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**SOUTHEND-ON-SEA BOROUGH COUNCIL**

**Audit Committee**

**Date: Wednesday, 30th March, 2016**

**Time: 6.30 pm**

**Place: Committee Room 1 - Civic Suite**

**Contact: Colin Gamble**

**Email: colingamble@southend.gov.uk**

**AGENDA**

- 1 Apologies for Absence**
- 2 Declarations of Interest**
- 3 Minutes of the Meeting held on 20th January 2016 (Pages 1 - 4)**
- 4 BDO: Grant Claims and Returns Certification Report for the Year ended 31 March 2015 (Pages 5 - 20)**  
Report of Corporate Director for Corporate Services
- 5 BDO: Progress Report to Those Charged with Governance (Pages 21 - 30)**  
Report of Corporate Director for Corporate Services
- 6 Internal Audit Service Quarterly Performance Report (Pages 31 - 52)**  
Report of Corporate Director for Corporate Services
- 7 Counter Fraud & Investigation Directorate: Annual Report 2015/16 and Corporate Counter Fraud & Investigation Strategy for 2016/17. (Pages 53 - 86)**  
Report of Corporate Director for Corporate Services
- 8 BDO: Audit Plan 2015/16 (Pages 87 - 110)**  
Report of Corporate Director for Corporate Services
- 9 Internal Audit Charter, Strategy and Audit Plan for 2016/17 (Pages 111 - 148)**  
Report of Corporate Director for Corporate Services

**Members:**

Cllr McMahon (Vice-Chair), Cllr Ayling (Chair), Cllr Buckley, Cllr Courtenay, Cllr Davidson, Cllr Nevin, Cllr Robertson, Cllr Stafford, Everitt and Cllr Betson

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# SOUTHEND-ON-SEA BOROUGH COUNCIL

## Meeting of Audit Committee

# 3

**Date: Wednesday, 20th January, 2016**  
**Place: Civic Suite, Civic Centre, Jubilee Room**

**Present:** Councillor Ayling (Chair)  
Councillors McMahon (Vice-Chair), Betson, Buckley, Courtenay,  
Davidson, Nevin, Robertson, Stafford and Everitt (Co-opted Member)

**In Attendance:** S Holland and R Harris, E Allen, L Everard, D Kleinberg, A  
Langridge, C Fozzard and J Denman.

**Start/End Time:** 6.30 - 7.30 pm

### **565 Apologies for Absence**

There were no apologies for absence at this meeting.

### **566 Declarations of Interest**

There were no declarations of interest at this meeting.

### **567 Minutes of the Meeting held on 30th September 2015**

Resolved:-

That the minutes of the meeting held on 30<sup>th</sup> September 2015 be confirmed and signed as a correct record.

### **568 Corporate Risk Register 2015/16**

The Committee considered a report of the Chief Executive presenting the updated Corporate Risk Register for 2015/16.

Resolved:-

That the updated Corporate Risk Register for 2015/16, is noted.

### **569 Treasury Management Policy**

The Committee considered a report of the Corporate Director for Corporate Services presenting the Treasury Management policy for 2016/17 comprising the following documents:

- Treasury Management Policy Statement for 2016/17.
- Treasury Management Strategy for 2016/17.
- Annual Investment Strategy for 2016/17.

Resolved:-

That the Treasury Management Policy for 2016/17, be endorsed.

**570 BDO: Progress Report to Those Charged with Governance**

The Committee considered a report by the BDO external auditor on the progress made delivering the 2014/15 and 2015/16 Annual Audit Plans.

Resolved:-

That the progress made in delivering the Annual Audit Plans for 2014/15 and 2015/16, be accepted.

**571 BDO: Annual Audit Letter 2014/15**

The Committee considered a report of the Corporate Director for Corporate Services presenting the External Auditor's Annual Audit Letter for 2014/15.

Resolved:-

That the Annual Audit Letter for 2014/15, be approved.

**572 Internal Audit Service Quarterly Performance Report**

The Committee considered a report of the Corporate Director for Corporate Services updating Members on the progress made in delivering the Internal Audit Strategy for 2015/16.

During consideration of this matter the Committee requested that additional information should be included in the status box (Appendix 1 to the submitted report) regarding the status of the project.

Resolved:-

That the progress made in delivering the 2015/16 Internal Audit Strategy, be noted.

**573 Counter Fraud & Investigation Services Quarterly Performance Report**

The Committee considered a report of the Corporate Director for Corporate Services on the progress made in delivering the Corporate Counter Fraud & Investigation Strategy for 2015/16.

During consideration of this matter the Committee requested that successful fraud enforcement action should be more widely publicised in the media.

Resolved:-

That the Directorate's performance to date be noted.

**574 Information Items**

The Committee noted the following documents:

- CIPFA Better Governance Forum, Audit Committee Update, issue 18:
  - Self-assessment and Improving Effectiveness
  - Appointment and Procurement of External Auditors
  - Regular Briefing on Current Issues
  
- Public Sector Audit Appointments, Annual Regulatory Compliance and Quality report for BDO, Audit Year 2014/15

**Chairman:** \_\_\_\_\_

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# Southend-on-Sea Borough Council

Agenda  
Item No.

4

Report of Corporate Director for Corporate Services  
to  
**Audit Committee**  
on  
30th March 2016

Report prepared by: BDO External Auditor

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**BDO: Grant Claims and Returns Certification Report for the Year ended 31 March 2015**

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**Executive Councillor – Councillor Ron Woodley**

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*A Part 1 Public Agenda Item*

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## 1. Purpose of Report

- 1.1 To present the External Auditor's Grant Claim and Return Certification Report for 2014/15 to the Audit Committee.

## 2. Recommendation

- 2.1 **The Audit Committee accepts the Grant Claim and Return Certification Report for 2014/15.**

## 3. Background

- 3.1 The Audit Commission mandated that the results of certification work will be produced annually by February each year to highlight errors, adjustments and qualifications arising in claims.
- 3.2 A senior representative of BDO (the appointed External Auditor to the Council) will present this report to the Audit Committee and respond to Members' questions.

## 4. Corporate Implications

- 4.1 Contribution to Council's Aims and Priorities  
Audit work contributes to the delivery of all corporate Aims and Priorities.
- 4.2 Financial Implications  
BDO act as an agent of the Audit Commission in the certification of grant claims and returns work. Fee scales for this work have been set by the Audit Commission. The total scale fee for grant claims work in 2014/15 was set at £28,379.
- 4.3 Legal Implications

The Council is required to have an external audit of its activities that complies with the requirements of the National Audit Offices' Code of Audit Practice (the Code). By considering this report, the Committee can satisfy itself that this requirement is being discharged.

4.4 People and Property Implications

None.

4.5 Consultation

None.

4.6 Equalities Impact Assessment

None.

4.7 Risk Assessment

The Council receives significant funding streams that require external audit to certify that the funding has been used in accordance with the funders' expectations. This funding would be at risk if external audit were not able to provide that certification.

The report includes an action plan to address issues identified in the report which will be monitored by officers.

4.8 Value for Money

None.

4.9 Community Safety Implications and Environmental Impact

None.

**5. Background Papers**

- National Audit Offices' Code of Audit Practice 2015
- The Audit Commissions Work Programme and Scales of Fees 2014/15

**6. Attachment:**

**BDO's Grant Claims and Returns Certification Report for the Year ended 31 March 2015**





# SOUTHEND ON SEA BOROUGH COUNCIL

GRANT CLAIMS AND RETURNS CERTIFICATION

Year ended 31 March 2015

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# INTRODUCTION

## THE PURPOSE OF THIS REPORT

This report summarises the issues arising from the certification of grant claims and returns for the financial year ended 31 March 2015.

We undertake the certification of the housing benefits subsidy grant claim as an agent of Public Sector Audit Appointments Limited (PSAA) and in accordance with the Statement of Responsibilities. The methodology for the certification of the claim, including sample sizes, was set out in a Certification Instruction issued by the Audit Commission, before its demise in March 2015, after consultation with the Department for Work and Pensions (DWP).

We have also undertaken ‘reasonable assurance’ procedures on the teachers’ pensions return and the housing capital receipts return, under separate engagements with the Council as these returns no longer fall within PSAA’s certification regime. This work has been carried out in accordance with national Assurance Instructions agreed by the relevant government departments.

A summary of the fees charged for our work on these grant claims and returns for the year ended 31 March 2015 is shown to the right.

Appendix I of this report shows the Council’s progress against the action plan included in our prior year Grant Claims and Returns report (presented to the Audit Committee in January 2015). Appendix II contains a recommendation following our work on claims and returns for the year ended 31 March 2015.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance provided during the course of our work.

## FEES

## PLANNED FEE (£)

## OUTTURN FEE (£)

Housing benefit subsidy

28,379

28,379

**TOTAL PLANNED FEE**

**28,379**

**28,379**

### Teachers’ Pension Return

The audit of the Teacher’s Pension Return was removed from the Audit Commission regime in 2013/14 and is not included in the scale fee. However, the Department for Education requires the return to be audited and a separate term of engagement was agreed in accordance with the scope of work specified by the Government department. The fee for this work was £7,900.

### Pooling of Housing Capital Receipts Return

The audit of the Pooling of Housing Capital Receipts Return was removed from the Audit Commission regime in 2014/15 and is not included in the scale fee. However, the Department for Communities and Local Government requires the return to be audited and a separate term of engagement was agreed in accordance with the scope of work specified by the Government department. The fee for this work was £2,650.

# KEY FINDINGS

## Summary of high level findings

CLAIM OR RETURN	FINAL VALUE (£)	QUALIFIED?	AMENDED?	IMPACT OF AMENDMENTS (£) <sup>1</sup>
Housing benefit subsidy	92,177,615	Yes	Yes	(47,357)
Teachers' pensions return	7,532,620	No	Yes	(127)
Pooled housing capital receipts	1,595,365	No	Yes	-

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<sup>1</sup> A negative figure is a reduction in the amount payable to the government.

# Detailed Findings

Below are details of each grant claim and return subject to certification or a reasonable assurance conclusion by BDO for the period ended 31 March 2015. Where our work identified matters which resulted in either an amendment or a qualification (or both) further information is provided. An action plan is included at Appendix II of this report.

## Housing benefit subsidy

Local authorities responsible for managing housing benefit schemes are able to claim subsidies towards the cost of these benefits from central government. The final value of subsidy to be claimed by the Council for the financial year is submitted to central government on form MPF720A, which is subject to audit certification.

Our work on this claim includes verifying that the Council is using the correct version of its benefits software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is shown in the correct cell on form MPF720A. The methodology and sample sizes are prescribed by the Audit Commission and the Department for Work and Pensions (DWP). We have no discretion over how this methodology is applied.



## Findings and impact on claim

Our audit of 40 individual claimant files highlighted some errors in the Council's benefit administration and subsidy entitlement calculations. Our testing also required us to follow up on errors identified in the previous year. The errors mainly involved the incorrect recording of income and the misclassification of overpayments. The prescribed audit methodology requires that where errors are not considered to be 'isolated', additional samples are drawn and the impact of the error is quantified by extrapolating the test results. Accordingly, over 360 additional cases were reviewed covering all benefit types. This work was carried out by the Council on samples determined by BDO.

The Council has put in place a process to regularly check the values of income entered into the system for a claimant. As a result the number and value of errors identified for these cases have reduced compared to the previous year.

A large number of miss-classification errors were identified as a result of the extended testing. This did not have an impact on the subsidy receivable by the Council because the overpayments threshold had been breached. This means that the Council exceeded the tolerable limit for local authority error and administrative delay overpayments as set by the DWP. This means that the Council do not receive any subsidy for local authority error and administrative delay overpayments. For 2014/15 this means up to £480k subsidy lost for the Council.

The focus for the Council should be on reducing the number of local authority error and administrative delay overpayments. The Council's staff should continue with their checks on the accuracy of the data input (reducing the number of LA errors) and ensure that they are up to date with the processing of changes in circumstances (reducing the administrative delay overpayments).

The prescribed methodology requires auditors to re-perform a sample of the additional work undertaken by the Council to ensure conclusions have been satisfactorily recorded. From this re-performance work we determined that we were able to rely on the conclusions drawn by the Council. The audit of the grant claim was completed satisfactorily and the claim was certified before the Government's deadline of 30 November 2015. Our audit certificate was qualified and we quantified the effect of the errors identified on the Council's benefit expenditure (based on our extrapolations) in a letter to DWP. The Council is awaiting the final outcome of the DWP review of our qualification letter on its final subsidy amount for the year. Our qualification letter covered all of the benefit types awarded by the Council, as summarised overleaf.

Benefit type	Error type	Impact on claim
Rent Allowances- Misclassification of LA error overpayments	<p>Prior years testing identified 21 cases where the Council misclassified overpayments as local authority errors when they should have been classified as eligible overpayments. Testing was carried out to determine whether issues previously identified had continued in 2014/15.</p> <p>40+ testing was undertaken to quantify the results and an extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors, we estimated that the Council overstated the amount of local authority overpayments by £132,345 and understated eligible overpayments by £132,345.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would increase the subsidy receivable by £52,938.</p>
Rent Allowances- Misclassification of Eligible overpayments	<p>Testing of our initial sample of 20 cases identified 1 case where the Council misclassified an overpayment as an eligible error when it should have been classified as a local authority error overpayment.</p> <p>40+ testing was undertaken to quantify the results and an extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors, we estimated that the Council overstated the amount of eligible overpayments by £159,764 and understated local authority overpayments by £159,764.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £63,905.</p>
Rent Allowances- Misclassification of Eligible overpayments (Prior year)	<p>Prior years testing identified 5 cases where the Council misclassified overpayments as eligible errors when they should have been classified as local authority error overpayments. Testing was carried out to determine whether issues previously identified had continued in 2014/15.</p> <p>40+ testing was undertaken to quantify the results and an extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors, we estimated that the Council overstated the amount of eligible overpayments by £92,121 and understated local authority overpayments by £92,121.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £36,848.</p>
Rent Allowances- Earned Income	<p>Prior years testing identified 2 cases where earned income had been incorrectly applied in the benefit calculations. Testing was carried out to determine whether issues previously identified had continued in 2014/15. This resulted in benefit being underpaid in 2 cases, overpaid in 1 case and 3 cases where it had no effect on the benefit paid.</p>	<p>Based on our extrapolation of the errors, we estimated the Council overstated benefit expenditure by £45,599. The corresponding adjustment is to local authority error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £45,599.</p>

Benefit type	Error type	Impact on claim
Rent Allowances- Standard Income	<p>Testing of our Initial sample of 20 cases identified 1 case where the income (other than earned income) had been incorrectly entered in the benefit calculations.</p> <p>This resulted in benefit being underpaid in 6 cases, overpaid in 2 cases and 6 cases where it had no effect on the benefit paid.</p>	<p>Based on our extrapolation of the errors, we estimated the Council overstated benefit expenditure by £342. The corresponding adjustment is to local authority error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £342.</p>
Rent Allowances- Non dependant Income	<p>Testing of our initial sample of 20 cases identified 1 case where the non-dependant income had been incorrectly entered in the benefit calculations.</p> <p>We identified 1 case where the income had been incorrectly entered but had no effect on the benefit paid.</p>	<p>Based on our extrapolation of the errors, we estimated the Council overstated benefit expenditure by £10,566. The corresponding adjustment is to local authority error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £10,566.</p>
Rent Rebates- Standard Income 13	<p>Prior years testing identified 7 cases where child or working tax credits had been incorrectly applied in the benefit calculations. Testing was carried out to determine whether issues previously identified had continued in 2014/15. This resulted in benefit being underpaid in 2 cases, overpaid in 1 case and 4 cases where it had no effect on the benefit paid.</p>	<p>The overpayment was not extrapolated as it amounted to less than £1. There is no impact on the Council's entitlement to subsidy where an underpayment of benefit arises.</p>
Rent Rebates- Earned Income	<p>Prior years testing identified 4 cases where earned income had been incorrectly applied in the benefit calculations. Testing was carried out to determine whether issues previously identified had continued in 2014/15. This resulted in benefit being underpaid in 2 cases.</p>	<p>There is no impact on the Council's entitlement to subsidy where an underpayment of benefit arises.</p>
Rent Rebates- Misclassification of technical overpayments	<p>Prior years testing identified 21 cases where the Council misclassified overpayments as technical errors when they should have been either eligible overpayments or local authority overpayments. Testing was carried out to determine whether issues previously identified had continued in 2014/15. 40+ testing was undertaken to quantify the results and an extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors, we estimated that the Council overstated the amount of technical overpayments by £19,921 and understated eligible overpayments by £18,616 and understated local authority overpayments by £1,305.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would increase the subsidy receivable by £7,446.</p>

### Teachers' pensions contributions

Local authorities that employ teachers are required to deduct pension contributions and send them, along with employers' contributions, to the Teachers' Pensions Office (the body which administers the Teachers' Pension Scheme on behalf of the Department for Education). These contributions are summarised on form EOYCa, which the Council is required to submit to Teachers' Pensions.

The Department for Education requires that Form EOYCa is certified but the work is not part of PSAA's certification regime. We therefore agreed a separate letter of engagement to provide a reasonable assurance report.

### Findings and impact on return

A number of small amendments were made to the initial claim form submitted, these were as a result of the 'unpicking' of manual adjustments entered during the course of the year.

The Teachers' Pensions Office required us to report all differences identified. We noted the following key points:

- Our testing identified that the system was not including recruitment and retention payments in the pension banding calculation. Consequently, where employees were top of a band they would not be in the correct pension banding, affecting employee contributions. The Council identified all teachers that this affected and will amend the system in 2015/16, consequently the 2014/15 claim was not amended. This will result in an increase in contributions payable to Teachers' Pensions by £1,319.
- We identified small differences between the calculated expected employers' contribution figures (based upon the contributory salary for each band) and the total teachers' contribution figures included in the claim form. This is because a number of manual adjustments were put through during the year that related to previous periods and the current year. These transactions were posted together rather than separating them out between years - there are separate codes for previous years. As the contribution rates are not the same between the years, the Council was unable to fully disaggregate these manual adjustments. The majority of the adjustments were identified and moved to the correct banding however some small differences remained.

Our reasonable assurance report was unqualified and issued on 27 November 2015.

### Pooling of housing capital receipts

Local authorities are required to pay a portion of any housing capital receipt they receive into a national pool administered by central government. The Council is required to submit quarterly returns notifying central government of the value of capital receipts received.

DCLG requires that this return is certified but the work is not part of PSAA's certification regime. We therefore agreed a separate letter of engagement to provide a reasonable assurance report.

### Findings and impact on return

The return was amended to include 'new build expenditure' of £198,742 that had been incorrectly excluded from the draft claim.

We issued an unqualified reasonable assurance report on 15 February 2016.

The national online logasnet system which we are required to use to certify the return was not available to auditors up to DCLG's deadline for certification of the return (30 November 2015). The issue was eventually resolved by the Logasnet administrators and the claim was certified on the 15 February 2016.





# APPENDICES

## APPENDIX I: STATUS OF 2012/13 & 2013/14 RECOMMENDATIONS

RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING	PROGRESS
<b>2012/13:</b>					
<p><b>Housing benefit claim</b> Carry out regular checking of a number of claims to ensure that:</p> <ul style="list-style-type: none"> <li>Income has been input correctly.</li> <li>Overpayments have been correctly classified.</li> </ul>	High	<p>Additional resource introduced on checking claims 5 days a week to support quality assurance team and increase the volumes checked.</p> <p>Team leaders to check high value Admin Delay overpayments to check correctly classified. To be reviewed regularly by Asst. Benefit Manager.</p>	<p>Asst Benefit Managers</p> <p>Team Leaders &amp; Asst Benefit Manager</p>	January 14	<p>Previous testing identified a number of errors relating to earnings calculations and misclassification of overpayments.</p> <p>The Council implemented a process to check every 10<sup>th</sup> case to ensure that the earnings calculations were correct. Our initial and extended testing in respect of the 2014/15 claim identified a reduced number of errors in respect of earnings.</p> <p>The Council reviewed high value overpayments during the year to ensure that they were correctly classified. We continued to identify a number of misclassification errors. Further sample checking on the classification of overpayments is required.</p> <p>The recommendation has been partly implemented. A new recommendation relating to checking claims has been raised at Appendix II.</p>
<p><b>Housing benefit claim</b> Review a sample of uncashed cheques included within cell 179 to ensure that they are appropriately included in this cell.</p>	Medium	Agreed will be added as a task for the QA team.	Asst Benefit Manager & Quality Assurance Team	June 2014	<p>Some errors were identified from our initial testing of uncashed cheques. As a result a 100% check was undertaken. This identified one uncashed cheques that could not be reconciled to the system or supporting documentation. A full review of uncashed cheques should be undertaken prior to next years' audit.</p> <p>This recommendation will continue to be monitored.</p>

RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING	PROGRESS
<b>2013/14:</b>					
<b>Teachers' Pensions claim</b> Set up Agresso to take account of the TLR3 payments. Ensure that any new pay scales set by Teachers' Pension are set up correctly on the system.	Medium	Agreed. Agresso will be amended accordingly.	Sue Putt Group Manager	April 2015	Agresso has been amended. Recommendation has been implemented.
<b>Teachers' Pensions claim</b> Record the details of the period the refund related to on the HR system.	Low	Recording of refunds will be put in place.	Sue Putt Group Manager	February 2015	A separate Payment and Deduction recording is in place Recommendation has been implemented.

