

Public Document Pack
SOUTHEND-ON-SEA BOROUGH COUNCIL

Audit Committee

Date: Wednesday, 21st September, 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 29th June 2016** (Pages 1 - 4)
- 4 Local code of Governance Review** (Pages 5 - 68)
Report of Chief Executive & Town Clerk
- 5 BDO Report to the Audit Committee 2015-16**
Report of Corporate Director for Corporate Services
- 6 Statutory Statement of Accounts 2015-16**
Report of Corporate Director for Corporate Services
- 7 BDO Progress Report to Those Charged with Governance** (Pages 69 - 76)
Report of Corporate Director for Corporate Services
- 8 IA Quarterly Performance Report** (Pages 77 - 96)
Report of Corporate Director for Corporate Services
- 9 CF&ID Quarterly Performance Report** (Pages 97 - 114)
Report of Corporate Director for Corporate Services
- 10 AC Terms of Reference** (Pages 115 - 122)
Report of Corporate Director for Corporate Services

Information Items

- Audit Committee Update, Helping Audit Committees to be Effective, Issue 20: CIPFA Survey on Audit Committees
- CIPFA Better Governance Forum;
 - Delivering Good governance Framework
 - Delivering Good Governance Briefing Note
 - Delivering Good Governance Guidance Notes
- Code of Practice – Managing the Risk of Fraud and Corruption
- Fighting Fraud and Corruption Locally the Strategy – 2016
- PKF Fraud Indicator Report

Members:

Cllr B Ayling, Cllr S Buckley (Vice-Chair), Cllr M Davidson (Chair), Cllr C Nevin, Cllr A Bright, Cllr D Garston, Cllr M Stafford, Cllr J Moyies and Cllr J Ware-Lane

SOUTHEND-ON-SEA BOROUGH COUNCIL

Meeting of Audit Committee

Date: Wednesday, 29th June, 2016
Place: Committee Room 1 - Civic Suite

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- Present:** Councillor M Davidson (Chair)
Councillors S Buckley (Vice-Chair), B Ayling, Bright, D Garston, Moyies, C Nevin and Ware-Lane
- In Attendance:** S Holland, J Chesterton, C Gamble, T MacGregor, V Dewsbury, L Everard, E Allen, J Denham, D Bonner (Mazars), D Joyce (South Essex Homes), D Lincoln (South Essex Homes) and A Langridge (BDO)
- Start/End Time:** 6.30 - 8.25 pm

72 Apologies for Absence

Apologies for absence were received from Councillor Stafford.

73 Declarations of Interest

The following interests were declared at the meeting:

(a) Councillor Davidson – Agenda Item No. 5 (South Essex Homes: Annual Governance Statement 2015/16 and supporting reports) – Disclosable Non-pecuniary interest: Member of the South Essex Homes Board (withdrew) – (The chair for this item was taken by the Vice-Chairman, Cllr Buckley);

(b) Councillor Ware-Lane – Agenda Item No. 5 (South Essex Homes: Annual Governance Statement 2015/16 and supporting reports) – Non-pecuniary interest: Daughter is an employee of South Essex Homes.

74 Minutes of the Meeting held on 30th March 2016

Resolved:-

That the Minutes of the Meeting held on 30th March 2016 be confirmed as a correct record and signed.

75 Housing Benefit

Pursuant to the decision taken at the last meeting of the Committee, Members received a presentation given by Veronica Dewsbury, Housing Benefit Manager, on housing benefit administration.

The Committee asked a number of questions which were responded to by officers.

Arising from the presentation, the Head of Finance and Resources undertook to prepare a report to a future meeting of the Committee on debt management across the Authority.

(Councillor Buckley in the Chair)

76 South Essex Homes: Annual Governance Statement 2015/16 and Supporting Reports

The Committee considered a report of the Corporate Director for People presenting South Essex Homes' Annual Governance Statement and supporting reports.

The Committee asked a number of questions which were responded to by officers.

On consideration of the report, reference was made to the reduction in the number of Southend Councillors on the board of South Essex Homes from four to three representatives. Members of the Committee asked for clarification as to who took this decision and when it was taken.

Resolved:-

That the assurance provided by South Essex Homes regarding the operation of its risk management, control and governance arrangements throughout 2015/16, be accepted.

(Councillor Davidson in the Chair)

77 Internal Audit Services, Quarterly Performance Report

The Committee considered a report of the Corporate Director for Corporate Services presenting the results of the audit reviews completed since the last meeting of the committee.

The Committee asked a number of questions which were responded to by officers.

Resolved:-

That the assurance provided by the audit work completed this quarter, be noted.

78 Head of Internal Audit Annual Report 2015/16

The Committee considered a report of the Corporate Director for Corporate Services providing the following for the 2015/16 financial year:

- The rationale for and an audit opinion on the adequacy and effectiveness of Southend-on-Sea Borough Council's (the Council's) risk management, control and governance processes.

- A statement on conformance with the UK Public Sector Internal Audit Standards (the Standards) and the results of the Quality Assurance and Improvement Programme.

Resolved:-

That the Head of Internal Audit's Annual Report for 2015/16, be accepted.

79 Annual Governance Statement 2015/16

The Committee considered a report of the Chief Executive & Town Clerk presenting the Annual Governance Statement for 2015/16 together with actions for 2016/17 and an update on progress made with the 2015/16 action plan.

Resolved:-

That subject to any further views expressed by External Audit, the Annual Governance Statement for 2015/16 be approved and recommended to the Leader of the Council and Chief Executive for authorisation and signature.

80 BDO: Planning Letter 2016/17

The Committee considered a report of the Corporate Director for Corporate Services presenting the External Audit Planning Letter for 2016/17.

Resolved:-

That the Planning Letter for 2016/17, be approved.

81 Corporate Risk Register 2016/17

The Committee considered a report of the Chief Executive & Town Clerk presenting the 2016/17 Corporate Risk Register.

The Committee asked a number of questions which were responded to by officers.

On consideration of the waste management risk, Members expressed concern about the performance of Veolia, the waste collection contractor. Members requested the Corporate Director for Place to advise them of the actions taken to address the problems identified and to improve the quality of the service together with details of the penalties that could be imposed against the contractor for failure to deliver the service in accordance with the terms of the contract.

In the light of the above concerns, Members also requested that the actions to mitigate the risk in relation to waste collection management be reviewed.

Resolved:-

That the 2016/17 Corporate Risk Register be endorsed.

82 BDO: Progress Report to Those Charged with Governance

The Committee considered a report of the Corporate Director for Corporate Services on the progress made in delivering the 2015/16 Annual Audit Plan.

Resolved:-

That the progress made in delivering the Annual Audit Plan for 2015/16, be accepted.

Information items

The Committee noted the following documents:

- CIPFA Better Governance Forum, Audit Committee Update, Helping Audit Committees to be Effective, Issue 19:
 - Good Governance in Local Government - 2016 Framework
 - Appointing local auditors
- Fighting Fraud & Corruption Locally, The local Government counter fraud and corruption strategy 2016-2019

Chairman: _____

Southend-on-Sea Borough Council

Agenda
Item No.
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Report of Chief Executive & Town Clerk

to

Audit Committee

on

21 September 2016

Report prepared by: Tim MacGregor – Team Leader - Policy
& Information Management

Local Code of Governance: Review

Executive Councillor – Councillor Lamb

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present the Council's revised Local Code of Governance (LCG) to the Audit Committee for consideration.

2. Recommendations

- 2.1 That Audit Committee is asked to consider a revised Local Code of Governance (Appendix 1), for recommended approval to Cabinet.**
- 2.2 Once approved, the Council's Constitution is updated with the revised Local Code of Governance.**

3. Background

- 3.1 The Council is required to have in place a Local Code of Governance that sets out its governance framework. The framework enables the annual review of the effectiveness of the Council's system of internal control to be carried out. This review, a legal requirement, is undertaken via the Annual Governance Statement presented to Audit Committee each year, signed by the Leader and Chief Executive, and is published as part of the annual statement of accounts.
- 3.2 The 1992 Cadbury Committee report, set out recommendations on the arrangement of company boards and accounting systems to mitigate corporate risk and failures and defined corporate governance as the '*system by which organisations are directed and controlled*'. Many of these recommendations were adopted by public sector bodies and complemented by the development of the Committee on Standards in Public life 'Nolan principles' to promote ethical standards across the whole of public life in the UK.

