confirmed stress or nervous problems;
 - is elderly or bedridden;
 - has hearing or sight problems for example has difficulty reading or understanding questions;
 - has a severe mental impairment; or
 - is pregnant and confinement is due within three months or is unwell (a delay in enforcing a decision to prosecute would be more appropriate).
- 51. Where in the opinion of the Sanction Panel, the effect of a prosecution is likely to result in another member of the household suffering from any of the conditions mentioned in the previous paragraph, then a prosecution would not occur unless there has been a persistent abuse.
- 52. Where there is evidence the offence has been committed due to exceptional social factors then a prosecution would not be undertaken. Examples would include:
 - the claimant was driven to commit the offence due to tragic domestic circumstances; or
 - prosecution would cause unnecessary injury to a third party.
- 53. Although the amount involved may be small and the period of the offence short, prosecution may be appropriate if there is evidence that fraud has previously been committed and that a decision not to prosecute was made.
- 54. In all cases where it is decided that a caution or administration penalty is more appropriate than prosecution, the evidence must still be sufficient to go through

with the case to prosecution, if necessary. This is because the claimant must agree to receive a caution or penalty and the sanction for failing to agree must be to prosecute. This means that it is possible that a fraudulent overpayment for less than £2000 may still end up being prosecuted.

Formal cautions

- 55. A formal caution is a meaningful penalty and deterrent for those persons at the lower end of the range of benefit fraud where criminal proceedings are not a first option and administrative penalty action is not appropriate.
- 56. A formal caution is an oral warning given in certain circumstances to a person who has committed an offence. A caution can only be considered when:
 - there is sufficient evidence to justify instituting criminal proceedings;
 - the person has admitted the offence during an IUC and has shown contrition for their actions;
 - the person's history of previous convictions/cautions has been taken into account;
 - the person has signed a document to show they admit to the offence; and
 - the person agrees to the caution and they acknowledge they have been cautioned.
- 57. If the person is subsequently prosecuted for another benefit offence the caution may be cited in court. If the person decides to refuse to accept a caution, the alternative course of action should be criminal proceedings. Therefore the quality of the evidence available to issue a caution must be of the same standard as that required to bring prosecution proceedings.
- 58. Where criminal proceedings are brought, the Court will be informed that the case has been brought because the person refused to accept a formal caution.
- 59. As a general rule, formal cautions should be applied for cases involving overpayments of less than £2000. However there may be certain circumstances, such as those outlined in sections 51-53 of this policy, where it is appropriate to use a formal caution for overpayments of more than £2000.
- 60. Cautions should not be administered to an offender in circumstances where there can be no reasonable expectation that this will curb his/her offending.
- 61. Cautions must not be given to people under the age of 18.
- 62. Only in exceptional circumstances should a second or very rarely, a third caution be administered in any case. Examples of exceptional circumstances in this respect include:
 - When the amount of the overpayment is particularly small e.g. £30; or
 - There is an indication that the person's personal circumstances in connection with the second offence fit one or more of the mitigating factors that would normally exclude prosecution.

- 63. It is important to note, the officer who interviews the person under caution or is present at the interview, cannot be the same officer who administers the caution.
- 64. Where it decided to issue a joint sanction where both DWP and local authority benefits are involved, Fareham Borough Council may continue to offer cautions as DWP policy has changed and are no longer issuing cautions. This must be a different officer to the one who carried out the IUC.
- 65. A caution may only be offered until the Single Fraud Investigation Service (SFIS) is in place for Local Authorities, at which point all SFIS policies and procedures must be adhered to for all fraud cases.
- 66. In ALL cases which involve a decision to administer a caution for Housing Benefit and/or Council Tax Support, authority must be given and recorded. The Systems & Support Manager and the Corporate Counter Fraud Officer are the officers designated to administer cautions, unless they have been present or involved with the IUC. In such a case, cautions should be administered by the Head of Revenues & Benefits or such other properly trained officer as authorised by the Director of Finance & Resources.

Administrative penalties for Housing Benefit/Council Tax Benefit

- 67. The legislation governing the use of penalties is contained in section 115A and 115B of the Social Security Administration Act 1992, as inserted by section 15 of the Social Security Administration (Fraud) Act 1997 and the Social Security (Penalty Notice) Regulations 1997 and has been amended by the Welfare Reform Act to allow tougher penalties to be offered as an alternative to prosecution.
- 68. If there is a DWP Social Security benefit also in payment, the Council will notify the DWP before issuing an administrative penalty. Penalties may be offered by both the Council and the DWP where there are overpayments affecting both administering authorities. For example:
 - the DWP may offer an administrative penalty in respect of DWP benefits overpayment; and
 - the Council may offer an administration penalty in respect of the overpayment of Housing Benefit and/or Council Tax Benefit.
- 69. If the Council is conducting the investigation, it should notify the DWP if there is an impact on DWP benefits. If the DWP is conducting the investigation, it notifies the Council when:
 - criminal proceedings are instituted on both DWP and Council offences;
 - criminal proceedings are instituted on DWP offences only; or
 - no further action is taken i.e. criminal proceedings are not pursued and penalty action is not taken.

- 70. Fraud investigators from both administrations should decide whether the case should be progressed to an IUC with a view to using administrative penalties. Arrangements should be made to conduct a joint IUC with the claimant.
- 71. The issue and acceptance of administrative penalties should also be logged and checked on the central database.
- 72. Administrative penalties have no standing in court. Therefore, if a person has previously agreed to pay an administrative penalty for an earlier overpayment, it cannot be mentioned in court.
- 73. Administrative penalties are made on behalf of the Secretary of State (SoS) and there is no right of appeal against the decision nor can the person ask the SoS to review the amount of the penalty which is prescribed in the legislation. Administrative penalties are made on behalf of the SoS; they cannot be issued by the Police.
- 74. Where a decision is reached that there is sufficient information to prosecute, consideration will be given as to whether or not the imposition of a penalty would be more appropriate. The factors to be considered will be:
 - the seriousness of the fraud;
 - any previous fraudulent history; and
 - the claimant's ability to make payment.
- 75. As a general rule, administration penalties should be applied for cases involving overpayments of less than £2000 However, there may be certain circumstances where it is appropriate to use a formal caution for overpayments instead.
- 76. Overpayments that commence prior to 8 May 2012, a penalty equal to 30% of the recoverable overpayment can be imposed instead of a prosecution where it is agreed between the Council and the claimant. The penalty is payable in addition to the overpayment.
- 77. Overpayments that commence wholly on or after 8 May 2012 provide for a minimum penalty of £350 or 50% of the overpayment, whichever is greater (up to a maximum penalty of £2,000). The penalty is payable in addition to the overpayment.
- 78. A penalty will generally not be considered where there has been previous evidence of fraud.
- 79. It is important to note, the officer who interviewed the person under caution or was present at the interview, cannot be the same officer who administers the administration penalty.

Administrative penalties for Council Tax Support

- 80. The legislation governing the use of penalties for Council Tax Support is contained in Regulation 11 of The Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013.
- 81. This regulation applies where a person's liability to pay council tax has been reduced under a council tax reduction scheme and it appears to the billing authority that the liability to pay council tax that was reduced under the scheme is greater than the amount of reduction the person is entitled to and an 'excess reduction' occurs.
- 82. This regulation also applies where it appears to the billing authority that there are grounds for instituting criminal proceedings for an offence relating to an act or omission on the part of the claimant and a reduction has been claimed which is greater than the reduction the claimant is entitled to receive.
- 83. As with Housing Benefit cases covered in this policy, as a general rule, administration penalties for Council Tax Support should be applied for cases involving an 'excess reduction' of less than £2000. However, there may be certain circumstances where it is appropriate to use a formal caution for overpayments instead.
- 84. The amount of the penalty is 50% of the amount of the excess reduction (rounded down to the nearest whole penny), subject to a minimum amount of £100 and a maximum amount of £1000.

Administrative penalty interview

- 85. In ALL cases which involve a decision to administer an administration penalty for Housing Benefit and/or Council Tax fraud, authority must be given and recorded. The Systems & Support Manager and Corporate Counter Fraud Officer are the officers designated to administer administration penalties, unless they have been present or involved with the IUC. In such a case, administration penalties should be administered by the Head of Revenues & Benefits or such other properly trained officer as authorised by the Director of Finance & Resources.
- 86. It should be noted that the offer of a penalty should be made in a special interview. The offender should be told at the interview:
 - It is not an interview under caution.
 - Acceptance of the penalty is not a declaration of guilt.
 - The recovery of the penalty will occur in the same way as the recovery of the overpayment.
 - The offender has 28 days in which to change their mind should they accept the penalty in the event of non-acceptance prosecution would be instituted.
 - Failure to repay the debt or default on instalments will result in the offender facing civil proceedings for recovery.
- 87. It should be noted that if the offender is a Council tenant, then the penalty can

NOT be added to their rent account or treated as rent arrears.

Prosecution

- 88. The Legal Team will review and authorise all cases which are recommended for prosecution. Case files will be produced by the Investigation Officer and these will include all of the evidence that has been collated in a clear and orderly manner. A summary of the case and the charges which are recommended, including the relevant legislation which has been breached, will be included at the beginning of the case file.
- 89. Where the case involves evidence of DWP benefits, the case file will also contain sufficient information to enable the DWP benefit fraud to be taken into consideration.
- 90. The DWP may ask to undertake a prosecution on the Council's behalf if the Department has uncovered a DWP benefit fraud and there is evidence of Housing Benefit or legacy Council Tax Benefit fraud. Where this is the case, there is a joint-working agreement on the information that will be supplied and assistance to be given by investigations officers.
- 91. In all cases, the prosecuting solicitor will review the evidence and ensure that it is in the public interest to undertake the prosecution.

Loss of Benefit Provisions (Housing Benefit only)

- 92. The Welfare Reform Act 2009 and the Social Security (Loss of Benefit) Amendment Regulations 2010 introduced a new four week loss/reduction of benefit sanction known as 'One Strike'. One Strike sanctions apply to benefit fraud offences committed on or after 1 April 2010 that result in a Caution, Administrative Penalty or a first conviction.
- 93. The 'One Strike' provision reduces payment of benefit for four weeks when a claimant, their partner or a family member has been convicted or has accepted a Caution or Administrative Penalty for a first benefit fraud offence when the whole period of the fraud offence was committed on or after 1 April 2010.
- 94. Determining that a Loss of Benefit Sanction applies and calculating the period of the sanction is the responsibility of the DWP Fraud Investigation Service. The role of applying the Loss of Benefit Sanction to the Housing Benefit claim in payment is the responsibility of the Local Authority.
- 95. The application of a Loss of Benefit Sanction will result in a reduction of Housing Benefit during the Disqualification Period by pre-determined amounts as set each year by DWP.
- 96. In February 2012 the Loss of Benefit provisions were refreshed and updated through a joint report with the Cabinet Office and HMRC in order to further reduce financial losses due to fraud and error in the welfare system.

- 97. Part of the measures includes a tougher Loss of Benefit penalty for benefit fraud, introduced from 1 April 2013.
- 98. Offences occurring wholly on or after 1 April 2013 and result in a Caution or an Administrative Penalty, will be subject to one of the following 5 new Loss of Benefit levels:
 - Level 1 offences which result in an Administrative Penalty or Caution will continue to result in a Loss of Benefit penalty of 4 weeks
 - Level 2 for a first benefit fraud conviction the Loss of Benefit penalty duration will increase from 4 to 13 weeks
 - Level 3 where there are two offences, within a set time period of 5 years, with the latter offence resulting in a conviction, the Loss of Benefit penalty will be for a period of 26 weeks
 - Level 4 where there are three offences, within a set time period of 5 years, with the last offence resulting in a conviction, the Loss of Benefit penalty will be for a period of 3 years
 - Level 5 an immediate 3 year Loss of Benefit penalty for serious organised and identity fraud cases.
- 99. As Council Tax Support is not a Social Security Benefit, any fraudulently claimed support cannot be included in calculating any overpayment and the Loss of Benefit Sanctions cannot be applied to a Council Tax Support claim.

Performance indicators

- 100. The following performance indicators will be collected each quarter to provide information to DWP to assist with establishing fraud and error in England and caseloads monitored to ensure investigations are effective and resource is allocated appropriately:
 - The number of referrals received and their source
 - the number of cases investigated;
 - the number of sanctions achieved for the year;

Conflict of interest

101. Conflict of interest applies where an employee is related to a claimant or landlord, or even if the claimant or landlord is merely personally known to the employee. Where these circumstances apply, the Head of Revenues & Benefits must be made aware of the circumstances in accordance with the Benefit Service Declaration of Interest Procedure. If the employee would normally be involved in the assessment of a benefit claim, the Head of Revenues & Benefits must appoint another employee to deal with the claim. Failure to notify the Head of Revenues & Benefits of a conflict of interest would be considered as a serious breach of an employee's duty to report, and would be likely to result in action being taken under the Council's Code of Conduct & Disciplinary Rules & Procedure.

- 102. Where a conflict of interest applies and the employee processes the claim, the case will be investigated by the Corporate Counter Fraud Officer and, if appropriate, disciplinary action will be taken. Processing work where there has been a conflict of interest, without express authority, will be viewed as a serious breach of Council procedures and may result in dismissal or even criminal prosecution if a fraud has been perpetrated.
- 103. Where Members of the Council or employees are involved in any capacity with a benefit claim which is subject to an investigation, the Director of Finance & Resources must be informed. The Director of Finance & Resources and Head of Personnel will decide on the methods of investigation and decide what action, if any, the Council should undertake.
- 104. Where an officer suspects another employee of committing fraud, then the officer has a duty to inform their manager immediately and in confidence. The Director of Finance & Resources must be informed and the matter dealt with in accordance with the corporate strategy on fraud and corruption. Failure to report a suspicion of fraudulent behaviour is likely to result in action being taken against the employee under the Council's Code of Conduct & Disciplinary Rules & Procedure.

Employee training

- 105. All revenues and benefits employees will be given fraud awareness training at the start of their employment and this will be updated on a regular basis.
- 106. Full training relevant to the position will be given in respect of legislation, systems and procedures. This will be constantly updated.
- 107. The Systems & Support Manager will regularly update revenues and benefits employees on the types of fraud being discovered and also update individual officers on cases which they have referred.
- 108. All employees have a duty to ensure that they comply with the Corporate Information and Communications Technology rules.

Responsibilities of the Head of Revenues & Benefits

- 109. The Head of Revenues & Benefits must ensure:
 - all employees within the Benefits and Investigation sections and those in related areas (i.e. Housing Advisory Officers) are trained in fraud awareness;
 - investigation employees are fully conversant with fraud legislation and codes of practice; and
 - all new investigations officers & relevant benefit officers are subject to stringent pre-employment checks that comply with the HMG Baseline Personnel Security Standard.

Duties of Benefits Assessment Manager

110. The Benefits Assessment Manager must ensure:

- all employees within the Benefits sections are trained in fraud awareness, legislation and codes of practice so that high quality referrals can be made to the Investigation Team
- the calculations of fraudulent overpayments are undertaken within agreed timescales and in accordance with agreed procedures
- that through liaison and close working arrangements with the Systems & Support Manager an effective and efficient anti fraud culture within the benefits team is established

Duties of the Systems & Support Manager

- 111. The Systems & Support Manager must ensure that:
 - all investigators are properly trained in legislation, legal procedures and practices and that their knowledge and skills are kept up to date;
 - all investigations are undertaken fairly and legally and that the investigators' powers are used appropriately;
 - appropriate records are maintained supporting the outcome of an investigation and that any action is correctly classified for subsidy purposes;
 - the caseload of each investigator is effectively managed and that individual targets are fulfilled;
 - Sanctions are accurately recorded
 - resources are focused on reducing the level of fraud and, in particular, targeting in a positive but sensitive manner areas/groups where fraud is most likely to exist; and
 - joint initiatives are undertaken with other agencies such as the DWP, Police, HMRC, other authorities and other government organisations, to identify fraudulent claims.

Duties of Benefit Investigation Officers

- 112. Benefits Investigation Officers must ensure that:
 - all claimants are genuine and that information supplied by landlords, tenants and agents is accurate and up to date by investigating claims where it appears that the claimant has failed to disclose information which effects their initial entitlement or a change in circumstances;
 - all claims are investigated where third parties may be providing false information which affects the entitlement of the claimant, e.g. a landlord colluding with the tenant to provide false rent payments;
 - all claims are investigated where information has been received from members of the public or other sources that indicates that fraud may have taken place;
 - data-matching is undertaken on a regular basis with both internal and external systems and, in particular, through the Housing Benefit Matching Service to identify cases of potential benefit fraud, and to fully investigate all such cases;
 - work is carried out jointly with other organisations such as the DWP, Police or other local authorities, to investigate cases that may lead to the identification of fraudulent benefit claims; and

•	where appropriate, offenders are prosecuted, penalised or cautioned in accordance with the guidelines provided in this policy.

TERMS OF REFERENCE FOR THE SANCTIONS PANEL

Background

- 1. The introduction of a Sanctions Panel is in line with best practice as a mechanism for ensuring a consistent qualitative approach is taken to investigation work and has been brought in to streamline the sanction authorisation since the FBC Legal Services has been devolved to Southampton City Council.
- 2. Details of the Sanctions that can be imposed are set out in the Benefits Anti-Fraud Policy.
- 3. Fareham Borough Council has established a Sanctions Panel which considers cases referred to it for imposition of Local Authority Cautions, Administrative Penalties or Prosecutions depending on the nature of the offence and in accordance with the criteria set out in the Benefits Anti-Fraud Policy.
- 4. All cases are judged solely on the information provided to the Panel, which will not include any reference to the claimant's race or ethnic origin in order to comply with the Equality Act and Human Rights Act.
- 5. The Benefit Investigation Officers refer cases to the Panel via their Line Manager, the Systems & Support Manager.