## APPENDIX II: 2014/15 ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<p><b>Housing benefit claim</b></p> <p>There is a high volume of Local Authority error overpayments. As a result the Council breached the overpayments threshold and lost subsidy on these overpayments. This is as a result of incorrectly entering data upon receipt of claimant data then subsequently identifying and rectifying this.</p>	<p>Complete increased, targeted sample checks on the work completed by benefit assessors to identify any particular training needs and to ensure that any known errors are being addressed.</p>	High	<p>The volume of checking of officer's work has increased. This has resulted in improved accuracy being found in the area of earned income. The new benefits structure effective from April 2016 will allow for further increases of checking across a broader spectrum of work areas.</p>	Benefits Manager	April onwards
<p><b>Housing benefit claim</b></p> <p>Testing in the current and previous year has identified a number of overpayment misclassifications in the subsidy claim.</p>	<p>Provide specific targeted training to the benefits team on how to classify overpayments.</p>	High	<p>Agreed. As part of the new benefits structure effective from April 2016 there will be specific targeted training to the benefits team on the classification of overpayments.</p>	Benefits Manager	April onwards
<p><b>Teachers' Pensions claim</b></p> <p>A number of manual adjustments were made to the system that related to previous periods and the current year. These transactions were posted together rather than separating them out between years. As the contribution rates are not the same between the years, the Council was unable to fully disaggregate these manual adjustments.</p>	<p>All manual adjustments should be approved by the Senior HR &amp; Payroll Technical Officer before they are processed.</p>	Medium	<p>Guidance given on Payments and Deductions in the system to ensure changes are made in the correct year by the team.</p> <p>Any adjustments required are advised to the team to complete and are checked by the Senior HR &amp; Payroll Technical Officer.</p>	<p>Sue Putt Group Manager</p>	Implemented

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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# Southend-on-Sea Borough Council

Agenda  
Item No.

5

Report of Corporate Director for Corporate Services  
to  
**Audit Committee**  
on  
**30 March 2016**

Report prepared by: BDO External Auditor

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**BDO: Progress Report to Those Charged with Governance**

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**Executive Councillor – Councillor Ron Woodley**

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***A Part 1 Public Agenda Item***

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**1. Purpose of Report**

- 1.1 To report on progress in delivering the 2014/15 and 2015/16 Annual Audit Plans.

**2. Recommendation**

- 2.1 The Committee accepts progress made in delivering the Annual Audit Plans for 2014/15 and 2015/16.**

**3. Background**

- 3.1 A senior representative of BDO (the appointed External Auditor to the Council) will present the key matters from this report to the Audit Committee and then respond to Members' questions.

**4. Corporate Implications**

- 4.1 Contribution to Council's Aims and Priorities

Audit work contributes to the delivery of all corporate Aims and Priorities.

- 4.2 Financial Implications

This audit work will be delivered within the agreed audit fee for 2014/15 and 2015/16.

- 4.3 Legal Implications

The Council is required to have an external audit of its activities that complies with the requirements of the Code of Audit Practice (the Code) issued by the National Audit Office. By considering this report, the Committee can satisfy itself that this requirement is being discharged.

- 4.4 People and Property Implications

None

4.5 Consultation

The planned audit work has been discussed and agreed with the Corporate Director for Corporate Services and the Head of Finance and Resources.

4.6 Equalities Impact Assessment

None

4.7 Risk Assessment

Periodically considering whether the external auditor is delivering the agreed Annual Audit Plan helps mitigate the risk that the Council does not receive an external audit service that complies with the requirement of the Code of Audit Practice.

4.8 Value for Money

Public Sector Audit Appointments Limited sets the fee formula for determining external audit fees for all external auditors.

4.9 Community Safety Implications and Environmental Impact

None

**5. Background Papers**

None

**6. Attachment: BDO's Progress Report to Those Charged with Governance**



# SOUTHEND-ON-SEA BOROUGH COUNCIL

Progress report to those charged with governance

March 2016



## INTRODUCTION

### Summary of progress

This report provides the Audit Committee with an update of the progress in delivering the 2014/15 and 2015/16 audit.

Auditors' principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code of Audit Practice for Local Government, the audited body's:

- financial statements
- arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to certify specified grant claims and returns.

## 2014/15 Annual Audit Plan - progress summary as at 15 March 2016

Area of work	Scope / Associated deadlines	Status	Outputs / Date
Planning	Risk assessment and formulation of the audit plan. Detailed audit plan to be issued outlining direction of the audit.	First phase of work completed.	<b>Planning Letter 2014/15</b> Reported to the Audit Committee in June 2014. <b>Audit Plan 2014/15</b> Reported to the March 2015 Audit Committee meeting.
Interim audit	Audit of the key financial systems that support the financial statements of accounts. To be completed prior to commencement of the audit of the financial statements in July 2015.	Work is complete.	We report to management any deficiencies in internal control identified during the audit. Where such deficiencies are significant we also report them in our <b>Final Report to the Audit Committee</b> .
Financial Statements audit	Audit of the draft financial statements to determine whether they give a true and fair view of the Council's financial affairs and the income and expenditure for the year. Deadline for issue of audit opinion and publication of the statement of accounts is 30 September 2015.	Work is complete.	<b>Final Report to the Audit Committee</b> Reported to Audit Committee on 30 September 2015. <b>Opinion on the financial statements</b> Opinion issued on 30 September 2015.
Whole of government accounts audit	Audit of the consolidation pack for consistency with the audited statement of accounts. Consolidation pack opinion – deadline 2 October 2015.	Work is complete. The final DCT was not provided until the 30 September as a result the DCT was submitted late.	<b>Opinion on the WGA Consolidation Pack</b> Opinion issued on 11 November 2015.
Use of resources	Review of use of resources based on: <ul style="list-style-type: none"> <li>proper arrangements in place for securing financial resilience</li> <li>proper arrangements for challenging how the Council secures economy, efficiency and</li> </ul>	Work is complete.	Results reported in the <b>Annual Governance Report</b> to Audit Committee on 30 September 2015. <b>VFM conclusion</b> <b>VFM conclusion</b> Opinion issued on 30 September 2015.

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Area of work	Scope / Associated deadlines	Status	Outputs / Date
	effectiveness. Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2015.		
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2015.	Final report agreed.	<b>Annual Audit Letter</b> Issued by the 31 October deadline. Reported to the Audit Committee on 20 January 2015.
Grants and returns	To audit and submit BEN 01 (Housing Benefit) grant claim and returns by 30 November 2015 deadline.	Work is complete.	Housing Benefit <b>grants claim</b> certified in line with the deadline.
Non Audit Commission grants and returns	To audit and submit Teachers' Pension and the Housing Pooled Capital Receipts grant claims by the deadline. Deadline is 30 November 2015.	Work is complete.	Teachers' Pension <b>grants claim</b> certified in line with the deadline. There was a delay in certification of the Housing Pooled Capital Receipts Grant claim due to problems with the Logasnet system. This meant that auditors were unable to certify by the deadline.
Grants Report	Summary of our certification work completed on 31 March 2015 claims, to be issued by February 2016.	Final report agreed.	<b>Grants Report</b> to those charged with governance issued February 2016. To be reported to the Audit Committee on 30 <sup>th</sup> March 2016.

## 2015/16 Annual Audit Plan - progress summary as at 15 March 2016

Area of work	Scope / Associated deadlines	Status	Outputs / Date
Planning	Risk assessment and formulation of the audit plan. Detailed audit plan to be issued outlining direction of the audit.	First phase of work completed.	<b>Planning Letter 2015/16</b> Reported to the Audit Committee in June 2015. <b>Audit Plan 2015/16</b> Issue date March 2016. To be reported to the Audit Committee on 30 <sup>th</sup> March 2016.
Interim audit	Audit of the key financial systems that support the financial statements of accounts. To be completed prior to commencement of the audit of the financial statements in July 2016.	Work in progress.	We report to management any deficiencies in internal control identified during the audit. Where such deficiencies are significant we also report them in our <b>Final Report to the Audit Committee</b> .
Financial Statements audit	Audit of the draft financial statements to determine whether they give a true and fair view of the Council's financial affairs and the income and expenditure for the year. Deadline for issue of audit opinion and publication of the statement of accounts is 30 September 2016.	Start date agreed as June 2016.	<b>Final Report to the Audit Committee</b> Target issue date September 2016. <b>Opinion on the financial statements</b> Target issue date September 2016.
Whole of government accounts audit	Audit of the consolidation pack for consistency with the audited statement of accounts. Consolidation pack opinion – deadline not yet finalised – expected to be early October 2016.	Start date agreed in line with Financial Statements audit.	<b>Opinion on the WGA Consolidation Pack</b> Target date October 2016.
Use of resources	New approach for VFM Conclusion:	Start date to be agreed.	<b>Final Report to the Audit Committee</b>

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Area of work	Scope / Associated deadlines	Status	Outputs / Date
	<p>One criteria:</p> <p>In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</p> <p>The overall criterion is supported by three sub-criteria:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul> <p>Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2016.</p>		<p>Target issue date September 2016.</p> <p><b>VFM conclusion</b></p> <p>Target issue date September 2016.</p>
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2016.	This will follow completion of the Audit.	<b>Annual Audit Letter</b> Target issue date October 2016.
Grants and returns	To audit and submit BEN 01 (Housing Benefit) grant claim and returns by 30 November 2016 deadline.	Start date to be agreed.	Housing Benefit <b>grants claim and return</b> to be audited by 30 November 2016 deadline.
Non Audit Commission grants and returns	To audit and submit Teachers' Pension and the Housing Pooled Capital Receipts grant claims and returns by the deadline. Teachers' Pensions: Deadline to issue reasonable assurance report is 30 November 2016. Housing Pooled Capital Receipts: Deadline TBC.	Start date to be agreed.	Teachers' Pension <b>grants claim and return</b> to be audited by the 30 November 2016 deadline.  Housing Pooled Capital Receipts <b>grants claim and return</b> to be audited by the deadline.
Grants Report	Summary of our certification work completed on 31 March 2016 claims, to be issued by February 2017.	To be drafted after certification work concluded.	<b>Grants Report</b> to those charged with governance to be issued by February 2017.

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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# Southend-on-Sea Borough Council

Report of Corporate Director for Corporate Services

to

**Audit Committee**

on

**30th March 2016**

Report prepared by: Linda Everard, Head of Internal Audit

Agenda  
Item No.

**6**

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**Internal Audit Services, Quarterly Performance Report**

**Executive Councillor – Councillor Ron Woodley**

*A Part 1 Public Agenda Item*

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## **1. Purpose of Report**

- 1.1 To update the Audit Committee on the progress made in delivering the Internal Audit Strategy for 2015/16.

## **2. Recommendations**

- 2.1 **The Audit Committee notes the progress made in delivering the 2015/16 Internal Audit Strategy.**

## **3. Internal Audit Plan Status**

- 3.1 **Appendix 1** sets out the current status of the audit work planned for the year as at 26th February 2016. This shows that since the last Audit Committee, five audits have been deleted from the Audit Plan and the reasons for that. These risks have been taken into account when producing the Audit Plan for 2016/17.
- 3.2 However in order to provide the Audit Committee with assurance that the fieldwork for outstanding audits will be substantially completed by the end of March 2016, additional detail has been provided in the Audit Plan. Named staff have been allocated to audits and start dates agreed with clients in most cases where work is not already in progress.

## **4. Audit Opinions and Themes**

- 4.1 **Appendix 2** summarises the results of and where appropriate, the audit opinions given on work completed to date. No significant issues have arisen from the work reported.

## **5. Internal Audit Performance Targets**

- 5.1 As at 26<sup>th</sup> February 2016, the service remains on target to:
- deliver sufficient work to enable the Head of Internal Audit to give an annual opinion on the adequacy and effectiveness of the Council's risk management, control and governance arrangements as:
    - sickness absence remains low at 0.78 days per FTE compared to a target of under 5 days per FTE

- productivity is on target at 77.3% compared to 75%
  - fieldwork is due to be substantially complete by the end of March 2016 with reports being finalised by the end of April 2016. Current performance being:
    - 50% of planned work (excluding schools) either having been delivered or being at draft report stage
    - 46% of schools work planned having been delivered.
  - remain substantially compliant with professional standards.
- 5.2 The service has revised its approach to obtaining feedback from stakeholders at the conclusion of audits. The purpose of the stakeholder survey is to obtain evidence of compliance with some of the less tangible elements of the UK Public Sector Internal Audit Standards (the Standards).
- 5.3 The intention is to pilot it for the remainder of 2015/16. The results of these surveys will be included in the Head of Internal Audit's Annual Report. A performance target will then be developed to apply to all 2016/17 audits.

## **6. Corporate Implications**

### 6.1 Contribution to Council's Aims and Priorities

Audit work contributes to the delivery of all corporate Aims and Priorities.

### 6.2 Financial Implications

The Audit Plan will be delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.

### 6.3 Legal Implications

The UK Public Sector Internal Audit Standards require the Audit Committee to approve (but not direct) the annual Internal Audit Plan and then receive regular updates on its delivery. This report contributes to discharging this duty.

### 6.4 People and Property Implications

People and property issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

### 6.5 Consultation

The audit risk assessment and the Audit Plan are periodically discussed with the Chief Executive, Corporate Directors / Director, and Heads of Service before being reported to Corporate Management Team and the Audit Committee.

All terms of reference and draft reports are discussed with the relevant Corporate Directors / Director and Heads of Service before being finalised.

### 6.6 Equalities Impact Assessment

The relevance of equality and diversity is considered during the initial planning stage of the each audit before the Terms of Reference are agreed.

### 6.7 Risk Assessment

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact of the Council's ability to deliver its corporate aims and priorities.

The main risks the team continues to manage are the:

- loss of in-house staff and the ability of the service to replace this resource in a timely manner
- possibility that the external supplier won't deliver contracted in work within the required deadlines to the expected quality standards.

With the loss of the Senior Audit & Resources Manager, limited time is currently available within the Audit Plan for managing this contract.

#### 6.8 Value for Money

Opportunities to improve value for money in the delivery of services are identified during some reviews and recommendations made as appropriate.

Internal Audit also considers whether it provides a value for money service periodically.

#### 6.9 Community Safety Implications and Environmental Impact

These issues are only considered if relevant to a specific audit review.

### 7. **Background Papers**

- The Accounts and Audit Regulations 2015
- UK Public Sector Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

### 8. **Appendices**

Appendix 1 Internal Audit Plan 2015/16

Appendix 2 Audit Opinions and Themes

- a • Other Audits and Grant Claims
- b • Audits Revisited

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## Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 26 February 2016
<b>Managing the Business</b>			
<b>Aim: Excellent</b>			
All	<b>Business Continuity</b> To assess whether the Council has effectively analysed the results of Operation Meltdown and introduced the required improvements.	Core	Terms of Reference agreed. Start date: March 2016 Complete fieldwork: March 2016 Draft report: April 2016
All	<b>Complaints Handling</b> To assess whether stage one and two complaints have been handled in compliance with the policy.	Core	Fieldwork completed. Draft reports: March 2016
PE	<b>Partnership Management: Section 75 Agreements</b> To assess whether Section 75 agreements clearly set out the service requirements and how the service will be managed on an ongoing basis.	Core	Terms of Reference to be agreed Start date: March 2016 Complete fieldwork: March 2016 Draft report: April 2016
All	<b>Procurement</b> To provide critical but supportive challenge as the Head of Procurement develops and implements the new procurement and contract management.	Core Fraud Risk	Terms of Reference agreed. Start date: March 2016 Complete fieldwork: March 2016 Draft report: April 2016
All	<b>Risk Management</b> To assess whether risks, controls and assurances in risk registers are being properly identified and recorded in line with the requirements of the Risk Management Policy and Strategy.	Core	Start date: January 2016 Complete fieldwork: March 2016 Draft report: April 2016
	<b>Risk Management</b> To assess whether project risks are properly understood and consistently defined in accordance with the Council's Risk Management Strategy and Toolkit.	Core	Start date: January 2016 Complete fieldwork: March 2016 Draft report: March 2016
<b>Managing Service Delivery Risks</b>			
<b>Aim: Safe</b>			
PL	<b>Licensing</b> To assess whether licence applications are effectively and promptly processed and all due income is received	Core Fraud Risk	Report issued November 2015.

## Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 26 February 2016
<b>Aim: Clean</b>			
	<b>Repair and Renew (Flooding) Grant</b> To certify approved claims for the flood support scheme as required by the memorandum of understanding between the Department for the Environment, Food and Rural Affairs and the Council.	New In year risk	Grant Claim signed off November 2015. Unqualified opinion given.
<b>Aim: Healthy</b>			
	<b>Adult Social Care Services</b>		
PE	To assess whether <b>improvement actions identified by the Care Quality Commission inspections</b> are effectively and promptly dealt with.	Core	Audit deleted as there were no outstanding inspection reports to be reviewed.
PE	<b>Personal Budgets</b> To assess whether <b>personal budgets paid by direct payments</b> are valid, accurate and complete as per the client's assessed needs.	Core Fraud Risk	Terms of Reference agreed. Start date: March 2016 Complete fieldwork: March 2016 Draft report: April 2016
PE	<b>Financial Monitoring of Direct Payments</b> To assess whether there are robust financial monitoring arrangements in place to ensure <b>payments directly to clients</b> are used properly.	New Core Fraud Risk	<b>Audit postponed until 2016/17 as the service is still developing the arrangements in this area.</b>
PE	To assess whether there is robust management review of <b>adult social care files</b> to ensure they met all required statutory and good practice requirements.	Core	Work completed July 2015.
PE	To assess whether <b>residential care placements</b> are effectively and economically procured to meet the client's assessed needs.	Core Fraud Risk	Terms of Reference to be agreed. Start date: March 2016 Complete fieldwork: March 2016 Draft report: April 2016
PE	<b>Fostering and Adoption</b> To assess whether payments to foster and adoption parents are valid, accurate and complete.	Core Fraud Risk	Fieldwork completed. Draft report: March 2016

## Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 26 February 2016
<b>Aim: Healthy</b>			
<b>Safeguarding</b>			
PE	To assess whether any required <b>improvement actions</b> identified by the review of the arrangements to prevent <b>child sexual exploitation</b> have been formed into a robust action plan and implemented in a timely manner.	Core	Fieldwork completed. Draft report: March 2016
PE / PL	To assess whether action plans produced following safeguarding reviews (children's and or adult <b>Serious Case Reviews</b> and or Domestic Homicide reviews) are being implemented, in a timely manner and actively monitored by senior management.	Core	Start date: March 2016 Complete fieldwork: March 2016 Draft report: April 2016
PE	<b>Special Educational Needs</b> To assess whether allocations of Special Educational Needs budgets to schools are accurately calculated and there is effective use of top up funding to those with most acute needs.	Core	Fieldwork completed. Draft report: March 2016
PH	<b>0 to Five Year Old Commissioning</b> To assess whether the 0 to five year old services to be transferred to the Council in October 2015 are effectively integrated into the Council and associated budgets are sufficiently understood to ensure the services can be affordable delivered future years	In year risk	Terms of Reference agreed. Start date: February 2016 Complete fieldwork: March 2016 Draft report: March 2016
CS	<b>Essential Living Fund</b> To assess whether there are robust procedures in place for the accurate, consistent, timely and appropriate award of grants from the Essential Living Fund and that arrangements to monitor expenditure against the fund are effective.	Core	Report issued September 2015.
<b>Aim: Healthy</b>			
<b>Health Protection</b>			
PH	To assess whether there are robust policies, procedures and working arrangements in place with relevant parties to ensure public safety, prevent transmission of diseases and manage incidents which threaten the public's health.	Core	Terms of Reference agreed. Start date: February 2016 Complete fieldwork: March 2016 Draft report: March 2016

## Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 26 February 2016
PE	<p><b>School Improvement</b></p> <p>To assess whether any required improvement actions identified by the review of the School Support and Improvement Board have been effectively implemented in a timely manner.</p>	Core	<p>Terms of Reference agreed.</p> <p>Start date: March 2016</p> <p>Complete fieldwork: March 2016</p> <p>Draft report: April 2016</p>
PE	<p><b>Schools</b></p> <p>This programme of work is funded by schools directly and the audit resource is bought in through the framework contract.</p>	Core Fraud risk	See Schools Audit Programme section below.
<b>Aim: Prosperous</b>			
PL	<p><b>Development Control</b></p> <p>To assess whether planning applications are effectively and promptly processed and all due income is received</p>	Core Fraud Risk	Report issued November 2015.
PL	<p><b>Local Growth Fund and City Deal</b></p> <p>To assess whether the projects as part of the Local Growth Fund and City Deal are well managed to ensure they deliver their required outcomes, to timetable and budget meeting any associated terms and conditions.</p>	Core	<b>Assurance provided by external sources as part of obtaining the grant funding so audit no longer required.</b>
PL	<p><b>Southend City Deal Grant</b></p> <p>To certify, in all significant respects, that the conditions attached to the grant have been complied with.</p>	<b>New</b>	<p><b>Grant Claim signed off January 2016.</b></p> <p><b>An unqualified opinion given.</b></p>
PE	<p><b>Schools Audit Programme: Finance Management and Governance</b></p> <p>This programme of work is funded by schools directly and resourced through the framework contract.</p>	Fraud Risk	See below for details.
PE	<p><b>Strategic Housing</b></p> <p>To assess whether robust governance and operational planning arrangements have been or are being established to set up a Local Authority Housing Company to deliver increased numbers of affordable housing.</p>	In year risk	<b>Deleted as further work on the project is still required before an audit would be appropriate.</b>
PL	<p><b>Local Transport Plan, A127 and Pothole Repair Grants.</b></p> <p>To certify, in all significant respects, that the conditions attached to the grant have been complied with.</p>	Grant Claim	<p>Grant Claims signed off September 2015.</p> <p>Three unqualified opinions given.</p>
PL	<p><b>Local Sustainable Transport Fund Grant</b></p> <p>To certify, in all significant respects, that the conditions attached to the grant have been complied with.</p>	<b>New</b>	<p>Start date: February 2016</p> <p>Opinion required by 31 March 2016</p>



## Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 26 February 2016
PE	<b>Troubled Families Intervention</b> To challenge Troubled Families Grant returns in line with Department for Communities and Local Government requirements.	Grant Claim	Claims reviewed: <ul style="list-style-type: none"> <li>• June 2015</li> <li>• September 2015</li> <li>• <b>February 2016</b></li> </ul>
	To provide advice and support as the Extended Troubled Families Programme is developed.	Grant Claim	Interim feedback provided September 2015 and <b>March 2016</b> .
<b>Aim: Excellent</b>			
PE	<b>Children's Services and Adult Services</b> To assess whether the replacement <b>IT system for CareFirst</b> , the Children's Services and Adult Service case management system, is:	In year risks	
	<ul style="list-style-type: none"> <li>• appropriately specified and selected, so audit focus will be how the package was procured</li> </ul>		Start date: February 2016 Complete fieldwork: March 2016 Draft report: April 2016
	<ul style="list-style-type: none"> <li>• implemented properly, so the audit focus will be the development of the project implementation plan.</li> </ul>		Start date: January 2016 Complete fieldwork: February 2016 Draft report: March 2016
	<b>Contract Letting</b> To assess whether the A W Hardy works contract was let properly, met the clients' expectations and delivered in budget.		Start date: March 2016 Complete fieldwork: March 2016 Draft report: April 2016
	<b>Contract Management</b> To assess whether a sample of contracts are being effectively managed to ensure: <ul style="list-style-type: none"> <li>• required outcomes are achieved</li> <li>• accurate and valid payments are made to the contractor and or income received.</li> </ul>	Core Fraud Risk	(See contracts listed below)
PE	<ul style="list-style-type: none"> <li>• Family Mosaic</li> </ul>		Report issued January 2016.
CS	<ul style="list-style-type: none"> <li>• Cleaning Services Contract Management</li> </ul>		Report issued December 2015.
PL	<ul style="list-style-type: none"> <li>• Highways Contract, Processing Payments</li> </ul>		Terms of Reference agreed. Start date: February 2016 Complete fieldwork: March 2016 Draft report: April 2016

## Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 26 February 2016
PE	<p><b>Corporate Procurement Team</b></p> <p>To assess whether the Corporate Procurement Team is appropriately staffed and operating in a manner that complies with statutory requirements and recognised good practice.</p>	In year risk Core	Initial feedback provided. This is being followed up as part of the Procurement work contained in the Managing the Business section above.
PL	<p><b>Debt Collection</b></p> <p>To assess whether there are robust processes in place to ensure all debt due is cost effectively collected.</p>	Core Fraud Risk	Fieldwork completed. Draft report: March 2016
CS	<p><b>IT Data Security</b></p> <p>To assess whether the relevant standards are met to ensure the Council's data is secure.</p>	Core	Terms of Reference agreed. Start date: January 2016 Complete fieldwork: March 2016 Draft report: March 2016
CS	<p><b>IT Disaster Recovery</b></p> <p>To assess whether there are robust plans and procedures in place to minimise the impact and duration of any distribution to the Council's services following a disaster incident.</p>	Core	<b>Review deleted as new arrangements are being put in place.</b>
CS	<p><b>IT Infrastructure</b></p> <p>To assess whether the ongoing management of IT fixed assets ensures the IT infrastructure meets the Council's service needs.</p>	Core (new)	Terms of Reference agreed. Start date: November 2015 Complete fieldwork: March 2016 Draft report: April 2016
CS	<p><b>IT Service Changes Benefits Realisation</b></p> <p>To assess whether there is evidence the new structures and processes are at an early stage delivering the required improvements in service outcomes.</p>	Core	Report issued August 2015.
CS	<p><b>Third Party Hosting</b></p> <p>To evaluate whether services hosted with third parties are effectively planned and managed.</p>	Core	Report issued December 2015.