- 3.3 A good governance framework for local government was developed by the Chartered Institute of Public Finance and Accountancy (Cipfa) and the Society of Local Authority Chief Executives (Solace) and provides an over-arching framework to local authority local codes of governance.
- 3.4 The governance framework brings together an underlying set of values, legislative requirements, governance principles and business management processes that enable an organisation to achieve its objectives. The Cipfa/Solace framework sets out the principles and standards aimed at helping local authorities develop and maintain their own codes of governance and discharge their accountability for the proper conduct of business.
- 3.5 The Cipfa/Solace Framework has been revised on a number of occasions and, in April 2016 the 2012 version was updated and significantly revised. The new Framework (**Appendix 2**) is intended to reflect the International Framework for Good Governance in the Public Sector, as well as on-going financial constraints, new ways of working (for example, through partnerships, local authority trading companies, combined authority arrangements and devolution deals) and to be more outcome focussed.
- 3.6 In summary, the Framework states that *'the overall aim is to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.'*
- 3.7 The framework applies to Annual Governance Statements prepared for the financial year 2016/17 onwards. Therefore, to ensure it is working to best practice, the Council's Local Code of Governance needs to align with the new Framework to enable the AGS to be undertaken next year.
- 3.8 The Framework is intended to assist authorities individually in 'reviewing and accounting for their own unique approach'. The Council's revised Local Code of Governance), has, therefore, been updated to reflect current Council practice and incorporates the Cipfa/Solace 2016 Framework core principles and sub principles.
- 3.10 The seven new core principles are:
- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the law.
 - B. Ensuring openness and comprehensive stakeholder engagement.
 - C. Defining outcomes in terms of sustainable economic, social and environmental benefits.
 - D. Determining the interventions necessary to optimise the achievement of the intended outcomes.
 - E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
 - F. Managing risks and performance through robust internal control and

strong public financial management.

G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

Principles A and B provide the overarching requirements for acting in the public interest, while principles C to G focus on the implementation of governance and achievement of outcomes.



4. Southend Council Local Code of Governance - 2016

4.1 The Code covers the following areas:

- What governance is, why it is important and how members and staff are informed about the Code;
- The principles and values to be adopted, setting the tone for how the organisation operates but also how individuals (both members and officers) conduct themselves;
- The business management processes the Council operates in to enable it to successfully deliver the service objectives that it sets itself and
- How these principles, values and business management arrangements should be implemented and the arrangements established to complete the annual review of their adequacy and operation throughout the year, which is used to support the production of the Governance Statement.

- 4.2 The Good Governance Group of senior officers helps to ensure the Council maintains governance arrangements that comply with good practice requirements and help ensure that sufficient assurance is available through the year to support the production of the Annual Governance Statement. The Good Governance Group has reviewed and endorsed the revised Local Code and will help promote the dissemination of its content across the Council. A self-assessment matching Council process and practice with the Cipfa/Solace framework is being undertaken by the group.
- 4.3 The Good Governance Group has also overseen the production of 'A guide to Southend-on-Sea Borough Council' providing a basic introduction to the Council and 'How it Works' guide for managers to help the Council run effectively. These have been provided to managers across the authority. This complemented a successful 'Do the Right Thing' session for around 50 managers in June, which re-enforced the Council's values, the importance of ethical governance and Council processes to ensure the local authority runs effectively. This session will be followed up with further related training and development for staff and members to help embed the values, principles and processes of the code.

5. Corporate Implications

5.1 Contribution to Council's Vision & Corporate Priorities

Operating robust governance arrangements contributes to the delivery of all Council aims, values, priorities and vision.

5.2 Financial Implications - None specific

5.3 Legal Implications

Regulation 6(1)(a) of the Accounts and Audit Regulations 2015, require a local authority to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts. Regulation 6(1)(b) of the Accounts and Audit Regulations 2015 require that for a local authority in England, Northern Ireland and Scotland the statement is an Annual Governance Statement.

The preparation and publication of an Annual Governance Statement in accordance with Delivering Good Governance in Local Government: Framework (2016) would fulfil the statutory requirements across the United Kingdom for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts. In England the Accounts and Audit Regulations 2015 stipulate that the Annual Governance Statement must be "prepared in accordance with proper practices in relation to accounts". Therefore a local authority in England shall provide this statement in accordance with Delivering Good Governance in Local Government: Framework (2016) and this section of the Code.

5.4 People Implications

All members and staff need to adopt the principles and values outlined in the Code and apply the business management processes required within their service areas.

5.5 Property Implications – None

5.6 Consultation - The relevant stakeholders have been consulted.

5.7 Equalities and Diversity Implications

This is reflected in both the principles, values and business management processes to be adopted.

5.8 Risk Assessment

Failure to operate robust governance arrangements can potentially lead to poor management, performance, stewardship of public money, public engagement and ultimately, poor outcomes for citizens and service users. It increases the risk that corporate priorities will not be delivered.

5.9 Value for Money

This is reflected in both the principles, values and business management processes to be adopted.

5.10 Community Safety Implications - None

5.11 Environmental Impact - None

6. Background Papers

- CIPFA / Solace publication: Delivering Good Governance in Local Government Framework (2016 edition).
- CIPFA / Solace publication: Guidance Note for English Authorities
- The Accounts and Audit (England) Regulations 2015.

7. Appendices

Appendix 1 - Draft Southend on Sea Borough Council Local Code of Governance and supporting appendices

Appendix 2 – Cipfa/Solace Delivering Good Governance in Local Government: Framework (2016 Edition).

Appendix 3 – Summary of Cipfa/Solace Delivering Good Governance in Local Government Framework.

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Local Code of Governance

The Council's framework for managing its business

Produced by: Team Manager – Policy & Information Management

Next Review: 2018

Time table for approval: CMT – 24 August 2016

Audit Committee – 21 September 2016

Cabinet – 8 November 2016

What do we mean by Governance?

Good governance helps to lead to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes for citizens and service users. Good governance enables an organisation to pursue its vision effectively as well as underpinning that vision with mechanisms for control and management of risk. All local authorities should aim to meet the standards of the best and governance arrangements should not only be sound but be seen to be sound.

Good governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which local government bodies operate and through which they account to, engage with and, where appropriate, lead their communities.

Achieving high standards of governance encourages stakeholders and local people to have confidence in engaging with it, enabling the Council to more effectively undertake the role of community leader.

Purpose of the framework

Southend-on-Sea Borough Council is accountable for the proper conduct of public business. This means ensuring that it operates in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

In doing this, each local government body operates through a governance framework that brings together an underlying set of values, legislative requirements, governance principles and management processes that enables it to achieve its aims and objectives.

This Local Code of Governance (the Code) sets out the governance framework adopted by the Council in line with good practice guidance¹, including the principles that underpin it. The governance framework established is proportionate to the overall risk environment facing the Council.

These principles should be considered in the light of the key roles for local authorities identified in the guidance:

1. To engage in effective partnerships and provide leadership for and with the community;
2. To ensure the delivery of high quality local services whether directly or in partnership or by commissioning;
3. To perform a stewardship role which protects the interests of local people and makes the best use of resources and
4. To develop citizenship and local democracy.

The Code puts high standards of conduct and leadership at the heart of good governance, placing responsibility on members and officers to demonstrate leadership by behaving in ways that exemplify high standards of conduct and so set the tone for the rest of the organisation.

¹ Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) publication: Delivering Good Governance in Local Government - Framework (2016)

The Council then discharges accountability for the proper conduct of public business, through the publication of an Annual Governance Statement (AGS) that will make the adopted practice open and explicit.

This AGS also sets out:

- **Accountability** for the governance of the Council, as well as the principles and values by which the Council operates;
- How the **principles** are put into practice in order to enable service delivery to reflect community need and how evidence is obtained to ensure they operate effectively throughout the year;
- The annual **reporting** process and
- How the Code is **communicated** to members, staff and other relevant parties.

Accountability

Elected members are collectively responsible for the governance of the Council. Council delegates responsibility for independently checking that an effective governance framework (which includes a sound system of internal control) exists and operates effectively throughout the year to the Audit Committee.

The Leader of the Council and Chief Executive & Town Clerk:

- Are accountable for ensuring good governance in their authority
- Sign the Annual Governance Statement on behalf of the Council.