Make-up of the Sanctions Panel

- 6. The panel will normally consist of three people but will meet with two members if necessary during periods of absence in the office. The panel may be chaired by any of the three members.
- 7. The constitution of the panel will include members who are familiar with
 - Housing Benefit and Council Tax Support administration
 - Council policies and procedures
 - Audit work
 - Legal Services
- 8. The officers sitting on the panel will be
 - The Head of Revenues & Benefits
 - The Systems & Support Manager
 - The Corporate Counter Fraud Officer

The Scope of the Panel

9. The Panel will only consider those cases that the local authority is seeking to impose sanction

Function of the Panel

- 10. The referral to the Panel should include
 - Details of the allegation
 - Summary of the evidence to substantiate the allegation
 - The length of time any fraudulent overpayment had occurred
 - Whether the case is deemed fraudulent by either false declarations or failing to declare a change in circumstances
 - Information about the claimant and background details
 - Details of any public interest issues
 - Recommendation from the Investigators
- 11. The Panel may ask questions relating to the investigation and if need be refer the case back to the Investigator for clarification.

Decisions of the Sanctions Panel

- 12. If the Panel meets with 3 members, then 2 members must agree to the recommended Sanction. If the Panel meets with 2 members and they cannot agree the recommended Sanction then the case must wait until there are 3 on the Panel.
- 13. After each case has been discussed all persons in attendance should sign to accept that the Sanction is appropriate before the case is referred back to the Investigator.
- 14. All decisions made by the Sanctions Panel will be subject to periodic review by the Director of Finance & Resources.

Frequency of the meetings

15. The Panel will meet fortnightly but this will be reviewed dependant on the volume of cases.

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Report to Audit and Governance Committee

Date 27 June 2013

Report of: Director of Finance and Resources

Subject: COUNTER FRAUD INVESTIGATION PROGRESS REPORT

SUMMARY

This report summarises the number and type of investigations that have been carried out into suspected cases of fraud during the period October 2012 to March 2013.

RECOMMENDATION

That the content of the report be noted.

INTRODUCTION

- 1. Fareham Borough Council has adopted an Anti-Fraud and Corruption Policy to tackle the growing trend in fraud across the country and carries out a programme of work in support of that Policy. It also employs a team of Benefit Fraud investigators and a small Corporate Counter Fraud team to investigate any allegations of fraud received.
- 2. This report provides information on the work of these teams including the numbers and outcomes of fraud investigations that have been carried out.

BENEFIT FRAUD

- 3. The Benefits Fraud Team successfully recruited a new investigator in April 2012 and another in February 2013 following the resignation of one member of the team in November 2012, and so is now fully staffed.
- 4. Pilots working on the government's SFIS (Single Fraud Investigation Service) policies and procedures are still continuing. To date they have had no impact on the working practices of Fareham Borough Council Benefit Fraud Investigators who continue to receive referrals and joint work with the DWP (Department for Work & Pensions) where a Social Security Benefit is also in payment.

Number of Investigations

5. Although there has been some movement within this team during the year, extremely good results have still been achieved with an exceptionally high number of prosecutions, all with guilty outcomes. A summary of referrals received for the whole of 2012/13, compared to the previous year, is summarised below:

Table 1 - Number of Benefits Fraud Cases Investigated in the last year

	Full Year 2011/12	Full Year 2012/13
Number of Referrals:		
Investigations brought forward from previous year	218	259
New Referrals to the investigations team in the year	616	692
Total cases to Investigate	834	951
Sources of New Referrals:		
Housing Benefits Matching Service (DWP)	340	410
Benefit officers	72	95
Anonymous callers (Not via fraud hotline)	62	80
Website via online form	20	33
Anonymous letters	13	17
Housing Department	17	16
Council Tax Section	14	12
Visiting Officer	21	7
Other Local Authority	2	6
Fraud Hotline (Dedicated telephone number)	2	5
Government Department of Works and Pension (DWP)	7	4
Other Departments	5	4
Fraud Officers	1	2
Police	1	1
National Fraud Initiative (NFI)	19	0
Cases yet to be classified	20	0
Total	616	692

	Full Year 2011/12	Full Year 2012/13
Completion of Investigations:		
Referrals rejected for investigation	119	162
Referrals yet to risk score	20	0
Investigations completed	436	707
Investigations C/FWD	259	82
Total cases to Investigate	834	951

Findings & Sanctions

6. From the 707 cases investigated this year, there were 61 cases where abuse was found, as summarised in the table below. This also shows that 33 sanctions were applied to some of these cases.

Table 2 - Conclusions from Benefits Fraud Cases Investigated

	Full Year 2011/12	Full Year 2012/13
Conclusion from Investigation		
Investigations completed	436	707
Files closed – No abuse found or unproven	374	646
Files closed - Abuse found	62	61
Sanctions Achieved		
Prosecutions	15	20
Formal Cautions	18	9
Administration Penalties	6	4
No sanction was applied (usually for social reasons, such as elderly or infirm, or insufficient evidence to support caution or prosecution)	23	28
Total Files closed - Abuse found	62	61

Prosecutions

7. As summarised above the team has achieved 20 successful prosecutions in the financial year. The details of 15 cases were reported previously to the committee in November 2012. The remaining 5 cases are summarised below:

Table 3 - Outcomes from Benefit Fraud cases PROSECUTED in the last 6 months

Case Ref	Benefits Involved	Nature of the Fraud	Value of FBC overpayment (DWP overpayment)	Sentence (All found guilty)	Fine/Costs
14928	Housing and Council Tax Benefit	Failure to declare a change in income from 2010	£19,373	5 months custodial sentence suspended for 12 months, 100 hours unpaid work	Costs £1,000
1019	Housing and Council Tax Benefit (Income Support)	Failure to disclose a change in circumstances (partner working since 2005)	£13,922 (£37,374)	8 months custodial sentence suspended for 2 years, curfew between 7pm and 7am and a supervision order for 18 months	None

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Case Ref	Benefits Involved	Nature of the Fraud	Value of FBC overpayment (DWP overpayment)	Sentence (All found guilty)	Fine/Costs
14833	Council Tax Benefit (Pension Credit)	Failure to disclose information (capital sums held in bank accounts)	£6,653 (£15,993)	12 weeks custodial sentence suspended for 12 weeks, curfew from 6pm to 6am	Costs £285
18142	Housing and Council Tax Benefit	Failure to declare a change in income from 2010	£3,084	Fine only	Fine of £150. £200 costs. £15 victim surcharge
20281	Housing and Council Tax Benefit	Failure to disclose a change in circumstances or attend an interview.	£1,020	Conditional discharge	None

Redress

- 8. As well as the sanctions applied above, action is taken to recover any overpayments that have occurred due to fraud. The total value of Housing Benefit for the cases where abuse has been found in 2012/13 has been calculated as £48,088. This includes the overpayments billed for any other prosecutions currently with a legal team awaiting a court date. The total value of Council Tax Benefit overpayment found in 2012/13 was £11,031.
- 9. The total of repayments of Housing Benefit collected in the year for all cases due to fraud was £61,741. This covers Housing Benefit payments only as Council Tax overpayments are added to Council Tax bills and recovery is subject to normal Council Tax recovery procedures.

Interesting cases prosecuted

10. Claim 14928

This investigation commenced in January 2010 after two referrals were received concerning the commerciality of the rent and the claimant's income. Financial checks made on the property highlighted that other people may have also been living at the address and as a result surveillance on the property was authorised and undertaken.

Whilst this case was still continuing the claimant cancelled their Benefit claim with Fareham Borough Council as they had moved to Portsmouth. Delays were encountered as the claimant failed to show for 2 interviews. A formal interview was successfully undertaken in December 2011, where the claimant was questioned about the other people who had lived at the Fareham address. During this interview there was also an admission to falsifying payslips and Certificate of Earnings.

The claimant failed to attend the first appearance at Fareham Magistrates Court so was subsequently arrested and taken to Portsmouth Crown Court. A plea of not guilty was initially entered but at the initial hearing at the Crown Court, the plea was changed to guilty to counts of forgery and benefit fraud.

11. Claim 1019

This investigation commenced in January 2011 after a request for joint working was received from the DWP in Portsmouth. They had evidence that the claimant's partner had been working since 2005 which had never been declared to them.

During interview the claimant admitted that the review forms had been completed incorrectly, which resulted in the claim for Income Support needing to be withdrawn for the whole period since 2005. Housing and Council Tax Benefit therefore had to be recalculated over this period using the income details they had actually been receiving.

As this was a joint working case, the DWP elected to take this case to Portsmouth Magistrates Court where the couple were found guilty and duly sentenced.

WHISTLE-BLOWING CASES

- 12. In accordance with British Standard PAS 1998:2008 'Whistle-blowing Arrangements Code of Practice" this committee is recognised as "those charged with governance" and responsible for reviewing our whistle-blowing arrangements. These are the arrangements that allow an employee to raise a serious concern through designated channels without fear of harassment or victimisation.
- 13. Previously this responsibility was discharged by a 3-yearly report to this committee. However, following a recent review of our arrangements against the British Standard we have introduced a central log of any cases of whistle-blowing by an employee and the number of cases logged will be included as a matter of course in this report.
- 14. Previously records have not been routinely kept to give the full record of incidents since the introduction of the Whistle-blowing policy in 2000. However, 3 cases were noted in the 2005/6 report to the Audit Committee, 2 in the 2009/10 report, and a further 1 is recalled from 2010/11 to demonstrate that the confidential reporting arrangements have been used.
- 15. No cases were logged on the new system during 2012/13 and no employee has felt it necessary to raise concerns outside the organisation.

CORPORATE FRAUD

Number of Investigations

16. The Corporate Counter Fraud Team have received 15 new cases to investigate in the year as summarised in the table below:

Table 4 - Number of Corporate Fraud Cases Investigated in the Year

	2011/12	2012/13
Number of Referrals		
Investigations brought forward from previous year	25	13
New Referrals to the investigations team in the year	14	15
Total cases to Investigate	39	28

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	2011/12	2012/13
Subject of New Referrals		
External Fraud and Abuse	7	4
Housing - Waiting List	0	1
Banking	1	1
Elections	1	1
NNDR	1	1
Council Tax	2	0
ICT Misuse	1	0
Housing – Tenancy	1	0
Internal Fraud and Abuse	6	7
Employee – Contract Conditions	3	3
Theft	2	2
Employee – Payroll and expenses	0	1
Procurement - payments	0	1
ICT Misuse	1	0
Assistance with other FBC Enforcement	1	4
Building Control	1	2
Fly Tipping	0	1
Housing	0	1
Total	14	15
Completion of Investigations		
Investigations Completed	26	16
Investigations C/FWD to next 6 months	13	12
Total cases to investigate	39	28

Findings and Sanctions

17. Of the 16 cases now fully completed, 9 concluded that inappropriate activity had taken place. 2 of these related to assistance given to other enforcement teams in the Council. The action taken in relation to the other 7 is summarised in the table below:

Table 5 - Conclusions from Corporate Fraud Cases Investigated

	2011/12	2012/13
Conclusion from Investigation		
Investigations completed	26	16
Files closed – No abuse found	4	4
Files closed – Inconclusive	4	3
Files closed - Abuse found - Other Council Enforcement	6	2
Files closed - Abuse found - Fraud and Abuse	12	7
Action taken on Fraud and Abuse Cases		
External Cases	9	2
Applications Denied / Housing Properties recovered	3	1
Repayment / Debt Collection	5	1
Preventative / Advisory action only	1	0
Internal Cases	8	5
Prosecution / Other Legal Action	1	1
Employee Dismissal / Resignation	2	2
Repayment / Debt Collection	5	1
Other Management Action	0	1
Total Files closed - Abuse found - Fraud and Abuse	12	7

Interesting Case Closed

18. F93 - Housing Waiting List

A resident made an application for housing in January 2012 on the basis that he was homeless having left the Army. A suitable property became available in June 2012 at which point Housing Officers undertook their standard procedures to verify the details of the application. This revealed that the applicant actually had a mortgage on another property which was being rented out. The applicant was interviewed under caution and admitted the offences. The housing application was subsequently withdrawn and the social housing property offered to someone else. Housing Benefits offences were also found which were under the level for prosecution. However, a bill for overpayment has been raised.

NATIONAL FRAUD INITIATIVE

- 19. The National Fraud Initiative (NFI) is a data matching exercise previously run by the Audit Commission with the objective of identifying and stopping frauds that affect the public sector. The main exercise is run every 2 years, with Council Tax and Electoral Roll data matched in the intervening years. The last set of matches for the 2012/13 exercise was released in January 2013.
- 20. Table 6 shows the latest progress made on clearing the matches received from exercises to date.

Number of Number of Number of Year of Subject of match matches received matches still to matches still to **Exercise** to review clear - last report clear - current 2010/11 **Benefits** 1016 2 2011/12 Council Tax 484 176 (36%) 97 (20%) 1075 855 (80%) **Benefits** New Creditors 219 1 (0%) New 2012/13 Housing Rents 19 New 3 (16%) 12 Payroll New 0 Right to Buy 5 0 New 1330 TOTAL 859 (65%)

Table 6 - Progress Made on Clearance of NFI Matches

- 21. Of the matches cleared to date, 4 more council tax single person discounts, totalling £1,883, have been concluded as fraudulent and removed and 1 creditor payment for £60 was found. The remaining housing rents matches are still being investigated as early indications are that these may relate to fraud or error.
- 22. The full cumulative findings from the NFI are summarised below:

Table 7 - Fraud Cases Identified by NFI to date

Data Type	Nature of Fraud	Number and Value of Frauds				
Data Type	Nature of Fraud	2008/9	2009/10	2010/11	2011/12	2012/13
Councils Tax Single Person Discount	Undeclared second adult living at property	109 (£81,510)	28 (£17,997)	N/A	7 (£4,216)	N/A

Data Type	Nature of Fraud	Number and Value of Frauds				
Data Type	Nature of Fraud	2008/9	2009/10	2010/11	2011/12	2012/13
Councils Tax Single Person Discount	Child at property reaching 18 and not declared	21 (£6,410)	15 (£651)	N/A	1 (£20)	N/A
Housing Benefits~	Non declared earnings or pension of adult at the property (e.g. holder of an alcohol licence)	24 (£47,076)	N/A	8 (£20, 834)	N/A	0
Creditors*	Duplicate invoice submitted and paid	3 (£7,901)	N/A	5 (£6,229)	N/A	1 (£60)
TOTAL		157	43	335	4	

^{*}It should be noted that although these are classified as frauds for the purposes of NFI in most cases there may not have been a criminal intent involved and so could also be classified as errors. ~The fraud value for benefits includes errors.

USE OF RIPA POWERS

23. There have been 3 authorisations granted under the Regulation of Investigatory Powers Act 2000 (RIPA) for the six months between 1 October 2012 and 31 March 2013 as summarised in Appendix 1. There was also one request for communications data relating to the previous 6 months which was missed from the previous report.

RISK ASSESSMENT

24. There are no significant risk considerations in relation to this report

CONCLUSION

25. The number of referrals being handled by both the benefits and corporate fraud team has increased in the first half of the year and levels of abuse found continue to be high. With the current economic climate and opportunities for fraud, national predictions are that the risk of both internal and external fraud will continue to increase.

Appendices

Appendix 1 - Authorisations for use of RIPA (October 2012 - March 2013)

Background Papers: None **Reference Papers:** None

Enquiries:

For further information on this report please contact Elaine Hammell (Ext 4344)

Authorisations for use of RIPA (October 12 to March 13)

Ref No	Date Authorised Internally	Authorising Officer	Suspected Offence	Investigation power used	Date Authorised by a Magistrate	Duration of authorisation (in days)	Outcome for the Investigation
12	11/06/12	Head of Revenues and Benefits	Benefit Fraud - Undisclosed partner	Communications Data - registered address for mobile phone	Before this was required	38	Evidence obtained that crime or disorder MAY BE occurring
11	11/12/12	Head of Revenues and Benefits	Benefit Fraud – Undisclosed partner	Surveillance	13/12/12	44	Evidence obtained that crime or disorder MAY BE occurring
14	21/03/13	Director of Community and Street Scene	Theft from Council Property	Surveillance – CCTV targeted at a property	25/03/13	33	Surveillance cancelled as inconclusive
15	26/03/13	Head of Revenues and Benefits	Benefit Fraud - Undisclosed income of partner	Surveillance	08/04/13	64	Surveillance still in progress. Last reviewed 08/05/13.

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Report to Audit and Governance Committee

Date 27 June 2013

Report of: Director of Finance and Resources

Subject: QUARTERLY INTERNAL AUDIT REPORT

SUMMARY

This report provides the Audit Committee with the information arising from the latest internal audit work to be finalised and gives an update on the completion of the remaining audits from previous plans and the new audits planned for 2012/13.

RECOMMENDATION

That the Committee notes the progress of the Contractor Internal Audit Plan, attached as Appendix A to this report.

Appendix A – Contractor Internal Audit Progress Update

Background Papers: None

Reference Papers:

Report by the Director of Finance to the Audit Committee on 12 March 2012 on Contractor Annual Audit Plan 2012/13

Report by the Director of Finance to the Audit Committee on 11 March 2013 on Contractor Annual Audit Plan 2013/14

Enquiries:

For further information on this report please contact Ben Deeley, Audit Manager, Deloitte and Touche (Ext 4419)

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Fareham Borough Council Audit & Governance Committee Quarterly Audit Progress Report

June 2013

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INTRODUCTION AND BACKGROUND

1.1 This report has been prepared for the Members of the Audit and Governance Committee at Fareham Borough Council. The report outlines the work performed in 2012/13 by Deloitte & Touche Public Sector Internal Audit Ltd. In addition, this report highlights the progress made to date for delivery of the 2013/14 Internal Audit Plan.

PROMOTING INTERNAL CONTROL

- 2.1 To promote internal control within the Authority, Internal Audit will report to Committee in the following format:
 - An update on progress against delivery of the plan, including an update on any Significant Control Weaknesses and on any proposed amendments to the Internal Audit Plan;
 - Report back on the specific audits finalised since the last meeting of the Audit and Governance Committee, including scope, weaknesses identified and confirmation that management actions have been agreed to address the weakness. Audit opinions are Strong, Reasonable, Limited, or Minimal. Recommendations and actions in the report are categorised using a 3 point scale used on the Council's action management system. Both rating systems are detailed within Annex Four of this report; and
 - Update Members on the current situation regarding limited areas previously reported to Committee. This will inform Members of the action taken by Officers to resolve internal audit issues.

2012/13 & 2013/14 PROGRESS

The current status of the agreed 2012/13 Internal Audit Plan is detailed in Annex One along with the number of days delivered and the corresponding information relating to the 2013/14 Internal Audit Plan is detailed in Annex Two. Audits have been completed in accordance with the timings agreed with the Head of Audit and Assurance, and as approved by the Audit and Governance Committee.