### Key Financial Systems

**Aim: Excellent**

To assess whether the key controls in each of the key financial systems effectively prevent or detect material errors on a timely basis so that this information can be relied upon when producing the Council's statement of accounts.

CS	Accounts Payable	Annual Fraud Risk	<b>Fieldwork completed. Draft report: March 2016</b>
CS	Accounts Receivable:		

## Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 26 February 2016
CS	<ul style="list-style-type: none"> <li>General</li> </ul>		<b>Draft report produced</b>
PE	<ul style="list-style-type: none"> <li>Social Care Debtors</li> </ul>		<b>Fieldwork completed.</b> <b>Draft report: March 2016</b>
CS	Business Rates		<b>Draft report produced</b>
CS	Council Tax		<b>Draft report produced</b>
CS	General Ledger		<b>Draft report produced</b>
CS	Housing Benefit		<b>Draft report produced</b>
CS	Income Receipting and Banking		<b>Draft report produced</b>
CS	Payroll		<b>Fieldwork completed.</b> <b>Draft report: March 2016</b>
CS	Treasury Management		<b>Draft report produced</b>
CS	Payroll Improvement Project		
CS	Computer Assisted Audit Techniques (CAATs)	Completed for Accounts Payable and Payroll audits. <ul style="list-style-type: none"> <li><b>Update March 2016</b></li> </ul>	

### Implementing Action Plans

All	<b>Audit Reports to be Revisited</b> To check that actions agreed have been implemented, properly, in a timely manner.	Core	
PL	<ul style="list-style-type: none"> <li>Capital Project Management</li> </ul>		Report issued December 2015.
PE	<ul style="list-style-type: none"> <li>Children's Social Care File Quality Assurance Review</li> </ul>		Report issued September 2015.
PE	<ul style="list-style-type: none"> <li>Accounts Receivable, Social Care Debt</li> </ul>		<b>Fieldwork completed.</b> Draft report: March 2016
	<ul style="list-style-type: none"> <li>The Forum</li> </ul>		<b>Fieldwork completed.</b>

### Other Work

N/A	<b>The Leas Sun Shelter</b> To assess whether proper processes have been followed by the Council when dealing with all matters relating to the Leas Sun Shelter in its roles as planning authority, land owner and custodian of the public space.	Fraud Risk	Work completed and feedback provided. No further action required.
PE	To fundamentally review the <b>approach</b> <sup>41</sup>	New	<b>Work completed February 2016</b>

## Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 26 February 2016
	<b>adopted to auditing schools</b> to see if it is fit for purpose going forward, taking into account potential assurance available from other Council services.	Core Fraud risk	
PE	To assess the <b>level of assurance</b> that can be placed on work being undertaken with schools by other services within the Council.	New Core	<b>Work not required given the findings from the review to update the schools audit approach.</b>
All	<b>Working with the Counter Fraud &amp; Investigation Directorate</b> To work collaboratively where an investigation identifies the need for an audit of an activity to ensure control weaknesses are properly mitigated or proactively on audits in the plan that are considered to be high fraud risks.	Fraud Risk	
<b>Managing Delivery of the Audit Plan</b>			
	Audit Planning, Resourcing		
	Managing Contractor Work		
	Reporting to Management Team and Audit Committee		
	Contingency		

### Audit Plan Definitions

#### Departments:

- CS: Corporate Services
- PE: People
- PH: Public Health
- PL: Place

\* **Core work** means those service activities that score as high risk (i.e. risk level 1 or 2 out of 4) from an audit perspective based on the criteria set out in the Internal Audit Strategy.

## Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 26 February 2016
<b>Schools Audit Programme</b>			
<p>Below is a complete list of all schools still requiring a full audit or revisit with regard to this three year programme of audit visits. It covers 2015/16 and 2016/17 as some action plans are not due to implemented until 2016/17.</p>			
PE	<p><b>Full Audits covering finance, management and governance</b></p> <p>To assess whether effective arrangements are in place to develop and implement a suitable strategic framework as well as organise, manage and control the specified activities</p>	Fraud Risk	
	<ul style="list-style-type: none"> <li>• Friars Primary School</li> </ul>		Report issued December 2015
	<ul style="list-style-type: none"> <li>• Hinguar Community Primary School</li> </ul>		Report issued December 2015
	<ul style="list-style-type: none"> <li>• Leigh North Street Primary School</li> </ul>		<p><b>The infant and junior schools have now amalgamated to become Leigh North Street Primary School.</b></p> <p><b>The new school has requested a financial audit in 2016/17.</b></p>
	<ul style="list-style-type: none"> <li>• Our Lady of Lourdes Catholic Primary School</li> </ul>		Report issued November 2015
	<ul style="list-style-type: none"> <li>• St George's Catholic Primary School</li> </ul>		Report issued July 2015
	<ul style="list-style-type: none"> <li>• St Nicholas School</li> </ul>		Report issued September 2015
PE	<p><b>Revisiting audit reports</b></p> <p>To check that recommendations made have been implemented, properly, in a timely manner.</p>		
	<ul style="list-style-type: none"> <li>• Blenheim Primary School</li> </ul>		Start date: 28 January 2016 Draft report: March 2016
	<ul style="list-style-type: none"> <li>• Bournes Green Infant School</li> </ul>		Report issued December 2015
	<ul style="list-style-type: none"> <li>• Chalkwell Hall Infant School</li> </ul>		Start date: 10 February 2016 Draft report: March 2016
	<ul style="list-style-type: none"> <li>• Chalkwell Hall Junior School</li> </ul>		Start date: 18 March 2016 Draft report: March 2016
	<ul style="list-style-type: none"> <li>• Eastwood Primary School</li> </ul>		Report issued September 2015
	<ul style="list-style-type: none"> <li>• Earls Hall Infant School</li> </ul>		<p><b>The infant and junior schools have now amalgamated to become Earls Hall Primary School.</b></p> <p><b>The new school has requested a</b></p>

## Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 26 February 2016
			<b>financial audit in 2016/17.</b>
	<ul style="list-style-type: none"> <li>• Friars Primary School</li> </ul>		Start date: Being booked Draft report: TBC
	<ul style="list-style-type: none"> <li>• Futures Community College</li> </ul>		<b>Report issued February 2016</b>
	<ul style="list-style-type: none"> <li>• Hamstel Infant School</li> </ul>		Start date: 1 March 2016 Draft report: April 2016
	<ul style="list-style-type: none"> <li>• Heycroft Primary School</li> </ul>		Start date: 3 March 2016 Draft report: April 2016
	<ul style="list-style-type: none"> <li>• Hinguar Community Primary School</li> </ul>		Start date: Being booked Draft report: TBC
	<ul style="list-style-type: none"> <li>• Kingsdown School</li> </ul>		Start date: 11 March 2016 Draft report: April 2016
	<ul style="list-style-type: none"> <li>• Milton Hall Primary School</li> </ul>		Start date: 10 March 2016 Draft report: April 2016
	<ul style="list-style-type: none"> <li>• Our Lady of Lourdes Catholic Primary School</li> </ul>		Start date: Being booked Draft report: TBC
	<ul style="list-style-type: none"> <li>• Porters Grange Primary School</li> </ul>		Report issued September 2015
	<ul style="list-style-type: none"> <li>• Seabrooke College, Prittlewell (PRU)</li> </ul>		Start date: 17 March 2016 Draft report: April 2016
	<ul style="list-style-type: none"> <li>• St Mary's Prittlewell C of E Primary School</li> </ul>		Report issued November 2015
	<ul style="list-style-type: none"> <li>• Sacred Heart Catholic Primary School</li> </ul>		Start date: 19 February 2016 Draft report: March 2016
	<ul style="list-style-type: none"> <li>• St George's Catholic Primary School</li> </ul>		Start date: 17 March 2016 Draft report: April 2016
	<ul style="list-style-type: none"> <li>• St Helen's Catholic Primary School</li> </ul>		Start date: 31 March 2016 Draft report: April 2016
	<ul style="list-style-type: none"> <li>• St Nicholas School</li> </ul>		Start date: Being booked Draft report: TBC
	<ul style="list-style-type: none"> <li>• Thorpedene Primary School</li> </ul>		Report issued November 2015
	<ul style="list-style-type: none"> <li>• The Federation of Greenways Schools</li> </ul>		Start date: 9 March 2016 Draft report: April 2016
	<ul style="list-style-type: none"> <li>• West Leigh Infant School</li> </ul>		<b>These schools are becoming an academy on the 1 April 2016 so no further work is being undertaken.</b>
	<ul style="list-style-type: none"> <li>• West Leigh Junior School</li> </ul>		

## Appendix 2a: Other Audits and Grant Claims

### Payroll query, January 2016 Audit Committee

External Audit noted in its Annual Audit Letter a significant deficiency in internal control in relation to payroll amendments, which had previously been identified and reported by Internal Audit. An update on this was requested for the March 2016 Audit Committee.

#### Current status

To address the deficiency in internal control identified by Internal and External Audit, the payroll amendment process is going to be automated, which will introduce an enforced, electronic segregation of duties. The intended timeframe for introducing this functionality will be the 30<sup>th</sup> September 2016. In the interim, the process has been reviewed and additional checks have been introduced at month-end to identify potentially erroneous or fraudulent payments.

### Payroll Improvement Project

#### Objective

To provide 'an independent challenge' as the controls within the new 'Milestone 4' Agresso module are being developed and implemented (particularly in respect to the system weaknesses highlighted in the 2014/15 Payroll report).

#### Current status

The ability for staff to input their own expense claims into Agresso (the general ledger system) is under development. The effectiveness of this new functionality will be tested in the 2016/17 Payroll audit. However the preparatory development work has been reviewed and appears to be comprehensive, well-evidenced and clear. It can be concluded that reasonable steps are being taken to:

- reduce the risk of material error and fraud
- address the system weaknesses highlighted in the 2014/15 Payroll report specific to this module.

### Computer-Assisted Audit Techniques (CAATs)

#### Background

Computer-assisted audit techniques (CAATs) are the use of computers and specialised data analysis software to automate audit testing and allow for a deeper analysis of large data sets. Under the right circumstances they allow auditors to:

- **increase coverage by automating testing.** So, for example, this can be used to confirm that every entry within a vast database complies with certain requirements, rather than only testing a small sample of entries manually
- **focus their audit sampling.** An example of which would be using CAATs to identify entries within a database that appear unusual or unexpected. These items could then be included in standard audit tests to ensure that a thorough analysis has been conducted

## Appendix 2a: Other Audits and Grant Claims

- **analyse data to provide supporting evidence for test findings.** So, for example, by evaluating corresponding financial information, monetary values can be attributed to specific audit findings, making risks to the Council more tangible to the final report user.

### Work completed

CAATs have been used this year in the Accounts Payable and Payroll financial systems audits. Examples of CAATs tests that have been performed are outlined below:

#### Accounts Payable

- A list of all purchases made by the Council in 2015/16 to date was produced. Each purchase was compared against the Council's Scheme of Delegation and list of approved substitutes, to confirm that purchases had been authorised appropriately.

This test allowed Internal Audit to quickly and easily confirm that at least 70.5% of all purchases made were authorised appropriately. Detailed testing was then focused on the remaining 29.5% of purchases with more complicated authorisation routes (e.g. where a member of staff's substitute or their authorisation limit have changed during 2015/16).

#### Payroll

- A list of all staff expense and overtime claims in 2015/16 to date was produced. This information was then organised to show the total value and volume of claims received by each individual member of staff.

A number of staff in receipt of the most / highest value expenses and overtime claims were included in the audit sample to confirm the appropriateness of these claims.

Any findings or results of this testing will be individually reported in each of the respective key financial system audit reports.

### Southend City Deal Grant

#### Purpose of funding

To increase the rates of entrepreneurship and innovation within the Borough, by developing an 'incubator space' for small businesses and new start-ups in the local area.

#### Objective

To provide reasonable assurance that the invoices submitted by the Council for claims and authority costs fairly represent expenditure under the Scheme made in accordance with the terms and conditions attached to the funding.

**Opinion: Unqualified.**



## Appendix 2a: Other Audits and Grant Claims

### Extended Troubled Families programme, Payments by Results Scheme

#### Objective

To critically challenge and support the verification and validation processes being developed and agree the evidential arrangements that will ensure compliance with Department of Communities and Local Government's (DCLG) Extended Financial Framework for making Payments by Results (PBR) Claims.

#### Background

The extended Troubled Families programme requires:

- all councils to produce a Family Outcome Plan detailing how the six headline areas to be covered by the extended PBR scheme, are to be addressed and measured
- Internal Audit to work with Troubled Families to “jointly agree the evidential expectations required to claim results” detailed in Family Outcome Plans.

The Streets Ahead team (the team) is also reviewing its business processes and IT arrangements for data collection, monitoring, and reporting to improve its overall efficiency, and ensure accurate PBR claims are made.

#### Themes

The Family Outcome Plan now details all the evidential expectations required to claim a PBR outcome under each of the six headline areas. Internal Audit will continue to work with the team to develop this further as new issues affecting families emerge.

For example, it was agreed after the audit of the January 2016 claim that the indicators for identifying families under the headline “Adults and young people out of work or at risk of financial exclusion”, would be extended to include families at risk of homelessness as a result of landlords selling properties. Currently this headline only covers families with the threat of eviction for rent arrears. The team report this to be a growing problem.

Internal Audit has given feedback on the development of new IT arrangements to automate the evidencing and monitoring of PBR outcomes. However changes in the DCLG’s national reporting requirements, has delayed the full implementation of the new IT ‘database’. As such, expected efficiencies in the arrangements for auditing PBR claims have not been realised during 2015/16.

Internal Audit has recently been notified that the ‘database’ has now been finalised and the new arrangements are to be demonstrated by the end of March 2016. In line with the DCLG’s Financial Framework, management is also introducing a quality assurance process of all cases, to confirm entry and exit criteria can be sufficiently evidenced.

It is expected that the new arrangements described above will be fully operational by the time of the next PBR claim in September 2016.

## Appendix 2a: Other Audits and Grant Claims

### Troubled Families Programme, Payments by Results Scheme Grant

#### Objective

To assess compliance with the terms and conditions of the Department for Communities and Local Government's (DCLG) Financial Framework for making Payment by Result (PBR) claims under the Expanded Troubled Families Programme (Phase 2).

#### Background

The Financial Framework requires that Internal Audit verifies a 10% representative sample of PBR claims before they are made to ensure there is supporting evidence to confirm families:

- met the required criteria to be considered for entry to the expanded Troubled Families Programme
- have achieved either continuous employment or significant and sustained progress as defined by the Council's agreed Outcomes Plan.

Larger sample sizes may be required for smaller claims in order to ensure the audit is meaningful.

#### Opinion: January 2016, partial sign off of the claim.

This was the second PBR claim to the DCLG under the new expanded programme.

As such, in line with the September 2015 claim, protocol arrangements adopted under Phase 1 of the programme were used to validate the accuracy of the claim.

Of the 32 claims due to be made eight were randomly selected for audit (this included two of four claims signed off by the Group Manager).

With regard to those audited, there was evidence to confirm six of the eight families met the:

- eligibility criteria for entry to the expanded programme; and the
- criteria for making a PBR claim as there was sufficient evidence to confirm:
- continuous employment or
- significant and sustained progress had been achieved, as defined by the Council's agreed Outcomes Plan.

The above included one claim which Internal Audit proposed should be submitted as an exceptional case under Principle 3 of the new Financial Framework. Significant and sustained progress could be confirmed in all but one of the headline areas, i.e. school attendance. The Outcome Plan requires a child's attendance "to be a minimum of 90% inclusive of authorised absence".

School attendance improved over the time the team worked with the family from 74% to 86%. It was clear from evidence submitted that attending appointments during school time for an underlying medical problem had meant that the required 90%

## Appendix 2a: Other Audits and Grant Claims

attendance rate could not be met. These circumstances met the criteria for an exceptional case.

Of the remaining two cases, both were withdrawn as there was insufficient evidence to:

- confirm the entry criteria had been met under one of DCLG's two headline issues in one case
- support significant and sustained progress for one child in another family who had initially been identified with poor attendance at school and had transferred to college during the time the team worked with the family. The PBR evidence available for the child did not meet the required school attendance outcome and attendance issues raised by the college negated the outcome required for "young people post-16 years attending education, employment or training".

A number of the families included in this claim had been working with the team since Phase 1 of the programme, before Phase 2 arrangements were fully developed. This has contributed to the issues identified above and claims being withdrawn. These issues should not arise again as the team anticipate the next claim in September 2016, will only include new cases started in Phase 2. In addition, the quality assurance processes being developed (see above) should ensure only valid claims are presented for audit in the future.

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## Appendix 2b: Audits Revisited

### Purpose of these audits

To assess whether the actions agreed in the original audit have been implemented and are now effectively embedded into the day-to-day operation of the service.

### School Revisited

#### Original Objective

To assess whether individual schools have adequate and effective governance, information and asset management as well as financial management and reporting arrangements in place.

### Futures Community College

#### Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Unable to retest
22	0	3	2	3

The College has made very good progress in addressing the issues raised in the original report and therefore strengthening its Governance, Information and Asset Management and Financial Management and Reporting arrangements.

Two recommended actions are not applicable at this time given the College is in special measures. It had developed and approved the recommended multi-year improvement and financial plans however these are currently not the basis of managing the College. It is currently required to work to shorter, more specific Ofsted approved improvement plans.

As the College no longer has income generating activities, this action is also now not applicable.

With regard to the outstanding issues:

- the Finance Director is currently reviewing all finance staff's Job Descriptions as part of a review of the structure and skills of the finance team
- action is underway to tag and log all non-IT equipment
- the annual review of current contracts and use of contractors will be extended to look for areas where the cumulative spend is over £50k.

Action is still required to develop:

- a formalised, documented staff leaver process that includes a check to remove the person's access to all information systems
- a college wide asset register.

Once the new asset management system is in place, an exercise will be undertaken to assess whether:

- all assets can be accounted for
- the condition of assets is known so it can be used to inform both maintenance and replacement programmes.

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# Southend-on-Sea Borough Council

Report of Corporate Director for Corporate Services

to

**Audit Committee**

on

**30 March 2016**

Report prepared by: David Kleinberg, Group Manager  
Counter Fraud & Investigation and Linda Everard,  
Head of Internal Audit

Agenda  
Item No.

**7**

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**Counter Fraud & Investigation Directorate: Annual Report**

**Executive Councillor – Councillor Ron Woodley**

***A Part 1 Public Agenda Item***

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## **1. Purpose of Report**

1.1 To present to the Audit Committee for consideration the:

- Counter Fraud & Investigation Directorate's (the Directorate) Annual Report for 2015/16
- Corporate Counter Fraud & Investigation (CF&I) Strategy for 2016/17

## **2. Recommendation**

**2.1 The Audit Committee notes the Directorate's performance to date.**

**2.2 The Audit Committee endorses the 2016/17 Corporate Counter Fraud & Investigation Strategy.**

## **3. Corporate Counter Fraud & Investigation Directorate - Annual Report**

3.1 The joint working arrangements with Thurrock Council have been operational since October 2014. This 17 month partnership has seen significant improvements in the technical abilities and resilience at Southend to increase the effectiveness of the counter fraud services and further the Council's anti-fraud culture.