Principles

The Council has adopted the seven core principles from the 2016 CIPFA/Solace Framework as the basis on which it wants to operate as outlined below.



Appendix A provides more detail from the Guidance on how these core principles should be applied in practice.

Values

In discharging their roles and implementing the principles outlined above at an individual level, members and employees are expected to adopt;

- The **Nolan Committee's Seven Principles of Public Life**, supplemented by the Local Government Act 2000 with an additional three (see **Appendix B**).
- The Council's own values:



Adhering to these values will help ensure that individual staff's own conduct complies with the overarching good governance principles.

Putting the principles into practice

All organisations, whether public or private, large or small, need to operate core management processes to enable them to deliver their vision, aims and objectives. These processes are outlined below under the Council's main management activities (and explained further in **Appendix C**).

<p>MANAGING CUSTOMERS</p> <ul style="list-style-type: none"> • Customer Satisfaction • Consultation • Community Engagement • Complaints, Compliments and Comments 	<p>MANAGING PERFORMANCE</p> <ul style="list-style-type: none"> • Business Planning and Strategy • Committee Structure, Constitution, Policy Framework and Procedures • Performance Management • Risk Management, Whistleblowing • Business Continuity • Data Quality • Information Management Security • Contract Management • Project Management • Change / Transformation Management
<p>MANAGING RESOURCES</p> <ul style="list-style-type: none"> • Financial Planning & Reporting Budgetary Control and Treasury Management • Asset Management • Fraud & Corruption and Insurance (<i>risk management</i>) • Procurement • Value for Money 	<p>MANAGING PEOPLE</p> <ul style="list-style-type: none"> • Workforce Management & Development • Codes of Conduct for Members and Staff • Staff Performance Management • Health and Safety • Ethical Governance

The Council also has a very specific responsibility for ensuring that:

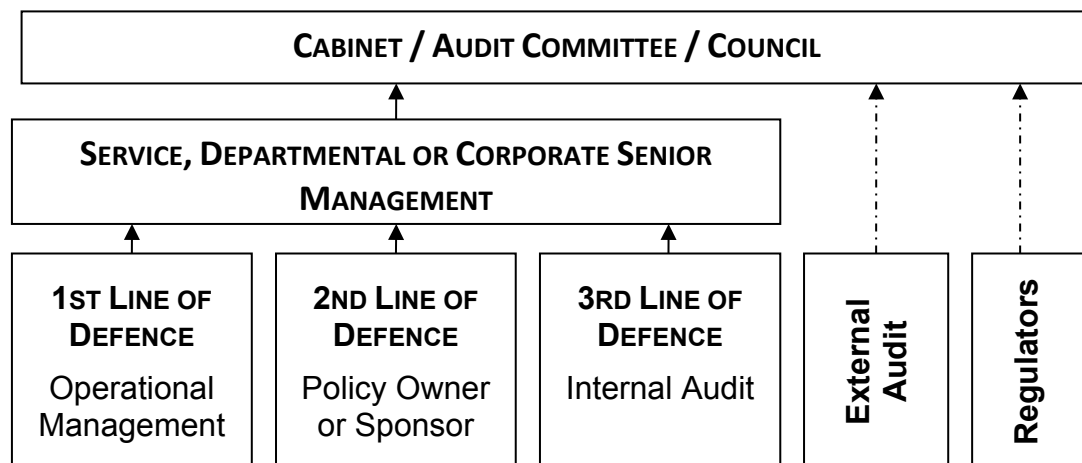
- The financial management of the body is adequate
- It has a sound system of internal control which facilitates the effective exercise of its functions and which includes its arrangements for the management of risk.

All services are responsible for maintaining proportionate but sound operational procedures and processes that adequately mitigate risks that may result in a service failure or the failure to deliver service objectives. Application of the framework outlined should put the Council in a strong position to successfully deliver whatever services it chooses to.

Evidencing effective implementation

The approach

In order to ensure that the governance framework set out above is in place and operating properly throughout the year, the Council has adopted the concept contained in the **three lines of defence**² model, as shown below.



Evidence that the governance framework is being applied is obtained via:

The first line of defence, which is:

Operational management, which is **responsible** for the effective and consistent application of these requirements in their area of operation - which includes both behavioural as well as procedural arrangements.

The second line of defence, which is:

The 'owner' or 'sponsor' who is **accountable** for the overall operation of the corporate management or service specific process and should ensure that:

- It is fit for purpose (for example, based upon relevant good practice), regularly reviewed and approved by senior management and members;
- It is constructed so that evidence of its application is easily produced, ie, as 'business as usual';
- There are proportionate and cost-effective mechanisms in place to enable them to confirm that operational managers are applying it effectively and consistently and
- Informative, regular and timely reports are provided to senior management to confirm the process has been operating effectively and consistently, identifying any remedial actions required should this not be the case.

² Based upon general industry good practice, more specifically guidance issued by the European Confederation of Institutes of Internal Auditing "*monitoring the effectiveness of internal control, internal audits and risk management systems*" September 2010

The third line of defence which is:

Internal Audit who provide **independent assurance** to senior management and the Audit Committee, on how effectively the first and second lines of defence have been operating.

System of Internal Control

Within this, it is incumbent on all staff to ensure that:

- sufficient checks (controls) are built into all systems, processes and activities to ensure that they consistently and effectively deliver the objectives required of them (eg through risk management / mitigation).
- sufficient evidence can be obtained throughout the year (via key management controls) to ensure these checks are operating as they should and therefore that the systems, processes and service objectives are being delivered.

Other potential assurance

This can be obtained from external sources such as external audit, regulators and peers and considered as a fourth line of defence where any of these sources' activity is relevant and robust.

Key Committees

Full Council is responsible for ensuring the organisation has good governance arrangements. It can discharge this duty itself or delegate this role to a committee, although accountability for this remains with Council.

The Council has delegated this function to the Audit Committee. However, there are five key member bodies, other than full council, that have a significant role to play within the governance framework:

- The Council operates with a Cabinet and strong Leader model of governance. Cabinet is responsible for the majority of functions of the Council within the budget and policy framework set by **Full Council**. Executive decisions are taken by the Cabinet collectively or by officers acting under delegated powers.
- The **Cabinet** is responsible for the majority of functions of the Council within the budget and policy framework set by full Council. Executive decisions are taken by the Cabinet collectively or by officers acting under delegated powers. Cabinet leads the Council's drive for value for money, the preparation of the Council's policies and budget, the community planning process. It takes in year decisions on resources and priorities and is the focus for forming partnerships with other organisations to address local needs.
- **Scrutiny Committees** review decisions made or actions taken in relation to any of the Council's functions, consider any matter affecting the area or its residents and exercise the right to call in, for reconsideration, decisions made by Cabinet, not yet implemented
- **Audit Committee** is responsible for independently checking that appropriate governance arrangements (including the system of internal control) are in place, operating effectively throughout the year and that actions required to strengthen these arrangements are addressed, in a timely manner. Its work programme is designed to provide it with sufficient evidence to conclude that the Annual Governance Statement accurately reflects

the governance arrangements as operated for the year in question.

- The **Standards Committee** is responsible for promoting and maintaining high standards of conduct by the members and co-opted members, and assisting them to observe the Members code of conduct.
- The **Health & Wellbeing Board** provides strategic leadership to improve the health and wellbeing of local people and reduce health inequalities. The Board works to understand the local community's needs, agree priorities and encourage commissioners to work in a more joined up way.

It should be noted that it is necessary sometimes for information to go to more than one committee in order for them to discharge their respective responsibilities.

Good Governance Group

The Council has an officer Good Governance Group that meets regularly to oversee the delivery of the governance framework. There is a terms of reference for this group and it reports to the Chief Executive and provides reports to the Corporate Management Team and Audit Committee.

Annual review and reporting

Local authorities are required to undertake an annual review their governance arrangements and evidence that they are:

- Up to date, fit for purpose and comply with the CIPFA/Solace Framework;
- Consistently applied across the organisation at all service levels;
- Being strengthened, as necessary, where improvement opportunities have been identified.

Such reviews are reported to the Audit Committee, within the Council and externally with the published accounts. In addition, the Corporate Plan and Annual Report, is submitted to the Council each year, setting out key elements of the governance framework, including the Council's vision, aims, priorities and performance targets.