4.1 As at the 31st May 2013, progress against the 2012/13 plan is as follows:

2012/13 Plan	Last Committee	This Committee
Number of audits in plan	31	30*
Number of audits finalised	13 (42%)	27 (90%)
Number of reports issued at draft	5 (16%)	2 (7%)
Number of audits commenced	25 (81%)	30 (100%)
Number of planned audit days delivered	173/230 (75%)	219/230 (95%)

^{*} Statistics have been calculated on 30 audits as Misc. Democratic Services has been deferred following management request.

4.2 At the time of this report, 95% of the 2012/13 Internal Audit Plan has been completed. Detailed progress is covered within Annex One.

4.3 As at the 31st May 2013, progress against the 2013/14 plan is as follows:

2013/14 Plan	Last Committee	This Committee
Number of audits in plan	N/A	30
Number of audits finalised	N/A	0 (0%)
Number of reports issued at draft	N/A	0 (0%)
Number of audits commenced	N/A	2 (7%)
Number of planned audit days delivered	N/A	14/230 (6%)

4.4 At the time of this report, 6% of the 2013/14 Internal Audit Plan has been completed Detailed progress is covered within Annex Two.

CHANGES TO THE PLAN

There is one change to report in respect of the 2013/14 Internal Audit Plan; the Leisure Partnerships audit has been replaced by the Leisure Centre Trust audit as a result of discussions with service management and the Head of Audit and Assurance, as although the former has not previously received any audit coverage the level of risk is considered to be minimal and audit resources would be better targeted toward the Leisure Centre Trust as the current contract is set to expire in April 2015. This was last audited in 2008/9.

DETAILED PROGRESS SINCE THE LAST AUDIT AND GOVERNANCE COMMITTEE

Two reports have been issued at draft stage, the assurance levels will be confirmed to the next Audit and Governance Committee upon finalisation; these relate to CSC Processes and Payroll. One audit on the Legal Services Contract is currently in progress. Fourteen reports have been issued in final version as listed below with the opinions given and level of recommendations made.

		Rec	ommenda	tions Made
Audit	Assurance	New Essential	New Important	Outstanding Previous Essential or Important
Treasury Management	Strong	-	-	-
Main Accounting & Budgetary Control	Strong	-	-	-
Housing Benefits	Strong	-	-	1
Ordering and Payment of Invoices	Strong	-	-	2
Capital Project Management	Reasonable	-	1	-
Corporate Health & Safety	Reasonable	-	2	-
Housing Rents	Reasonable	-	2	3
Pest Control	Reasonable	-	3	2

		Rec	ommenda	tions Made
Audit	Assurance	New Essential	New Important	Outstanding Previous Essential or Important
Cash Collection & Banking	Reasonable	-	See Note 2 in Annex 1	-
Revenues	Reasonable	1	1	1
Off Street Parking	Limited	1	-	-
Data Protection	Limited	1	6	-
Ferneham Hall Follow Up	Limited	-	-	6
Recommendation Follow Up	N/A (43% implementation)	-	1	7

The above presents the key highlights. However, to enable Management and Members to focus on the areas of concern, we have provided a summary of all finalised reports since the last Committee, as detailed within Annex Three. In particular attention should be drawn to the Limited Assurance audits and the Essential recommendations.

2012/13 Internal Audit Plan as at 31st May 2013

Annex One

		Days	Days		Assurance	New R	ecommend	ations	Previous	Recs. (E a	nd I only)
No.	Audit Title	in Plan	Delivered	Status	Opinion	Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
			Quarte	er 1							
1	Commercial Estates	7	7	Final	Strong	-	1	-	-	-	-
2	Off Street Parking	6	6	Final	Limited	1	-	2	3	-	-
3	Planning Enforcement	7	7	Final	Reasonable	-	2	3	-	-	-
4	Pest Control	5	5	Final	Reasonable	-	3	-	1	3	2
5	Data Protection	7	7	Final	Limited	1	6	1	2	2	-
			Quarte	er 2							
6	Responsive Repairs Contract	7	7	Final	Reasonable	-	3	1	1	2	-
7	Ordering and Payment of Invoices	7	7	Final	Strong	-	-	3	4	1	2
8	Electronic Expenses	3	3	Final	Strong	-	1	-	-	-	-
9	Procurement Cards	4	4	Final	Reasonable	-	2	2	-	-	-
10	Postal Services	6	6	Final	Strong	-	-	5	1	1	-
11	Community Development (Safeguarding)	7	7	Final	Reasonable	-	4	-	-	-	-
12	Disabled Facilities Grant	6	6	Final	Reasonable	-	2	2	1	1	-
			Quarte	er 3							
13	Invoicing and Collection of Income Receivable	9	9	Final	Reasonable	-	1	-	3	-	3
14	Payroll	7	6.5	Draft	TBC						
15	Capital Project Management	8	8	Final	Reasonable	-	1	-	-	-	-
16	Revenues	10	10	Final	Reasonable	1	1	-	3	-	1
17	Cash Collection and Banking	7	7	Final	Reasonable	-	Note 2	2	1	-	-
18	Housing Benefits	7	7	Final	Strong	-	Note 3	1	-	-	1
19	Housing Rents	6	6	Final	Reasonable	-	2	-	-	2	3
			Quarte	er 4							
-	Risk Management	-	6 days de	ferred to 20	13/14 Internal /	Audit Plan					

		Days	Days	1.5.	Assurance	New R	ecommend	lations	Previous	Recs. (E a	nd I only)
No.	Audit Title	in Plan	Delivered	Status	Opinion	Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
20	Ferneham Hall – Follow-up	3	3	Final	Limited	-	-	1	-	-	6
21	Main Accounting and Budgetary Control	12	12	Final	Strong	-	-	2	1	1	-
22	Treasury Management	6	6	Final	Strong	-	-	-	-	-	-
23	CSC Processes	5	4.5	Draft	TBC						
24	Misc Democratic	5		Note 1							
25	Legal Services Contract	8	3	Started							
26	Corporate Health and Safety	8	8	Final	Reasonable	-	2	-	1	-	-
27	Recommendation Follow Up	6	6	Final	N/A	-	1	-	6	9	7
			Computer	Audit							
28	Network Security and Infrastructure	10	10	Final	Reasonable	-	10	4	-	2	-
29	Telecommunications	10	10	Final	Reasonable	-	2	7	2	1	-
-	Remote Access	-	10 days d	eferred to 2	013/14 Interna	Audit Plan	•				
30	Geographical Information Systems (GIS)	7	7	Final	Reasonable	-	7	1	-	-	-
31	Follow-up of IT Recommendations	3	3	Final	N/A	-	-	-	10	-	-
Other											
Audit	Needs Assessment	4	4								
Audit	Committee	5	5								
Audit	Management	12	12								
	TOTAL	230	219 (95.2%)			3 (3%)	51 (56%)	37 (41%)	40 (62%)	25	25 (38%)

Note 1: The audit will be undertaken in Q1 of the 2013/14 financial year as requested by the manager Note 2: An Important recommendation would have been raised had there not been service actions currently being implemented.

Note 3: Three important recommendations were raised which were not directly part of the benefits process.

2013/14 Internal Audit Plan as at 31st May 2013

Annex Two

		Days	Days		Assurance	New R	ecommend	lations	Previous	Recs. (E a	nd I only)
No.	Audit Title	in Plan	Delivered	Status	Opinion	Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
			Quarte	er 1							
1	Management of Tradesmen	7	0.5	Q1 audit							
2	Town Centre Management	7	6	Started							
3	Coastal Protection & Land Drainage	6	0.5	Q1 audit							
4	Leisure Centre Trust	6	5	Started							
			Quarte	er 2							
5	Treasury Management	6		Q2 audit							
6	Insurance	5		Q2 audit							
7	Planning Contributions	8		Q2 audit							
8	Training & Development	8		Q2 audit							
9	Licensing of Taxis & Alcohol	8		Q2 audit							
10	Public Conveniences	6		Q2 audit							
			Quarte	er 3							
11	Ordering & Payment of Invoices	7		Q3 audit							
12	Invoicing & Collection of Income	9		Q3 audit							
13	Payroll	7		Q3 audit							
14	Fixed Assets	6		Q3 audit							
15	Revenues	12		Q3 audit							
16	Performance Management	8		Q3 audit							
17	Clean Borough Enforcement & Abandoned Vehicles	7		Q3 audit							
18	Cash Collection & Banking	8		Q3 audit							
19	Housing Rents	6		Q3 audit							
20	Ferneham Hall	6		Q3 audit							
			Quarte	er 4							

		Days	Days		Assurance	New R	ecommend	ations	Previous	Recs. (E a	nd I only)
No.	Audit Title	in Plan	Delivered	Status	Opinion	Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
21	Risk Management	6		Q4 audit							
22	Main Accounting	10		Q4 audit							
23	Financial Regulations Limited Compliance Testing	2		Q4 audit							
24	Housing Benefits & Council Tax Benefits	10		Q4 audit							
25	Planning Applications	6		Q4 audit							
26	Parking Strategic Management & Policy Services	6		Q4 audit							
27	Homelessness	6		Q4 audit							
			Computer	r Audit							
28	Remote Access	8		Q2 audit							
29	Main Accounting System (E- Financials) Application Review	7		Q3 audit							
30	Website Content Management	10		Q1 audit							
Other			,								
Audit	Committee	4									
Audit	Management	12	2								
	TOTAL	230	14 (6.1%)			0 0%	0 0%	0 0%	0 0%	0 0%	0 0%

Summary of Findings from Completed Audits

Annex Three

2012/13 Off Street Parking

Audit Opinion and Direction of Travel

	Li	imited					
Direction of Travel:		\leftarrow		2010/11			
Area of Scope	New Red	commendations	s Raised	Previous Essential and Important Recommendations			
Area or Scope	Essential (🎒)	Important (▲)	Advisory (원)	Implemented	Cancelled	Non Implemented	
Legislation, policies and procedures	-	-	1	-	-	-	
Income including cash collection	1	-	1	- 1	-	-	
	- 1 -	- - -	1 1 -	- 1 1	- - -	- - -	
Income including cash collection	- 1 - -	- - -	1 1 - -	- 1 1	- - -	- - -	
Income including cash collection Administration of penalty charge notices (PCNs)	- 1 - -	- - - -	1 1 - -	- 1 1 1	- - - -	-	

Priority	Weakness	Action Agreed?
Essentia (New)	Significant variances of income banked to the machine readings were found in 19/25 days examined. No explanation had been recorded for the variances although they are likely to be due to timing differences or missing machine readings. It is noted that this is being addressed with the implementation of a computer link to each machine to provide real time data.	Yes

2012/13 Data Protection

Audit Opinion and Direction of Travel

Limited \Leftrightarrow **Direction of Travel:** 2002/03 Previous Essential and Important **New Recommendations Raised** Recommendations **Area of Scope** Non Advisory (∄) **Implemented** Essential (🍑) Important (▲) Cancelled **Implemented** Legislation, policies and procedures 1 **Training and awareness** 1 1 1 **Corporate registration Role of the Data Controller** Fair processing statements **Data subject requests Security of Information** 1 3 1 **Data retention and disposal** 1 **Management reporting**

Priority	Weakness	Action Agreed?
Essential and Important	Examples were found where areas of the council could tighten up on their management of electronic and hard copy personal data in line with the Data Protection Act principles. Actions are being taken to strenthen our arrangements.	Yes
(New)		

2012/13 Pest Control

Audit Opinion and Direction of Travel

Reasonable \odot **Direction of Travel:** ⇔2005/06 **Previous Essential and Important New Recommendations Raised** Recommendations **Area of Scope** Non Essential (🍑) Important (▲) Advisory (₺) **Implemented** Cancelled **Implemented Scheduling of Works Collection and Transfer of Income** 1 1 1 **Supporting Documents and Checks for People** 1 **Eligible for Discount Monitoring of Contractors and Works Undertaken** Follow Up **Raising of Sundry Debtor Accounts including** 1 Recharges **Stock Control and Ordering Management Reporting and Information**

Priority	Weakness	Action Agreed?
Important (New)	Procedures for the reconciliation of income between the Ocella and e-Financials accounting system need to be established.	Yes
Important (New)	A range of available practical checks that can be used as proof of evidence to demonstrate those in receipt of benefits, and so eligible for a free treatment need to be established.	Yes
Important (New)	Four agreements are in place as part of service contracts, however these were each dated April 2010. Audit was advised by the Principal Environmental Health Officer that verbal agreement was given for the 2010 agreements to be carried over to 2011/12.	Yes

Priority	Weakness	
	The 2012/13 agreements have yet to be formally signed but verbal agreement had been given by the departments that they still wanted to receive the same services.	
Important (Previous)	There is a need to improve controls over bait usage by introducing stock control and by comparison of Ocella and accounting records.	Yes
Important (Previous)	There is a need to reconcile debtor invoices to be raised as recorded in Ocella with invoices raised by reference to the accounting system.	Yes

2012/13 Ordering & Payment of Invoices

Audit Opinion and Direction of Travel

Strong $\odot\odot$ **Direction of Travel: Previous Essential and Important New Recommendations Raised** Recommendations **Area of Scope** Non **Implemented** Essential (🍑) Important (▲) Advisory (₽) Cancelled **Implemented Policies and Procedures** 1 1 **Authorisation Procedures** 2 **Goods/Services Receipting** 1 **Coding of Expenditure Payments Prompt Payment Discounts Manual Payments Duplicate Payments Supplier Account** 1 1 **Segregation of Duties**

Priority	Weakness	
Important (Previous)	Audit testing of twenty invoices processed this financial year identified two instances where supporting documents had not been scanned into the system.	Yes
Important (Previous)	Financial Regulations relating to the yellow sticker use and acceptable types of purchases were in the process of being reviewed.	Yes

2012/13 Capital Project Management

Audit Opinion and Direction of Travel

Reasonable \odot **Direction of Travel:** No previous audit **Previous Essential and Important New Recommendations Raised** Recommendations **Area of Scope** Non Essential (🍑) Important (▲) Advisory (₺) **Implemented** Cancelled **Implemented** The objectives and financial implications of each capital programme Scheme approval Project initiation documents and the identification of risks Regular monitoring and investigations of variances/slippages Formal project management structure with defined 1 roles and responsibilities Procurement in line with SFIs and scheme of delegation **Management information** 1 (as above) Post implementation review

Priority	Weakness	Action Agreed?
Important	tant During the course of the audit, we noted that whilst a number of templates are in place, these are not held centrally or in a formally	
(New)	approved format; as such, for each project, differing approaches may be adopted.	Partly

2012/13 Revenues (Council Tax & NNDR)

Audit Opinion and Direction of Travel

Reasonable \odot **Direction of Travel:** ⇔ 2011/12 **Previous Essential and Important New Recommendations Raised** Recommendations **Area of Scope** Non Essential (🍑) Important (▲) Advisory (₺) **Implemented** Cancelled **Implemented** Policies and procedures **Setting the Council Tax, including Precepts** Amendments to standing data and system calculation of amounts due Reconciliations between debit and valuation list **Discount and reduction application** 1 1 **Billing** Receipts Suspense accounts Recovery action, including write off 2 Refunds 1

Weaknesses Identified During Audit

Management information

Priority	Weakness	Action Agreed?
Essential (New)	For the sample of twenty accounts selected in receipt of a discount, ten cases were noted whereby the account had not been subject to regular review to confirm continued eligibility, some dating back to 1993.	Yes
Important	Refunds of payments made by credit or debit card were found to be issued in cheque form, regardless of how the original payments	Yes

Priority	Weakness	Action Agreed?
(New)	were made. It has been indicated that a future switch from using "MOTO" to using "managed pay.net" may overcome technical limitations.	
Important (Previous)	There is a need for the discount and reduction review schedule to be established and monitored to ensure the continued eligibility of claimants in receipt of discounts. In order to confirm eligibility of students, the Council should obtain annual assurance from Higher Education providers for Student exemptions.	Yes

2012/13 Cash Collection & Banking

Audit Opinion and Direction of Travel

Reasonable **(** ____ 2011/12 **Direction of Travel: Previous Essential and Important New Recommendations Raised** Recommendations **Area of Scope** Non Advisory (∄) **Implemented** Essential (🍑) Important (▲) Cancelled **Implemented Policies and Procedures Collection and Recording of Payments Banking** Note 1 **Incorrect and Post Dated Cheques** 1 **Payments** Reconciliations **Suspense Accounts**

Weakness	Action Agreed?
Note 1: A weakness was identified in that the Council does not have a current cash collection contract, whilst interim arrangements are in place and a new contract being tendered this does pose a risk to the Council. A recommendation has not been raised for the weakness as remedial actions are being undertaken.	

2012/13 Housing Benefits

Audit Opinion and Direction of Travel						
Strong						
◎◎						
Direction of Travel:				⇔ 2011/12		
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
Aida di dage	Essential (🍑)	Important (▲)	Advisory (♄)	Implemented	Cancelled	Non Implemented
Policies and procedures, including adherence to legislation, financial regulations and local policy	-	-	1	-	-	-
Benefit transactions and records	-	-	1	-	-	-
Post opening procedures	-	-	1	-	-	-
Timeliness and accuracy of assessments, amendments, payments and cancellations	-	-	-	-	-	-
Transfer of entitlement	-	-	-	-	-	-
Backdated claims	-	-	-	-	-	-
Overpayments and recovery	-	-	1	-	-	-
Management information	-	-	-	-	-	1

Weaknesses Identified During Audit

Priority	Weakness	Action Agreed?
Important (Previous)	A full review of the Northgate user access is in progress to update the security profiles.	Yes

Note: Three other important recommendations were raised which were not directly part of the benefits process.