3.2 In the last 12 months the Directorate has detected fraud worth **£1.88m** at Southend Borough Council against a previous historic high, before the partnership, of **£388k** per annum. **Appendix 5** outlines how this fraud figure is calculated using the government's standards.

3.3 The Directorate has also been successful in using the Proceeds of Crime Act to recover money taken by criminals. In this year is **£45,764** has been recovered.

3.3 The government's **£594k** grant funding, given to the Directorate in 2014 to further expand its partnership approach, has positioned the unit as a national leader in tackling fraud in local government.

3.4 This grant project has seen the work of the Directorate detect **£18,540,614** on behalf of eight local authorities, including at Southend and Thurrock, four housing associations and two government departments.

3.5 A report detailing the progress of the unit is detailed in **Appendix 1**.

#### 4. Fighting Fraud Locally

- 4.1 The original Local Government Fraud Strategy ran from 2012 to 2015. The Council has periodically assessed its compliance with this Strategy during this period and reported it to the Audit Committee.
- 4.2 Responsibility for the reviewing and production of this strategy sits with the Chartered Institute of Public Finance and Accountancy (CIPFA) after the demise of the Audit Commission and National Fraud Authority. The draft revision is currently awaiting approval by the Cabinet Office and this is anticipated in April 2016.

#### 5. Proactive work programme

- 5.1 **Appendix 2** sets out the current status of all the activities proposed in the Strategy for the year. The main areas where work that the Directorate has focused on to date, given the investigative caseload and resources available, has been:
- Housing Tenancy fraud
  - Insurance fraud
  - Social Care fraud
  - National Fraud Initiative.
- 5.2 The **Housing Tenancy Fraud** project continues to go from strength to strength where a noticeable increase in referrals for investigation has been realised. **Operation Domus** is commencing in April which will see all local authorities and social housing providers come together to unify against fraud to safeguard the national asset of housing. The Directorate is leading the operation with partners seconded to it from Essex Police, DWP, HMRC and housing providers.
- 5.3 **Appendix 3** summarises the number of **National Fraud Initiative** Data Matches received, split into categories and those that have already been dealt with. Action is now being taken to obtain target completion dates for those data sets with outstanding matches to be reviewed.

#### 6. Counter Fraud & Investigation Strategy for 2016/17

- 6.1 A plan for the delivery of projects to further the anti-fraud culture across the Council and with its partners is detailed in **Appendix 4**.

#### 7. Investigative Caseload

- 7.1 The work undertaken by the Directorate to mitigate the fraud risk at the Council is detailed in **Appendix 5** which describes the flow of casework.
- 7.2 This case summary also show the first income generated by the Directorate using its powers under the Proceeds of Crime Act, which is **£45,764** in this year.

#### 8. Corporate Implications

- 8.1 Contribution to Council's Aims and Priorities

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

- 8.2 Financial Implications



Proactive fraud and corruption work acts as a deterrent against financial impropriety and might identify financial loss and loss of assets.

Any financial implications arising from identifying and managing the fraud risk will be considered through the normal financial management processes.

Proactively managing fraud risk can result in reduced costs to the Council by reducing exposure to potential loss and insurance claims.

### 8.3 Legal Implications

The Accounts and Audit Regulations 2015 Section 3 requires that:

*The relevant authority must ensure that it has a sound system of internal control which:*

- *facilitates the effective exercise of its functions and the achievement of its aims and objectives*
- *ensures that the financial and operational management of the authority is effective*
- *includes effective arrangements for the management of risk.*

The work of the Directorate contributes to the delivery of this.

### 8.4 People Implications:

Where fraud or corruption is proven the Council will:

- take the appropriate action which could include disciplinary proceedings and prosecution
- seek to recover losses using criminal and civil law
- seek compensation and costs as appropriate.

### 8.5 Property Implications

Properties could be recovered through the investigation of housing tenancy fraud or assets recovered as a result of criminal activity.

### 8.6 Consultation: None

### 8.7 Equalities Impact Assessment: None

### 8.8 Risk Assessment

Failure to operate a strong anti fraud and corruption culture puts the Council at risk of increased financial loss from fraudulent or other criminal activity.

Although risk cannot be eliminated from its activities, implementing these strategies will enable the Council to manage this more effectively.

### 8.9 Value for Money

An effective counter fraud and investigation service should save the Council money by reducing the opportunities to perpetrate fraud, detecting it promptly and applying relevant sanctions where it is proven.

### 8.10 Community Safety Implications and Environmental Impact: None

## **9. Background Papers**

- Fighting Fraud locally, The Local Government Fraud Strategy
- CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption
- Association of Local Authority Risk Managers (ALARM) Publication: Managing the Risk of Fraud
- Audit Commission: Protecting the Public Purse: Fighting Fraud Against Local Government.

## **10. Appendices**

- Appendix 1: CF&ID Annual Report
- Appendix 2: CF&ID Proactive Work Programme
- Appendix 3: 2014/15 National Fraud Initiative Data Matches Update
- Appendix 4: Counter Fraud & Investigation Strategy 2016/17
- Appendix 5: Southend-on-Sea Borough Council Case Summary

## 2015/16 ANNUAL REPORT

Counter Fraud and Investigation Directorate



EXECUTIVE SUMMARY

## Appendix 1: CFI&D Annual Report 2015/16

In October 2014, Southend-on-Sea Borough Council (SBC) signed a three year Service Level Agreement (SLA) with Thurrock Council to deliver a counter fraud and investigation service. The purpose of the agreement was to share resources and best practice to increase the level of fraud prevention and detection work across the council supported by a programme of deterrence.

The backdrop of this engagement with Thurrock Council was the Single Fraud Investigation Service programme, which sought to centralise all resources responsible for tackling welfare benefit fraud into one agency. The newly formed department of the Department for Work and Pensions (DWP) would see any HMRC, DWP or Local Authority staff “*who were solely or primarily responsible for investigating welfare benefit fraud*” being TUPE’d into the DWP.

Recognising the government’s own statistics that welfare benefit fraud represents £1bn per annum to the UK but all other fraud against local government represents £2.2bn, SBC retained its Counter Fraud Service to ensure it support its strategy to mitigate all fraud risk.

The SLA with Thurrock Council commenced with a ‘detection rate’ level for fraud at SBC being **a high of £388k in 2012** and the majority of fraud detections being focused on welfare benefit fraud matters.

**After only 17 months** of the SLA with Thurrock being signed, SBC has **detected £1.88m** in the 2015/16 financial year.

Overall the Counter Fraud and Investigation Directorate (the Directorate) has provided assistance to six other local authorities (outside of Thurrock Council and SBC) to achieve an overall detection rate of **£18,540,614** of economic crime since October 2014.

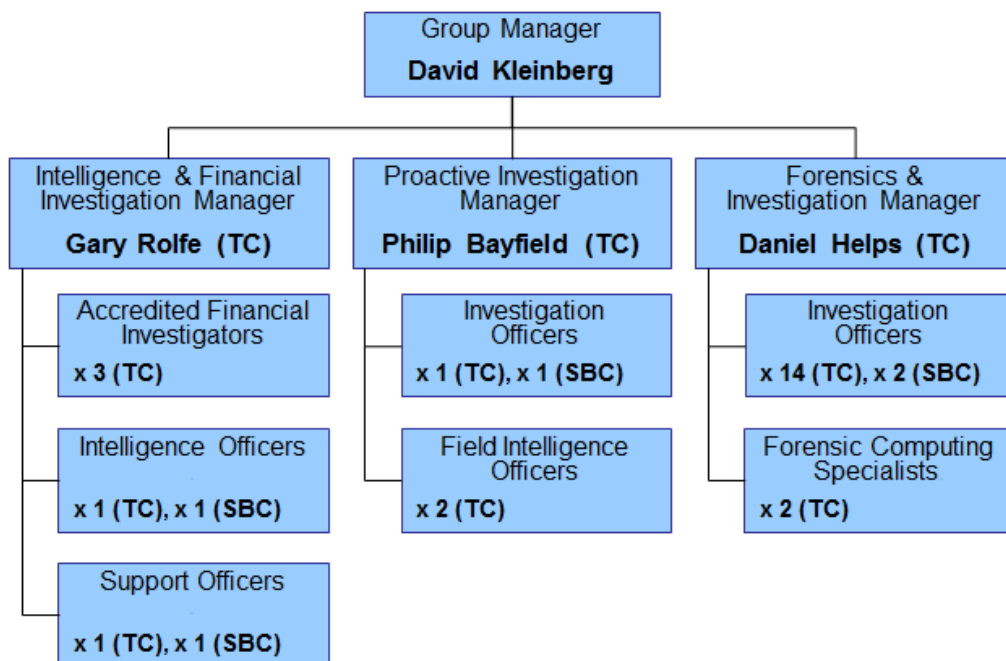
**SERVICE STRUCTURE**

Thurrock Council’s Counter Fraud and Investigation service was restructured in 2012 with the appointment of the new Group Manager – David Kleinberg. The purpose of the restructure was to ensure that the SBC had a robust strategy to prevent detect and deter fraud, bribery, corruption and money laundering committed against SBC.

The core of the new strategy was a service that was fit to tackle the current threat levels and ways in which criminals attack local authorities.

Several new specialist units were implemented into the service to ensure the new strategy could be delivered:

- **Financial Investigation Unit** which provides the tools to investigate, identify and take back assets gained by criminals who defraud local authorities
- **Forensic Computing Unit** that uses advanced methods and technology to recover evidence from electronic material such as mobile phones and computers
- **Criminal Intelligence Unit** that has unprecedented access to national systems including the Police National Computer – the only local authority in the UK
- **Proactive Investigation Unit** that is accredited by the College of Policing to develop and handle covert human intelligence and use specialist methods to detect crime
- **Core Investigation Unit** who’s staff are all accredited by the College of Policing as police detectives – undertaking the same national training to investigate the most serious crime – including organised crime groups.



## **THURROCK/SBC SERVICE LEVEL AGREEMENT**

The 5.5 FTE of SBC's Fraud Service were seconded to Thurrock Council on 1<sup>st</sup> October 2014.

These roles were then aligned under the existing Thurrock Structure to continue the delivery of counter-fraud services to SBC.

### Staff Training

The entire team were selected to participate in the training and accreditation programme the Directorate was aligned to with the College of Policing.

This training included a three week residential training course at Kent Police Training School. The training would mean that the Investigation Staff would be immediately up-skilled to work to the Core Investigative Doctrine in the same way Fraud Squad Detectives are trained in the police, enhancing detection abilities.

This approach recognises that the skills of an effective economic crime function must be able to keep up with modern criminality.

### Systems

A new casework management system was acquired by Thurrock Council on the government's 'G-Cloud' system ensuring that users, including Southend staff, could use the system remotely whilst still meeting the government Public Services Network requirements.

A centralised reporting and recording workflow was installed to ensure that SBC cases can have access to the specialised tools in Thurrock Council, such as the Police National Computer.

### Single Points of Contact

Recognising the key threats to a local authority, each staff member in the Directorate was given a specific department in SBC to liaise with including: Human Resources, Social Care, Schools, Housing, Revenues and Environment, to forge relationships with key staff and develop department-specific fraud awareness.

### Additional Arrangements

An existing Thurrock Council Memorandum of Understanding (MOU) with Essex Police was amended to include SBC. This MOU creates an authorised sharing of information and intelligence concerning crime risks to SBC and outlines the work by the Directorate.

### Reduction in three staff

Since October 2014, three SBC FTE have resigned with agency staff being used to cover the work of those staff. The plan will be to recruit to these permanent roles this year.

### MULTI-AGENCY PARTNERSHIPS

In 2014, a successful grant bid was made to the Department for Communities and Local Government – Counter Fraud Fund. The bid was to enhance the national operations already being undertaken by Thurrock Council's fraud service, strengthening its operations and providing opportunities to work with more agencies to fight fraud.

The grant paid for the enhancement of the existing specialist functions, in particular its forensic and financial investigation function taking on staff to specifically service any additional partners to maintain the same level of service budgeted for at SBC and Thurrock Council.

The enhanced service created resilience across Thurrock and Southend boroughs for instances of large and major enquiries with additional resources being drawn down if and when required.

Six key outcomes were achieved:

1. The Directorate was formed, with national recognition by the National Police Chiefs Council and Cabinet Office as a law enforcement agency.
2. All staff in the new Directorate received specialist training in their respective areas being accredited by the College of Policing as:
  - a. Serious Crime Detectives;
  - b. Covert Surveillance Officers;
  - c. Forensic Computing Specialists;
  - d. Intelligence Analysts & Researchers;
  - e. Covert Source Handlers and Controllers.
3. An additional framework of governance and accountability was formed with:
  - a. Her Majesty's Inspector of Constabulary;
  - b. the College of Policing and;
  - c. the Home Office.

These were in addition to the regular reporting to each organisation's Audit Committee.

4. Detected fraud rates in Thurrock, Southend and two other government departments by the Directorate between November 2014 and March 2016 was: **£11,526,311**.
5. The Directorate supported 8 other local authorities and 5 Housing Associations in detecting a further **£7,014,303** in economic crime.
6. The creation of Operation Domus, a county-wide operation to target social housing fraud, hosted by the Directorate (commencing April 1<sup>st</sup>).

## NATIONAL ARRANGEMENTS

### Cabinet Office

**David Kleinberg** – Directorate head, was seconded to the Cabinet Office – Fraud Error and Debt Taskforce as the Head of Counter Fraud Standards (Punishment, Sanction and Redress) in January 2016. This role is to create and set national standards across government to create a ‘Counter Fraud Profession’.

David also sits on the Cabinet Office Professions Board with other members from law enforcement including the City of London police, National Crime Agency and government, as the only local government representative.

David is also leading on the impact of the *Investigatory Powers Bill* going through parliament for non-police agencies and;

Development of a national ‘*Local Government Counter Fraud Service*’ to tackle the £2.2bn fraud level in the wake of the reduction in local government fraud resource.

### National Anti-Fraud Network (NAFN.gov)

**Daniel Helps** – Investigation Manager, was elected to the national executive board for NAFN.gov. This organisation was selected by David Anderson QC (*the government’s independent reviewer of RIPA and covert policing*) to be the national body with the powers to acquire communications data for local government.

### National Tenancy Fraud Forum

**Daniel Helps** – Investigation Manager, is an executive board member of the national forum for fighting tenancy fraud, formed of every social housing provider in the UK. The forum develops national practice and strategic assessment for response to fraud and other economic crime against social housing.

### National Crime Agency – Proceeds of Crime Centre

**Gary Rolfe** – Intelligence and Financial Investigation Manager, was selected to sit on the national board for financial investigation with the NCA, Crown Prosecution Service, Regional Organised Crime Units and police services, to set and lead on national policy for confiscation and investigation. This national board feeds the development of new legislation, powers and best practice to tackle crime at the most serious levels.



## CASE STUDIES

### HOUSING TENANCY FRAUD

So far 48 properties have been recovered from offenders by the Directorate in Southend-on-Sea where fraud has been proven.

These include instances of subletting, key selling and abandonment. Given the notional cost of tenancy fraud as £18,000 per year per property (National Fraud Authority) this equates to a saving of **£864,000**

***What is a saving?*** A saving is where a property is recovered from a criminal, meaning that SBC no longer has to fund the temporary accommodation for a family in Southend, costing SBC £18k per annum.

The majority of these recoveries have been without the need for costly legal process but the utilisation of new legislation. Less than 5% have required civil court action. This is due to the levels of experience and expertise within the service and the evidential standards that the Directorate applies to its investigation. As a result of this, most fraudsters have returned the property once challenged instead of SBC having to obtain court orders.

#### **Case Study – in year 2015**

The tenant had received a tenancy with South Essex Homes many years prior to a suspicion of fraud being raised. The housing officer became suspicious as they were unable to contact the tenant for some time.

The officer had recently attended the Directorate's fraud awareness session and was able to record their visits to the property correctly, in an evidential format.

Enquiries by the Directorate found that the tenant was linked to an address in Cornwall and had unknown cash deposits being made into their bank account. Investigators gathered evidence to show that the tenant was in fact living in Cornwall which included bank records, details from the Local Authority in Cornwall, utility subscriptions and other linking evidence.

Investigators visited both properties simultaneously and found the tenant at the Cornwall property. The tenant was cautioned and questioned, they admitted to subletting and gaining profit from the sublet. This matter is now with Legal Services for consideration of prosecution and unlawful profit order actions.

### INSURANCE FRAUD

The Directorate has formed a great working relationship with the Insurance section where the insurance service refers any suspicion in relation to an insurance claim to the Directorate. There are currently three claims under investigation and one claim is awaiting trial at criminal court. The total figure of these cases is in excess of £200k.

### SOCIAL CARE

Social Care fraud is an emerging risk to Local Authorities around the UK. The Directorate has successfully concluded an investigation elsewhere into one service user who defrauded five local authorities out of **£439,168** by claiming direct payments from them all at the same time. Whilst SBC did not fall victim to this fraud, the learning from investigating this matter has been shared with its partners to ensure the same offending does not happen at SBC.

There are currently five cases under investigation, including misuse of personal budget direct payments by adults in Southend-on-Sea. These allegations include where Personal Assistants have defrauded the Adult by submitting false invoices and others who financially abuse the adult or Child.

### SCHOOLS

Nationally schools are specifically targeted by criminals who seek to take advantage of their localised contracts and suppliers. There have been a number of attempts to commit mandate fraud against schools. This is where an organised crime group send a false invoice or letter claiming to be a legitimate supplier and that they have changed their bank account details. The criminals then submit inflated invoices for payment as that supplier, receiving the fraudulent money. All of these instances have all been intercepted at source and fraud prevented.

The Directorate publish monthly (or more frequent when urgent) 'fraud alerts' giving details of known fraud scams to schools and other payment areas within SBC. This intelligence comes into the Directorate from other accredited agencies including Police, National Crime Agency and other local authorities.

#### **Case Study – in year 2015**

The Directorate was contacted by a Southend school who advised that a number of newly delivered pedal cycles (valued at over £10,000) had been stolen from school premises over a weekend. The school advised that they had reported this theft to Essex Police. Essex Police, with resources deployed elsewhere in the borough investigating a murder, were unable to progress the enquiry as there were "no leads and no likelihood of identifying an offender."

Nevertheless, the Directorate's criminal intelligence unit found the stolen bikes being advertised for sale on the internet. From enquiries made, they managed to locate details of the seller and, using authorised covert techniques, met with and identified the seller.

As no police officers were available, specially trained Investigators from the Directorate arrested the male and took him to Southend Police Station where he was accepted into police custody.

The Directorate's Investigators searched the male's home address, supported by police who then had an interest in this prolific burglar, recovering stolen property.

The Directorate's Investigators then interviewed and processed the suspect who was charged by the Crown Prosecution Service with handling stolen goods.

The offender was sentenced to 15 months imprisonment and a three month night time curfew, awarding £250 costs and £100 victim surcharge. The pedal cycles were also ordered by the Judge to be restored to SBC.

### Other Fraud and Economic Crime

The Directorate is one of the only agencies in the country that has officers accredited by the National Crime Agency to receive Suspicious Activity Reports for suspected money laundering. These alerts identify where persons or business may be attempting to misuse SBC services to 'launder' the proceeds of crime. This engagement ensures that potential illegal activity is stopped at the outset.

#### Case Study – in year 2015

A report was made to the Directorate that a member of staff had requested refunds of unused social care direct monies to different bank accounts. The refunds were described as being 'urgent interim payments to ensure a service user received urgent care and support.' Due to the unusual nature of these requests, the account number was checked and revealed not to be the service user described with the 'urgent needs.' Social care immediately raised the concerns with the Directorate.

The Directorate, using its specialist powers, identified that the bank account was found to be the personal account of a SBC employee.

The Directorate apprehended the employee within 17 hours of the matter being reported to them, searched the employee's home (recovering vital evidence) and interviewed them under caution. The employee admitted the fraud by abusing their position and was immediately suspended from duty after consulting with Human Resources.

Using the Directorate's unique powers, the employee's bank statements were obtained and a total of £39,854.33 in additional fraudulent payments was identified. It was also identified that the employee had laundered the proceeds of the fraud by buying a property and purchasing holidays and designer goods.

The employee was prosecuted and pleaded guilty to all counts receiving an immediate custodial sentence of 20 months imprisonment. All of the monies stolen by the employee were recovered by the Directorate as well as all the investigation and prosecution costs (£44, 923)

***NB: it was noted by the National Crime Agency that this was the quickest detection, confiscation and payment against an offender for any fraud and money laundering case in the UK.***

### Future Programme of Work

#### Fraud Awareness Training

A 'service-specific' package of fraud awareness training will be undertaken for all services at SBC. All staff will be invited to attend the training to update staff on the threat level, how to spot fraud, how to report it and some case studies showing the great collaborations by the Directorate and teams across SBC to fight fraud.

In Thurrock Council, the Chief Executive made this fraud awareness training compulsory for all staff as part of Thurrock Council's overall anti-fraud strategy.

#### Policy Review

SBC's policies supporting the overall anti-fraud strategy will be reviewed for legislative and best practice changes. These policies include:

- Anti-Fraud, Bribery, Corruption and Money Laundering
- Whistle-blowing
- Information Governance and Data Protection
- Regulation of Investigatory Powers Act

#### Operation Domus

The county-wide operation will be launched with all local authorities and social housing providers in Essex (62 of them) to work together to tackle fraud. The project has three elements:

- Centralised data sharing against each participating council / housing provider
- Production of intelligence-led tenancy verification programme
- Training for all providers by the Directorate on fraud prevention and investigation under the **HoTFA** (Housing Tenancy Fraud Accreditation) scheme that was developed by the Directorate.