Evidence and Assurance

Evidence that the governance framework is operating as it should, is obtained in a number of ways. This includes:

Annual assurance obtained from:

- Operational managers outlining the degree to which key management processes have been applied in their service areas throughout the year (including via manager assurance statements)
- The owners or sponsors of key management processes, regarding the adequacy of and compliance with key management arrangements
- Other significant functions / service providers (e.g. project / contract managers) that confirms compliance with the relevant corporate approach or requirements.
- The Good Governance Group reviewing evidence provided, each year, highlighting any areas that require senior management attention. Departmental Management Teams will review actions requiring attention through the normal performance management process.

Other manager assurance is provided by:

- Annual reports on: the Council's risk management arrangements (including those relating to fraud and corruption)
- Compliance with the treasury management policy
- Approval of the financial statements.

Independent evidence

Independent evidence primarily takes the form of:

- The Head of Internal Audit's annual report, which includes an opinion on the overall system of internal control and whether the internal audit functions have complied with professional standards.
- The external auditor's Annual Governance Report to those charged with Governance.
- External inspections and reviews from regulatory, professional, peer and representative bodies.

Annual Governance Statement

The Annual Governance Statement will be developed by the Good Governance Group, during the year and will be considered by the Corporate Management Team before being reported to the Audit Committee. The Audit Committee considers whether the Annual Governance Statement accurately reflects its understanding of how the Council's governance arrangements have operated for the year in question.

The Audit Committee approves the Annual Governance Statement, which is then signed by the Leader and Chief Executive & Town Clerk on behalf of the Council, no later than the statement of accounts and published as part of them.

Communications

This Code forms part of the Council's Constitution which is available on Council's website and, therefore, accessible to all staff, members, the public and other stakeholders.

The Code is provided to new members and outlined to newly appointed staff. The content is covered as part of the induction process.

The Code is reflected in the 'How it works' and 'guide to Southend-on-Sea Borough Council' guides for staff and managers which outline how the principles of the Code are put into practice by members and staff. Copies of the Code are available in the Members room.

Training on aspects of the governance framework or the application of key business management processes is provided as required.

The Head of Internal Audit can be contacted on 01702 534015 and Team Leader – Policy & Information Management can be contacted on 01702 534025 with any queries regarding the Code.

Core principles and sub-principles of good governance

Core principles (in bold)	Sub-principles (in bold) the Council will adhere to
<p>A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p> <p>Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule</p>	<p>Behaving with integrity</p> <ul style="list-style-type: none"> • Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation • Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles) • Leading by example and using the above standard operating principles or values as a framework for decision making and other actions • Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively <p>Demonstrating strong commitment to ethical values</p> <ul style="list-style-type: none"> • Seeking to establish, monitor and maintain the organisation’s ethical standards and performance • Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation’s culture and operation • Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values • Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation <p>Respecting the rule of law</p> <ul style="list-style-type: none"> • Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations • Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements • Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders • Dealing with breaches of legal and regulatory provisions effectively

Core principles (in bold)	Sub-principles (in bold) the Council will adhere to
	<ul style="list-style-type: none"> • Ensuring corruption and misuse of power are dealt with effectively
<p>B. Ensuring openness and comprehensive stakeholder engagement</p> <p>Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.</p>	<p>Openness</p> <ul style="list-style-type: none"> • Ensuring an open culture through demonstrating, documenting and communicating the organisation’s commitment to openness • Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided • Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear • Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action <p>Engaging comprehensively with institutional stakeholders</p> <p>NB institutional stakeholders are the other organisations that local government needs to work with to improve services and outcomes (such as commercial partners and suppliers as well as other public or third sector organisations) or organisations to which they are accountable.</p> <ul style="list-style-type: none"> • Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably • Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively <p>Ensuring that partnerships are based on:</p> <ul style="list-style-type: none"> - trust - a shared commitment to change - a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit. <p>Engaging with individual citizens and service users effectively</p> <ul style="list-style-type: none"> • Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is

Core principles (in bold)	Sub-principles (in bold) the Council will adhere to
	<p>contributing towards the achievement of intended outcomes</p> <ul style="list-style-type: none"> • Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement • Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs • Implementing effective feedback mechanisms in order to demonstrate how views have been taken into account • Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity • Taking account of the impact of decisions
<p><i>In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance also requires a commitment to and effective arrangements for:</i></p>	<p><i>Behaviours and actions that demonstrate good governance in practice are illustrated in the bullet points.</i></p>
<p>C. Defining outcomes in terms of sustainable economic, social, and environmental benefits</p> <p>The long-term nature and impact of many of local government’s responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation’s purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.</p>	<p>Defining outcomes</p> <ul style="list-style-type: none"> • Having a clear vision, which is an agreed formal statement of the organisation’s purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation’s overall strategy, planning and other decisions • Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer • Delivering defined outcomes on a sustainable basis within the resources that will be available • Identifying and managing risks to the achievement of outcomes • Managing service users’ expectations effectively with regard to determining priorities and making the best use of the resources available <p>Sustainable economic, social and environmental benefits</p> <ul style="list-style-type: none"> • Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decisions about service provision • Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation’s intended outcomes and short-term factors such as the political cycle or financial constraints • Determining the wider public interest associated with

Core principles (in bold)	Sub-principles (in bold) the Council will adhere to
	<p>balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs</p> <ul style="list-style-type: none"> • Ensuring fair access to services
<p>D. Determining the interventions necessary to optimise the achievement of the intended outcomes</p> <p>Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.</p>	<p>Determining interventions</p> <ul style="list-style-type: none"> • Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided • Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts <p>Planning interventions</p> <ul style="list-style-type: none"> • Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets • Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered • Considering and monitoring risks facing each partner when working collaboratively, including shared risks • Ensuring arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances • Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured • Ensuring capacity exists to generate the information required to review service quality regularly • Preparing budgets in accordance with objectives, strategies and the medium term financial plan • Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy <p>Optimising achievement of intended outcomes</p> <ul style="list-style-type: none"> • Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints

Core principles (in bold)	Sub-principles (in bold) the Council will adhere to
	<ul style="list-style-type: none"> • Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term • Ensuring the medium term financial strategy sets the context for on-going decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage • Ensuring the achievement of ‘social value’ through service planning and commissioning
<p>E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it</p> <p>Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.</p>	<p>Developing the entity’s capacity</p> <ul style="list-style-type: none"> • Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness • Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently • Recognising the benefits of partnerships and collaborative working where added value can be achieved • Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources <p>Developing the capability of the entity’s leadership and other individuals</p> <ul style="list-style-type: none"> • Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained • Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body • Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other’s authority • Developing the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by: <ul style="list-style-type: none"> - ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged

Core principles (in bold)	Sub-principles (in bold) the Council will adhere to
	<ul style="list-style-type: none"> - ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis - ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external • Ensuring that there are structures in place to encourage public participation • Taking steps to consider the leadership’s own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections • Holding staff to account through regular performance reviews which take account of training or development needs • Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing
<p>F. Managing risks and performance through robust internal control and strong public financial management</p> <p>Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.</p> <p>A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability. It is also essential that a culture</p>	<p>Managing risk</p> <ul style="list-style-type: none"> • Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making • Implementing robust and integrated risk management arrangements and ensuring that they are working effectively • Ensuring that responsibilities for managing individual risks are clearly allocated <p>Managing performance</p> <ul style="list-style-type: none"> • Monitoring service delivery effectively including planning, specification, execution and independent post implementation review • Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation’s financial, social and environmental position and outlook • Ensuring an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation’s performance and that of any organisation for which it is responsible (Or, for a committee system) Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making • Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement • Ensuring there is consistency between specification stages

Core principles (in bold)	Sub-principles (in bold) the Council will adhere to
<p>and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.</p>	<p>(such as budgets) and post implementation reporting (eg financial statements)</p> <p>Robust internal control</p> <ul style="list-style-type: none"> • Aligning the risk management strategy and policies on internal control with achieving objectives • Evaluating and monitoring risk management and internal control on a regular basis • Ensuring effective counter fraud and anti-corruption arrangements are in place • Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor • Ensuring an audit committee or equivalent group/ function, which is independent of the executive and accountable to the governing body: <ul style="list-style-type: none"> - provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment - that its recommendations are listened to and acted upon <p>Managing data</p> <ul style="list-style-type: none"> • Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data • Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies • Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring <p>Strong public financial management</p> <ul style="list-style-type: none"> • Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance • Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls
<p>G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also</p>	<p>Implementing good practice in transparency</p> <ul style="list-style-type: none"> • Writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate • Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand

Core principles (in bold)	Sub-principles (in bold) the Council will adhere to
<p>ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.</p>	<p>Implementing good practices in reporting</p> <ul style="list-style-type: none"> • Reporting at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way • Ensuring members and senior management own the results reported • Ensuring robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement) • Ensuring that this Framework is applied to jointly managed or shared service organisations as appropriate • Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations <p>Assurance and effective accountability</p> <ul style="list-style-type: none"> • Ensuring that recommendations for corrective action made by external audit are acted upon • Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon • Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations • Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement • Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met

The Seven (Nolan) principles of public life

Introduction

Members and employees are required to comply with the seven general principles of public life, established by the Nolan Committee on Standards in Public Life:

1. Selflessness

Holders of public office should act solely in terms of the public interest.

2. Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

3. Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

4. Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

5. Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

6. Honesty

Holders of public office should be truthful.

7. Leadership

Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

Appendix C

How to run a successful organisation

WHAT DO YOU NEED TO DO?	MANAGEMENT PROCESS
Find out what your customers want	Community Engagement
Produce a plan outlining how you are going to meet that need	Business Strategy and Planning
Calculate how much this is going to cost you	Financial Planning / Treasury Management
Identify how you are going to finance this	
Identify what assets/people you are going to need to deliver this	Asset Management / Workforce Development Planning
Create the 'entity' and supporting constitution / policy structure	Committee Structure, Constitution, Policy Framework, Procedures and Codes of Conduct
Define roles and responsibilities between executive and non executive members and create supporting operational structures	
Manage activities on a day to day basis	Performance Management including that applicable to staff
Understand where things could go wrong and cause you problems in delivering your services	Risk Management including Fraud & Corruption, Health & Safety, Insurance and Business Continuity
Check to see whether you are getting sufficient income in to pay your bills with an appropriate reserve	Budgetary Control
Ensure that the information you use to decide whether you are delivering what is expected is complete and accurate	Data Quality
Ensure that you are not holding information about others you should not be, that it is secure and is not being used inappropriately	Data Management and Security
Ensure that you buy your stock/assets/services cost effectively	Procurement and Value for Money, Contract Management
When undertaking one off projects, draw up a detailed plan to enable you to do this by the pre-determined date, within the allocated resources and to the required quality standards	Project Management

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CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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Members

Julie Parker (Chair)	<i>Non-executive Director and Independent Consultant</i>
Charlie Adan	<i>Babergh District Council/Mid Suffolk District Council</i>
David Aldous	<i>National Audit Office (NAO)</i>
Ivan Butler	<i>Denbighshire County Council</i>
Brenda Campbell	<i>Convention of Scottish Local Authorities (COSLA)</i>
Kirsty Cole	<i>Newark and Sherwood District Council/Lawyers in Local Government (LLG)</i>
Richard Feltham	<i>Kent Fire and Rescue Service</i>
Russell Frith	<i>Audit Scotland</i>
Alan Gay	<i>Leeds City Council</i>
Alan Geddes	<i>formerly Highland Council</i>
Jacqui McKinlay	<i>Centre for Public Scrutiny (CfPS)</i>
Stephen Hughes/Sarah Pickup	<i>Local Government Association (LGA)</i>
Ruth Hyde	<i>Broxtowe Borough Council</i>
Graeme McDonald	<i>Solace</i>
Cat McIntyre	<i>Association of Police and Crime Commissioners (APCC)</i>
Terry Osborne	<i>Essex County Council</i>
Marion Pryor	<i>Conwy County Borough Council</i>
Jon Rae	<i>Welsh Local Government Association (WLGA)</i>
Joe Simpson	<i>Leadership Centre for Local Government</i>
Mike Suarez	<i>Cheshire East Council</i>
Jason Vaughan	<i>West Dorset District Council/Weymouth and Portland Borough Council</i>
Bill Wilkinson	<i>CIPFA's Police Panel/Police and Crime Commissioners Treasurers' Society (PACCTS)</i>
Ian Williams	<i>London Borough of Hackney</i>
Ness Young	<i>Bridgend County Borough Council</i>

Secretariat

Kerry Ace (Secretary)	CIPFA
Diana Melville	CIPFA
Rachael Tiffen	CIPFA

Observer

Shehla Husain	<i>Department for Communities and Local Government (DCLG)</i>
---------------	---

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CHAPTER ONE

Introduction

- 1.1** Governance arrangements in the public services are keenly observed and sometimes criticised. Significant governance failings attract huge attention – as they should – and one significant failing can taint a whole sector. Local government organisations are big business and are vitally important to tax payers and service users. They need to ensure that they meet the highest standards and that governance arrangements are not only sound but are seen to be sound.
- 1.2** It is crucial that leaders and chief executives keep their governance arrangements up to date and relevant. The main principle underpinning the development of the new *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace, 2016) ('the Framework') continues to be that local government is developing and shaping its own approach to governance, taking account of the environment in which it now operates. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.
- 1.3** The Framework positions the attainment of sustainable economic, societal, and environmental outcomes as a key focus of governance processes and structures. Outcomes give the role of local government its meaning and importance, and it is fitting that they have this central role in the sector's governance. Furthermore, the focus on sustainability and the links between governance and public financial management are crucial – local authorities must recognise the need to focus on the long term. Local authorities have responsibilities to more than their current electors as they must take account of the impact of current decisions and actions on future generations.

CHAPTER TWO

Status

- 2.1** Section 3.7 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 notes:

Regulation 6(1)(a) of the Accounts and Audit Regulations 2015, Regulation 4(2) of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015, Regulation 5(2) of the Local Authority Accounts (Scotland) Regulations 2014 and Regulation 5(2) of the Accounts and Audit (Wales) Regulations 2014 require an authority to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts (England) (as a part of the Annual Accounts (Scotland)). Regulation 6(1)(b) of the Accounts and Audit Regulations 2015, Regulation 4(4) of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 and Regulation 5(4) of the Local Authority Accounts (Scotland) Regulations 2014 require that for a local authority in England, Northern Ireland and Scotland the statement is an Annual Governance Statement.

The preparation and publication of an Annual Governance Statement in accordance with Delivering Good Governance in Local Government: Framework (2016) would fulfil the statutory requirements across the United Kingdom for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts. In England the Accounts and Audit Regulations 2015 stipulate that the Annual Governance Statement must be “prepared in accordance with proper practices in relation to accounts”. Therefore a local authority in England shall provide this statement in accordance with Delivering Good Governance in Local Government: Framework (2016) and this section of the Code.

- 2.2** This Framework applies to annual governance statements prepared for the financial year 2016/17 onwards.

CHAPTER THREE

Requirements

- 3.1** The Framework defines the principles that should underpin the governance of each local government organisation. It provides a structure to help individual authorities with their approach to governance. Whatever form of arrangements are in place, authorities should therefore test their governance structures and partnerships against the principles contained in the Framework by:
- reviewing existing governance arrangements
 - developing and maintaining an up-to-date local code of governance, including arrangements for ensuring ongoing effectiveness
 - reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.
- 3.2** The term ‘local code’ essentially refers to the governance structure in place as there is an expectation that a formally set out local structure should exist, although in practice it may consist of a number of local codes or documents.
- 3.3** To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in this Framework. It should therefore develop and maintain a local code of governance/governance arrangements reflecting the principles set out.
- 3.4** It is also crucial that the Framework is applied in a way that demonstrates the spirit and ethos of good governance which cannot be achieved by rules and procedures alone. Shared values that are integrated into the culture of an organisation, and are reflected in behaviour and policy, are hallmarks of good governance.

Applicability and terminology

APPLICABILITY

- 4.1** The Framework is for all parts of local government and its partnerships, including:
- county councils
 - district, borough and city councils
 - metropolitan and unitary councils
 - the Greater London Authority and functional bodies
 - combined authorities, city regions, devolved structures
 - the City of London Corporation
 - combined fire authorities
 - joint authorities
 - police authorities, which for these purposes since 2012 includes both the police and crime commissioner (PCC) and the chief constable
 - national park authorities.
- 4.2** The Framework is applicable to a system involving a group of local government organisations as well as to each of them individually. The Framework principles are therefore intended to be relevant to all organisations and systems associated with local authorities, ie joint boards, partnerships and other vehicles through which authorities now work. However, a one-size-fits-all approach to governance is inappropriate. Not all parts of the Framework will be directly applicable to all types and size of such structures, and it is therefore up to different authorities and associated organisations to put the Framework into practice in a way that reflects their structures and is proportionate to their size.