2012/13 Housing Rents

Audit Opinion and Direction of Travel

Reasonable **(Direction of Travel:** ⇔ 2011/12 **Previous Essential and Important New Recommendations Raised** Recommendations **Area of Scope** Non Essential (🍑) Important (▲) Advisory (∄) **Implemented** Cancelled **Implemented** Calculation and billing of rents 1 Recording of receipts and allocation of income Refunds and account adjustments, including cancellations and rent free weeks **Accounts in credit** 1 Rent arrears and write offs 2 1 **Separation of duties Review of rent reconciliations** 1

Priority	y Weakness	
Essential (Previous)	There is a need for former tenant arrears to be transferred from the Rents System to the Debtors System on a bi-monthly basis.	Yes
Important (New)	Sample testing of ten former tenant arrears noted eight cases where the tenant had deceased; as such, the account/ debt should have been subject to review and write off if relevant. Discussion with the Operational Finance Manager highlighted that a review of former tenants in arrears has not been carried out prior to July 2012, due to a lack of staff resources. However, a temporary resource will be supplied to enable a review of former tenant arrears and write offs will be progressed where relevant.	Yes
Important (New)	Sample testing of 15 current tenant arrears found that there was insufficient evidence to support the regular monitoring of two of the accounts in arrears.	
Important	There is a need for a prompt be issued to staff to ensure that at Tenancy sign up stage the rent account position is checked and	Yes

Priority	Weakness	
(Previous)	any arrears are added to the Tenancy Agreement prior to Tenant sign up.	
(Previous)	subject to change, there could be a short delay in case the benefit is re-calculated).	Yes

2012/13 Ferneham Hall Follow Up

Audit Opinion and Direction of Travel

Limited		
Direction of Travel: \Leftrightarrow 2011/12		

A total of six recommendations were followed up and whilst progress had been made it was confirmed that none had been fully implemented. In addition one new 'Advisory' recommendation has been raised to enhance control.

Priority	Weakness	Finding
Essential (Previous)	When taking bookings for hiring the facilities at Ferneham Hall, a check should be carried out to confirm that the hirers have adequate insurance cover. A copy of their insurance cover should be retained for any future dealings with the hirer and upon expiry, further insurance provision should be provided. The Council should explore the opportunity for hirers to buy into the Council's Insurance provision.	Sample testing found that there was no evidence of hirer agreements or proof of insurance documentation in place. A standardised hirer's pack is
Essential (Previous)	All external hires should be supported by a completed agreement form. This should then be signed by the hirer and Ferneham Hall to verify that both parties are in agreement with the terms stated. Management should monitor adherence to this requirement.	currently being prepared for introduction in June 2013.
Essential (Previous)	Any procurement that is undertaken whereby the rules stipulated within the Financial Regulations cannot be adhered to due to the nature of the business, approval will be obtained by the Statutory Chief Finance Officer or Head of Service.	A number of cases in the sample test found no evidence or proof of price comparisons being obtained for purchases over £500 as required by the Councils Financial Regulations.
Important (Previous)	Set timescales of 2 weeks should be established for the processing of invoices / internal recharges and the speed of raising debtor's invoices should be monitored by management.	Sample testing of invoices raised for the hire of facilities found that a number had not been raised within the target time of two weeks after the service delivery date.
Important (Previous)	Segregation of duties should exist as far as possible between raising the requisition, receiving delivery of the goods or service and confirming delivery prior to the authorisation of the invoice.	Testing of a sample of purchases identified found a few where there was no evidence to confirm a separation of duties between the ordering, receiving and payment of goods or services.
Important (Previous)	FMS budget reports should be reconciled to Ferneham Hall's records on a quarterly basis.	We were advised that reconciliations have not been carried out for some time due to software problems. Now that the upgrade to efinancials is in place Ferneham Hall staff anticipate that they will have the capability to re-instate the reconciliations processes in the near future.

2012/13 Main Accounting & Budgetary Control

Audit Opinion and Direction of Travel Strong \odot **Direction of Travel:** ⇔ 2011/12 Previous Essential and Important **New Recommendations Raised** Recommendations **Area of Scope** Non Essential (🍑) Important (▲) Advisory (₺) **Implemented** Cancelled **Implemented** Policies, procedures, standing orders and financial 1 regulations including staff awareness Completeness, accuracy, reliability and integrity of transactions and records for production of annual 1 accounts, including suspense accounts and other financial returns 1 (raised Ledger coding structure, feeder systems and within area control accounts two) Virements, journal entries and manual adjustments Processes for the production and publication of statements of accounts Financial feeder systems reconciliation Year end procedures including carry forward of balances Internal recharging **Budget setting and monitoring guidance Budgetary responsibilities**

Budget setting and monitoring

2012/13 Treasury Management

Audit Opinion and Direction of Travel

Strong $\odot\odot$ **Direction of Travel:** ⇔ 2011/12 **Previous Essential and Important New Recommendations Raised** Recommendations **Area of Scope** Non Essential (🍑) Important (▲) Advisory (₺) **Implemented** Cancelled **Implemented** Policies and procedures including the Treasury **Management Strategy and Policy** Levels, limits and institutions that can be dealt with for both lending and borrowing are clearly stated Contracts/service agreements with investment managers and brokers used Authorisation limits to borrow and lend **Compliance with the Treasury Management** Strategy Cash flow monitoring, maximising and forecasting Investment and borrowing records Risk exposure of investments **Timeliness of transactions** Interest payments and receipts Monitoring and reporting of performance Reconciliations **Debt charges to services**

2012/13 Corporate Health & Safety

Audit Opinion and Direction of Travel

Reasonable **(Direction of Travel:** ⇔ 2011/12 Previous Essential and Important **New Recommendations Raised** Recommendations **Area of Scope** Non Essential (🍑) Important (▲) Advisory (₽) **Implemented** Cancelled **Implemented** Regulatory, organisational and management requirements **Health & safety framework Health & safety awareness** 1 **Health & safety checks Risk assessments** 1 **Reporting concerns** Performance management reporting

Priority	Weakness	Action Agreed?
Important (New)	There was no formal evidence to indicate Health and Safety induction training had been completed for new starters. This was partly due to a lack of system functionality and lack of clarity where responsibility resides. This was partly due to a lack of system functionality and confusion over where responsibility resides.	Yes
Important (New)	A number of service risk assessments were not found in the new corporate template.	Yes

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Audit Recommendations Follow Up

These recommendations had previously been reported by the services as having been implemented and the focus of the audit was to confirm this status. The findings are given in the table below.

Area	Ref	Number of Recommendations Followed Up	Implemented	Partly Implemented	Not Implemented	Risk Accepted	No longer applicable /tracked
Economic Development 2008/09	1.0	6	2		1		3
Registered Social Landlord 2007/08	2.0	5	1				4
Cemeteries and Churchyards 2007/08	3.0	5	1	1	1		2
Community Grants and CATS 2009/10	4.0	4	1			3	
Printing 2007/08	5.0	2			2		
Planning Policy 2007/08	6.0	2					2
Petty Cash 2010/11	7.0	1	1				
Total	•	25	6 (24%)	1 (4%)	4 (16%)	3 (12%)	11 (44%)

Summary of Assurance Opinions Used

Annex Four

Assurance Level	Symbol	Description
Strong	© ©	There is a strong system of control designed and operating effectively. Any weaknesses found were low impact and do not significantly affect key controls or the achievement of the objectives of the system.
Reasonable	©	There is basically a sound system of internal control but weaknesses were found in system design or compliance, which result in some risk to the achievement of the system objectives.
Limited	©	There are some weaknesses in the system of control designed or the level of compliance which result in significant risk to the achievement of the system objectives.
Minimal	8	Fundamental weaknesses have been identified such that many key controls are absent or not operating effectively which may put at risk the achievement of the corporate control objectives.

Recommendations and actions in the report are categorised using the following 3 point scale in use on the Council's action management system:

Essential	A fundamental weakness in the control system which presents immediate risk to the service or system of a significant nature. Requires urgent attention by management. Reported to the Audit Committee and implementation of proposed actions are monitored.	
Important	A	A significant control weaknesses where the risk is not imminent or only of a moderate nature. This needs addressing but is not urgent. Reported to the Audit Committee and implementation of proposed actions are monitored.
Advisory	þ	A weakness or opportunity for improvement where the risk poses no great threat and is relatively minor. Consideration should be given to addressing the weakness if there is the appetite and/or capacity to implement the improvements. We will not track actions taken to address these recommendations unless at the manager's request.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Deloitte & Touche Public Sector Internal Audit Limited

June 2013

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Report to Audit and Governance Committee

Date: **27 June 2013**

Report of: Director of Finance and Resources

Subject: **HEAD OF AUDIT'S ANNUAL REPORT 2012/13**

SUMMARY

This report sets out the Internal Audit coverage, findings and performance for 2012/13 and gives an overall assurance opinion on the adequacy and effectiveness of the Council's internal control environment. It is one of the key documents supporting the Annual Governance Statement.

Generally a good level of control was found in Council services. No minimal assurance opinions were given in the year although the spread of opinions being awarded across the Strategic Audit Plan is showing a slight downward trend. No errors in income collection or payments out were again recorded.

All audits from the revised internal audit plans were in progress by the end of May with the exception of one audit which is due to start in June. All performance indicators were comparable to the previous year with a slight reduction in the level of client satisfaction.

RECOMMENDATION

That the contents of the report are noted as a source of evidence for the 2012/13 Annual Governance Statement

INTRODUCTION

- 1. The Council is legally required to publish an Annual Governance Statement. Its purpose is to give assurance or produce a management action plan to address weaknesses in the effectiveness of the Council's corporate governance, internal control and risk management arrangements.
- 2. This report covers the assurances that are available through the work of the Internal Audit service and is one of the key documents which will inform the production of this year's Annual Governance Statement. Its purpose is to summarise the completion of the Annual Audit Plan and findings arising from that work such that an opinion can be given on the adequacy and effectiveness of the control environment.

WORK COMPLETED BY INTERNAL AUDIT

Planned Work

- 3. In accordance with best professional practice, the Internal Audit Service carries out its activities based on an annual plan of work agreed before the start of the year, which is based on a risk assessment of all of the Council's systems. Most of these activities use 'risk based auditing' which involves the assessment of the adequacy of financial, management, ICT and legality controls in operation to mitigate the risks within the system.
- 4. The 2012/13 plans were approved by the Audit Committee and consisted of:
 - The In-house Plan (covering specific fraud or governance reviews);
 - The Contractor's Plan (covering the risk based work derived from an audit needs assessment) delivered in 2012/13 by Deloitte & Touche.
- 5. During 2012/13, the plan was implemented in regular consultation with the Statutory Chief Finance Officer for the Council, who has responsibility for the maintenance of an adequate and effective audit service in accordance with the Accounts and Audit Regulations 2011. Quarterly reports on the progress of the plans have also been presented to this committee.

Completion of the Planned Work

- 6. A total of 31 pieces of audit work were included in the revised audit plans for 2012/13, all but 1 of which has been completed, or are in progress, by the year end. The piece of work not completed was the audit of the Legal Services contract which will still be completed early in 2013/14. One other audit on Miscellaneous Democratic Services has been postponed until 2013/14 at the service manager's request.
- 7. A summary of the nature of the audits making up the original and revised plans is attached as Appendix A. This shows that there has been good coverage of the different levels of system which make up the Council's control environment.
- 8. There are 3 audits where the reports have not been finalised yet, but in the case of the CSC Process (Disabled Parking) audit has insufficient work been completed such that the findings from this work cannot be used in the Head of Audit's report at this point of time. Therefore the opinion will be based on 93% of the plan.

FINDINGS AND ASSURANCE AVAILABLE FROM INTERNAL AUDIT WORK

- 9. The findings from audit work consist of the following four key pieces of information which are used to assess the overall level of control in that service or system:
 - The assurance opinion awarded for the adequacy of controls found (judged against the risks and control areas covered in that audit);
 - The level of recommendation implementation that occurred since the previous audit as a remedy to address weaknesses found;
 - The level of excess expenditure or under achieved income discovered as a result of the audit, referred to as "errors";
 - The level of policy compliance found during the audit.
- 10. A summary of these key pieces of information arising from each completed audit (where it is applicable) is given in <u>Appendix B</u>, and discussed below.

Assurance Opinions

- 11. At the end of a risk based audit, an opinion is usually given from the scale: Strong, Reasonable, Limited, and Minimal. The opinion reflects the level of internal control found within the system for those areas tested and is mainly determined by the nature of recommendations that have been made. These are classified on the scale: Essential, Important and Advisory.
- 12. Appendix B shows the opinions that were given for those audits where it was applicable to do so in 2012/13. The overall spread of opinions compared to the previous 5 years is summarised below. Although the grading system changed in 2011/12 and is not directly comparable to the previous system, there is a slight downward trend in the opinions being awarded.

Table 1 – Spread of Opinions/ Grades issued for Audits in last 5 years

	Strong	Reasonable	Limited	Minimal	Total
2012/13	8	16	3	0	27
2011/12	13	14	1	0	28
	Very Good / Good	Satisfactory	Fair	Poor	Total
2010/11	22	6	0	0	28
2009/10	13	12	2	0	27
2008/09	13	19	3	0	35

13. The table below shows the movements in opinions issued for specific audits this year:

Table 2 – Audits Changing Opinion

Audit	Previous Opinion	Current Opinion	
Audits Increasing in Opinion			
Ordering and Payment of Invoices	Reasonable	Strong	
Audits Decreasing in Opinion			
Cash Collection and Banking	Strong	Reasonable	
Network Security and Infrastructure	Strong	Reasonable	
Data Protection	Reasonable	Limited	
Off Street Parking	Reasonable	Limited	

- 14. Ten audits carried out in 2012/13 have been audited for the first time or given an opinion for the first time. These resulted in 8 opinions of Reasonable and 2 of Strong. The spread of opinions across the whole strategic audit plan of 192 audits is shown graphically in Appendix C, which shows that as new audits are carried out and others are revisited there is a slight trend towards the right (lower opinions being given).
- 15. We currently have no systems where the lowest opinion of Minimal has been given although 5 (3%) have been given the opinion of Limited (Fair). Two of these relate to contract management which is still being tackled as a corporate project. Two new limited assurance opinions relate to this year's audits of Data Protection and Off Street Parking. The fifth relates to the limited assurance opinion for last year's audit of Ferneham Hall which was followed up this year and the same opinion awarded.

Implementation of Recommendations

- 16. The audit service now only tracks the implementation of essential and important recommendations. Recommendations already in service plans or advisory recommendations are still used to inform individual audits but are not included in the end of year statistics.
- 17. At the end of last year there were 2 essential and 40 important recommendations which service managers had not reported as being implemented. During 2011/12 56 new recommendations were added to the database or were reinstated after an audit follow up. This gave 98 recommendations to be implemented.
- 18. Self assessments have been completed by services between January and May 2013 which has indicated that 59 (60%) of these 98 recommendations have now been reported as implemented or are no longer required. Of the remaining 39, only 3 were essential recommendations, and progress had been made on a further 14 (14%).
- 19. During the year the internal audit teams followed up 100 of the recommendations previously reported as implemented or no longer required. 29% of them were reinstated or superseded by new recommendations.

Errors on Income or Expenditure

20. No uncorrected errors in income collection or expenditure were again found during testing in audits this year. The car parking audit did highlight a number of variances for income collected but these related more to over collection due to missing machine readings.

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Breaches of Council Policies

- 21. These results are summarised in <u>Appendix D</u> which shows 60% non policy compliance found this year compared to 22% recorded last year, although this is based on the testing of fewer rules (15). The highest number of non-compliance with rules (5) was in relation to purchasing and in particular missing evidence of market testing.
- 22. The way this information is produced will be changed from 2013/14 to be based on one targeted policy compliance audit which has been included in the plan. As part of the project to update Financial Regulations we will be identifying the key rules which we want to test as part of this audit in order to provide a more focused measure of policy compliance aimed at the top risks.

HEAD OF AUDIT OPINION

- 23. Using the information outlined above, in the opinion of the Head of Audit and Assurance, the Council again had good systems of internal control for the year 2012/13 which were working satisfactorily, despite the economic climate and reduction of resources available to operate those systems of control. The council is striving to identify and focus its resource on those controls which represent a genuine high risk rather than to meet general best practice guidance in all areas.
- 24. There is generally good awareness amongst managers about their top risks and actions are agreed to address weaknesses identified through the management or audit processes. How quickly the actions are fully implemented can vary given the competing demands and reduced resources available to services, but priority is placed on any essential actions identified.
- 25. There has been a slight downward trend in opinions being awarded in the year. Two new opinions of Limited Assurance were given in relation to Data Protection and Off Street Parking. Action plans have been agreed with managers to tackle the issues raised which will be followed up in 2013/14.
- 26. There is also one outstanding opinion of Limited Assurance in relation to Ferneham Hall (Hirings and Procurement) which was followed up in 2012/13 but the opinion was not changed.
- 27. This opinion is given based on the audits that have finished, and will be updated if the audits currently in progress gives rise to the need to change the opinion.

AUDIT SECTION PERFORMANCE

Compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Standards

28. An annual assessment of the service's compliance with the 2006 CIPFA internal audit standards has been undertaken. There were 207 standards across 11 subjects.

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- 29. A summary of the current levels of compliance is provided as Appendix E which concludes that the Audit team was considered to be 97.9% compliant across all the standards, the same as last year. The areas where some minor weaknesses are still found relate to:
 - (a) Establishing protocols for joint working with other Councils;
 - (b) Finalising the document retention policy; and
 - (c) Maintaining the audit manual;
 - (d) Assessing and documenting the skills needed by the service.
- 30. These were on the team's master list of actions to be tackled as time allows during the year. However, given the high level of compliance already with the standards they were not considered priority actions and from 01/04/13 the standards have been replaced by the Public Sector Internal Audit Standards.
 - 31. There are 105 new standards and compliance with these will be assessed during 2013/14 to feed into the new Internal Audit Strategy. It is a requirement of the new Standards that external assessments are conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. We will be reviewing how other councils are demonstrating compliance with this requirement without incurring any further costs to the service.

Local Performance Indicators

- 32. The performance of the team in relation to all the other local indicators set is summarised in Appendix F. Key targets, such as the completion of the audit plan and providing work that the external auditors can place reliance on, have been met again this year.
- 33. The indicators are generally comparable to last year except for a dip in the Client Satisfaction scores from 84% to 73%. This is based on 6 returns as opposed to 10 last year. The issues being raised are the timing of the audits and impact on key officers affected by more than one audit, the ease of understanding of the reports, and practicality of recommendations made in relation to the true nature of the risk. These are discussed regularly with the audit contractor and action taken as appropriate.