The operation is led by the Directorate but will have police officers and other bodies seconded to it under the direction of the Directorate. There is also a programme seeking to align **Operation Raptor** (gang crime reduction) undertaken by Essex Police with **Operation Domus** as its objectives target criminal gangs taking over social housing across Essex.

#### Blue Badge – Operation Core

An operation will be undertaken collaboratively between Thurrock and SBC Fraud Services, Civil Enforcement Officers and Parking Departments to combat criminal misuse of disabled parking and residents' visitor dispensation schemes. This operation is just targeting criminality and does not seek to replicate the civil contravention of those schemes.

Work Programme Delivery Plan

		2016								2017			
		APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH
67	NFI	Commence		CONCLUDE									
	Fraud Training	Commence		CONCLUDE									
	Anti-Fraud Marketing	Consult	PUBLISH			Performance Report			Performance Report			Performance Report	
	Policy Review	REVIEW		DRAFT	CONSULT	REVISE	PUBLISH						
	Op Domus	Launch		Data Match		Matches to Partner		Performance Report			Performance Report		
	Op Core		Commence			Performance Report		CONCLUDE					
	RTB Review			REVIEW		DRAFT	CONSULT	REVISE	PUBLISH				
	NNDR		REVIEW		DRAFT	CONSULT	REVISE	PUBLISH					

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## Appendix 2: Proactive Work Programme as at March 2016

Risk area	Tasks	Planned for	Current status
Housing Tenancy	Commence 'Operation Domus', the county-wide joint proactive drive to share data and intelligence on tenancy fraud.	April 2016	The work required to set this project up has now been completed and preparations are being made to launch it.
Right to Buy	Evaluate whether application processes can be strengthened to minimise the risk of fraud.	July 2015	Some work has been undertaken with South Essex Homes and the Allocations team on an individual application basis.  Consideration is being given to undertaking a formal review with Internal Audit in 2016/17.
Business Rates	Conduct a data matching exercise to identify possible misuse of exemptions claimed for commercial property, including 'Phoenix Companies' <sup>1</sup> .	June 2016	There is no national standard model for data matching in this area, therefore the current focus of this work is to develop the data matching tool.  At present, different data sets are being tested in conjunction with HM Revenue and Customs (HMRC) to ensure the results are reliable.
	Identify, from the data matching exercise, a tool that can be installed for use in the continual prevention of false exemption claims.	September 2016	
	Evaluate whether Business Rates processes can be strengthened to minimise the risk of fraud.	July 2016	
Council Tax	Evaluate whether Council Tax Discount and Exemption processes can be strengthened to minimise the risk of fraud.	August 2016	A joint working arrangement has been established with HMRC in relation to this.  This joint working has already identified fraud with student exemptions.
Social Care	Conduct a proactive exercise of Direct Payments and Financial Assessments to identify flags for potential fraudulent activity	June 2016	An exercise is being planned which involves test checking a random sample of 50 cases.

<sup>1</sup> 'Phoenixing, or phoenixism, are terms used to describe the practice of carrying on the same business or trade successively through a series of companies where each becomes insolvent (can't pay their debts) in turn. Each time this happens, the insolvent company's business, but not its debts, is transferred to a new, similar 'phoenix' company. (The Insolvency Service, 2016)

## Appendix 2: Proactive Work Programme as at March 2016

Risk area	Tasks	Planned for	Current status
	Introduce a trial protocol with the service to enable information and intelligence to be shared, with a view to identifying potential fraudulent claims for support in cases where the claimant should have No Recourse to Public Funds.	April 2016	Agreement achieved with Home Office Bureau to create a better information sharing service for the Council.  A draft joint working protocol is with the Safeguarding Manager and DMT awaiting sign off.
	Produce newsletters, highlighting current fraud risks and trends with best practice advice and guidance and investigation outcomes.	January 2016	Draft newsletters have been produced and are with the Media and Communications team for comment before being signed off.
Fraud Awareness	Introduce a formal, detailed intelligence alert system across all Council departments to inform services of immediate fraud risks.	January 2016	Draft intelligence alert templates have been produced are with the Media and Communications team for comment before being signed off.
National Fraud Initiative, Data Matching Exercise	Investigate high level recommended data matches until the 2015 exercise is complete.	Will report progress made on quarterly basis	As detailed in Appendix 3.



## Appendix 3: 2014/15 National Fraud Initiative Data Matches

### Update – March 2016

Southend-on-Sea Borough Council has received a total of 5,775 matches to date as part of the National Fraud Initiative (NFI) 2014/15.

### Background

The NFI issues matches with three different categories - High, Medium and Low - and within those categories highlights certain matches as “recommended”.

Each report has guidance attached to it which advises that the report is filtered so the recommended matches are processed. As such, Southend-on-Sea Borough Council (SBC) will normally **only process recommended matches on the high level reports**. However, some departments will process additional matches due to the nature of the report.

The summary table below lists the total number recommended matches for the high level reports and the number of recommended matches cleared.

If a department has processed additional matches, for example relating to deceased data, then additional matches will be classed as recommended.

### Current Figures

- SBC has a total of 1684 recommended matches across 35 high level reports to be processed.
- 18 reports, comprising 788 high level recommended matches, have been fully processed and completed.
- 17 reports, comprising 896 high level recommended matches, are left to complete, with 43.4% of recommended matches left to view.

### Notes

The following notes provide further explanation on the reports:

- Note 1: Further filters have been applied to these reports which have removed some high level recommend matches e.g. benefit claimants in receipt of a primary benefit as the Department for Work and Pensions would normally investigate those individuals.
- Note 2: ‘Report not actioned’ means that none of the data matches in the report have been reviewed at the time of reporting.
- Note 3: Indicates matches currently under investigation or awaiting response from an external body, i.e. the Department for Work and Pensions, Other Local Authorities or court hearings.
- Note 4: Unable to review matches in the foreseeable future due to staff resource issues.

Report Name	Recommended Matches	Cleared Matches	Comments	Case Proven No. & (£)	Target Completion Dates
<b>Blue Badge</b>					
Blue Badge Parking Permit to Blue Badge Parking Permit	9	9	1 Data Error corrected.		
Blue Badge Parking Permit to DWP Deceased	220	220			
<b>Concessionary Travel Passes</b>					
Concessionary Travel Passes to DWP Deceased	471	471	1 Data Error corrected.		
<b>Creditors</b>					
Duplicate creditors by address detail	92		Note 2		
Duplicate creditors by bank account number	24		Note 2		
Duplicate creditors by creditor name	43		Note 2		
Duplicate creditors by creditor reference	4		Note 2		
Duplicate records by amount and creditor reference	331	329	Note 3		
Duplicate records by invoice number and amount but different creditor reference and name	7	7			

Report Name	Recommended Matches	Cleared Matches	Comments	Case Proven No. & (£)	Target Completion Dates
Duplicate records by name, invoice number and amount but different creditor reference	1	1			
Duplicate records by postcode, invoice amount but different creditor reference and invoice number and date	1	1			
Duplicate records by reference, amount and creditor reference	11	11			
VAT overpaid	133	133			
<b>Housing Benefit Matches</b>					
Housing Benefit Claimants to DWP Deceased	62	62			
Housing Benefit Claimants to Housing Benefit Claimants	10	1	Note 3		
Housing Benefit Claimants to Housing Tenants	2		Note 2		
Housing Benefit Claimants to In-country Immigration	8	5	3 matches under investigation.		
Housing Benefit Claimants to Market Traders	1		Note 2		
Housing Benefit Claimants to Payroll	7		Note 2		

Report Name	Recommended Matches	Cleared Matches	Comments	Case Proven No. & (£)	Target Completion Dates
Housing Benefit Claimants to Pensions	24		Note 2		
Housing Benefit Claimants to Right to Buy	1		Note 2		
Housing Benefit Claimants to Student Loans	229		Note 2		
Housing Benefit Claimants to Taxi Drivers	11		Note 2		
<b>Payroll Matches</b>					
Payroll to Creditors	7		Note 2		
Payroll to Payroll	3		Note 2		
<b>Personal Budgets</b>					
Personal Budgets to DWP Deceased	9	9			
Personal Budgets to Pensions	34		Note 2		
<b>Private Residential Care Homes</b>					
Private Residential Care Homes to DWP Deceased	28	28			

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Report Name	Recommended Matches	Cleared Matches	Comments	Case Proven No. & (£)	Target Completion Dates
<b>Resident Parking Permits</b>					
Resident Parking Permits to DWP Deceased	17		Note 2		
<b>Right to Buy</b>					
Right to Buy to Housing Benefit Claimants	6	6			
Right to Buy to Right to Buy	2	2			

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# 2016/17 Corporate Counter Fraud and Investigation Strategy



Subject to annual review by Group Manager, Counter Fraud & Investigation Directorate and Head of Internal Audit

Reported to Corporate Management Team and Audit Committee: **March 2016**

### National Framework

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

In 2012, when it was published, the vision outlined in the Fighting Fraud Locally, The Local Government Fraud Strategy was that by 2015, local government will be better able to protect itself from fraud and have in place a more effective fraud response. It is currently being updated by CIPFA's Counter Fraud Centre for agreement by the Cabinet Office.

On a more operational level, the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014) set out five principles for organisations to adopt, which are to:

- acknowledge the responsibility of the governing body for countering fraud and corruption
- identify the fraud and corruption risks
- develop an appropriate counter fraud and corruption strategy
- provide resources to implement the strategy
- take action in response to fraud and corruption.

Finally Protecting the Public Purse, Fighting Fraud Against Local Government 2014 reported on detected fraud in the sector, looking at year on year trends. It highlights the main fraud areas and the issues faced by local authorities in tackling this risk effectively.

There is a lot of duplication and overlap in terms of the actions each of these documents recommend local authorities take in order to achieve the vision set out in Fighting Fraud Locally. Nevertheless, the aim of this Strategy is to deliver this vision.

In November 2015, investigating housing benefit fraud transferred to the Department for Work and Pensions (DWP) Single Fraud Investigation Service (SFIS). As required under the new mandate, all housing benefit referrals are passed to the DWP to investigate.

### Objective

*To work effectively with Council services to develop arrangements that keep fraud, corruption, bribery, theft and misappropriation under control whilst:*

- *exploring opportunities to reduce it to an absolute minimum, maximising the opportunity to recover losses incurred*
- *putting arrangements in place to maintain it at that level so the maximum resources are available to provide services to the local community.*



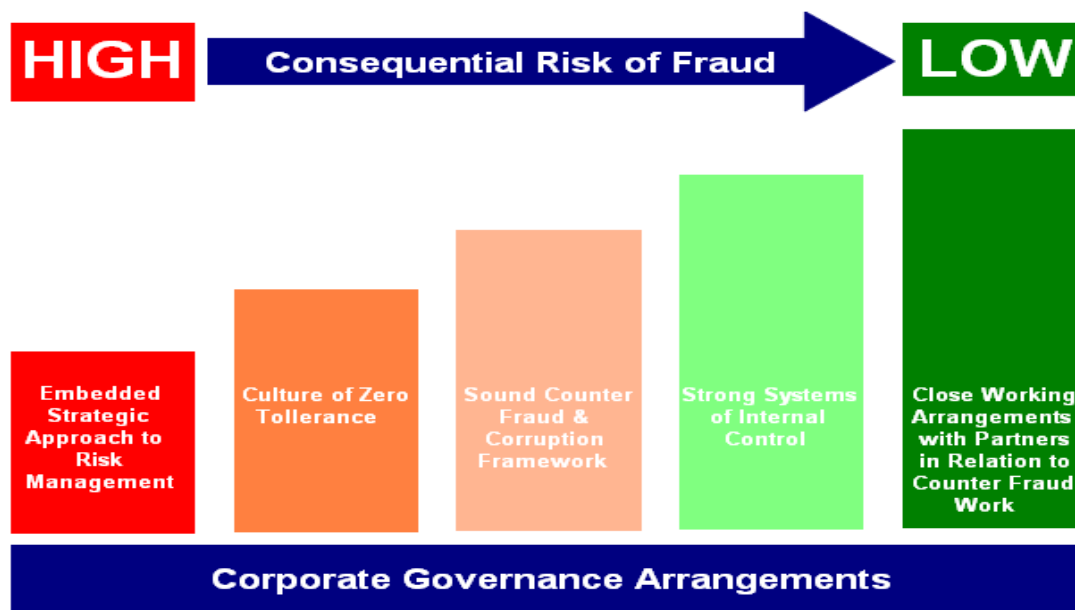
## Appendix 4: 2015/16 Corporate Counter Fraud and Investigation Strategy

### Approach

The Counter Fraud and Investigation Directorate (the Directorate) will help the Council minimise financial loss from fraud, corruption, bribery, theft and misappropriation by:

- working with services to set the right culture
- focusing on deterrence and prevention
- having robust arrangements in place to detect potential fraudulent activity
- where necessary, investigating cases thoroughly, taking robust action to apply sanctions, obtain redress and recover financial losses incurred.

The approach adopted will also help the Council operate a sound anti fraud governance framework designed to minimise this risk as set out below:



Source: ALARM Managing the Risk of Fraud

It will do this by:

- assessing the Directorate's compliance with good practice guidance relevant to local government, that sets out how a modern and professional counter fraud and investigation service should operate
- producing an annual report on the delivery of this strategy and compliance with good practice guidance
- maintaining an Anti Fraud & Corruption Policy and Strategy and the Anti Money Laundering Policy and Strategy (including Terrorise Financing requirements) as well as helping ensure staff are aware of the Whistleblowing Policy
- undertaking a programme of preventative and detective work targeted on key fraud risk areas
- adopting a modern, comprehensive approach to undertaking investigations which maximises the use of tools such as surveillance, computer forensics and financial investigation, taking every opportunity, once an offence is proven in court, to recover losses incurred by seeking:

## Appendix 4: 2015/16 Corporate Counter Fraud and Investigation Strategy

- **Compensation Orders** for the amount the Court considers appropriate where it can be proved that the Council has suffered distress, personal injury or financial loss, which may also include a sum by way of interest
- **Confiscation Orders** requiring a convicted defendant to pay the amount he/she has benefited from the crime (under the Home Office Asset Recovery Incentivisation Scheme, the Directorate would receive 37.5% of this order to reinvest in the prevention and detection of fraud)
- **Profit Orders** for the recovery from defendants of profits made from unlawful sub-letting either following conviction or in separate civil proceedings.

In delivering this, the Directorate will:

- develop work streams in fraud risk areas other than housing benefits
- look for opportunities to develop beneficial collaborative working arrangements with other organisations and relevant agencies
- work closely with internal audit to provide an effective and integrated service to the Council.

### Code of Ethics

All counter fraud and investigation staff working for the Directorate will comply with Standards of Public Life's *Seven Principles of Public Life* as defined in the Local Code of Governance.

The four key principles they will adopt are as follows:

- The **integrity** of Counter Fraud and Investigation staff establishes trust and this provides the basis for reliance on their judgement.
- Counter Fraud and Investigation staff:
  - exhibit the highest level of professional **objectivity** in gathering, evaluating and communicating information about the activity or process being examined
  - make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
- Counter Fraud and Investigation staff respect the value and ownership of information they receive and do not disclose information (**confidentiality**) without appropriate authority unless there is a legal or professional obligation to do so.
- Counter Fraud and Investigation staff apply the knowledge, skills and experience (**competency**) needed in the performance of counter fraud and investigation services.

Inappropriate disclosure of information or breaches of the Code of Ethics by Counter Fraud and Investigation staff could be a disciplinary offence.

All staff working for the Directorate will be required to sign an Ethical Governance Statement and declare any interests prior to starting an investigation and to formally update their statement as part of their six monthly appraisal meeting.

### Risk Assessment

Fraud within local government is diverse and, based on research and intelligence, likely to be committed against all types of expenditure including payroll, goods and

## Appendix 4: 2015/16 Corporate Counter Fraud and Investigation Strategy

services, as well as against the taxes and benefits or services administered at a local level.

The National Fraud Authority (NFA) estimated in 2013 that fraud in local government amounted to £2.1bn representing 10% of total public sector fraud as outlined below:

Category	Annual Loss	Fraud Level%
Procurement Fraud	£876m	1% of spend
Housing Tenancy Fraud	£845m	2% of housing stock
Payroll Fraud	£154m	Not disclosed by NFA
Council Tax Discount	£133m	4% on discounts and reliefs claimed
Blue Badge Scheme Abuse	£46m	20% of badges misused
Grant Fraud	£35m	1% of spend
Pension Fraud	£7.1m	N/A based on NFA detection levels
Department for Works and Pensions (DWP) estimates:		
Housing Benefits Overpayments	£350m	

All of these identified risks with the exception of the pension fund are relevant to the Council and a source of potential financial loss.

The Audit Commission's report, Protecting the Public Purse 2014 concluded that local authorities detected fewer cases in 2013/14 but their value increased by 6%. It identified detected fraud in the following areas:

Category	Value
Council Tax Discount	16.9m
Right to Buy	12.3m
Social Care (Direct Payments)	6.2m

Category	Value
False Insurance Claims	4.8m
Abuse of Position	4.5m

## Appendix 4: 2015/16 Corporate Counter Fraud and Investigation Strategy

Procurement	4.5m
Schools (maintained)	2.3m
Business Rates	1.2m

The Directorate will:

- take account of these nationally identified risks in developing its annual work programme
- work with the Internal Audit Service to develop the fraud risk aspect of the internal audit risk assessment which covers all Council activities. This will help joint working, particularly where proactive exercises are being planned.

### Work Plan

The Directorate's Corporate Counter Fraud and Investigation Plan for 2015/16 is split into three areas which include:

- assessing compliance with national frameworks (e.g. Fighting Fraud Locally and Protecting the Public Purse etc) to ensure the Council's governance arrangements in this area are fit for purpose
- delivering a programme of proactive work, including data matching exercises (**Appendix 2**)

All allegations reported to the Directorate will be recorded and then risk assessed to determine the work priorities for the team.

Progress in delivering the work programme will be reported upon quarterly to Corporate Management Team and the Audit Committee.

The work undertaken by the Directorate will inform:

- the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Council's governance, risk management and control arrangements
- the Section 151 Officer's opinion when certifying the annual financial statements
- the view given by the Chief Executive and Leader on behalf of the Council in the Annual Governance Statement
- external audit's work when auditing the financial statements.

### Resourcing

A staff needs assessment will be maintained to calculate the overall capacity of the service as well as that of each council. This will be taken into account when determining the size of the work programme for each council.

The allocation of work between proactive and investigations will be reviewed regularly and adjusted accordingly to ensure an appropriate balance is maintained.

The service will be provided by Thurrock Council via a Service Level Agreement which came into effect on 1 October 2014. The Head of Internal Audit will be the contract manager on behalf of the Council.

### Training and Development

Staff development needs will be continually assessed and fed into the service's training plan to ensure that appropriate skills are available to deliver the Strategy. Consideration will also be given to the need for staff to meet mandatory continued professional development requirements, where this is relevant.

Staff will maintain individual training logs that satisfy relevant professional standards. These will be reviewed by line managers at least every six months as part of the corporate performance appraisal process.

Opportunities to purchase tailored training with other organisations will continue to be explored.

### Service Performance

The service will measure the impact of its work:

- through its contribution to ensuring the Council's governance arrangements in this area comply with good practice guidance
- by an increase in:
  - the identification and reporting of fraud incidents
  - housing properties recovered
  - the financial loss identified through targeted and effective proactive anti-fraud work
  - losses recovered via Confiscation, Compensation and Profit Orders awarded to the Council, to a minimum value of £50k in 2015/16.

Quarterly performance reports will be produced for senior management and the Audit Committee.

### Service Risk Register

The Directorate will maintain a service risk register that supports the delivery of this Strategy. This will be reviewed and reported upon periodically in the quarterly performance reports to management.

### Undertaking Investigations

An investigations manual will be maintained that guides staff in the performance of their duties. It will be reviewed regularly to reflect changes in working practices and standards. This will ensure that investigators obtain and record sufficient evidence to support their conclusions, professional judgements and recommendations.

The Directorate will make recommendations for improving any services, systems or processes should control weaknesses be highlighted by an investigation. It will work with Internal Audit, where necessary, to ensure:

- action plans are produced in a consistent format
- appropriate arrangements are made for checking that actions agreed are implemented, properly, in a timely manner.

## **Appendix 4: 2015/16 Corporate Counter Fraud and Investigation Strategy**

The service will adhere to the Council's clear desk policy with regard to client information and investigation files.

Investigation files will be retained in accordance with the Council's file retention and disposal policy.

### **External Audit**

The Directorate will maintain an appropriate working relationship with the Council's external auditors, sharing documentation and reports as required to support the audit of the financial statements and any other work undertaken.

### Appendix 5: CF&ID Case Summary to 8 March 2016

Case Status	Fraud Type				
	Revenues & Benefit	Housing Tenancy Fraud	Blue Badge	Other	Total

NB: Responsibility for investigating all Housing Benefit fraud transferred to the Department for Work and Pensions on 2 November 2015. SBC no longer has any involvement in investigating benefit fraud.

Directorate Case Load					
Referrals Received (Between 1 April 2015 and 31 January 2016)	143	90	32	13	<b>278</b>
Passed to another agency**	63	0	0	0	<b>63</b>
No offences**	35	7	0	0	<b>42</b>
Under investigation**	26	35	9	8	<b>78</b>
Closed**	21	48	23	5	<b>95</b>

\*\*These Figures represent the status of investigations conducted by the Directorate that commenced during 2015/16 but also those received in previous years but concluded in 2015/16.