TERMINOLOGY

- 4.3** The terms ‘authorities’, ‘local government organisations’ and ‘organisations’ are used throughout this Framework and should be taken to cover any partnerships and joint working arrangements in operation.
- 4.4** In the police service, where the accountabilities rest with designated individuals rather than a group of members, terms such as ‘leader’ should be interpreted as relating to the PCC or the chief constable as appropriate.

CHAPTER FIVE

Guidance notes

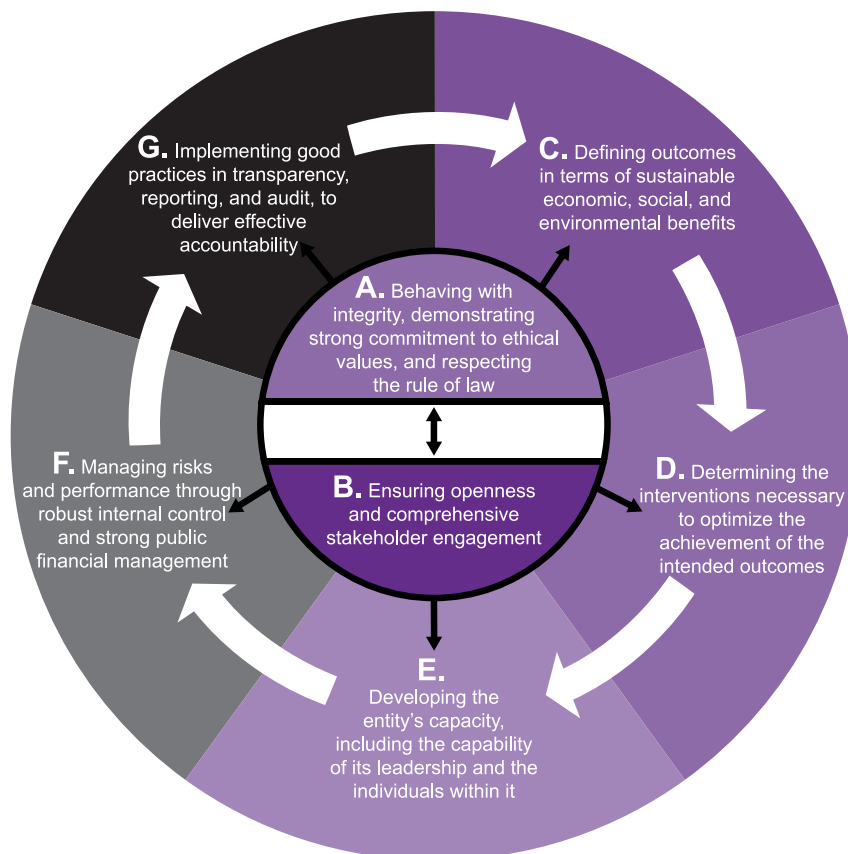
- 5.1** In recognition of the separate legislation applicable to different parts of local government, guidance notes to accompany the Framework have been developed for:
- local government in England (excluding police)
 - local government in Wales (excluding police)
 - police in England and Wales
 - local government in Scotland.
- 5.2** The guidance notes, which should be used in conjunction with the Framework, are intended to assist authorities across their governance systems, structures and partnerships in reviewing their governance arrangements. It will also help them in interpreting the overarching principles and terminology contained in the Framework in a way that is appropriate for their governance structures, taking account of the legislative and constitutional arrangements that underpin them.

The principles of good governance – application

DEFINING THE CORE PRINCIPLES AND SUB-PRINCIPLES OF GOOD GOVERNANCE

6.1 The diagram below, taken from the *International Framework: Good Governance in the Public Sector* (CIPFA/IFAC, 2014) (the ‘International Framework’), illustrates the various principles of good governance in the public sector and how they relate to each other.

Achieving the Intended Outcomes While Acting in the Public Interest at all Times



The International Framework notes that:

Principles A and B permeate implementation of principles C to G. The diagram also illustrates that good governance is dynamic, and that an entity as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.

DEFINING GOVERNANCE

6.2 The International Framework defines governance as follows:

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

The International Framework also states that:

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.

Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

6.3 In local government, the governing body is the full council or authority. In the police, PCCs and chief constables are corporations sole and are jointly responsible for governance. The many references to 'members' in the tables which follow should be read in the context that the principles set out apply equally in the police.

PRINCIPLES OF GOOD GOVERNANCE IN LOCAL GOVERNMENT

6.4 The core principles and sub-principles of good governance set out in the table below are taken from the International Framework. In turn they have been interpreted for a local government context.

It is up to each local authority or local government organisation to:

- set out its commitment to the principles of good governance included in this Framework
- determine its own governance structure, or local code, underpinned by these principles
- ensure that it operates effectively in practice.

Core principles and sub-principles of good governance

Core principles (shown in bold)	Sub-principles (shown in bold)
Acting in the public interest requires a commitment to and effective arrangements for:	Behaviours and actions that demonstrate good governance in practice are illustrated in the bullet points.
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Behaving with integrity
<p>Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.</p>	<ul style="list-style-type: none"> ■ Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation ■ Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles) ■ Leading by example and using the above standard operating principles or values as a framework for decision making and other actions ■ Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively
	Demonstrating strong commitment to ethical values
	<ul style="list-style-type: none"> ■ Seeking to establish, monitor and maintain the organisation’s ethical standards and performance ■ Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation’s culture and operation ■ Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values ■ Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation

Core principles (shown in bold)	Sub-principles (shown in bold)
	<p>Respecting the rule of law</p> <ul style="list-style-type: none"> ■ Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations ■ Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements ■ Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders ■ Dealing with breaches of legal and regulatory provisions effectively ■ Ensuring corruption and misuse of power are dealt with effectively
<p>B. Ensuring openness and comprehensive stakeholder engagement</p> <p>Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.</p>	<p>Openness</p> <ul style="list-style-type: none"> ■ Ensuring an open culture through demonstrating, documenting and communicating the organisation’s commitment to openness ■ Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided ■ Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear ■ Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action <p>Engaging comprehensively with institutional stakeholders</p> <p>NB institutional stakeholders are the other organisations that local government needs to work with to improve services and outcomes (such as commercial partners and suppliers as well as other public or third sector organisations) or organisations to which they are accountable.</p> <ul style="list-style-type: none"> ■ Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably

Core principles (shown in bold)**Sub-principles (shown in bold)**

- Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively
- Ensuring that partnerships are based on:
 - trust
 - a shared commitment to change
 - a culture that promotes and accepts challenge among partners

and that the added value of partnership working is explicit

Engaging with individual citizens and service users effectively

- Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes
- Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement
- Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs
- Implementing effective feedback mechanisms in order to demonstrate how views have been taken into account
- Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity
- Taking account of the impact of decisions on future generations of tax payers and service users

Principles (shown in bold)	Sub-principles (shown in bold)
<p>In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance also requires a commitment to and effective arrangements for:</p>	<p>Behaviours and actions that demonstrate good governance in practice are illustrated in the bullet points.</p>
<p>C. Defining outcomes in terms of sustainable economic, social, and environmental benefits</p> <p>The long-term nature and impact of many of local government’s responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation’s purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.</p>	<p>Defining outcomes</p> <ul style="list-style-type: none"> ■ Having a clear vision, which is an agreed formal statement of the organisation’s purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation’s overall strategy, planning and other decisions ■ Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer ■ Delivering defined outcomes on a sustainable basis within the resources that will be available ■ Identifying and managing risks to the achievement of outcomes ■ Managing service users’ expectations effectively with regard to determining priorities and making the best use of the resources available <p>Sustainable economic, social and environmental benefits</p> <ul style="list-style-type: none"> ■ Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decisions about service provision ■ Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation’s intended outcomes and short-term factors such as the political cycle or financial constraints ■ Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs ■ Ensuring fair access to services