CONCLUSION

34. This annual audit report contains the information required by the CIPFA Code of Practice. The opinion offered within it, is that the Council continues to have a good internal control environment

Appendices:

- A. Summary of the Completion of the Original 2012/13 Audit Plans
- B. Findings from Audits Completed in 2012/13
- C. Current Spread of Grades in Strategic Audit Plan
- D. Breaches Found Within Audits Completed in 2012/13
- E. Assessment of Compliance with revised CIPFA Audit Standards 2006
- F. Comparison of Local Performance Indicators for last 5 years

Background Papers:

CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

Reference Papers:

Report to Audit Committee on 28/06/12 on Head of Audit's Annual Report 2011/12

Enquiries:

For further information on this report please contact Alan Gerrard, Principal Audit and Assurance Officer (Ext 4347).

APPENDIX A

SUMMARY OF THE COMPLETION OF THE ORIGNAL & REVISED 2012/13 ANNUAL AUDIT PLANS

Audit Type	No of Audits Originally Planned	No. of Audits Added	No. of Audits Removed	Revised No. of Audits	No. of Audits Carried Out	% Delivery	Notes
Fundamental Systems	10			10	10	100%	Payroll audit at draft report issued stage.
Corporate and Partnership Audits	2			2	2	100%	
Governance Assurance	1			1	1	100%	Whistle-blowing audit at draft report stage.
Risk Management	1		1				Risk Management audit deleted from the plan due to the recent update to the Council's Risk Management Policy such that processes would not be fully embedded at the time of audit.
Contract and other Specialist audit	2			2	1	50%	Legal Services Contract audit not yet started.
Service audits	11		2	9	9	100%	Garden Waste audit deleted from plan at manager's request and due to low risk. Miscellaneous Democratic Services audit postponed to 2013/14 at manager's request to cover the new electronic information system being implemented to manage committee meetings.
							CSC Process audit (Disabled Parking) still in progress Remote Access, Third Party Access and Mobile Working audit
Computer audits	4	2	1	5	5	100%	postponed to 2013/14 at the manager's request. Geographical Information System audit and Follow Up of IT Recommendations added to the plan.
Follow Ups	0	2		2	2	100%	Follow up of Ferneham Hall Limited Assurance report and cross cutting follow up audit added to the plan.
TOTALS	31	4	4	31	30	97%	

Findings from Audits Completed in 2012/13

Audit Title	Income or Expend errors found Number (Value)	No. of policy rules tested without breaches	% Recs implemented (number tested)	Previous Opinion Given	New Opinion Given	Ov (Dire T	ndings erview ection of ravel oinion)	
Fundamental System	s							
Treasury Management	None	None Tested	None Tested	Strong	Strong	\Leftrightarrow		
Main Accounting, System & Budgetary Control	None	1/1	100% [1]	Strong	Strong	\$	00	
Housing Benefits	None	None Tested	None Tested	Strong	Strong	\Leftrightarrow		
Ordering and Payment of Invoices [Creditors]	None	None Tested	67% [3]	Reasonable	Strong	仓	00	
Electronic Expenses	None	None Tested	No Previous Audit	No Previous Opinion	Strong	N/A	\odot	
Payroll	None	None Tested	0% [1]	Reasonable	Reasonable	\Leftrightarrow	\odot	
Invoicing and Collection of Income Receivable [Debtors]	None	None Tested	33% [6]	Reasonable	Reasonable	\$	<u></u>	
Council Tax & NNDR	None	None Tested	100% [2]	Reasonable	Reasonable	\$	\odot	
Housing Rents	None	None Tested	0% [3]	Reasonable	Reasonable	\$	\odot	
Cash Collection and Banking	None	None Tested	100% [1]	Strong	Reasonable	Û	\odot	
Corporate & Partnership	o Audits							
Corporate Health and Safety	None	1/1	100% [1]	No Previous Opinion	Reasonable	N/A	\odot	
Capital Projects Management	None	None Tested	No Previous Audit	No Previous Opinion	Reasonable	N/A	\odot	
Governance Assurance								
Whistle Blowing	None	None Tested	No Previous Audit	No Previous Opinion	Strong	N/A	\odot	
Contract and Specialist	Contract and Specialist Audits							
Responsive Repair Works	None	None Tested	0% [1]	No Previous Opinion	Reasonable	N/A	\odot	

Audit Title	Income or Expend errors found Number (Value)	No. of policy rules tested without breaches	% Recs implemented (number tested)	Previous Opinion Given	New Opinion Given	Ov (Dire T	erview ection of ravel pinion)	
Service Audits								
Postal Services	None	None Tested	100% [1]	Strong	Strong	\Leftrightarrow		
Commercial Estates	None	None Tested	None Tested	Strong	Strong	\Leftrightarrow	000	
Procurement Cards	None	None Tested	None Tested	Reasonable	Reasonable	\$	\odot	
Pest Control	None	2/2	20% [5]	Reasonable	Reasonable	<⇒	\odot	
Planning Enforcement	None	None Tested	None Tested	No Previous Opinion	Reasonable	N/A	\odot	
Community Development - Safeguarding	None	None Tested	No Previous Audit	No Previous Opinion	Reasonable	N/A	<u>:</u>	
Disabled Facilities Grants	None	0/1	No Previous Audit	No Previous Opinion	Reasonable	N/A	\odot	
Off Street Parking	Variances found	0/1	100% [3]	Reasonable	Limited	Û	<u>:</u>	
Computer and Informati	on Audits							
Follow up of IT Recommendations	None	None Tested	100% (10)	N/A	N/A	N/A		
Telecommunications	None	None Tested	67% [6]	No Previous Opinion	Reasonable	N/A	\odot	
Geographical Information System	None	None Tested	No Previous Audit	No Previous Opinion	Reasonable	N/A	\odot	
Network Security and Infrastructure	None	None Tested	0% [2]	Strong	Reasonable	Û	\odot	
Data Protection	None	None Tested	50% [4]	Reasonable	Limited	Û	<u>:</u>	
Follow Ups								
Follow up of various Recommendations	None	None Tested	43% [14]	N/A	N/A	N/A	<u>=</u>	
Ferneham Hall Follow up	None	2/8	0% [6]	Limited	Limited	\Leftrightarrow		

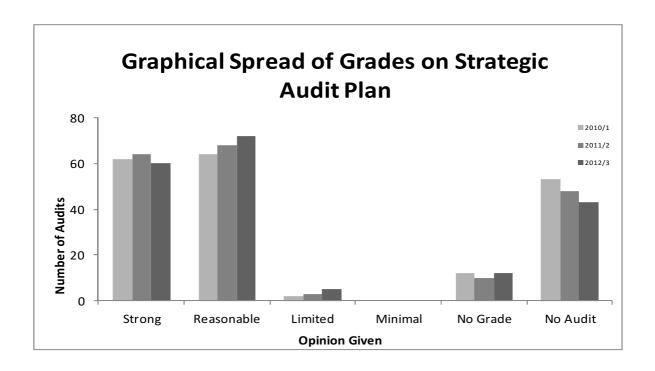
The reports for those audits in italics are still being finalised.

APPENDIX C Current Spread of Opinions across the Whole Strategic Audit Plan as at June 2013

Category of Audit	Strong / Very Good / Good	Reasonable / Satisfactory	Limited / Fair	Minimal / Poor	No Opinion	No Audit	Total
Fundamental	6	6					12
Corporate & Partnership	5	4			4	11	24
Contract & Specialist	5	2	2		2	2	13
Service	32	37	2		5	27	103
Computer & Information	12	23	1		1	3	40
Total 2012/13	60	72	5		12	43	192
Total 2011/12	64	68	3		10	48	193
Total 2010/11	62	64	2		12	53	193

Notes:

The "no opinion" column shows audits where a piece of work has been carried out in the past but the nature of the work was such that an opinion wasn't appropriate. The "no audit" column shows audits that have not been carried out in the last 10 years or are new to the plan.



APPENDIX D

Level of Breaches of Policy Found Within Audits Completed

_	2012	2012/13		1/12	2010/11		
Nature of Policy	No of Policy Rules Tested	Number of tests where breaches of rules found	No of Policy Rules Tested	Number of tests where breaches of rules found	No of Policy Rules Tested	Number of tests where breaches of rules found	
Income Collection	6	3	25	2	4	2	
Asset Control			4	1	2	2	
Purchasing	6	5	8	2	5	5	
Payments to Staff			6	3	1	1	
Data Security			0	0	1	1	
Accounting	1		2	2	4	4	
Health & Safety	2	1					
TOTAL	15	9 (60%)	45	10 (22%)	17	15 (88%)	

APPENDIX E

Analysis of Compliance with the CIPFA Audit Standards in 2012/13

(Those standards where we have improved are highlighted)

Standard Heading	No of Elements	% Compliance 2008-9	% Compliance 2009/10	% Compliance 2010/11	% Compliance 2011/12	% Compliance 2012/13
Scope of Internal Audit	25	99	99	99	99	99
2. Independence	17	98	98	98	98	98
3. Ethics for Internal Audit	13	98	100	100	100	100
4. Audit Committees	14	100	100	100	100	100
5. Relationships	15	88	92	95	95	95
6. Staffing, Training & CPD	11	75	75	75	84	84
7. Audit Strategy & Planning	21	100	100	100	100	100
8. Undertaking Audit Work	19	96	96	96	96	96
9. Due Professional Care	12	100	100	100	100	100
10. Reporting	33	100	100	100	100	100
11. Performance, Quality and Effectiveness	27	98	98	98	98	98
TOTAL	207	96.8%	97.2%	97.4%	97.9%	97.9%

Comparison of Local Performance Indicators for last 5 years

APPENDIX F

2012/13 Indicator 2011/12 2010/11 2009/10 2008/09 Comments Direction Performance No reports received from external audit which include an opinion on internal audit. It is **External Audit** No opinion assumed that problems with the No opinion No opinion No opinion Satisfactory \odot \Leftrightarrow Opinion/ Use of /3 service would be highlighted by given given given given Resources score exception. Verbal feedback was given that reliance was placed on the work of the service. % of Audit Plan The 90% target has been \odot \Leftrightarrow 97% 97% 97% 93% 98% Completed achieved. % of reports The amount of non finalised finalised by time work being relied on in the 87% 80% 87% 65% 69% 仓 \odot of Head of Audits Annual Opinion has decreased (31)(35)(38)(40)(31)Report compared to last year. 73% % of Client This performance is below the 84% 83% 84% 87% Û Satisfaction target set of 80%. (6) (10)(14)(14)(35)



Report to Audit and Governance Committee

Date 27 June 2013

Report of: Director of Finance and Resources

Subject: COUNTER FRAUD STRATEGY PROGRESS REPORT

SUMMARY

This report updates the Committee on Counter Fraud Strategy work carried out in the last 6 months. Key pieces of work have included a) starting work on a Housing Fraud Strategy for the Council, b) updating the Councils whistle-blowing policy and c) implementing new channels for employees and members of the public to raise concerns.

RECOMMENDATION

That the progress made to date as part of the Counter Fraud Strategy be noted.

INTRODUCTION

- 1. Fareham Borough Council maintains an Anti Fraud and Corruption Policy which is supported by a programme of work to review and strengthen our counter fraud arrangements where necessary.
- 2. This report provides an update on any actions taken in the last 6 months in relation to:
 - The top fraud risks for the Council.
 - Revising counter fraud policies.
 - Raising internal and external awareness.
 - Initiatives to improve prevention and detection.
 - Any legislative changes that have occurred.
- 3. A separate report details the cases of fraud that have been investigated.

WORK UNDERTAKEN SINCE THE LAST REPORT

Housing Fraud

- 4. The National Fraud Authority cites Housing fraud as one of the top fraud risks for local authorities. This includes frauds such as false representations on homelessness, waiting list or right to buy applications, unlawful sub-letting for profit and property abandonment. They estimate that 1% of social housing outside London is being fraudulently occupied. If this is accurate, this would represent up to 37 properties from the FBC Housing and Housing Association Stock which could be freed up for households in need of social housing.
- 5. The Prevention of Social Housing Fraud Act 2013 has been introduced and is due to come into force in October 2013. This Act makes sub-letting a criminal offence and gives social landlords increased power to recover the proceeds made from sub-letting. It also gives investigators additional powers to obtain information which could lead to the conclusion of fraud.
- 6. A risk information sheet on the risk of Housing Fraud for this Council has now been compiled which indicates that this Council already carries out a number of activities aimed at tackling Housing fraud which include:
 - Membership of the new Hampshire Tenancy Fraud Forum.
 - Principles of counter fraud contained in the Allocation and Tenancy Policies.
 - Full participation in the National Fraud Initiative which includes data matching using tenancy and right to buy records.
 - Carrying out verification checks on the information supplied on new homelessness, waiting list and right to buy applications.
 - Conducting tenancy audits on all introductory and flexible tenancies and a sample of secure tenancies each year.
 - Local publicity campaign, including £200 reward scheme, carried out in 2010.
- 7. Over the last 6 years these processes have resulted in 11 cases of abuse being found and 4 properties being recovered.

- 8. There are a number of other actions that we could take which could increase these figures based on the strategies being employed by other councils. However, some of these would have a cost implication to the Council which may not be proportional to the risk we face based on the profile of the borough.
- 9. In February of this year, the Department of Communities and Local Government invited bids for funding from all local councils to increase their activity on housing fraud. Previously funding has been mainly targeted at London boroughs. This Council duly submitted a joint request for funding with Gosport Borough Council, Eastleigh Borough Council, First Wessex Housing Association and Radian Housing Association in allow us to implement a programme of activity to test whether there is fraud going undetected. Unfortunately no bids submitted from Councils in Hampshire were successful.
- 10. The Council, however, is still proposing to carry out a reduced plan of additional Housing Fraud activity this year, in partnership with Gosport Borough Council and the Hampshire Tenancy Fraud Forum. This plan is summarised in Appendix A and the main emphasis is on increasing internal and public awareness and having a sound methodology and skills in place to deal with any resulting referrals. The plan can be delivered from existing resources.

Revenues and Benefits Fraud

- 11. **Local Council Tax Support**: The Council has adopted a new Local Council Tax Support scheme to replace Council Tax Benefit with effect from 1st April 2013. The associated Anti-Fraud Policy has therefore been updated and is the subject of a separate report to this Committee.
- 12. A review is now due to be carried out of the claimants who will be in receipt of Local Council Tax Support to confirm there have been no changes in their income or circumstances that they have not declared to us, and that we can evidence that they understand their duties under the new scheme to notify us of any subsequent changes.
- 13. Council Tax and NNDR Discounts, Exemptions and Reliefs: Following amendments to the Local Government Act a number of changes to the discounts, exemptions and reliefs were approved by Full Council in January 2013. Under the Business Rate Retention Scheme, from April 2013, Local Authorities will be able to keep a portion of the business rates collected.
- 14. Existing legislation allows the council to exert a civil penalty of £70 for cases where "a person fails to notify the authority, without reasonable excuse, on any matter which affects entitlement a discount". These penalties are applicable to Council Tax, not National Non-Domestic Rates (NNDR), and are payable to the Billing Authority. Prosecution under The Fraud Act 2006, The Theft Act 1968 or The Forgery and Counterfeiting Act 1981 can also be considered where there is evidence to show the discount, relief or exemption has been obtained fraudulently.
- 15. Therefore consideration is being given to enhancing our rolling review of discounts, exemptions and reliefs for both Council tax and NNDR to ensure awards are correct and income to the Council is maximised.

Whistle-blowing Policy and Reporting Channels

- 16. As reported last time, a project has been carried out to review our whistle-blowing arrangements as part of our Anti-Bribery work. This is now nearing completion as follows.
- 17. **Policy:** The policy has been slimmed down and updated following consultation and has been published on the staff intranet. It is attached as <u>Appendix C</u>. The policy only relates to internal whistle-blowing and its target audience is employees who may have a concern they wish to raise. In particular it lays out our responsibility to protect the whistle-blower from reprisals following a concern being raised in good faith.
- 18. Under the new policy this Committee will now be receiving information on the number of concerns raised under the Council's Whistle-blowing Policy. This has been included for the first time in the accompanying investigation report.
- 19. **Internal Awareness**: It is intended to strengthen internal awareness of the policy as part of a multi-policy launch for the Anti-Bribery action plan. This is currently awaiting finalisation of the updated employee Gifts and Hospitality Policy and Code of Conduct.
- 20. **Reporting Channels**: As part of the project a wider analysis was undertaken to plot what the main types of concerns were that could be raised internally or externally and identify which team should be leading on which types of concern. This analysis is summarised in Appendix B and has been shared with the Customer Service Centre to check that enquiries are being funnelled to the right service.
- 21. As a result of this review a number of additional reporting channels have been set up and launched as follows:
 - Expansion of the benefits fraud hotline 01329 824667 to cover all types of fraud.
 - An internal web based form and designated secure email address for employee concerns.
 - An external web based form and designated secure email address for members of the public to raise their concerns electronically. These are published on the Council's website: http://www.fareham.gov.uk/benefits/report a fraud/reportafraud.aspx. There is also a link to the form from the web pages aimed at council contractors and suppliers.
- 22. Victims of Fraud: New information has been added to the Council's website to advise members of the public who may have been a victim of fraud to whom they should report this. These reports are generally co-ordinated by "Action Fraud" which is run nationally by the National Fraud Authority. If the concern is about a company trading in our area these are referred to Hampshire County Council Trading Standards. However, cases may also be investigated locally where a company is purporting to be working on behalf of Fareham Borough Council.
- 23. Steps are also being taken to strengthen our council tax pages in relation to the frequent council tax refund scams that members of the public may fall victim to. In addition, the intention is to use some of the news facilities of the new web site for any other specific scams that are apparent in our area.

Regulation of Investigatory Powers - Magistrates Court Procedure

- 24. As reported last time the measures in the Protection of Freedoms Act 2012 commenced in November 2012. In particular this requires all applications for targeted surveillance or CCTV to be authorised by a magistrate.
- 25. The council has made 3 applications to the Portsmouth Magistrates Court to date. The second of these was initially rejected due to a procedural issue at the Court regarding the nature of the oath to be sworn by the officer presenting the application.
- 26. Action has been taken to prevent this reoccurring by developing a separate signed 'witness statement' from the officer to be included in the submission. This includes a confirmation statement that "to the best of my knowledge and belief: 1) the application discloses all the information that is material to what the Court must decide; and 2) the content of the application is true".