Outcomes Achieved					
Formal Caution	1	N/A	N/A	1	<b>2</b>
Administrative Penalty	4	N/A	N/A	N/A	<b>4</b>
Prosecution Action	12	5	1	3	<b>13</b>
Tenancy Property Recovered	N/A	48	N/A	N/A	<b>48</b>
Right to Buy Closed	N/A	6	N/A	N/A	<b>3</b>
Blue Badge Recovered	N/A	N/A	9	N/A	<b>2</b>
Warning Issues	N/A	N/A	38	0	<b>23</b>
Staff Dismissal	N/A	N/A	N/A	1	<b>1</b>
Fraud Prevention Saving	4	1	N/A	N/A	<b>5</b>

## Appendix 5: CF&ID Case Summary to 8 March 2016

### Value of Proven Fraud re: Closed Investigations

Prosecution	Caution	Administrative Penalty	Other Fraud Savings
<b>£600,736</b>	<b>£5,812</b>	<b>£9,133</b>	<b>£14,604</b>
Right to Buy Fraud Savings	Tenancy Fraud Savings	Money Recovered	<b><i>TOTAL</i></b>
<b>£347,540</b>	<b>£864,000</b>	<b>£45,764</b>	<b>£1,887,589</b>



# Southend-on-Sea Borough Council

Agenda  
Item No.

8

Report of Corporate Director for Corporate Services  
to  
**Audit Committee**  
on  
**30 March 2016**

Report prepared by: BDO External Auditor

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**BDO: Audit Plan 2015/16**

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**Executive Councillor – Councillor Woodley**

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***A Part 1 Public Agenda Item***

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**1. Purpose of Report**

1.1 To present the External Auditor's Audit Plan for 2015/16 to the Audit Committee.

**2. Recommendation**

**2.1 The Committee accepts BDO's Audit Plan for 2015/16.**

**3. Background**

3.1 As required by the National Audit Office's Code of Audit Practice (the Code), the external auditor must produce an audit planning document. This should set out how the auditors intend to carry out their responsibilities in light of their assessment of risk.

3.2 A senior representative of BDO (the appointed External Auditor to the Council) will present this report to the Audit Committee and respond to Members' questions.

**4. Corporate Implications**

4.1 Contribution to Council's Aims and Priorities

Audit work contributes to the delivery of all the Council's Aims and Priorities.

4.2 Financial Implications

The prescribed requirements of what needs to be undertaken by the external auditor is defined by the National Audit Office. The plan and fees proposed reflect the application of these requirements to this Council based upon an assessment of risk which is set out in the Audit Plan for 2015/16.

The cost to the Council of external audit for 2015/16 is planned to be £165,042.

4.3 Legal Implications

The Council is required to have an external audit of its activities that complies with the requirements of the Code. By considering this report, the Committee can satisfy itself that this requirement is being discharged.

#### 4.4 People and Property Implications

None

#### 4.5 Consultation

The planned audit work has been discussed and agreed with the Corporate Director for Corporate Services and the Head of Finance and Resources.

#### 4.6 Equalities Impact Assessment

None

#### 4.7 Risk Assessment

Poor performance by the Council in the areas subject to review could result in either a qualified audit opinion or value for money conclusion and may also impact adversely on any corporate assessment.

Periodically considering whether the external auditor is delivering the agreed Annual Audit Plan helps mitigate the risk that the Council does not receive an external audit service that complies with the requirement of the Code.

#### 4.8 Value for Money

The Public Sector Audit Appointments Limited sets the fee formula for determining external audit fees for all external auditors, taking into account the results of the outsourcing of their audit practice and market testing the audit work that is now fully delivered by the private sector audit firms.

#### 4.9 Community Safety Implications and Environmental Impact

None

### 5. Background Papers

- The National Audit Office's Code of Audit Practice
- Public Sector Appointments Limited Work Programme and Scales of Fees 2015/16

### 6. Attachment: BDO's Audit Plan 2015/16



# Southend-on-Sea Borough Council

<sup>68</sup> PLANNING REPORT TO THE AUDIT COMMITTEE  
Audit for the year ending 31 March 2016

Date of issue: 17 March 2016

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# INTRODUCTION

## PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements of Southend on Sea Council (the Council) and use of resources of the Council for the year ending 31 March 2016. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit Committee.

In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person to whom it is shown or into whose hands it may come, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

# YOUR BDO TEAM



Name	Contact details	Key responsibilities
<b>Lisa Clampin</b> Engagement Lead	Tel: 01473 320716 lisa.clampin@bdo.co.uk	Oversee the audit and sign the audit report
<b>Alison Langridge</b> Project Manager	Tel: 01473 320752 alison.langridge@bdo.co.uk	Management of the audit
<b>Charlie Lovlee</b> Assistant Manager	Tel: 01473 320774 charlie.lovlee@bdo.co.uk	Day to day management and supervision of the audit
<b>Matthew Weller</b> Senior	Tel: 01473 320804 matthew.weller@bdo.co.uk	Day to day supervision of the on-site audit

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Lisa Clampin is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements and use of resources.

In meeting this responsibility, she will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

- the financial statements are free from material misstatement, whether due to fraud or error
- the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

She is also responsible for the overall quality of the engagement.

# OUR CLIENT SERVICE COMMITMENT TO YOU

## CLIENT SERVICE EXPECTATIONS

1

High quality audit service at a reasonable cost.

2

A quality team, with relevant expertise.

3

Clear communication.

4

Concentrating our work on areas of higher risk.

5

Avoiding surprises through timely reporting of issues.

6

Consulting with management to resolve matters early.

7

Meeting deadlines.

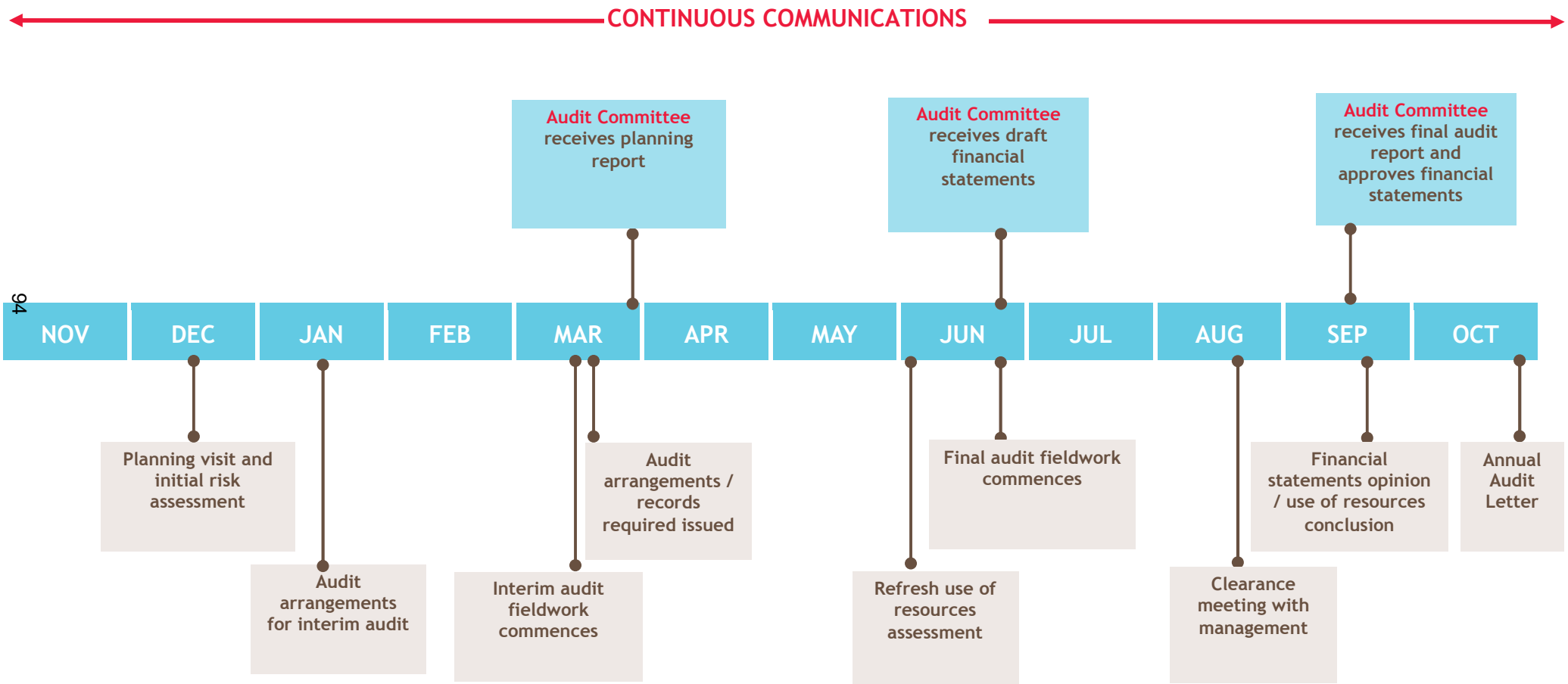
8

Identifying shortcomings in controls and processes.

# ENGAGEMENT TIMETABLE

## TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.





# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the NAO Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
<p><b>1</b></p> <p>The financial statements give a true and fair view of the financial position of the group and authority and its expenditure and income for the period in question.</p>	<p><b>2</b></p> <p>The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.</p>	<p><b>3</b></p> <p>Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).</p>	<p><b>4</b></p> <p>The return required to facilitate the preparation of WGA consolidated accounts is consistent with the audited financial statements.</p>	<p><b>5</b></p> <p>The authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

## ADDITIONAL POWERS AND DUTIES

**6** To consider the issue of a report in the public interest.  
To make a written recommendation to the authority, where necessary.

**7** To allow electors to raise questions about the accounts and consider objections.  
To apply to the court for a declaration that an item of account is contrary to law, where necessary.  
To consider whether to issue an advisory notice or to make an application for judicial review, where necessary.

# MATERIALITY

## GROUP AND COMPONENT MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Group	£8,300,000	£207,500
Significant components:		
Council	£8,300,000	£207,500

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the group and the Council has been based on 2% of the prior year gross expenditure. At this stage, the figure is based on the prior year financial statements. This will be revisited when the draft financial statements for the current year are received for audit.

The clearly trivial amount is based on 2.5% of the materiality level of the group. The Council, as parent entity, has a separate clearly trivial level also using the same 2.5%.

# OVERALL AUDIT STRATEGY

## We will perform a risk based audit on the group and Council's financial statements and the Council's use of resources

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the group, Council and other component entities' businesses and the specific risks it faces. We discussed the changes to the businesses and management's own view of potential audit risk during our planning visit in order to gain an understanding of the activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements, group-wide controls and the consolidation process, and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and Council-specific level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in response to risks.

### Approach to components of the group financial statements

Our approach is designed to ensure we obtain the requisite level of assurance across the whole group.

Total coverage is expected to be as shown opposite, which is based upon prior year figures. We do not expect any significant changes in the proportion of expenditure and net assets in 2015/16.

SCOPE	EXPENDITURE 2014/15	NET ASSETS 31/3/15	EXPENDITURE 2013/14	NET ASSETS 31/3/14
Full scope procedures	£403m	£388m	£407m	£370m
Trust Funds	£1m	£17m	£1m	£15m
South Essex Homes	£11m	(£6m)	£10m	(£5m)
<b>Total</b>	<b>£415m</b>	<b>£399m</b>	<b>£418m</b>	<b>£380m</b>

# OVERALL AUDIT STRATEGY

## Group matters

COMPONENT NAME	% GROUP EXPENDITURE	% GROUP NET ASSETS	COMPONENT AUDITOR	OVERVIEW OF WORK TO BE PERFORMED	OVERVIEW OF THE NATURE OF OUR PLANNED INVOLVEMENT IN THE WORK PERFORMED BY THE COMPONENT AUDITOR
<b>Full scope procedures:</b>					
Council	97.4%	95.8%	BDO UK	Code audit of the financial statements prepared under CIPFA Code of Practice on Local Authority Accounting.	Undertaken by the group audit team.
<b>Non-significant component procedures:</b>					
Trust funds	0%	4.2%	N/A	PPE existence subject to specified procedures and analytical review.	Specified tests undertaken by the group audit team.
South Essex Homes Limited	2.6%	0%	Scrutton Bland	Analytical review of financial statements prepared by the component entity assessed against expectations and prior year amounts.	N/A

# OVERALL AUDIT STRATEGY

## Risks and planned audit responses

For the financial statements audit, under International Standard on Auditing 315 “Identifying and assessing the risks of material misstatement through understanding the entity and its environment”, we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the Council in forming our risk assessment and audit strategy.

## Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit planning and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

# KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Other issue

## AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<b>Management override</b>  100	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p>	<p>Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates as a significant fraud risk.</p>	Not applicable.
	<p>Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>In every organisation, management may be in a position to override routine day to day financial controls. Accordingly, our audit has been designed to consider this risk and adapt procedures accordingly.</p>	
<b>Revenue recognition</b>	<p>Under International Standard on Auditing 240 “The Auditor’s responsibility to consider fraud in an audit of financial statements” there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income.</p>	<p>We will carry out audit procedures to gain an understanding of the Council’s internal control environment for the significant income streams, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period.</p>	Not applicable.
	<p>In particular, we also consider there to be a significant risk in relation to the completeness and existence of fees and charges in the CIES.</p>	<p>We will carry out focussed substantive testing on a sample of income received and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income.</p>	

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
HRA property revaluations 101	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date. The Code requires management to carry out a full valuation of its land and buildings on a periodic basis (at least every 5 years). In the intervening years, management is required to assess whether there has been a material change in the value of its assets which should be accounted for.</p> <p>As part of the 5 year rolling re-valuation programme, all HRA property assets have been re-valued in 2015/16. Upon review of these revaluation schedules, the upwards revaluation of HRA properties totalled £50m and downwards revaluations totalled £34m. Of the £34m downward movements, £16m was the write off of generic capital expenditure items for which there appears to be a reasonable explanation. However, current market conditions for property lead us to expect only upward revaluations and so the remaining downward revaluations movement of £18m is contra to our expectations and could be indicative of material misstatement.</p>	<p>We will review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert.</p> <p>We will confirm that the basis of valuation for assets valued in year is appropriate based on their usage.</p> <p>We will review valuation movements against indices of price movements for similar classes of assets and follow up valuation movements that appear unusual against indices.</p>	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council.</p>
Pension liability assumptions	<p>The net pension liability comprises the Council's share of the market value of assets held in the Essex County Council pension fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on accurate membership data or uses</p>	<p>We will agree the disclosures to the information provided by the pension fund actuary.</p> <p>We will review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p>	<p>We will agree the disclosures to the report received from the actuary.</p> <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>

	inappropriate assumptions to value the liability.		
<b>Fraud and error</b>	<p>We are required to discuss with you the possibility of material misstatement, due to fraud or error.</p> <p>We are informed by management that there have not been any cases of material fraud or error, to their knowledge.</p>	<p>We will continue to consider throughout the audit process and discuss with management.</p>	Not applicable.
<b>Narrative reporting</b>	<p>The Council will be required to produce a 'Narrative Report' replacing the Explanatory Foreword in the financial statements.</p> <p>The Narrative Report includes additional information not previously included in the Explanatory Foreword.</p>	<p>We will compare the narrative report against the Code requirements to ensure that all elements of the narrative report are correctly included.</p> <p>We will review the narrative report to ensure consistency with our understanding of the entity and the financial statements.</p>	Not applicable.



# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Sustainable finances	The update to the Medium Term Financial Strategy to 2018/19 has forecast further reductions in Government core grant funding, falling New Homes Bonus funding from 2017/18 and annual inflationary and pay award pressures. Budget gaps have been identified in 2016/17 (£13.7 million), 2017/18 (£10.3million), 2018/19 (£8.4 million). Identifying the required level of savings from 2016/17 will be a challenge and is likely to require difficult decisions around service provision and alternative delivery models.	We will review the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied. We will monitor the delivery of the budgeted savings in 2015/16 and the plans to reduce services costs and increase income from 2017/18. We will also review the strategies to close the budget gap after 2016/17.	We shall review core grant data published by central government.

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# INDEPENDENCE

## INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2016.

The threats we have identified are described below together with the safeguards we have put in place to mitigate those threats.

DETAILS OF RELATIONSHIP (INCLUDE ANY OTHER INFORMATION NECESSARY)	THREATS TO INDEPENDENCE CREATED	SAFEGUARDS PUT IN PLACE (AND WHY THEY ADDRESS SUCH THREATS)
BDO are undertaking a review of the internal audit provision during 2015/16 to assess the value for money of the current service and appraise potential alternative service provision options.	Self-review threat	This review will be undertaken by individuals not involved in the main audit process.

Other than the items identified above, we have not identified any potential threats to our independence as auditors.

On the following page, we have recorded details of any non audit services and have documented above where these potentially present threats to our independence and safeguards in place.

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation. The table in appendix II sets out the length of involvement of key members of the audit team and the planned year of rotation.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

# FEES

## FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2016 are:

	£
Audit fee	142,816
Certification fee (Housing benefits subsidy)	22,226
<b>Total audit and certification fees:</b>	<b>165,042</b>
Fees for audit related services (see below)	9,450
Fees for non audit services (see below)	6,000
<b>TOTAL FEES</b>	<b>180,492</b>

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## OTHER FEES ANALYSIS

### Audit related services:

Teachers Pensions certification fee	6,950
CFB06 Capital receipts return	2,500
<b>Total</b>	<b>9,450</b>

### Non audit services:

Review of internal audit provision	6,000
<b>Total</b>	<b>6,000</b>

Fee invoices will be raised in four equal instalments of £35,704 in June 2015, September 2015, December 2015 and March 2016, following which our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice.

Certification of the housing benefits subsidy claim will be billed on completion of the work.

### Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the financial statements prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

# APPENDIX I: MATERIALITY

## CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
  - Narrative disclosure e.g. accounting policies, going concern
  - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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## CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the Council, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
  - Assist in establishing the scope of our audit engagement and audit tests
  - Calculate sample sizes
  - Assist in evaluating the effect of known and likely misstatements on the financial statements.

# APPENDIX I: MATERIALITY

## Continued

### REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

### UNADJUSTED ERRORS

- 101 In accordance with auditing standards, we will communicate to the Audit Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
- Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
  - We will obtain written representations from the Audit Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
  - There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
    - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
    - Other misstatements that we believe are material or clearly wrong.
-

## APPENDIX II: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Lisa Clampin - Engagement lead	2	31/03/2020
Alison Langridge - Project manager	4	31/03/2023

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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# Southend-on-Sea Borough Council

Report of Corporate Director for Corporate Services

to

**Audit Committee**

on

**30th March 2016**

Report prepared by: Linda Everard, Head of Internal Audit

Agenda  
Item No.

**9**

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**Internal Audit Charter, Strategy and Audit Plan for 2016/17**

**Executive Councillor – Councillor Ron Woodley**

***A Part 1 Public Agenda Item***

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## **1. Purpose of Report**

- 1.1 To present the Internal Audit Charter with the supporting Strategy and Audit Plan for 2016/17 to the Audit Committee for consideration.

## **2. Recommendation**

- 2.1 The Audit Committee approves the Charter, Strategy and Audit Plan for 2016/17.**

## **3. Background**

- 3.2 The Accounts and Audit Regulations 2015 (Regulations) make it a requirement for internal audit to take into account public sector internal auditing standards or guidance in delivering the service.
- 3.3 The UK Public Sector Internal Audit Standards (the Standards) require the service to produce a risk based plan that:
- takes into account the:
    - requirement to produce an annual internal audit opinion
    - Council's assurance framework.
  - incorporates or is linked to a strategic or high level statement of how:
    - the service will be delivered and developed in accordance with the Charter
    - it links to the Council's aims, priorities and objectives.
- 3.4 As outlined previously, the Global Institute of Internal Auditors updated the International Professional Practices Framework (IPPF) in July 2015. Although this does not technically apply to the public sector at present, the key changes to the IPPF have been taken into account (as consultation on this is underway).
- ## **4. Charter, Strategy and Audit Plan**
- 4.1 In order to comply with the Standards, the approach proposed is set out in the:
- Charter that defines the purpose, authority and responsibility of the service

- Strategy that outlines how the service will be delivered in line with the Charter and includes the:
    - Internal Audit Plan for 2016/17
    - Audits Planned linked to Corporate Risks Statement
    - How We Will Work With You Statement.
- 4.2 The following paragraphs explain key amendments to the documents which were last presented to the Audit Committee in March 2015. These are also highlighted in **bold** within the documents themselves for ease of reference.
- 5. Charter (Appendix 1)**
- 5.1 The main amendment to the Charter is the inclusion of the new IPPF Mission Statement and Core Principles.
- 6. Strategy (Appendix 2)**
- 6.1 The Strategy sets out:
- the ethical framework audit staff are expected to comply with
  - the basis for the audit opinion and the audit approach to be adopted
  - the approach to assessing risk and assurance as part of the audit planning process
  - the Audit Plan, resource assessment and performance indicators
  - how the service will work with key staff, members and groups within the Council
  - how the team will operate on a day to day basis
  - how it will assess its compliance with relevant professional standards and report upon this.
- 6.2 The main changes to the Strategy reflect:
- a refreshed risk assessment process, particularly in respect of financial systems
  - the need to recalculate the staff resources available in 2016/17 once the service review is completed (refer Internal Audit Service, Quarterly Performance Report) and amend the Audit Plan accordingly
  - the need for the Job Profiles and Career Development Scheme to be updated
  - slightly amended performance targets for delivering the Audit Plan and obtaining stakeholder feedback.
- 6.3 The remaining amendments are cosmetic.
- 6.4 The coverage provided within the proposed **Audit Plan** for 2016/17 (**Appendix 2a**) is based upon the audit approach outlined in the Strategy which complies with the requirements of the Standards. As outlined in the Strategy, activities are only considered for inclusion in the Audit Plan if they are assessed as being high risk and so are significant enough to require period independent review.