Principles (shown in bold)	Sub-principles (shown in bold)
<p>D. Determining the interventions necessary to optimise the achievement of the intended outcomes</p> <p>Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.</p>	<p>Determining interventions</p> <ul style="list-style-type: none"> ■ Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided ■ Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts <p>Planning interventions</p> <ul style="list-style-type: none"> ■ Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets ■ Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered ■ Considering and monitoring risks facing each partner when working collaboratively, including shared risks ■ Ensuring arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances ■ Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured ■ Ensuring capacity exists to generate the information required to review service quality regularly ■ Preparing budgets in accordance with objectives, strategies and the medium term financial plan ■ Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy

Principles (shown in bold)	Sub-principles (shown in bold)
	<p>Optimising achievement of intended outcomes</p> <ul style="list-style-type: none"> ■ Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints ■ Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term ■ Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage ■ Ensuring the achievement of ‘social value’ through service planning and commissioning
<p>E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it</p> <p>Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.</p>	<p>Developing the entity’s capacity</p> <ul style="list-style-type: none"> ■ Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness ■ Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently ■ Recognising the benefits of partnerships and collaborative working where added value can be achieved ■ Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources <p>Developing the capability of the entity’s leadership and other individuals</p> <ul style="list-style-type: none"> ■ Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained ■ Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body ■ Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other’s authority

Principles (shown in bold)**Sub-principles (shown in bold)**

- Developing the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:
 - ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged
 - ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis
 - ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external
- Ensuring that there are structures in place to encourage public participation
- Taking steps to consider the leadership’s own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections
- Holding staff to account through regular performance reviews which take account of training or development needs
- Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing

Principles (shown in bold)	Sub-principles (shown in bold)
<p>F. Managing risks and performance through robust internal control and strong public financial management</p> <p>Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.</p> <p>A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability.</p> <p>It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.</p>	<p>Managing risk</p> <ul style="list-style-type: none"> ■ Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making ■ Implementing robust and integrated risk management arrangements and ensuring that they are working effectively ■ Ensuring that responsibilities for managing individual risks are clearly allocated <p>Managing performance</p> <ul style="list-style-type: none"> ■ Monitoring service delivery effectively including planning, specification, execution and independent post implementation review ■ Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation’s financial, social and environmental position and outlook ■ Ensuring an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation’s performance and that of any organisation for which it is responsible (Or, for a committee system) Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making ■ Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement ■ Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (eg financial statements)

Principles (shown in bold)**Sub-principles (shown in bold)****Robust internal control**

- Aligning the risk management strategy and policies on internal control with achieving objectives
- Evaluating and monitoring risk management and internal control on a regular basis
- Ensuring effective counter fraud and anti-corruption arrangements are in place
- Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor
- Ensuring an audit committee or equivalent group/function, which is independent of the executive and accountable to the governing body:
 - provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment
 - that its recommendations are listened to and acted upon

Managing data

- Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data
- Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies
- Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring

Strong public financial management

- Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance
- Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls

Principles (shown in bold)	Sub-principles (shown in bold)
<p>G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability</p> <p>Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.</p>	<p>Implementing good practice in transparency</p> <ul style="list-style-type: none"> ■ Writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate ■ Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand <p>Implementing good practices in reporting</p> <ul style="list-style-type: none"> ■ Reporting at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way ■ Ensuring members and senior management own the results reported ■ Ensuring robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement) ■ Ensuring that this Framework is applied to jointly managed or shared service organisations as appropriate ■ Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations <p>Assurance and effective accountability</p> <ul style="list-style-type: none"> ■ Ensuring that recommendations for corrective action made by external audit are acted upon ■ Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon ■ Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations ■ Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement ■ Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met

Annual review and reporting

THE ANNUAL GOVERNANCE STATEMENT

- 7.1** Local authorities are required to prepare an annual governance statement (see Chapter two) in order to report publicly on the extent to which they comply with their own code of governance, which in turn is consistent with the good governance principles in this Framework. This includes how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the effectiveness of the governance and internal control framework.
- 7.2** The annual governance statement is a valuable means of communication. It enables an authority to explain to the community, service users, tax payers and other stakeholders its governance arrangements and how the controls it has in place manage risks of failure in delivering its outcomes. It should reflect an individual authority's particular features and challenges.
- 7.3** The annual governance statement should provide a meaningful but brief communication regarding the review of governance that has taken place, including the role of the governance structures involved (such as the authority, the audit and other committees). It should be high level, strategic and written in an open and readable style.
- 7.4** The annual governance statement should be focused on outcomes and value for money and relate to the authority's vision for the area. It should provide an assessment of the effectiveness of the authority's governance arrangements in supporting the planned outcomes – not simply a description of them. Key elements of an authority's governance arrangements are summarised in the next section.
- 7.5** The annual governance statement should include:
- an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the authority's code of governance
 - reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment, such as the authority, the executive, the audit committee, internal audit and others as appropriate
 - an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework

- an agreed action plan showing actions taken, or proposed, to deal with significant governance issues
 - reference to how issues raised in the previous year’s annual governance statement have been resolved
 - a conclusion – a commitment to monitoring implementation as part of the next annual review.
- 7.6** The annual governance statement should be signed by the leading member (or equivalent) and chief executive (or equivalent) on behalf of the authority.
- 7.7** The annual governance statement should be approved at a meeting of the authority or delegated committee (in Scotland, the authority or a committee with a remit including audit or governance).
- 7.8** Local authorities are required to include the annual governance statement with their statement of accounts. As the annual governance statement provides a commentary on all aspects of the authority’s performance, it is appropriate for it to be published, either in full or as a summary, in the annual report, where one is published. It is important that it is kept up to date at time of publication.

GOVERNANCE ARRANGEMENTS

- 7.9** Key elements of the structures and processes that comprise an authority’s governance arrangements are summarised below. They do not need to be described in detail in the annual governance statement if they are already easily accessible by the public, for example through the authority’s code of governance.
- Developing codes of conduct which define standards of behaviour for members and staff, and policies dealing with whistleblowing and conflicts of interest and that these codes and policies are communicated effectively.
 - Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.
 - Documenting a commitment to openness and acting in the public interest.
 - Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.
 - Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning.
 - Translating the vision into courses of action for the authority, its partnerships and collaborations.
 - Reviewing the effectiveness of the decision-making framework, including delegation arrangements, decision-making in partnerships, information provided to decision makers and robustness of data quality.
 - Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money.

- Defining and documenting the roles and responsibilities of members and management, with clear protocols for effective communication in respect of the authority and partnership arrangements.
- Ensuring that financial management arrangements conform with the governance requirements of the [CIPFA Statement on the Role of the Chief Financial Officer in Local Government \(2015\)](#) or [CIPFA Statement on the Role of the Chief Financial Officer of the Police and Crime Commissioner and the Chief Financial Officer of the Chief Constable \(2014\)](#) as appropriate and, where they do not, explain why and how they deliver the same impact.
- Ensuring effective arrangements are in place for the discharge of the monitoring officer function.
- Ensuring effective arrangements are in place for the discharge of the head of paid service function.
- Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.
- Reviewing the effectiveness of the framework for identifying and managing risks and for performance and demonstrating clear accountability.
- Ensuring effective counter fraud and anti-corruption arrangements are developed and maintained in accordance with the [Code of Practice on Managing the Risk of Fraud and Corruption \(CIPFA, 2014\)](#).
- Ensuring an effective scrutiny function is in place.
- Ensuring that assurance arrangements conform with the governance requirements of the [CIPFA Statement on the Role of the Head of Internal Audit \(2010\)](#) and, where they do not, explain why and how they deliver the same impact.
- Undertaking the core functions of an audit committee, as identified in [Audit Committees: Practical Guidance for Local Authorities and Police \(CIPFA, 2013\)](#).
- Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.
- Incorporating good governance arrangements in respect of partnerships and other joint working and ensuring that they are reflected across the authority's overall governance structures.



Registered office:

77 Mansell Street, London E1 8AN

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700

www.cipfa.org

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Delivering Good Governance in Local Government: Framework (2016 Edition)

Get the most from this publication

It is crucial that leaders and chief executives keep their governance arrangements up to date and relevant.

The main principle underpinning the development of this new Framework continues to be that local government is developing and shaping its own approach to governance, taking account of the environment in which it now operates.

The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach.

Read the full publication [here](#).



The overall aim is to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The Framework positions the attainment of sustainable economic, societal, and environmental outcomes as a key focus of governance processes and structures.