NEXT PRIORITIES

- 27. The priorities being targeted for the next 6 months are:
 - The Revenues & Benefits Team will progress the reviews of Local Council Tax Support claimants and discounts/exemptions/reliefs applied to Council Tax and National Non Domestic Rates accounts with the aim that all reductions will be reviewed within the next 12 months.
 - Implementation of the Housing Fraud Action Plan.
 - Compilation of the next Risk Information Sheets for the Council's top fraud risks to (National Non Domestic Rates, Council Tax and Insurance).
 - Internal awareness campaign of the Anti-Bribery Policy, updated Gifts and Hospitality Policy, Employee Code of Conduct and Whistle-blowing Policies.
 - Update the Irregularity Investigation Policy for discussion at the Chief Executive's Management Team.
 - A review of the Council's approach to 'getting the money back' from investigation and enforcement cases across the council.

RISK ASSESSMENT

28. There are no significant risk considerations in relation to this report

CONCLUSION

29. Work continues to be carried out in accordance with the Council's Counter Fraud Policy.

Appendices:

Appendix A - Proposed Plan of Actions on Housing Fraud

Appendix B - Summary of how concerns are recorded and received at the Council

Appendix C - Updated Whistleblowing Policy (separate attachment)

au-130627-r04-eha.docx

Background Papers: None

Reference Papers:

Report to the Audit Committee on 1 December 2009 on the Annual Counter Fraud Policy and Strategy Update.

Enquiries:

For further information on this report please contact Elaine Hammell. (Ext 4344)

Appendix A

Proposed Plan of Actions on Housing Fraud

Part of Framework	Proposed Activity
Strategy	Establish a designated central point to manage referrals and collate the outcomes of cases.
	Draft a short Housing Fraud Strategy / Policy for the Council which is proportionate to the risk.
	Review current processes against key counter fraud controls and implement any missing which it would be proportionate to strengthen.
Prevention	Review the application verification process in respect of the resources involved for the verifier and the applicant, as well as fraud prevention.
	Document Verification Training for Officers involved in applications.
Deterrence	Publicity of any major fraud found in tenant's newsletter/ reports.
	Increase internal awareness via targeted briefings to generate referrals.
Detection	Participate in the Hampshire publicity campaign including promotion of report it channels.
	Review adequacy of Data Protection Fair Processing Statements on our application forms to allow lawful data matching
	Develop Data Sharing Protocol to cover data matching and intelligence sharing with other Councils and Housing Associations.
Investigation	Investigator training on housing processes and terminology.
	Investigator training on powers, offences and redress options.
	Development of a process for handling a referral and points to prove.
Sanction and Redress	Key Officer Briefing on the Prevention of Social Housing Fraud Bill 2013

Measures of Success/ Impact of Strategy

Trends in number of referrals, cases where abuse found, number of properties recovered % of properties recovered without incurring court costs

Number of perpetrators we had duty to re-house

Effects on speed of possession for arrears

Value of any financial awards through the court

Value of any subsequent benefit overpayments found / or removal of Council Tax discounts

Appendix B

HOW COMPLAINTS & CONCERNS ARE RECEIVED AND RECORDED

Subject	Examples	Lead Team to Contact	Lead Policy	Records Available
Complaints about Member Conduct and Behaviour	Abuse of position, Corruption	Monitoring Officer democraticservices@fareham.gov.uk	Member misconduct procedure	Members Complaints Log Annual report to Audit & Governance Committee
Complaints about Employee behaviour to public / Service Delivery	Rude / unhelpful Service not delivered	Head of Service	Complaints procedure	Complaints records in service Online form database - complaints
Concern about Employee behaviour with other employees	Bullying , sexual harassment	Personnel Services personnelofficesupport@fareham.gov	Grievance or Dignity at work procedure Whistleblowing Policy Disciplinary Code	Whistle-blowing database Personnel log SID form database
Concern about Employee Fraud / Honesty	Abuse of sick leave, accepted a bribe, our workers offering to do private work	Personnel Services (and Corporate Fraud) internal concern@fareham.gov.uk	Whistleblowing Policy Disciplinary Code Anti-Fraud and Corruption Policy	Whistle-blowing database Personnel log Corporate Fraud referral log SID form database
Benefit Claimant Fraud	Undisclosed income, living together, not living in the borough	Benefits Fraud team investigations@fareham.gov.uk	Benefits Anti Fraud Procedure	Online form database - benefits fraud Completed referral sheets / risk score in InControl Completed sheets for investigation and InCase records
Service Fraud	Council tax discount fraud Housing fraud Blue badge fraud	Corporate Fraud (who will forward to the service) corporatefraud@fareham.gov.uk	Anti-Fraud and Corruption Policy Service policies	Online form database - report it / fraud report Corporate Fraud referral Log



"Whistleblowing" (Confidential Reporting) Policy

FEBRUARY 2013 Previously updated: June 2010 June 2006 November 2003 February 2000

1. INTRODUCTION

The Council is committed to the highest possible standards of openness, honesty and accountability. In line with that commitment it expects and encourages employees and others that it deals with (including contractors) who have serious concerns about any aspect of the Council's work to come forward and voice these concerns ("whistleblowing").

Employees are often the first to realise that there may be something seriously wrong within the Council. However, they may not express their concerns because they feel that making a formal complaint would be disloyal to their colleagues, their managers or to the Council or they may fear harassment or victimisation.

This Confidential Reporting or "Whistleblowing" Policy is intended to encourage and enable employees to raise serious concerns <u>within</u> the Council without fear of reprisal.

This Policy which reflects the provisions of the Public Interest Disclosure Act 1998 (the "Act") has been discussed with the relevant trade unions and has their support.

The Act protects workers from dismissal or victimisation if they disclose information about wrongdoing by their employer or colleagues providing:

- The information is disclosed in good faith:
- It is believed to be substantially true;
- The worker does not act maliciously or make false allegations;
- The worker does not seek any personal gain

This policy aims to:

- Encourage employees to feel confident in raising serious concerns.
- Provide avenues for employees to raise those concerns and receive feedback on any action taken.
- Ensure employees receive a response to their concerns and that they are aware of how to pursue them if they are not satisfied.
- Reassure employees that they will be protected from possible reprisals or victimisation for whistleblowing in good faith reasonably believing something is wrong.

Serious concerns which an employee may have could include:

- Conduct which is a legal offence or a breach of law
- Disclosures related to miscarriages of justice
- Health and Safety risks, including risks to the public as well as other employees
- Damage to the environment
- The unauthorised use of Council funds

- Action that is contrary to the Council's Standing Orders and policies or contract regulations
- Possible fraud, corruption or financial irregularity
- Practice which falls below established standards or practice
- Sexual or physical abuse or neglect of clients
- Other unethical conduct

2. SAFEGUARDS

Harassment or Victimisation

It can be a difficult decision to report a concern, particularly if employees are worried about the consequences of doing so. However, if what employees are saying is true, they should have nothing to fear because they will be complying with the Council's requirements.

The Council will not tolerate any harassment or victimisation (including informal pressures) and will take appropriate action to protect employees when they raise a concern in good faith.

Confidentiality

The Council will do its best to protect an employee's identity when he/she raises a concern and does not want their name to be disclosed, for example it is sometimes possible to edit information from a witness statement, which would otherwise identify the witness, whilst still keeping the information required.

Every effort will be made to protect confidentiality and this will be discussed with the employee raising the concern.

This policy encourages employees to put their name to their allegation whenever possible because concerns expressed anonymously are much less powerful.

Untrue allegations

If an employee raises a concern under this Policy and has reasonable grounds for believing it to be true but it is not confirmed by the investigation, no action will be taken against them. If, however, an employee makes an allegation frivolously, maliciously or in pursuit of a personal grudge or for personal gain, then disciplinary action may be taken against them.

3. PROCEDURE

How to raise a concern internally

As a first step, an employee should normally raise a concern with their immediate manager or their supervisor. This depends, however, on the nature of the issue and who is involved. For example, if an employee believes that management or Councillors are involved, then he/she should approach any of the following as appropriate to the nature of the concern:-

Chief Executive Officer
Any Director
Head of Personnel and Development
Head of Audit & Assurance

Concerns may be raised verbally or in writing. If making a written report, it would be useful to include as much information as possible such as relevant times, dates, places, incidents or observations and witnesses. It would be helpful if the background and history of the concern was set out, names of those involved and the reason why the situation causes particular concern. The earlier the concern is expressed the easier it is to take action.

A "Report a Concern" form on the employee intranet is available for submission electronically and this will be treated confidentially.

Advice and guidance on how matters of concern may be pursued can be obtained from the officers mentioned above.

An employee may wish to consider discussing his/her concern with a colleague who has had the same experience or concerns and then raise the matter together.

An employee may have a trade union representative or other employee of the Council present during discussions.

How the Council will respond

As soon as possible after a concern is received, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what format it should take.

Where it is considered appropriate, the matter may be referred to external agencies: e.g. the Police, external auditor or through some other form of independent inquiry.

The amount of contact between the officers considering the issue and the employee will depend on the nature of the matters raised. If necessary,

further information will be sought from the employee.

Where applicable, subject to any legal constraints, an employee will be kept informed as to what is happening, who is handling the matter and how the person can be contacted. This can be confirmed in writing if requested.

The relevant senior officer will take steps to minimise any difficulties, which an employee may experience as a result of raising a concern. For instance, if an employee is required to give evidence in criminal or disciplinary proceedings, the relevant senior officer will advise him/her about the procedure.

The Council accepts that an employee needs to be assured that the matter has been properly addressed. Thus, where applicable, subject to legal constraints, an employee will be informed of the outcomes of any investigations.

How the matter can be taken further

This policy is intended to provide employees with a way to raise their concerns <u>within</u> the Council. The Council hopes employees will be satisfied with any action taken. If, however, employees are not satisfied with any action taken and, as a last resort, feel it is right to take the matter <u>outside</u> the Council, the following are possible contact points:

- The external auditor Kate Handy, Director, Ernst and Young LLP. Tel 07867 152471. KHandy@uk.ey.com
- A trade union representative
- Relevant professional bodies or regulatory organisations
- A legal adviser
- The police

An employee may choose to raise the matter with an external body (prescribed person) regardless of whether they have raised their concerns within the Council. If employees do take the matter outside the Council, they should take great care that they do not disclose confidential information.

A full list of prescribed persons is available here.

Free advice is available to employees wishing to raise concerns from "Public Concern at Work Telephone (0207 404 6609) e-mail helpline@pcaw.co.uk or look at www.pcaw.co.uk.

Maintenance and Review of the Policy

The Monitoring Officer* has overall responsibility for the maintenance and operation of this policy. He/She will maintain a record of concerns raised and the outcomes (but in a form which does not endanger confidentiality) and will report as necessary on the implementation of the policy.

The policy will be kept under review to reflect any changes in legislation, guidance and application of best practice.

*The Monitoring Officer is the Director of Regulatory and Democratic Services.



Report to Audit and Governance Committee

Date 27 June 2013

Report of: Director of Finance and Resources

Subject: LATEST FINANCIAL REGULATIONS UPDATES

SUMMARY

Officers are currently carrying out a detailed review of each Financial Regulation in order to streamline them down to the key controls that members and officers are expected to adhere to.

Three more regulations have now been reviewed and are submitted for comment. These cover Regulation 14 - Other Assets, Regulation 10 - Risk Management and Regulation 11 - Audit Arrangements.

RECOMMENDATION

That the proposed changes are considered and any comments forwarded to the Council, to aid its decision in approving these revised regulations.

INTRODUCTION

- Financial Regulations form part of the Council's constitution and provide a detailed framework for managing the authority's financial affairs. We currently have 21 Financial Regulations.
- 2. Since November 2010, officers have been reviewing individual regulations and streamlining them down to the key rules that are necessary for the Council to adequately manage its financial affairs. Twelve regulations have been completed to date.
- 3. The review has been completed for three more regulations which are now being brought to members for comment. A further amendment to Regulation 8 (Revenue and Capital Budgets) is also proposed.

FINANCIAL REGULATION 14 - OTHER ASSETS

- 4. This regulation accompanies Regulation 13 on Physical Assets which was reviewed at the last meeting. Appendix A and Appendix B give the current regulation and the proposed new one. However, it the intention that the rules contained in Appendix B will be absorbed into appropriate sections of the amalgamated regulations when produced, rather than continuing to be a regulation in its own right.
- 5. The first section on employees has been removed as these rules are also covered by the regulations covering salaries and allowances and budgetary control, and by the council's Pay Policy.
- 6. The other sections have been streamlined by removing anything which should be contained in the Council's ICT and Information Management policies, Business Continuity Policy or Contract Procedure Rules.

FINANCIAL REGULATION 10 - RISK MANAGEMENT

- 7. Appendix C and Appendix D give the current regulation and the proposed new one. This regulation has been streamlined to concentrate on what the main policies and responsibilities are that are needed in relation to the key parts of the assurance framework.
- 8. This has included removing any duplication with the content of the key policies referred to (Risk Management, Business Continuity, Anti-fraud and Corruption and Whistle-blowing), and removing any text which is a description or definition as opposed to a rule.

FINANCIAL REGULATION 11 - AUDIT ARRANGEMENTS

- 9. <u>Appendix E</u> and <u>Appendix F</u> give the current regulation and the proposed new one. This regulation has been updated for the following changes that have been implemented in recent years:
 - (a) The changes in the role of Audit Commission in appointing external auditors and the future implementation of the Local Audit Bill.
 - (b) Reference to the latest Account and Audit Regulations which stipulate that an internal audit service should be maintained, rather than giving the specific year. The latest version at the moment in 2011.

- (c) Replacement of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (2006) with the Public Sector Internal Audit Standards 2013.
- 10. It has also been streamlined to remove duplication with the rules contained in legislation, codes of practice, the terms of reference for the Audit and Governance Committee and the internal audit charter.
- 11. An updated internal audit charter will be brought to a future meeting of the Committee for comment. This includes the details of how the independence and objectivity of the audit service is achieved, the responsibilities of the audit team and control of audit reports.

FINANCIAL REGULATION 8 - REVENUE AND CAPITAL BUDGETS

12. A further amendment is proposed to Regulation 8 such that the de-minimus level for capitalisation of expenditure will now be £10,000 for all purchases. Currently the rule allows Vehicle and Plant purchases over £5,000 to be capitalised but this contradicts the accounting policy published in the Statement of Accounts and is not used in practice. On average there are 3 vehicles purchased between £5,000 and £10,000 a year and all are purchases made using revenue budgets.

RISK ASSESSMENT

13. There are no significant risk considerations in relation to this report

CONCLUSION

14. The proposed new approach to streamlining Financial Regulations will continue to guide the strategic and operational financial affairs of the authority in accordance with the latest national and local requirements.

Appendices:

Appendix A: Financial Regulation 14 - Other Assets – Current version (separate attachment)

Appendix B: Financial Regulation 14 - Other Assets – Proposed version (<u>separate</u> attachment)

Appendix C: Financial Regulation 10 - Risk Management – Current version (<u>separate</u> <u>attachment</u>)

Appendix D: Financial Regulation 10 - Risk Management – Proposed version (<u>separate</u> attachment)

Appendix E: Financial Regulation 11 - Audit Arrangements – Current version (<u>separate</u> attachment)

Appendix F: Financial Regulation 11 - Audit Arrangements – Proposed version (<u>separate</u> attachment)

Background Papers: None

Reference Papers:

Report of the Director of Finance and Resources to the Audit Committee on 30 November 2010 "Annual Review of Financial Regulations".

Enquiries:

For further information on this report please contact Elaine Hammell. (Ext 4344)

REGULATION 14: OTHER COUNCIL ASSETS (CURRENT)

Quick Link

- 14.1 Employees
- 14.2 ICT Systems
- 14.3 Intellectual Property
- 14.4 Document Retention
- 14.5 Controlled Items

This regulation covers all Council assets such as employees, data and information which would not be classified as assets on a balance sheet.

Physical assets such as land, property and equipment are covered in <u>Regulation 13 – Fixed Assets</u>.

14.1 EMPLOYEES

The following rules only cover the financial and security issues associated with employees. Further information on the management of employees (e.g. absence management) is contained in a number of corporate policies which are available from Personnel Services.

- 14.1.1 **Budget Setting:** Managers should ensure that staffing budgets set represent an accurate forecast of staffing requirements, within any strategy restraints set by the Council.
- 14.1.2 **Employee Budgetary Control:** Managers shall exercise control over their staffing establishment within the approved staffing budgets.
- 14.1.3 Recruitment Process: The recruitment of employees will be made in accordance with the Council's Recruitment and Selection Guidelines and procedures. This will include ensuring that adequate checks are undertaken to ensure that new employees are appropriately qualified, experienced, and trustworthy and have a legal permit to work.
- 14.1.4 Contracts and Remuneration: The appointment of employees will be made in accordance with statutory requirements and the Council's approved establishment, grades and rates of pay.
- 14.1.5 **Use of Temping Agencies:** Recruitment of temporary staff should only be made from reputable agencies where it can be established that employment legislation such as social inclusion and the minimum wage, is being adhered to.
- 14.1.6 **Time Sheets:** Adequate controls should be in place to ensure that employee time is used effectively and to the benefit of the authority. This should include the timely completion of timesheets for employees and agency staff, wherever appropriate.

14.2 ICT SYSTEMS

The following rules only cover the key financial and irregularity risks associated with Information and Communication Technology (ICT) systems. Detailed regulations on the use and maintenance of ICT systems are contained in the ICT handbooks.

- 14.2.1 **System Design:** Consideration should be given to the appropriateness of controls to be built into systems to achieve an acceptable level of security and ensure, wherever possible, that transactions can be traced to the person originating them.
- 14.2.2 Access Security: Directors and Chief Officers shall be responsible for ensuring that the surety systems which prevent access to financial and personal data held by a computer or by any other method of storage are maintained.
- 14.2.3 **Standards on Use of Systems**: The use of ICT systems and equipment shall comply with:
 - a) the Data Protection Act (security and collection of personal data)
 - b) UK Copyright, Designs and Patents law (software licensing)
 - c) Computer Misuse Act (illegality of unauthorised use and access)
 - d) Human Rights Directive and RIPA (rights to privacy)
 - e) Telecommunications Directive (rights not to receive unwanted e-communications)

and any FBC information and record keeping policies and standards laid down to ensure security and privacy.