- 6.5 The total audit days is currently an estimated figure that:
- excludes:
    - schools, as the next round of audits will have a different focus which is being discussed with the Head of Learning. The risk assessment produced by the School Support and Improvement Board will be used to inform the choice of schools to review in 2016/17. This work is externally resourced and funded
    - South Essex Homes, which has a separate Audit Plan and is funded separately.
  - includes a contingency which is currently the difference between work planned and the estimated total days figure that will be reviewed in due course (refer 6.2 above).
- 6.6 For the first time, the Audit Plan includes details of the estimated total spend or income processed by the systems / activities being audited. The purpose is to help management and the Audit Committee to evaluate the level of risk if poor performance is reported and assurance provided if a good audit opinion is given.
- 6.7 A list of potential audits has also been included at the end of the Audit Plan called the "Risk Watch List". These may be added into the work programme during the year should resources allow or the arrangements develop sufficiently to warrant an audit.
- 6.8 The Audit Plan has been discussed and agreed with senior management.
- 6.9 As is usual practice, any proposed future amendments to the Audit Plan will be reported to the Audit Committee for approval.
- 6.10 **Appendix 2b** identifies where audit reviews provide some assurance regarding the management of the Council's corporate risks.
- 6.11 The **performance indicators** are designed to enable the service to demonstrate:
- it provides **adequate coverage** by delivering sufficient work in year to enable the Head of Internal Audit to give an opinion on the adequacy and effectiveness of the Council's risk management, control and governance arrangements
  - its **professional competence**
  - its **costs** are competitive.
- 6.12 If delivered, this suite of indicators provides evidence that the Council is maintaining an adequate and effective internal audit service that:
- operates in accordance with proper internal audit practices
  - also adds value and helps the Council to improve its operations.
- 6.13 Some minor amendments have been made to the **How We Will Work With You Statement (Appendix 2c)** to reflect the manner in which services and Internal Audit now monitor and report on the implementation of action plans.

## 7. Corporate Implications

### 7.1 Contribution to Council's Aims and Priorities

Audit work contributes to the delivery of all corporate aims, priorities and objectives.

## 7.2 Financial Implications

Financial risk is one of the categories used when assessing the risk profile of all the activities that the Council delivers.

The Audit Plan will be delivered within the agreed budget for the service.

## 7.3 Legal Implications

The Accounts and Audit Regulations 2015, Section 5 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

The Standards require:

- the Audit Committee to approve (**but not direct**) the annual internal Audit Plan and this report discharges that duty
- the Audit Committee to then receive regular updates on its delivery, as provided by the quarterly performance report
- the Head of Internal Audit to provide an annual audit opinion on the Council's risk management, control and governance arrangements and report on this to the Audit Committee, which is delivered to its June meeting.

## 7.4 People and Property Implications

People and property risk is another of the categories used when assessing the risk profile of all the activities that the Council delivers.

## 7.5 Consultation

This is set out in the Strategy.

## 7.6 Equalities Impact Assessment

Not applicable to these documents.

## 7.7 Risk Assessment

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact on the Council's ability to deliver its corporate aims, priorities and objectives.

The key team risks are:

- its inability to recruit or retain staff
- that external suppliers won't deliver contracted in work within the required deadlines to the expected quality standards.

Time has been built into the Audit Plan for managing external contactors.

Internal Audit maintains an audit risk assessment which is explained in the Strategy.

## 7.8 Value for Money

Internal Audit undertook a service review in 2013/14 which demonstrated that the cost of the service was competitive. The current service review will provide updated information for consideration.

This needs to be taken in conjunction with the other indicators reported upon quarterly, when assessing whether the service provides value for money.

#### 7.9 Community Safety Implications and Environmental Impact

These issues are only considered if relevant to a specific audit review.

### 8. Background Papers

- The Accounts and Audit Regulations 2015
- UK Public Sector Internal Audit Standards
- CIPFA Local Governance Application Note for the UK Public Sector Internal Audit Standards
- CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010
- CIPFA: Audit Committee Practical Guidance for Local Authorities and A Toolkit for Local Authority Audit Committees.

### 9. Appendices

- Appendix 1: Internal Audit Charter
- Appendix 2: Internal Audit Strategy
  - Appendix 2a: Internal Audit Plan for 2016/17
  - Appendix 2b Audits Planned linked to Corporate Risks Statement
  - Appendix 2c: How We Will Work With You Statement

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## Internal Audit Charter

Subject to annual review by Head of Internal Audit

Reported to Corporate Management Team and Audit Committee: February /  
March 2015

## Appendix 1: Internal Audit Charter

### Introduction

This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards (the Standards) and the CIPFA Local Government Application Note.

The Charter will be reviewed annually and presented to the Audit Committee for approval.

### Service Objective

The key objective for Internal Audit is to complete sufficient work in order to enable it to provide an independent and objective annual opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes, established to enable it to achieve its objectives.

This includes the Council's working arrangements with partners, contractors and third parties.

In doing this, Internal Audit aims to:

- deliver a high quality, cost effective service in line with best practice and professional standards
- work constructively with management to support new developments and major change programmes
- be pragmatic and proportionate with its recommendations, having regard not just to risk, but also the cost of controls
- be flexible and responsive to the needs of the organisation in all its work
- promote an anti-fraud and corruption culture within the organisation.

### Responsibilities

Internal Audit is '*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control and governance processes*'<sup>1</sup>.

In a local authority, internal audit:

- provides independent and objective assurance to the organisation, its Members and the Corporate Management Team regarding the design and operation of its governance, risk management and control processes
- assists the Head of Finance and Resources in discharging his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is a management responsibility to:

- establish and maintain appropriate governance arrangements and internal control systems

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<sup>1</sup> Institute of Internal Auditors



## Appendix 1: Internal Audit Charter

- ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

### Statutory Role

Internal Audit is a statutory service in the context of the Local Audit and Accountability Act 2014 and its supporting Accounts and Audit Regulations 2015, which state in Part 2, Internal Control, Section 5, that:

*“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.*

*Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit:*

- *make available such documents and records*
- *supply such information and explanation*

*as are considered necessary by those conducting the internal audit.*

Internal Audit operates under the Chief Financial Officer's statutory authority to visit any Council land or premises should this be required.

This statutory framework is supported by the Council's Financial Regulations.

### Independence and Accountability

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors have no operational responsibilities. Where the Head of Internal Audit is responsible for other services, arrangements are in place for ensuring that any internal audit work is subject to appropriate independent review and that any conflicts of interest are avoided.

Internal Audit determines its priorities in consultation with 'Those Charged with Governance'. The Head of Internal Audit has direct access to and freedom to report in her own name and without fear of favour to, all officers and Members and particularly 'Those Charged with Governance' including the Chief Executive and Chair of the Audit Committee. This independence is further safeguarded by ensuring that the Head of Internal Audit's annual appraisal / performance review is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of Audit Committee contribute to this performance review. The Head of Internal Audit must confirm to the Audit Committee, at least annually, on the organisational independence of the service.

Internal Audit may also provide consultancy services at the request of the organisation, which would include activities like providing advice, facilitation and training. In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit.

Accountability for the response to the advice and recommendations of Internal Audit lies with management, who either accept and implement the advice or formally reject it.

## **Appendix 1: Internal Audit Charter**

All Internal Audit staff are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

### **Internal Audit Scope**

The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessments (including those set out within Council's risk registers). Extensive consultation also takes place with key stakeholders.

The framework used for evaluating the Council's governance, risk management and control arrangements (as required by the Standards) is set out in the supporting Strategy.

If circumstances arise whereby assurances are to be provided to parties outside the Council, the nature of and approach to be adopted to providing them will be discussed with relevant senior management.

The Head of Internal Audit can consider accepting proposed consulting engagements (should resources allow), based on their potential to improve the management of risks, add value and improve the organisation's operations. Accepted engagements must also be included in the Audit Plan.

### **Reporting Lines and Relationships**

Responsibility for ensuring that statutory internal audit arrangements are in place has been delegated to the Head of Finance & Resources (Section 151 Officer) (who is a member of the Corporate Management Team) on behalf of the Corporate Director for Corporate Services. These arrangements form a key element of the Council's corporate governance framework.

Therefore the Head of Finance & Resources discharges the administrative responsibilities for managing the internal audit service whilst it reports functionally to the Audit Committee. Details of the functional role of the Audit Committee in this respect should be set out in its Terms of Reference.

In discharging this function role, the Audit Committee receives reports that cover the results of internal audit activity and details of Internal Audit performance, including progress on delivering the Audit Plan.

In addition, Internal Audit provides an annual report and opinion to senior management and the Audit Committee on the adequacy and effectiveness of the Council's system of internal control including its governance, risk management and control arrangements.

The Head of Internal Audit also:

- has regular briefings individually with the Chief Executive and Corporate Directors including the Corporate Director for Corporate Service whose remit covers the Audit Committee
- reports at least quarterly on audit matters to the Corporate Management Team which includes the Head of Paid Service, Section 151 Officer and Monitoring Officer

## Appendix 1: Internal Audit Charter

- attends the Council's Good Governance Group which includes the Section 151 Officer and Monitoring Officer and reports to the Head of Paid Service.

Full details of how internal audit works with key officers, members and groups are set out in the Strategy, Appendix 2c, How We Will Work With You Statement.

### Internal Audit Standards

There is a statutory requirement for Internal Audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'UK Public Sector Internal Audit Standards' (the Standards) as defined by the Institute of Internal Auditors (IIA) in conjunction with the Chartered Institute of Public Finance and Accountancy (CIPFA) **which are based upon the International Professional Practices Framework (IPPF)**. These Standards have been adopted by the Council's Internal Audit Service.

**Therefore its Mission (as set out in the IPPF) is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. In delivering this, the service commits to operating in accordance with the IPPF's core principles, which requires it:**

- **demonstrates integrity**
- **demonstrates competence and due professional care**
- **is objective and free from undue influence (independent)**
- **aligns with the strategies , objectives and risks of the organisation**
- **is appropriately positioned and adequately resourced**
- **demonstrates quality and continuous improvement**
- **communicates effectively**
- **provides risk-based assurance**
- **is insightful, proactive and future-focused**
- **promotes organisational improvement.**

With regard to the application of these Standards only, the Council's 'Audit Committee' takes the role of the 'board' and 'Corporate Management Team', that of 'senior management'.

In accordance with the Standards, Internal Audit is subject to a quality assurance and improvement regime. This consists of an annual self assessment of the service against the Standards, ongoing performance monitoring **of individual reviews** and an external assessment at least every five years by a suitably qualified, independent assessor. The results of all of this activity are reported to the Corporate Management Team and the Audit Committee, along with details of any instances of non-conformance. Where non-conformance is considered significant, this will also be included within the Council's Annual Governance Statement.

## **Appendix 1: Internal Audit Charter**

The Accounts and Audit Regulations 2015 require local authorities to produce an Annual Governance Statement in accordance with proper practices. CIPFA's Delivering Good Governance guidance has been given 'proper practice' status by the Department for Communities and Local Government for this purpose. Therefore, the Head of Internal Audit aims to comply with the CIPFA Statement on The Role of the Head of Internal Audit in Public Service Organisations 2010, wherever possible, as required by the guidance.

### **Internal Audit Resources**

It is a requirement that Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and maintain their professional competence through an appropriate ongoing development programme.

The Head of Internal Audit is responsible for appointing the staff of the Internal Audit Service in conjunction with the Head of Finance & Resources and the Strategic Director, Transformation & Resources (Castle Point Borough Council) and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills.

In addition to in-house audit staff, the Head of Internal Audit may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

The Head of Internal Audit is responsible for ensuring that the resources of the Internal Audit Service are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby she concluded that resources were insufficient, she must formally report this to the Corporate Director for Corporate Services and, if the position is not resolved, to the Audit Committee.

The Internal Audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.

### **Fraud and Corruption**

Managing the risk of fraud and corruption is the responsibility of management not Internal Audit. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption. The joint Counter Fraud & Investigation Directorate (the Directorate), a public authorities collaboration hosted at Thurrock Council and Southend-on-Sea Borough Council will investigate allegations of fraud and corruption in line with the Council's Anti Fraud and Corruption Strategy. The Internal Audit Service will work collaboratively with the Directorate where necessary to ensure system or process weaknesses identified during investigations are addressed.

The Head of Internal Audit must also be informed of all suspected or detected cases of fraud, corruption, bribery or impropriety in order to consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for the annual opinion on the control environment.



## Internal Audit Strategy

Subject to annual review by Head of Internal Audit

Reported to Corporate Management Team and Audit Committee March 2016

## Appendix 2: Internal Audit Strategy

### Introduction

The Internal Audit Charter sets out the service objective for Internal Audit, which is to provide an annual opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes, designed to deliver its Aims and Priorities.

This Strategy sets out how the service will be delivered and developed in accordance with the Charter and how it links to the delivery of the Council's Aims and Priorities.

### Code of Ethics

All internal auditors working for the Council will comply with:

- the Code of Ethics contained within the UK Public Sector Internal Audit Standards (the Standards) which define:
  - principles that are relevant to the profession and practice of internal auditing
  - rules of conduct that describe behaviour norms expected of internal auditors.
- the ethical standards of any professional body they are members of
- the Nolan Committee's *Seven Principles of Public Life* as defined in the Local Code of Governance.

The four key principles they will adopt are as follows:

- The **integrity** of internal auditors establishes trust and this provides the basis for reliance on their judgement.
- Internal auditors:
  - exhibit the highest level of professional **objectivity** in gathering, evaluating and communicating information about the activity or process being examined
  - make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
- Internal auditors respect the value and ownership of information they receive and do not disclose information (**confidentiality**) without appropriate authority unless there is a legal or professional obligation to do so.
- Internal auditors apply the knowledge, skills and experience (**competency**) needed in the performance of internal auditing services.

Inappropriate disclosure of information or breaches of the Code of Ethics by internal auditors could be a disciplinary offence.

All staff working on the Council's audit will be required to sign an Ethical Governance Statement. In house staff will be required to declare any interests prior to starting an audit and to formally update their statement as part of their six monthly appraisal meetings.

## **Appendix 2: Internal Audit Strategy**

### **Basis for Annual Audit Opinion**

In summary, the audit opinion will be based upon an assessment of:

- the design and operation of the key processes operated by the Council in order to manage its business (e.g. governance arrangements)
- the range of individual opinions arising from risk-based and other audit assignments delivered during the year (e.g. service activities and financial systems)
- an assessment of how robustly actions agreed are implemented and whether this is achieved in a timely manner
- the outcome of any other relevant work undertaken (whether internally or externally) where independence assurance is provided about the operation or performance of a service / system.

### **Audit Approach**

The audit approach is designed to provide the Council with assurance that its risk management, control and governance processes are robust enough to ensure its Aims and Priorities will be delivered.

It also takes into account, where applicable, of the need for the Council to gain assurance that any partnership or other agreement to which it is party, is also operating successfully to achieve this end.

The framework used for evaluating the Council's governance, risk management and control arrangements (as required by the Standards) is set out below.

### **Governance**

Over a suitable period, an assessment will be made of the adequacy of governance process in accomplishing the following objectives:

- promoting appropriate ethics and values within the Council
- ensuring effective organisational performance management and accountability
- communicating risk and control information to appropriate areas of the Council
- co-ordinating the activities of, and communicating information among, the Audit Committee, external and internal auditors and management.

In doing this, Internal Audit will:

- evaluate the design, implementation and effectiveness of ethics-related objectives, programme and activities
- assess whether the information technology governance supports the delivery of the Council's Aims and Priorities.

### **Risk Management**

In determining how effective risk management arrangements are, assessments will be made of whether:

## **Appendix 2: Internal Audit Strategy**

- the Council's Aims and Priorities support and align with its mission
- significant risks are identified and assessed
- appropriate risk responses are selected that align risks with the Council's risk appetite
- relevant risk information is captured and communicated in a timely manner across the Council, enabling staff, management and the Audit Committee to carry out their responsibilities.

This information will be gathered from many sources including audit assignments undertaken each year.

Risk exposures relating to governance, operations and information systems will also be evaluated regarding the:

- achievement of the Council's strategic Aims and Priorities
- reliability and integrity of financial and operational information
- effectiveness and efficiency of operations and programmes
- safeguarding of assets
- compliance with laws, regulations, policies, procedures and contracts.

Internal Audit will also evaluate the potential for the occurrence of fraud, corruption, bribery, theft or financial irregularities and how the Council manages these risks.

### **Control**

An evaluation will be made of the adequacy, effectiveness and efficiency of controls in responding to risks within the Council's governance, operations and information systems (taking into account the same areas outlined in the bullet points in the risk exposures paragraph above).

### **Types of Assurance Provided**

Audit assignments will apply one or a combination of approaches which include assessing:

- the adequacy of system design
- whether key controls within a system, process or service are operating effectively
- whether outcomes from systems, processes or services are in line with expectations.

Internal Audit will make recommendations for improving any services, systems or processes audited with a view to promoting continuous improvement.

Any knowledge gained from consultancy engagements will be incorporated into the evaluation of the Council's governance, risk or control processes.

### **Limitations**

Internal Audit will not:

- assume management responsibilities



## Appendix 2: Internal Audit Strategy

- control the risks of the Council
- establish and maintain any systems of internal control
- determine operational policies or procedures
- necessarily detect fraud, corruption, bribery, theft or financial irregularities as part of its work as management is responsible for mitigating these risks.

### Risk Assessment

A risk based approach will be used to identify areas for review, which takes into account the risk maturity of the Council. The risk assessment will be based upon professional judgement but be informed by:

- key corporate and service level documents (e.g. plans and risk registers)
- regular discussions with the Chief Executive and Corporate Directors
- at least annual discussions with all Heads of **Service and periodic discussions with Group Managers as required**
- the work of the Good Governance Group
- the audit risk assessment
- horizon scanning to establish potential new risks that may materialise during the year
- **outcomes from other relevant, independent audits, inspections or work undertaken.**

An audit risk assessment will be maintained which includes all service activities **as well as key financial systems** and business management processes. This helps identify activities that:

- **are 'higher risk' because, for example, they are inherently complex, material or susceptible to fraud but well controlled**
- **will not be audited unless a specific, one off risk arises or their general risk profiles increases.**

**It is more important, for higher risk activities, that management obtain periodic, independent evidence that the controls remain appropriate and are consistently applied. A significant control failure in these areas could have a serious impact on the Council's ability to deliver its services and overall aims, priorities and objectives.**

In assessing the level of assurance required and **therefore the priority attached to each Council service**, account will be taken of:

- financial risk
- public related risks (including satisfaction and reputational)
- operational risks (including importance in delivering corporate **aims, priorities and objectives**)
- legal and political risks
- people and property risks (including health & safety and safeguarding)
- inherent risk (including that of fraud).

## Appendix 2: Internal Audit Strategy

The audit risk assessment will be discussed at least annually with the Chief Executive, Corporate Directors and Heads of Service. **An annual assessment will be made with the Head of Finance & Resources as to whether any assurance is required regarding key financial systems to support the production of the financial statements.**








Internal Audit will decide which action plans to revisit on a risk basis. Where it is determined that further work is required to ensure agreed actions have been properly implemented, this will involve re-testing to ensure this is the case and the strengthened control arrangements are firmly established in the day to day running of the service.

Finally, Internal Audit will contribute to the School Support and Improvement Board's risk assessment of schools. This will be used to help develop this programme of work.

### Assurance Framework

Before producing the Audit Plan, an assessment will be made of the evidence already available regarding the operation of individual services and the management of their related risks or the Council's governance arrangements. This evidence will be recorded as part of the audit risk assessment documentation. As part of planning the audit, the value of this evidence will be evaluated by assessing:

- what risks and controls such assurance covers
- at what stage in the process it takes effect (see Three Lines of Defence model outlined below) and therefore how quickly it would mitigate the risk
- how reliable it is, which is likely to include some re-performance work to confirm the validity of the findings before it is relied upon for audit purposes.

1	The first level of the control is the <b>service level business operations</b> which perform day to day risk management activity (including supervision and review) and operate sound systems and processes.		Corporate Management Team and Audit Committee
	 		
2	<b>Departmental or corporate oversight functions</b> such as Management Teams, Groups, Finance and HR are the second line of defence as they set the direction for services / define policy and provide assurance over its implementation.		
	 		
3	<b>Internal and external audit and external inspectors / assessors</b> are the third line of defence, offering <b>independent</b> challenge to the levels of assurance provided by business operations and oversight functions.		

## Appendix 2: Internal Audit Strategy

### Audit Plan

A programme of audits will be agreed with senior management based on the assessment of risk outlined above. The Audit Plan will:

- mainly focus on risk based reviews that assess how well core services are being delivered
- include time for:
  - some work on:
    - the Council's arrangements for managing its business
    - key financial systems
    - grant claims
    - checking that action plans have been implemented
    - providing advice and support.
  - audit planning, managing audit plan delivery which includes managing contractors and reporting.

Therefore the Audit Plan, attached at **Appendix 2a**, reflects the results of the risk assessment and the information gathered about the Council's assurance framework. It shows how the work will provide evidence that risks relating to the delivery of the corporate aims are being managed effectively. **Appendix 2b** maps audit work against corporate risks.

A contingency budget has been built into the Audit Plan. Nevertheless any risks that arise during the year will be considered against the risk profile of the work already planned before a review is deleted and replaced by a new audit.

Consultancy engagements, if accepted in year, will also be included in the Audit Plan.

Changes to the Audit Plan will be reported to senior management and the Audit Committee for review and approval.

Fraud and corruption risks will be considered when determining the focus of each relevant audit. Any investigations into fraud, corruption, bribery, theft or financial irregularities that arise will be undertaken by the Counter Fraud and Investigation Directorate (the Directorate). However the Internal Audit team will continue to work closely with the Directorate to ensure an effective and integrated service is provided.

### Resources

**Southend-on-Sea Borough Council and Castle Point Borough Council have an Internal Audit Joint Working Agreement to use their combined internal audit resources to provide a service to both councils.** The core team is then supplemented as required, by resources obtained via a framework contract with an external supplier. **This service is managed by a jointly appointed Head of Internal Audit.**

## Appendix 2: Internal Audit Strategy

The strategy will be to continue with this mixed economy approach to resourcing the service as long as costs remain competitive, productivity is high and quality standards are met as measured by delivery of the agreed performance indicators.

A staff resource needs assessment will be maintained to calculate the overall capacity of the service. It will take into account the extent to which resources need to be bought in to cover vacancies or provide specialist skills.

**Once the service review has been completed, the resource needs assessment will be updated to calculate the number of audit days available in 2016/17. The impact of this on the Audit Plan will then be reviewed and it will be revised accordingly. A view will also be given as to the level of assurance that can be given over a three year period at this resource level.**

Work will be allocated to staff with the appropriate skills, experience and competence to complete it. Where the Head of Internal Audit is responsible for an area being audited, arrangements will be made for the work to be overseen by an appropriately qualified person from outside the service.

**Job profiles will be updated during 2016/17, if capacity allows, to bring them in line with current professional requirements.**

Staff will not be allowed to audit the same area for more than three consecutive years thus preventing over-familiarity and complacency that could influence objectivity.

### Training and Development

Staff development needs will be continually assessed and fed into the service's training plan to ensure that appropriate skills are available to deliver the Strategy. Consideration will also be given to the need for staff to meet mandatory continued professional development requirements.

Staff will maintain individual training logs that satisfy relevant professional standards. These will be reviewed by line managers at least every six months as part of the corporate performance appraisal process.

Opportunities to purchase tailored training with other organisations will continue to be explored.

### Service Performance Indicators

The performance indicators being proposed are cover economy, staff productivity, efficiency and effectiveness and consist of.

- delivering **100%** of the Audit Plan by the **30 April**
- delivering 75% of total available staff days on delivering the Audit Plan
- losing less than five days per full time equivalent due to sickness absence
- operating in the manner set out in the Standards at team and individual audit level as evidenced by the annual internal and five yearly external performance assessments

## Appendix 2: Internal Audit Strategy

- **getting a xx% (to be confirmed) assessment from stakeholders of compliance with the Standards regarding aspects of planning and performing the audit, communicating the results and adding value**
- discharging the duties set out in the CIPFA Statement on the Head of Internal Audit role, wherever possible
- demonstrating periodically that the cost of the service is competitive.

**The results of the stakeholder surveys will be analysed so that themes can be identified and action taken to improve the service where required.**

Performance against targets set will be reported to senior management and the Audit Committee each quarter.

### Service Risk Register

Internal Audit will maintain a service risk register that supports the delivery of this Strategy. This will be reviewed and reported upon periodically in the quarterly performance reports to management.

### Delivering Audit Assignments

An audit manual will be maintained that guides staff in the performance of their duties. It will be reviewed regularly to reflect changes in working practices and standards. This will ensure that auditors obtain and record sufficient evidence to support their conclusions, professional judgements and recommendations. The standard of files will be such that an experienced auditor, with no previous connection with the audit, will be able to ascertain what work was performed, re-perform it if necessary and support the conclusions reached.

The service will adhere to the Council's clear desk policy with regard to client information and audit files.

Audit files will be retained in accordance with the Council's file retention and disposal policy.

Generally audit files and records are confidential. They will only be shared with the service being audited and external audit. If wider distribution is required, permission must first be obtained from the Head of Internal Audit.

### How We Will Work With You

**Appendix 2c** sets out how the service will work with key officers and groups within the Council, which includes details of who will receive key documents and reports.

Internal Audit will liaise with senior management regarding the timing of individual assignments wherever possible.

Terms of Reference and Draft Reports will be discussed and agreed **as being factually correct** with Group Managers and Heads of Service before being sent to Corporate Directors / Director to be **finalised**.

Distribution lists are contained on the front of each report and are agreed in principle, with senior management.

## Appendix 2: Internal Audit Strategy

Internal Audit reports contain a disclosure stating they should not be shared with anyone else without the permission of the Head of Internal Audit.

Audit reports will generally be designed to:

- give an opinion on the risk and controls in the area under review
- **set out the issues arising, detail the action management is going to take to address them and note appropriate delivery dates.**

Those weaknesses giving rise to significant risks that are not agreed will be brought to the attention of senior management and if necessary the Audit Committee.

The Head of Internal Audit Annual Report will include:

- an annual opinion on the adequacy and effectiveness of the Council's governance, risk management and control framework
- a summary of work completed
- a statement of conformance with the Standards and the results of the Quality Assurance and Improvement Programme
- a comparison of actual work completed compared to what was planned as well as performance against its targets
- issues relevant to the preparation of the Annual Governance Statement
- progress in dealing with issues arising from any external performance assessment.

### Audit Committee

To support the work of the Audit Committee, Internal Audit will:

- support the development of agendas and attend meetings
- facilitate the Committee's review of its own remit and effectiveness, if required
- help identify any training needs and work with others to ensure that these are met.

### External Audit

Internal Audit will maintain an appropriate working relationship with the Council's external auditors, sharing documentation and reports as required to support the audit of the financial statements and any other work undertaken.

### Partners

Internal Audit will continue to explore opportunities to work effectively with internal audit services of partner organisations where this is beneficial. It will continue to look to make best use of joint audit resources as well as provide opportunities to share learning and good practice.

## **Appendix 2: Internal Audit Strategy**

### **Quality Assurance and Improvement Programme**

The service will maintain a quality assurance and improvement programme that covers all aspects of internal audit activity. The internal assessment will reflect feedback obtained from:

- ongoing supervision and review of individual assignments
- staff performance assessment forms covering blocks of work as well as stakeholder surveys
- regular monitoring of service delivery via agreed performance targets
- an annual self assessment of compliance with relevant professional standards
- a periodic assessment of compliance with the CIPFA statement on the Role of the Head of Internal Audit in Local Government.

Opportunities for peer reviews or independent challenge of the internal self assessment will continue to be proactively explored.

An external assessment will be conducted at least every five years by a qualified, independent assessor from outside the Council / service. The Head of Internal Audit will discuss and agree with senior management and the Audit Committee the:

- form of external assessment
- qualification and independence of the external assessor including any potential conflict of interest risks
- person who will act as the internal sponsor for this process.

The results of the quality assurance programme will be reported upon in the Head of Internal Audit's Annual Report and progress made against any improvement plans will be reported to senior management and the Audit Committee.

### **Appendices**

- **Appendix 2a: Internal Audit Plan for 2016/17**
- **Appendix 2b: Audits Planned linked to Corporate Risks Statement**
- **Appendix 2c: How We Will Work With You Statement**

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## Appendix 2a: Internal Audit Plan 2016/17

Dept	Service Activity	Est spend / income*	Fraud risk	Focus of the Audit
<b>Managing the Business</b>				
<b>All Aims</b>				
CS	Departmental Contract Management Arrangements	*		To assess whether the departmental contract monitoring arrangements ensure they are properly let and robustly managed.
PL	Departmental Contract Management Arrangements	*		
<b>Managing Service Delivery Risks</b>				
<b>Safe</b>				
PE	Adult and Children Services Replacement Case Management System			To assess whether the replacement IT system for CareFirst, the Children's and Adult Service case management system, is implemented, properly by the planned go live date.
PE	Direct Payments, Financial Monitoring	*	√	To assess whether there are robust financial monitoring arrangements in place to ensure payments made directly to clients (not via Vibrance the Council's contract provider) are used to meet the assessed eligible needs and outcomes identified in Care Support Plans.
PE	Adult Social Care Independent File Review			To assess whether there is robust management review of adult social care files to ensure they met all required statutory and good practice requirements.
PE	Safeguarding Child Sexual Exploitation Action Plan			To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.
PE	Safeguarding Peer Review Action Plan			To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.

## Appendix 2a: Internal Audit Plan 2016/17

Dept	Service Activity	Est spend / income*	Fraud risk	Focus of the Audit
PE	Social Care Payments to Individuals and Providers	£9.7M	√	To assess the robustness of the arrangements to ensure accurate social care payments are made covering one or more of the following: <ul style="list-style-type: none"> <li>Residential care including Dynamic Purchasing system (Sprock)</li> <li>Direct payments</li> <li>Home care</li> <li>Children's care.</li> </ul>
<i>Implementing Action Plans</i>				
PE	Direct Payments, Mental Health	*		To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.
PL	Licensing	£474k (income)		
PE	Safeguarding: Serious Case Review Action Plan Implementation			
PL	Traffic Regulation Orders			
<b>Clean</b>				
PL	Essex Waste Partnership	*		To review the management of the Partnership Agreement with Essex County Council for the use of the Mechanical and Biological Treatment Plant (MBT).
PL	Recycling, Waste and Street Cleansing Services Contract Management	£7M	√	To assess whether the Recycling, Waste and Street Cleansing Services contract is being effectively managed.
<b>Healthy</b>				
PE	Drug and Alcohol Team	£2.8M		To evaluate the clarity and understanding of its objectives, role and reporting lines.
PL	Leisure Services (Fusion) Contract Management	£300k (Income)	√	To assess whether the Leisure contract is being effectively managed.

## Appendix 2a: Internal Audit Plan 2016/17

Dept	Service Activity	Est spend / income*	Fraud risk	Focus of the Audit
PE	Pioneer Programme Board			To map how the Pioneer Programme Board operates, including: <ul style="list-style-type: none"> <li>its work streams and management of specific Council risks</li> <li>its governance structure and reporting</li> <li>the link with the Better Care Fund's Section 75 Agreement</li> <li>how the joint commissioning team fits in.</li> </ul>
			To be determined	To be determined once assurance mapping exercise is completed.
<i>Implementing Action Plans</i>				
PE	Family Mosaic Contract Management	£865K		To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.
PE	Ofsted Inspections of Children's Social Care Services and Schools			
PE	Reablement	*		
PL	The Forum Governance Arrangements	£4M (library spend)		
<b>Prosperous</b>				
CS	Airport Business Park	£10M (over 4 years)		To assess whether robust arrangements are in place to provide independent assurance regarding the future performance of the project.
PE	Better Start Early Years (Big Lottery Grant over 10 years)	£40M		To assess the adequacy of the governance arrangements, specifically relating to: <ul style="list-style-type: none"> <li>clarity of deliverables</li> <li>risks to the Council</li> <li>roles and responsibilities</li> <li>accountability for delivering grant terms and conditions.</li> </ul>
PE	Corporate Procurement Team,	*	√ 137	To assess whether it operates in accordance with recognised professional standards and its own procedures by

## Appendix 2a: Internal Audit Plan 2016/17

Dept	Service Activity	Est spend / income*	Fraud risk	Focus of the Audit
	Contract Letting			reviewing some contracts let by the team.
PE	Corporate Procurement Team, Procure to Pay (P2P)			To assess the effectiveness of the new arrangements introduced by the Corporate Procurement team to monitor compliance with P2P requirements.
PL	Highways Contract Management	£9.7M	√	To assess whether the highways block of contracts are being effectively managed.
PE	Housing Allocations		√	To assess whether the Allocations Policy reflects good practice and is properly and consistently applied.
CS PE	Better Queensway	£1.5M (2016/7 spend)		To assess whether robust arrangements are in place to provide independent assurance regarding the future performance of the project.
PE	"P" Cards	£2M	√	To assess the robustness of arrangements for: <ul style="list-style-type: none"> <li>• issuing cards</li> <li>• monitoring and post authorising the spend.</li> </ul>
CS	Right to Buy	£4M (sale values p.a.)	√	To assess whether the legal aspects of the transaction are processed properly and other Council services are notified of and amend their records accordingly.  (This links to a review of the front end of the process at South Essex Homes)
<i>Implementing Action Plans</i>				
PE	Southend Adult College			To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.
<b>Excellent</b>				
PL	Works Contracts (to be selected)	*	√	To assess whether contracts are let properly and or effectively managed.
<b>All Aims</b>				
CS	Recruitment Contract Management	£3.5M (annual spend)	√	To assess whether the Recruitment contract is being effectively managed for both permanent and temporary

## Appendix 2a: Internal Audit Plan 2016/17

Dept	Service Activity	Est spend / income*	Fraud risk	Focus of the Audit
				recruitment.

CS	Cyber Security		√	To assess the effectiveness of arrangements in place to protect the Council from cyber attacks and other online vulnerabilities.
CS	Individual Electoral Registration		√	To confirm that appropriate verification procedures have been applied when implementing Individual Electoral Registration.
CS	Leases and Licences	*	√	To assess whether lease and license records are complete, reviewed in a timely manner and all income due is collected.
CS	IT Systems and Network Access Controls		√	To assess the effectiveness of controls in place to restrict access to important Council system and network functions.

### *Implementing Action Plans*

CS	Cleaning Services Contract Management	£384K		To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.
CS	Third Party Hosting			
CS	Welfare Reform			

### Key Financial Systems

#### All Aims

CS	Accounts Payable	£334M	√	To assess whether the key controls in each of the key financial systems effectively prevent or detect material errors on a timely basis to ensure that the financial statements are not materially incorrect.  <i>Approach to this work is still to be confirmed.</i>  To use computer-assisted audit techniques (CAATs) to automate audit testing and allow for a deeper analysis of large data
	Accounts Receivable:			
CS	• General Debtors	£5.2M (o/s debt)		
PE	• Social Care Debtors	£5.1M (o/s debt)		
CS	Business Rates	£49M		

## Appendix 2a: Internal Audit Plan 2016/17

Dept	Service Activity	Est spend / income*	Fraud risk	Focus of the Audit
CS	Council Tax	£83M		sets.
CS	General Ledger			
CS	Housing Benefit	£91M		
CS	Income Receipting and Banking			
CS	Payroll	£129M (annual turnover)		
CS	Treasury Management	£85M (investment funds)		
CS	Payroll Improvement Project	See above		To provide 'an independent challenge' as the controls within the new 'Milestone 4' Agresso module are being developed and implemented.
<b>Grant Claims</b>				
PL	Coastal Communities Fund	£67k		To certify, in all significant respects, that the conditions attached to the grant have been complied with.
PL	Kent Elms Grant	£3.8M		
PL	Local Transport Plan Grants	£2.6M		
PE	Transforming Care Housing Grant	£165k		
PE	Troubled Families Intervention	£648K		To challenge Troubled Families Grant returns in line with Department for Communities and Local Government requirements.
<b>Schools Audit Programme</b>				
<b>Prosperous</b>				
PE	Schools Audit Programme		√	To assess whether individual schools have adequate and effective governance, information and asset management as well as financial management and reporting

## Appendix 2a: Internal Audit Plan 2016/17

Dept	Service Activity	Est spend / income*	Fraud risk	Focus of the Audit
				arrangements in place, OR,  To assess whether robust arrangements are in place to effectively manage the business of the school and specifically its finances, so that good quality education is provided to the community.
PE	Virtual School			The robustness of the processes in place which ensure Looked After Children achieve the outcomes in their Personal Education Plans.
PE	Revisiting previous audit reports			To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the school.
<b>Advice and Support</b>				
<b>All Aims</b>				
	Agresso Review Group			To provide independent review, support and challenge to assist with the delivery of the groups' objectives and work programme.
	External Grant Funding Group			
	Fuel Cards			
	Good Governance Group			
	Schools Support and Improvement Board			
	Contingency			To be allocated during the year
<b>Managing Delivery of the Audit Plan</b>				
This includes audit planning, resourcing, managing contractor work, reporting to Corporate Management Team and Audit Committee.				

## Appendix 2a: Internal Audit Plan 2016/17

<b>Dept</b>	<b>Service Activity</b>	<b>Est spend / income*</b>	<b>Fraud risk</b>	<b>Focus of the Audit</b>
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\* As the work is undertaken, the estimated spend or income processed by the systems / activities (if not listed here) will be noted in the plan / terms of reference and reports. This is to help management and the Audit Committee to evaluate the level of risk if poor performance is reported and assurance provided if a good audit opinion is given.



## Appendix 2a: Internal Audit Plan 2016/17

Risk Watch List	
PL	Car Parking Contract: Income collection element
All	Civica: Use of the system
PL	Community Safety Partnership: Reporting of Domestic Homicide Reviews
All	Contract Letting and Management: Select another sample of contracts to review
CS	Debt Management: Follow up work from 2016/17 corporate project
PE	Drug and Alcohol Team: Contract letting and management
PE	Dynamic Purchasing System: New arrangements if current system is replaced
PE	Homelessness: Application of policy / strategy once refreshed and service restructured
CS	IT Data Centre (2017/18 Audit) : To evaluate whether the Council's newly developed IT Server Room complies with industry good practice (£1.4M)
CS	IT Disaster Recovery: Once new arrangements are in place
PE	Local Authority Trading Company for Strategic Housing and Day Care: Governance arrangements once established
PE	Children Services Multi Agency Risk Assessment Team: Is it fit for purpose and meet all statutory requirements
PE	Adult Mental Health Services: Risks attached to the results of the Pan-Essex review to scope a joint commissioning arrangement for mental health across Thurrock, Essex County Council and the Council
All	Project Assurance: Select other projects to review
All	Risk Management: Follow up work from 2016/17 review of service plan risk registers and risks in a sample of projects
CS	Smart City Project: Governance arrangements- £13M

These are other potential audits that may be considered for inclusion in the Audit Plan during the year should resources permit.

## Appendix 2a: Internal Audit Plan 2016/17

<b>Resources Allocation</b>	
<b>Audit Activities</b>	<b>% of total resource available</b>
<b>Managing the Business*</b>	3%
<b>Managing Service Delivery Risks*</b>	60%
<b>Key Financial Systems*</b>	13%
<b>Grant Claims</b>	4%
<b>Advice and Support</b>	2%
<b>General Contingency</b>	12%
<b>Managing Delivery of the Audit Plan</b>	6%
<b>Total Council Audit Plan Days (estimate)</b>	1,000

\* Includes any work to revisit and retest action plans from previous reports

The schools work programme will be reported separately once it has been finalised.

<b>Analysis Over Departments</b>		
<b>CS</b>	Corporate Services	29%
<b>PE</b>	People	41%
<b>PL</b>	Place	21%
<b>PH</b>	Public Health	0%
<b>ALL</b>	Cross Cutting	9%

## Appendix 2b: Audits Planned linked to Corporate Risks Statement

	Corporate Risk 2015/16	Audit work providing assurance in 2016/17	
145	<b>1    Balanced Budget for 2016-19</b> Note: All audit work could identify financial issues.	Departmental Contract Management Arrangements Corporate Services and Place	Direct Payments, Financial Monitoring
		Social Care Payments to Individuals and Providers	Direct Payments, Mental Health
		Licensing	Traffic Regulation Orders
		Leisure Services (Fusion) Contract Management	Family Mosaic Contract Management
		Corporate Procurement Team: Contract Letting, Procure to Pay, "P" Cards	Leases and Licences
		Cleaning Services Contract Management	Welfare Reform
		All Grant Claims Audited	
<b>2</b>	<b>Recruiting and Retaining Staff</b>	Recruitment Contract Management	
<b>3</b>	<b>Partnership Arrangements</b>	Drug and Alcohol Team	The Forum Governance Arrangements
		Safeguarding Child Sexual Exploitation Action Plan	Safeguarding Serious Case Review Action Plan Implementation
<b>4</b>	<b>Housing Policy and Local Infrastructure</b>	No work planned	
<b>5</b>	<b>Alternative Service Delivery Models</b>	Essex Waste Partnership	Recycling, Waste and Street Cleansing Services Contract Management

## Appendix 2b: Audits Planned linked to Corporate Risks Statement

	Corporate Risk 2015/16	Audit work providing assurance in 2016/17	
6	<b>Health and Social Care Integration</b>	Pioneer Programme Board	Better Start Early Years
7	<b>Contract Price Inflation</b>	Highways contract management	Works contracts
8	<b>Education and Skills</b>	Southend Adult College	Schools Audit Programme
9	<b>Surface Water Flooding</b>	No work planned	
10	<b>Seafront Cliff Movement</b>	No work planned	
11 <sup>146</sup>	<b>Ofsted Joint Inspection</b>	Ofsted Inspections of Children's Social Care Services and Schools	Safeguarding Peer Review Action Plan
12	<b>Department for Transport Challenge Fund</b>	No work planned	

# How We Will Work With You Statement

Internal Audit	Headteachers & Chair of Governors (Re Schools Audits)	Relevant Head of Service(s) (see note 1 below)	Relevant Corporate Director(s) / Director (see note 2 below)	Chief Executive (Head of Paid Service)	Head of Finance & Resources (Section 151 Officer)	Corporate Management Team (see note 1 below)	Audit Committee	
Charter, Strategy, Audit Plan	Set out in annual Schools Brochure	Discuss risk assessment	Discuss risk assessment	Discuss risk assessment		Agree	Approve	
Terms of Reference for audits	Notify when selected for an audit	Discuss draft Finalise with	Finalise with	Copy draft		Report proposed changes to the Audit Plan quarterly		
Detailed audit work	Discuss findings on an ongoing basis		Brief if issues of concern arise during the review					
Individual audit reports	Discuss draft Finalise with  (cc to relevant Head of Service & Corporate Director)	Discuss draft Finalise with	Finalise with	Copy final				

## How We Will Work With You Statement

<b>Internal Audit</b>	<b>Headteachers &amp; Chair of Governors</b> (Re Schools Audits)	<b>Relevant Head of Service(s)</b> (see note 1 below)	<b>Relevant Corporate Director(s) / Director</b> (see note 2 below)	<b>Chief Executive</b> (Head of Paid Service)	<b>Head of Finance &amp; Resources</b> (Section 151 Officer)	<b>Corporate Management Team</b> (see note 1 below)	<b>Audit Committee</b>
Audit report action plans <span style="writing-mode: vertical-rl; transform: rotate(180deg); font-size: small;">148</span>	<b>Officers: Monitor all action plans and sign off reports with High or Satisfactory assurance</b>  <b>IA: Re-audit action plans with Partial or Minimal assurance once all implementation dates have passed</b>  <b>IA: Produce and discuss / finalise report and agree an updated action plan if required</b>  (cc to relevant Head of Service & Corporate Director)			<b>IA: Copy final feedback report if one is produced</b>		<b>Consider then note the results of both IA work and management sign off of reports as part of IA's Quarterly Performance Report</b>	
Quarterly Performance Reports	Discuss audit findings insert				Copy draft	Consider then note the report	
Annual Report				Discuss the draft if necessary	Copy draft	Consider then accept the Head of Internal Audit Annual Report	

**Note 1** These groups include the Council's Monitoring Officer

**Note 2** Regular briefings are held with all the Corporate Directors / Director and the Chief Executive