14.2.4 ICT Disaster Recovery Plan: The "Nominated Chief Officer with responsibility for Information and Communication Management" is responsible for ensuring that adequate arrangements exist to protect the Council's interests in the event of a computer disaster.

14.3 INTELLECTUAL PROPERTY

The following rules apply to the maintenance of information and data which are key to the provision of services.

- 14.3.1 Ownership: Information, data and methodologies created using Council resources remains the property of the Council, unless agreed otherwise by the appropriate Director and Chief Officer.
- 14.3.2 Responsibility for Information Security: Directors and Chief Officers are responsible for maintaining appropriate security and privacy of all information under their control in accordance with the Information Security Policy.

- 14.3.3 Information Storage and Management: All employees must be mindful of the Councils information and record keeping policies, and the requirements of the Data Protection Act, when collating, storing and distributing information and must follow any instructions issued by the Council's Information Officer.
- 14.3.4 Information Disposal: All employees must be mindful of the Council's guidance on "Disposing of Confidential Information" when dealing with the disposal of any documents or disks that may contain confidential or sensitive information.
- 14.3.5 **Contingency Plans:** Directors and Chief Officers should ensure that adequate contingency plans exist for the security of assets and continuity of service in the event of disaster or system failure.

14.4 DOCUMENT RETENTION

Records can now exist in a variety of forms: e.g. computer database, microfiche, CD ROM, Document Imaging (DIPS) systems and hard copy. All these forms need to be managed to ensure that legislative, corporate and service needs are met, whilst resources are not unnecessarily tied up with the storage and maintenance of records. Corporate policy is that all documents should be held in electronic format wherever possible.

- 14.4.1 **Document Retention Schedule**: All managers should maintain appropriate procedures to ensure compliance with the Council's Information Disposal Schedule, and any other corporate guidance issued.
- 14.4.2 Financial Documents: The periods for retaining documents of a financial nature shall be agreed with the Statutory Chief Finance Officer. Documents which record or support financial transactions must be retained for minimum periods for accounting and taxation purposes.
- 14.4.3 **Statutory Service Documents:** Directors and Chief Officers are responsible for ensuring that any service specific statutory document formats and retention periods are adhered to.

14.5 CONTROLLED ITEMS

- 14.5.1 Controlled Stationery Stocks: The "Nominated Chief Officer with responsibility for Exchequer functions" is responsible for ordering and safeguarding stocks of documents used to originate financial transactions. Examples include orders for goods and services, debtor accounts, receipt books and paying in books.
- 14.5.2 **Use of Controlled Stationery:** The issue and use of controlled stationery must be by authorised staff only and all blank and part used stocks must be kept securely.

- 14.5.3 **Contracts**: Contract documents (excluding copy official orders) must be recorded and kept safe within Legal Services.
- 14.5.4 Contract Seal: The instrument for affixing the common seal of the Council shall be held in the custody of an officer nominated by the Monitoring Officer.

Other Points of Reference (underline denotes a hyperlink is available)

Financial Regulation 8: Revenue Budgets

Financial Regulation 13: Fixed Assets

Financial Regulation 15: Procurement and Contracts

Financial Regulation 19: Income and Banking

Information and Record Keeping Policies and Guides including:

- a) Information Security Policy
- b) Council Information Disposal Schedule
- c) Guidance on Disposing of Confidential Information

Recruitment and Selection Guidelines and procedures

REGULATION 14: OTHER COUNCIL ASSETS (PROPOSED)

- 14.2.1 **IT Systems**: IT system administrators are responsible for maintaining the security of the data held on any system under their control.
- 14.2.2 The Statutory Chief Finance Officer should be notified of any proposals to introduce or change an IT system that affects the recording of financial transactions.
- 14.2.3 **Intellectual Property:** Information, data and methodologies created using Council resources remain the property of the Council, unless otherwise agreed by the appropriate Director.
- 14.2.4 **Document Retention**: Any documents of a financial nature shall be retained for the period stipulated in the Council's Information Disposal Schedule. Where a document is not listed then it should be retained for the minimum periods required for accounting and taxation purposes.
- 14.2.5 **Controlled Stationery:** The Director with responsibility for that service is responsible for ordering and safeguarding stocks of any stationery that has a financial value such as blank cheques, receipt books, rail warrants and parking permits.
- 14.2.6 Appropriate records should be kept to account for the issue and use of the controlled stationery.

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REGULATION 10: RISK MANAGEMENT (CURRENT)

Quick Link

- 10.1 The Risk Management Process
- 10.2 Internal Control
- 10.3 Insurance
- 10.4 Fraud and Corruption
- 10.5 Financial Irregularity

Risk Management is the whole process of identifying, and evaluating and controlling the strategic and operational risks of the Council. A risk is the chance or possibility of loss, damage, injury or failure to achieve objectives by an unwanted or uncertain action or event. This includes the risk of 'missed opportunities'.

As the Council is the custodian of public funds risk management is particularly significant and the level of risk that can be tolerated in its activities will generally be low.

The sections below outline key components of a risk management framework. This should be read in conjunction with the regulations in Section A, which summarise individual responsibilities of members, managers and employees.

10.1 THE RISK MANAGEMENT PROCESS

- 10.1.1 Responsibility for Policy: The "Nominated Chief Officer with responsibility for Risk Management" is responsible for maintaining the Council's Risk Management Policy and Strategy. Directors and Chief Officers are responsible for promoting the policy throughout the Council.
- 10.1.2 Approval of Risk Management Framework: The Council must prepare a formal framework for integrated risk management for approval by the Audit Committee.
- 10.1.3 Risk Management Responsibilities: Individual and group responsibilities and reporting arrangements must be clearly set out in the Risk Management Framework.
- 10.1.4 Monitoring of Risk Reduction: A monitoring process must be established to review regularly the progress and effectiveness of risk reduction strategies and action plans.
- 10.1.5 **General Responsibilities**; All managers and employees should be aware of what is required of them from the corporate risk management process and ensure that any guidance issued is complied with. In particular employees may have responsibility for:
 - a) Identifying, evaluating, reporting and managing risks faced by the service in accordance with the corporate scheme.
 - b) Completing any risk mitigation action plans prepared by the deadlines stipulated.

- c) Reviewing processes and controls continuously to determine the most effective management of the risks they contain.
- d) Undertaking appropriate risk analysis as part of any proposals for new, or changes to, policies or service delivery methods.
- e) Preparing and testing business continuity plans to cover periods of unforeseen interruption to normal working arrangements.

10.2 INTERNAL CONTROL

Internal Control is a key component in the Councils' Risk Management process. It relates to the whole system of policies, processes and checks employed to mitigate risks of error, omission, loss, fraud and theft within the Council.

Further information on the terminology involved in Internal Control can be found on the Internal Audit website. Specific advice on the adequacy of Internal Control is also available from the Internal Audit Service.

- 10.2.1 Responsibility and Purpose of Internal Controls: All Managers with budget responsibilities must establish, review and maintain internal controls which promote and encourage.
 - a) Achievement of Objectives
 Internal controls should be designed to help individuals play their part in implementing local service agreements and achieve the necessary standards of performance and quality.
 - b) Compliance with Council Policy, Regulations, Rules and any Legislation
 It is essential that internal controls promote compliance with Council Policy,
 Standing Orders, Financial Regulations, Codes of Conduct and where
 appropriate any statutory requirements.
 - c) Reliability and Integrity of Information
 Internal controls must promote high standards of integrity in all actions or transactions which directly or indirectly involve finance. The Council relies on a wide range of information to develop and monitor its policies. It is important therefore that internal controls promote accuracy, consistency, usefulness and timeliness in all transactions.
 - d) <u>Economical and Efficient Use of Resources</u>
 It is important that services operate efficiently, effectively and economically. Internal controls should be in place to ensure that all resources are used in the best way possible.
 - e) <u>Safeguarding of Assets</u>
 All employees are expected to demonstrate integrity in all business dealings and to be accountable for their actions. They are expected to act in the best interests of the Council without seeking any personal gain and to safeguard the assets for which they are responsible.
- 10.2.2 **Specification of Individual's Role:** The role of an individual in the control process should be clearly defined with emphasis on the following:

- a) Identification of reporting lines and service responsibilities.
- b) Clear allocation of responsibilities to individuals.
- c) Separation of duties within a service.
- d) Security and effectiveness of systems.
- e) Recognition of risks to themselves, Council property and assets and the precautions that can be taken to minimise risks.
- f) Responsibility to report any potential control weaknesses that come to their attention, to an appropriate person.
- 10.2.3 **High Risk Areas:** The following, although not an exhaustive list, are examples of areas considered to be at high risk, and managers should ensure that internal controls are developed which monitor and regulate financial transactions in these areas:
 - a) any area involving the handling of cash/desirable materials/equipment
 - b) timesheets and claims for expenses and other allowances
 - c) tendering and award of contracts
 - d) settlement of contractors' final accounts and claims
 - e) appointment and payment of outside contractors
 - f) pecuniary interests of members and officers
 - g) secondary employment of staff which may influence their work for the Council
 - h) canvassing for appointments
 - i) acceptance of gifts and hospitality
 - j) pressure selling
 - k) award of permissions, planning consents and licences
 - I) disposal of assets.

Further guidance on what constitutes propriety in relation to Council Operations is available in Financial Regulations Support Document 18.

- 10.2.4 Action Required After Risk Realised: Weaknesses in internal controls can result in errors or in more serious cases, may involve theft, fraud or corruption. In all such cases management must take prompt action to strengthen the internal control processes, rectify any errors and make good any financial losses (e.g. through insurance claims).
- 10.2.5 Annual Control Assurance: All managers should be clear of their responsibilities with respect to the assurance framework and Code of Corporate Governance and should provide appropriate assurance information to support the Annual Governance Statement, as necessary.

10.3 INSURANCE

Insurance is the last line of defence in the Council's Risk Management Strategy and should only be used for significant risks that cannot be reduced or eliminated. Insurance can be used in two ways to mitigate risk:

- a) by purchasing insurance cover for the Council, such as for property, use of vehicles and equipment or staff injuries;
- b) by ensuring adequate cover is held by partners or contractors involved with the Council.

A summary of some of the main types of insurance policy is available in <u>Financial</u> Regulations Support Document 21.

- 10.3.1 Arranging Cover: The "Nominated Chief Officer with responsibility for Insurance" shall establish appropriate insurance cover in accordance with the Risk Management policies of the Council.
- 10.3.2 **Fidelity Guarantee**: All appropriate employees of the Council shall be included in a suitable fidelity guarantee insurance, against any act of fraud or corruption.
- 10.3.3 Annual Review of Cover: The "Nominated Chief Officer with responsibility for Insurance" shall annually review all insurances and arrange suitable changes in cover, in consultation with relevant managers, and risk management groups.
- 10.3.4 **Notification of Changes:** Managers shall give prompt notification in writing to the "Nominated Chief Officer with responsibility for Insurance" of:
 - a) the extent and nature of all new risks, properties, and equipment vehicles and plant which may require to be insured and of any alterations affecting existing insurances;
 - b) all leases of property granted by or to the Council which involve a transfer of cover.
- 10.3.5 The Transport Manager shall be responsible for ensuring that the "Nominated Chief Officer with responsibility for insurance" is promptly notified of any changes in vehicles and plant which may affect the insurance cover necessary.
- 10.3.6 Responsibility for Claims: The Nominated Chief Officer with responsibility for Insurance shall negotiate all claims made on the Council's policies, in consultation with other officers as necessary.
- 10.3.7 **Notification of Claims:** Managers shall give prompt notification in writing to the "Nominated Strategic Finance Manager" of any loss, liability, damage or event likely to give rise to a claim by or against the Council.
- 10.3.8 Claims Procedure: All claims must be made in accordance with the Council's written claims procedures.

- 10.3.9 Claim Negotiation: No admission of liability shall be made by an officer. Any claims from third parties, whether insured or not, must be referred to the "Nominated Chief Officer with responsibility for Legal Administration" and the "Nominated Chief Officer with responsibility for Insurance" to assess the Council's legal and financial liability.
- 10.3.10 Indemnity to Third Parties: No assurance on Council cover or reimbursement for loss or damage, may be issued to a third party without the written consent of the Statutory Chief Finance Officer.
- 10.3.11 Contractor Cover: Suppliers, contractors, consultants or agents acting for the Council must have insurance arrangements that adequately protect the Council's interests in accordance with Financial Regulation Support Document 22.

10.4 FRAUD AND CORRUPTION

The Council is a public body and therefore will not tolerate any fraud and corruption in the administration of its responsibilities, whether from inside or outside the authority. All members and employees are expected to lead by example on all aspects of honesty, propriety and accountability. The Council also expects that individuals and organisations with whom it comes into contact (e.g. suppliers, contractors, service providers, and partners) will act towards the authority with integrity.

The Council's Anti-fraud and Corruption policy sets the culture for the organisation to address the risk of fraud and corruption, and summarises the methods of prevention, detection and investigation we have in place.

- 10.4.1 **Promotion of Culture to Members:** The Standards Committee is responsible for promoting required standards of conduct amongst members.
- 10.4.2 **Promotion of Culture to Employees:** Directors and Chief Officers are responsible for ensuring that all employees are aware of the standards of conduct required from employees.
- 10.4.3 Maintenance of Anti-fraud and Corruption Policy: The "Nominated Chief Officer with responsibility for Counter fraud" is responsible for preparing and reviewing the Council's Anti-Fraud and Corruption Policy, for approval by the Audit Committee, and ensuring that adherence to the policy is periodically tested.
- 10.4.4 Registers of Interests: All members and employees must identify and record any interests that may conflict with their responsibilities to the Council, in accordance with <u>Financial Regulations Support Document</u> 19.

10.4.5 **Gifts and Hospitality:** All members and employees must record any receipts of gifts and hospitality resulting from their public office, in accordance with <u>Financial Regulations Support Document 17</u>.

10.5 FINANCIAL IRREGULARITIES

A financial irregularity exists where there is intentional or unintentional:

- Misrepresentation of a financial statement
- Departure from accepted or authorised practice, including failure to disclose information
- Unauthorised or dishonest action, including abuse of position of trust
- 10.5.1 Identification of Irregularities: Directors and Chief Officers must ensure that procedures are in place to support 'whistle blowing', in accordance with the Council's Code of Practice for Confidential Reporting. They must also ensure that all suspected irregularities are appropriately reported and action taken in accordance with the Council's Disciplinary Procedures.
- 10.5.2 **Duty to Report Financial Irregularity:** Where there is a suspicion of Financial Irregularity, it is the duty of all individuals to report the matter to their Manager, the "Nominated Audit Manager" or the Statutory Chief Finance Officer. Such disclosures will be treated in accordance with the Council's Code of Practice for Confidential Reporting.
- 10.5.3 **Investigation Procedure:** The officer receiving the notification must then act in accordance with the <u>Anti-Fraud and Corruption Policy</u>, and <u>Financial Irregularity Investigation Policy</u> such that the matter is appropriately investigated.
- 10.5.4 **Duty to Act:** Managers must take appropriate action during or at the completion of any investigation.

Other Points of Reference (underline denotes a hyperlink is available)

Financial Regulation 1: Responsibilities of Members

<u>Financial Regulation 3: Responsibilities of Other Officers, Employees and Agents of the Council</u>

Financial Regulation 7: Financial Reporting

Financial Regulation Support Document 17: Gifts and Hospitality

Financial Regulation Support Document 18: Propriety and Probity

Financial Regulation Support Document 19: Registers of Interests

Financial Regulation Support Document 21: Insurance Types

SECTION C: RISK MANAGEMENT & CONTROL - REG 10 (Risk Management)

<u>Financial Regulation Support Document 22: Guidance on Insurance Types and Levels required by External Contractors</u>

Financial Regulation Support Document 14: Internal Audit Charter

Risk Management Policy
Risk Management Strategy
Anti-Fraud and Corruption Policy.

Code of Practice for Confidential Reporting Disciplinary Code of Practice Surveillance Policy Use of Communications Data Policy Financial Irregularity Investigation Policy

Constitution Part 5 - Codes of Conduct and Practice - Member Code of Conduct

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REGULATION 10: RISK MANAGEMENT (PROPOSED)

Quick Link

- 10.1 Risk Management 10.2 Internal Control
- 10.3 Insurance
- 10.4 Fraud and Corruption

10.1 **RISK MANAGEMENT**

- 10.1.1 Framework: The Audit and Governance Committee are responsible for approving an appropriate approach to risk management for the Council.
- 10.1.2 **Policy**: The "Nominated Director with responsibility for Risk Management" is responsible for maintaining the Council's Risk Management Policy and Business Continuity Policy.

INTERNAL CONTROL 10.2

- 10.2.1 Annual Governance Statement: The Chief Executive's Assurance Group is responsible for maintaining an appropriate assurance framework which supports the production of the Annual Governance Statement in accordance with the latest Accounts and Audit Regulations.
- 10.2.2 All managers should be clear of their responsibilities with respect to the assurance framework and Local Code of Corporate Governance and should provide appropriate assurance information to support the Annual Governance Statement, as necessary.
- 10.2.3 Responsibility and Purpose of Internal Controls: All managers must establish, maintain and keep under review appropriate and effective internal controls which promote and encourage:
 - a) the achievement of objectives;
 - compliance with legislation and council policies, regulations and b)
 - the reliability and integrity of Information: c)
 - economical and efficient use of resources; d)
 - safeguarding of assets.
- 10.2.4 Managers should ensure that those involved in operating systems are clear as to their responsibilities and reporting lines.

10.3 INSURANCE

10.3.1 Arranging Cover: The "Nominated Director with responsibility for Insurance" shall establish appropriate insurance cover for the Council and review it annually in consultation with relevant managers.

10.3.2 **Notification of Changes:** Managers should give notification to the "Nominated Director with responsibility for Insurance" of any

circumstances, risks, purchases and disposals which may materially affect the insurance arrangements needed.

10.3.3 Responsibility for Claims: The "Nominated Director with responsibility for Insurance" shall negotiate all claims made on the Council's policies, in consultation with other officers as necessary.

- 10.3.4 **Notification of Claims:** Managers shall give prompt notification in writing to the "Nominated Strategic Finance Manager" of any loss, liability, damage or event likely to give rise to a claim by or against the Council.
- 10.3.5 **Contractor Cover:** Managers should ensure that suppliers, contractors, consultants or agents engaged must have insurance arrangements that adequately protect the Council's interests in accordance with <u>Financial Regulation Support Document 22</u>.

10.4 FRAUD AND CORRUPTION

- 10.4.1 **Maintenance of Anti-fraud and Corruption Policy:** The "Nominated Director with responsibility for Counter fraud" is responsible for maintaining the Council's <u>Anti-Fraud and Corruption Policy</u>.
- 10.4.2 **Duty to Report Financial Irregularity:** Where there is a suspicion of Financial Irregularity, it is the duty of all individuals to report the matter to their Manager, the "Nominated Audit Manager" or the Statutory Chief Finance Officer. Such disclosures will be treated in accordance with the Council's Code of Practice for Confidential Reporting.
- 10.4.3 Investigation Procedure: The "Nominated Audit Manager" should maintain an Investigation Policy and supporting procedures to determine how an investigation into an irregularity should be carried out. The Investigation Policy should be approved by the Chief Executive's Management Team.

REGULATION 11: AUDIT ARRANGEMENTS (CURRENT)

11.1 EXTERNAL AUDIT

The Council's external auditors are appointed by the Audit Commission. Their basic duties are governed by section 15 of the Local Government Finance Act 1982, and amended by section 5 of the Audit Commission Act 1998. All external auditors are required to operate within the latest Audit Commission's Code of Audit Practice. Their main role is to express an independent opinion on our governance arrangements, financial statements and performance indicators.

The authority may also be subject to audit and inspection from other external bodies, such as HM Customs and Revenues, who have statutory rights of access.

- 11.1.1 **Right of Access:** The external auditor has rights of access to all premises, personnel, documents and information they consider necessary for the purpose of their audit.
- 11.1.2 Liaison: The Statutory Chief Finance Officer will work with the external auditors and advise the Council, Executive and Directors and Chief Officers on their responsibilities in relation to external audit.
- 11.1.3 Relationship with Internal Audit: The "Nominated Audit Manager" must ensure that there is effective liaison between internal and external audit.
- 11.1.4 **Management Letter**: The External Audit Annual Audit and Inspection letter must be considered by the Statutory Chief Finance Officer and Chief Executive Officer and reported to the Audit Committee.

11.2 INTERNAL AUDIT

The Accounts and Audit Regulations 2003 require local authorities to maintain an adequate and effective internal audit service. This requirement was originally implied by section 151 of the Local Government Act 1972 which established the post of the Section 151 officer with responsibility to 'make arrangements for the proper administration of their financial affairs'. This post is referred to as the Statutory Chief Finance Officer in these regulations.

The internal audit service is required to operate within the *APB Guidance for Internal Auditors (1990)*, further expanded in the *CIPFA Code of Practice (2006*). The framework for the service at FBC is set out in the Internal Audit Strategy and Charter and detailed in the Internal Audit Manual. Their main responsibility is as an independent assurance function within the organisation. The audit service may be provided by in-house or external resources.

A service or officer in receipt of an audit review is termed an Auditee.

- 11.2.1 Responsibility: The Statutory Chief Finance Officer is responsible for maintaining an adequate and effective internal audit service in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (2006).
 - An annual report shall be prepared for the Audit Committee on the discharge of this responsibility.
- 11.2.2 **Scope of Audit Service:** Up to date terms of reference for the audit service must be maintained laying out the scope of audit work and the responsibilities of the Audit team. These are contained in the Internal Audit Strategy and <u>Financial Regulations Support Document 14 The Internal Audit Charter.</u>
- 11.2.3 Audit Plans: The Statutory Chief Finance Officer shall consider the strategic and annual audit plans prepared or reviewed by the "Nominated Audit Manager" for approval by the Audit Committee.
 - These will take account of the characteristics and relative risks of the activities involved within the Council.
- 11.2.4 **Monitoring of Audit Plans:** The Statutory Chief Finance Officer and Audit Committee shall consider quarterly reports on achievement of audit plans.
- 11.2.5 Independence and Status: The whole audit service should be independent of the activities it audits, to ensure that assessments and advice are impartial, unbiased and are not impeded. This is to be achieved by the following:

Organisational Status

- a) The "Nominated Audit Manager" must maintain open communication with the Statutory Chief Finance Officer.
- b) The External Audit Partner has the freedom to suggest the priorities of the Internal Audit Service for agreement with the "Nominated Audit Manager" and Statutory Chief Finance Officer. Plans, however, will be subject to scrutiny by the Audit Committee.
- c) The "Nominated Audit Manager" has direct access and freedom to report to the Chairman of the Audit Committee and all Senior Management, including the Chief Executive Officer and Monitoring Officer.
- d) The "Nominated Audit Manager" has the freedom to report through the Statutory Chief Finance Officer, Monitoring Officer and the "Nominated Chief Officer with responsibility for Risk Management" to the committees they support, when appropriate.

Objectivity and Integrity

- e) The "Nominated Audit Manager" and named contact for the external partner must be a member of a professional Accountancy or Auditing body.
- f) The "Nominated Audit Manager" and external partner must establish appropriate professional standards for the rest of the audit team.

- g) The audit service should not have any operational responsibilities or be responsible for the drafting of procedures.
- h) An auditor should not audit an activity that they have previously had responsibility for until at least 12 months have elapsed.
- i) All auditors must inform the named contact for the external partner, "Nominated Audit Manager" or Statutory Chief Finance Officer of any relationships or financial interests in any organisation or activity subject to audit.
- j) An individual auditor should not be solely responsible for an audit area for more than 3 consecutive audits (except for audit specialisms).
- 11.2.6 **Powers of Auditors:** The Statutory Chief Finance Officer and members of the in-house Internal Audit and Corporate Fraud teams, whilst carrying out their duties, have the authority to:
 - a) *Premises:* Enter, at any reasonable time, any premises or land owned, leased or controlled by the Council.
 - b) *Documents*: Examine all documents, correspondence or information held by employees, members of the council or other third parties, pertinent to their audit work.
 - c) *Explanations*: Obtain such information and explanations from any employee or member as necessary concerning any matter under examination.
 - d) *Property:* Require any Council employee, agent or member to produce cash, stores, ICT equipment, or other Council property under their control.

These powers may also be conveyed on the auditors working for the external audit partner on agreement with the "Nominated Audit Manager" or Statutory Chief Finance Officer.

Where a significant irregularity is suspected the in-house Internal Audit and Corporate Fraud teams also have the authority to:

- e) *Property*: Carry out a search of or seize any Council owned property and equipment.
- f) Access systems: Require any Council employee or member to surrender any keys, cards, de-encryption codes, passwords or any other item or information needed to allow access to Council premises, assets or data.
- g) *Interception:* Intercept and review communications, data or information held on Council's own equipment such as internet logs, email, fax and phone messages.
- h) Remove documents: Remove any documents or other material which may be required as evidence.
- i) Exclusion: Require an employee to leave the Council's premises immediately.

Execution of these latter powers shall be in accordance with the <u>Financial Irregularity Investigation Policy</u>, Internal Audit Manual and Personnel Procedures.

- 11.2.7 Responsibility of Auditees: In order to be effective in the achievement of the Councils objectives in maintaining its Internal Audit Service auditees must seek to ensure the following:
 - a) Maintenance of a constructive approach to the audit process.
 - b) Adherence to agreed timescales.
 - c) Timely availability of employees, documents, computerised systems and information, in respect to the progress of an audit.
 - d) Accuracy of information provided to the best of their knowledge.
 - e) Prompt responses to audit reports including availability for the de-brief meeting and the production of a timed action plan.
 - f) Monitor progress and confirm the timely implementation of agreed recommendations or provide appropriate explanations.
- 11.2.8 Release of Audit Documents (internally): Internal Audit reports can only be released to the Statutory Chief Finance Officer or the supervisor, manager or Chief Officer of the service being audited.
- 11.2.9 The release of the report to anyone else internally requires the authorisation of either the Statutory Chief Finance Officer, manager or Chief Officer of the service concerned.
- 11.2.10 Audit working files and records can only be released internally to the Statutory Chief Finance Officer.
- 11.2.11 Release of Audit Reports (externally): Internal Audit reports are subject to the Freedom of Information Act and as such can be requested by external parties.
- 11.2.12 These must be released within the statutory timescale (not later than the twentieth working day following the date of receipt of request), but only after liaison with the "Nominated Audit Manager", Statutory Chief Financial Officer and Chief Officer of the service concerned. This is to ensure that any *exempt* information has been removed, where considered necessary.
- 11.2.13 Release of Audit Documents (external audit): Internal Audit reports and working files can be released to external auditors on the authorisation of the "Nominated Audit Manager" or Statutory Chief Finance Officer only.

Other Points of Reference (underline denotes a hyperlink is available)

Financial Regulation 2.3: The Statutory Chief Finance Officer

Financial Regulation 10.1: Risk Management

Financial Regulation 10.2: Internal Control

SECTION C: RISK MANAGEMENT & CONTROL – REG 11 (Audit Arrangements)

Financial Regulation 10.4: Fraud and Corruption

Financial Regulation 10.5: Financial Irregularity

Financial Regulation Support Document 14: FBC Internal Audit Charter

Financial Regulation Support Document 28: Audit Committee Responsibilities

Financial Irregularity Investigation Policy

Anti-Fraud and Corruption Policy

FBC Internal Audit Manual

CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

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REGULATION 11: AUDIT ARRANGEMENTS (PROPOSED)

11.1 EXTERNAL AUDIT

- 11.1.1 The external auditors will be appointed in accordance with the Audit Commission Act 1998 or any Local Audit Acts which supersede it.
- 11.1.2 The Statutory Chief Finance Officer will work with the external auditors and advise the Council, Audit and Governance Committee, Executive and Directors on their responsibilities in relation to external audit.
- 11.1.3 The "Nominated Audit Manager" must ensure that there is effective liaison between internal and external audit.

11.2 INTERNAL AUDIT

- 11.2.1 Responsibility: The Statutory Chief Finance Officer is responsible for maintaining an adequate and effective internal audit of its accounting records and of its system of internal control in compliance with the latest Accounts and Audit Regulations.
- 11.2.2 An annual report should be prepared for the Audit and Governance Committee on the activity and findings of the internal audit service.
- 11.2.3 The internal audit service should comply with the Public Sector Internal Audit Standards 2013. This includes maintaining an Internal Audit Charter (Financial Regulation Support Document 14) which documents the purpose, authority and responsibility of the internal audit activity.
- 11.2.4 Standard Powers of Auditors: The Statutory Chief Finance Officer and members of the in-house Internal Audit and Corporate Fraud teams, whilst carrying out their duties, have the authority to:
 - a) *Premises:* Enter, at any reasonable time, any premises or land owned, leased or controlled by the Council.
 - b) Documents: Examine all documents, correspondence or information held by employees, members of the council or other third parties, pertinent to their audit work.
 - c) Explanations: Obtain such information and explanations from any employee or member as necessary concerning any matter under examination.
 - d) Property: Require any Council employee, agent or member to produce cash, stores, ICT equipment, or other Council property under their control upon request.

These powers may also be conveyed on the auditors working under contract on agreement with the "Nominated Audit Manager" or Statutory Chief Finance Officer.

- 11.2.5 **Powers During an Investigation**: Where a significant irregularity is suspected the in-house Internal Audit and Corporate Fraud teams also have the authority to:
 - e) *Property*: Carry out a search of or seize any Council owned property and equipment.
 - f) Access systems: Require any Council employee or member to surrender any keys, cards, de-encryption codes, passwords or any other item or information needed to allow access to Council premises, assets or data.
 - g) *Interception:* Intercept and review communications, data or information held on Council's own equipment such as internet logs, email, fax and phone messages.
 - h) *Remove documents:* Remove any documents or other material which may be required as evidence.
 - i) *Exclusion:* Require an employee to leave the Council's premises immediately.

Execution of these powers shall be in accordance with the Investigation policy and procedures of the Council.

- 11.2.6 Responsibility of Auditees: Auditees are responsible for :
 - a) Maintaining a constructive approach to the audit process.
 - b) Adhering to agreed timescales.
 - c) Making available employees, documents, computerised systems and information in a timely manner.
 - d) Providing accurate information to the best of their knowledge.
 - e) Providing prompt responses to audit reports.
 - f) Implementing any actions arising in a timely manner.



Report to Audit and Governance Committee

Date 27 June 2013

Report of: Director of Finance and Resources

Subject: AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME

SUMMARY

This report reviews the current Work Programme for the Committee.

RECOMMENDATION

That the work programme for the rest of the year, as shown in Appendix A, is approved.

INTRODUCTION

1. This report brings the current work programme for review by the Committee. As agreed in November 2012 the work programme is now being reviewed each quarter.

WORK PROGRAMME 2013/14

- 2. The work programme approved in March 2013 has been updated, as shown in Appendix A. This shows the reports expected in relation to each of the functions of the Committee along with an update of the delivery of the programme to date.
- 3. There have been a few changes to the programme as summarised in the table below:

Report Title	Nature and Reason for the Change
Benefits Anti-Fraud and Corruption Policy	New report added to the June 2013 agenda This policy is brought to the Committee for approval when any significant change is needed to the content. The policy has been updated recently following the introduction of the Local Council Tax Support Scheme from 1 st April 2013.
External Audit Plan	New report added to the June 2013 agenda The new external auditors have produced a proposed plan of work for Committee approval in addition to the fee letters presented at the previous Committee.
Changes to the Constitution	New report added to the September 2013 agenda This is a new item for the work programme of the committee and will cover changes needed to any parts of the constitution.
Review of the Implementation of the Code of Conduct for Members	New report added to the March 2014 agenda This was requested at the March 2013 Committee in response to the motion forwarded to give the Monitoring Officer additional powers to act on members conduct. Instead it was recommended that a report was brought to the Committee in a year's time on how the implementation of the new code of conduct is going here and at other councils in Hampshire and whether the Monitoring Officer feels he has enough powers with the sanctions open to him and the Standards sub-committee to deal with breaches of conduct.
Annual Report of Complaints to the Council	Change of timing of the report This will now be scheduled for the September Committee meeting rather than the June meeting. This will be a permanent change to the work programme. This is because we do not anticipate receiving the annual letter from the Ombudsman in time for the dispatch of the June Committee papers.
Internal Audit Strategy	Change of timing of the report This will now be scheduled for the November Committee meeting rather than the June meeting. This is to allow us time to complete a review against the new Public Sector Internal Audit Standards which came into effect on the 1 st April 2013.

RISK ASSESSMENT

4. There are no significant risk considerations in relation to this report

CONCLUSION

5. The work programme in place is appropriate to meet the responsibilities of the Committee.

Appendices:

Appendix A – Committee Current Work Programme for 2013/14

Background Papers: None

Reference Papers:

Minutes of and reports to Audit and Governance Committee for the Municipal Year 2013/14

Enquiries:

For further information on this report please contact Elaine Hammell. (Ext 4344)

APPENDIX A

AUDIT AND GOVERNANCE COMMITTEE CURRENT WORK PROGRAMME 2013/14

Committee Function and Report Subject		Frequency	Last Reviewed	June 2013	September 2013	November 2013	March 2014
COMMITTEE WO	ORKING ARRANGEMENTS						
Review of Work Programme and training plan		Quarterly	2012-13	Completed	YES	YES	YES and Annual Report
Review of the Functions of the Committee		3 yearly	2012-13				
Review of the Constitution		As needed	New		NEW		
ETHICAL FRAM	EWORK AND STANDARDS						
Standards of Conduct	Review of Code of Conduct for Members	As needed	2012-13				NEW
	Review of member / officer protocol	As needed	2008-09				
	Overview of Complaints against the Council	Annual	2012-13		YES Moved from June		
Member Training and Development	Review of Members Training and Development and Determination of Programme	Annual	2012-13				YES
GOVERNANCE	FRAMEWORK						
Framework	Local Code of Corporate Governance	2 yearly	2012-13				
	Annual Governance Statement	Annual	2012-13		YES		
Key Policy	Review of Financial Regulations	3 yearly	2012-13	Completed	YES	YES	YES
	Review of Contract Procedure Rules	3 yearly	2012-13			YES	
	Implementation of Treasury Management Policy and Strategy	Annual	2011-12			YES	
Risk Management	Policy and Strategy	3 yearly	2012-13				
	Risk Management Progress Reports	6 monthly	2009-10		YES		YES
	Business Continuity	2 yearly	2011-12		YES		
	Specific Risk Management topics	As needed	None				
Counter Fraud	Benefits Anti-Fraud and Corruption Policy	As needed	2011-12	NEW			
	Counter Fraud Policy and Strategy	3 yearly	2009-10			YES – Policy only	
	Anti-Bribery Policy	As needed	2011-12				

Committee Function and Report Subject	Frequency	Last Reviewed	June 2013	September 2013	November 2013	March 2014				
Sanctions and Redress Policy	3 yearly	2008-09				YES				
Counter Fraud Strategy Progress	6 monthly	2012-13	Completed		YES					
Counter Fraud Investigation Progress	6 monthly	2012-13	Completed		YES					
INTERNAL AUDIT ASSURANCE										
Internal Audit Strategy	3 yearly	2006-07			YES Moved from June					
Contractor Internal Audit Annual Plan	Annual	2012-13				YES				
Contractor Quarterly Audit Reports	Quarterly	2012-13	Completed	YES	YES	YES				
Head of Audit's Annual Opinion	Annual	2012-13	Completed							
EXTERNAL ASSURANCE										
External Audit Fee Letter	Annual	2012-13				YES				
External Audit Plan	Annual	2012-13	NEW							
External Audit Annual Inspection Letter	Annual	2012-13			YES					
Annual Certification Report	Annual	2012-13				YES				
Specific reports from external audit and inspection agencies	As needed	2011-12 (RIPA)								
STATEMENT OF ACCOUNTS										
Statement of Accounts	Annual	2012-13		YES						
External Audit Report to those charged with Governance	Annual	2012-13		YES						
OTHER										
Updates on legal issues	As needed	2012-13								
Issues referred from the Chief Executive Officer, Directors and Other Council Bodies	As needed	None								

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