WHAT DOES IT DO?

The Framework defines the principles that should underpin the governance of each local government organisation.

It provides a structure to help individual authorities with their approach to governance.

Whatever form of arrangements are in place, authorities should therefore test their governance structures and partnerships against the principles contained in the Framework by:

- reviewing existing governance arrangements
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring ongoing effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how

they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in this Framework.

It should therefore develop and maintain a local code of governance/governance arrangements reflecting the principles set out.

It is essential that the Framework is applied in a way that demonstrates the spirit and ethos of good governance which cannot be achieved by rules and procedures alone. Shared values that are integrated into the culture of an organisation, and are reflected in behaviour and policy, are hallmarks of good governance.

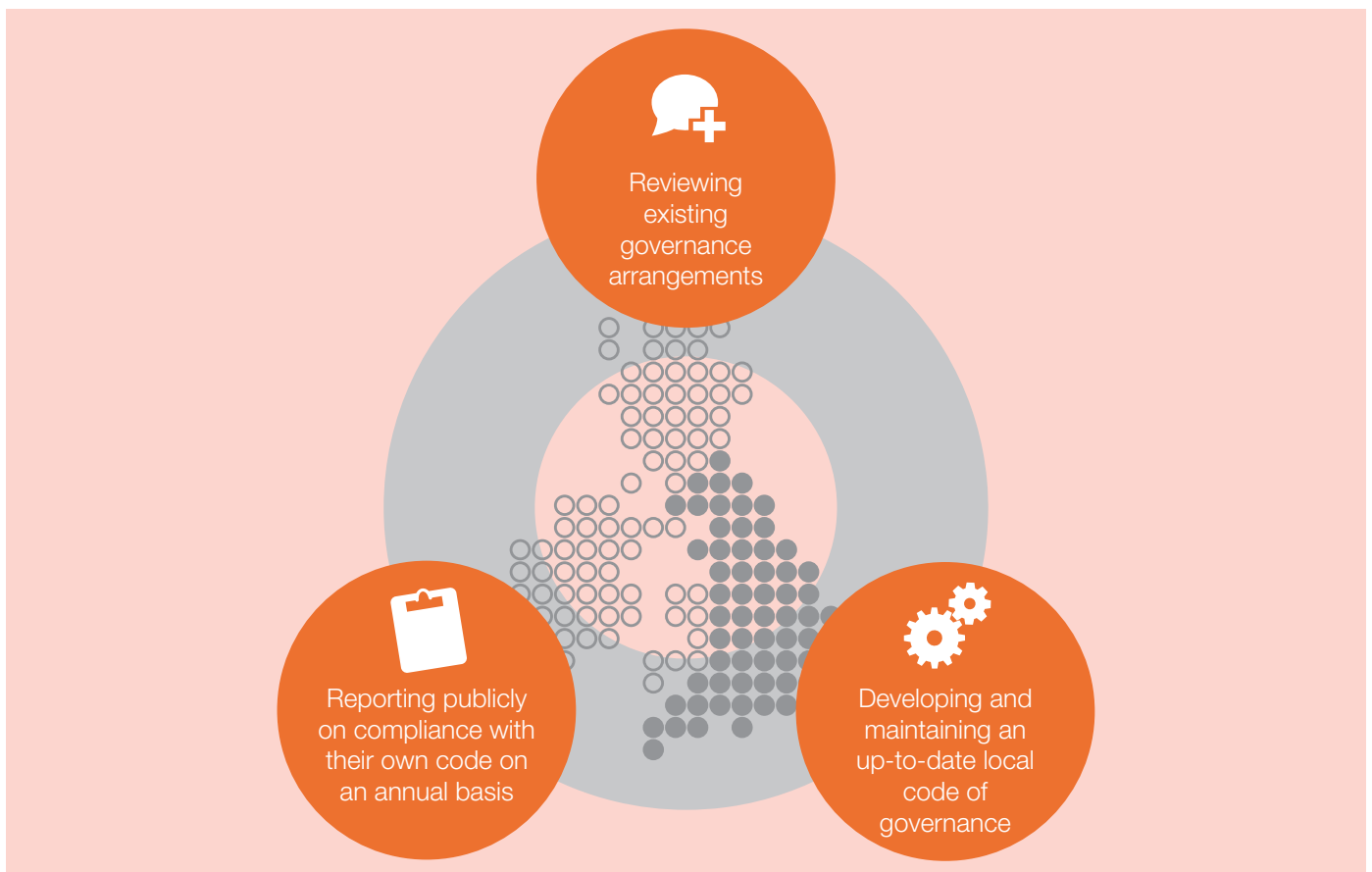
The preparation and publication of an Annual Governance Statement in accordance with this Framework fulfils the statutory requirements across the United Kingdom for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts.

The Framework applies to annual governance statements prepared for the financial year 2016/17 onwards.

YOU MIGHT ALSO BE INTERESTED IN THIS CIPFA PUBLICATION:

- [Delivering Good Governance in Local Government: Guidance Notes for English Authorities \(2016 Edition\)](#)

Test your governance structures and partnerships against the principles contained in the Framework



Southend-on-Sea Borough Council

Agenda
Item No.

7

Report of Corporate Director for Corporate Services
to
Audit Committee
on
21 September 2016

Report prepared by: BDO External Auditor

BDO: Progress Report to Those Charged with Governance

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

1.1 To report on progress in delivering the 2015/16 Annual Audit Plan.

2. Recommendation

2.1 The Committee accepts progress made in delivering the Annual Audit Plan for 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 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

September 2016



INTRODUCTION

Summary of progress

This report provides the Audit Committee with an update of the progress in delivering the 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.

2015/16 Annual Audit Plan - progress summary as at 6 September 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.	Work is complete.	Planning Letter 2015/16 Reported to the Audit Committee in June 2015. Audit Plan 2015/16 Reported to the March 2016 Audit Committee.
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 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 Final Report to the Audit Committee .
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.	Work substantially complete.	Final Report to the Audit Committee Being reported to the Audit Committee on the 21 September 2016. Opinion on the financial statements Accounts publication deadline 30 September.
Whole of government accounts audit	Audit of the consolidation pack for consistency with the audited statement of accounts. Consolidation pack opinion –Deadline confirmed as 21 October 2016.	Work in progress.	Opinion on the WGA Consolidation Pack Target date October 2016.
Use of resources	New approach for VFM Conclusion: One criteria: In all significant respects, the audited body had	Work in progress.	Final Report to the Audit Committee Results being reported in the Final Report to the Audit Committee on the 21 September 2016.

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Area of work	Scope / Associated deadlines	Status	Outputs / Date
	<p>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"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties <p>Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2016.</p>		<p>VFM conclusion Target issue date 30 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.	<p>Annual Audit Letter Target issue date October 2016.</p>
Grants and returns	To audit and submit BEN 01 (Housing Benefit) grant claim and returns by 30 November 2016 deadline.	Work in progress	Housing Benefit grants claim and return to be audited by 30 November 2016 deadline.
Non Audit Commission grants and returns	<p>To audit and submit Teachers' Pension and the Housing Pooled Capital Receipts grant claims and returns by the deadline.</p> <p>Teachers' Pensions: Deadline to issue reasonable assurance report is 30 November 2016.</p> <p>Housing Pooled Capital Receipts: 30 November 2016.</p>	<p>Start date agreed for Teachers Pension: 17 October 2016.</p> <p>Housing Pooled Capital receipts to be audited during October 2016.</p>	<p>Teachers' Pension grants claim and return to be audited by the 30 November 2016 deadline.</p> <p>Housing Pooled Capital Receipts grants claim and return to be audited by the 30 November 2016 deadline.</p>
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.	Grants Report 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

21st September 2016

Report prepared by: Linda Everard, Head of Internal Audit

Agenda
Item No.

8

Internal Audit Services, Quarterly Performance Report

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the progress made in delivering the Internal Audit Strategy for 2016/17.

2. Recommendations

- 2.1 **The Audit Committee notes the progress made in delivering the 2016/17 Internal Audit Strategy.**

3. Internal Audit Plan Status

- 3.1 When the Audit Plan was presented to the Audit Committee in March 2016, it was estimated that the service would deliver approx. 1,000 days during the year, although this contained a contingency of 120 days.
- 3.2 **Appendix 1** sets out the revised Audit Plan for the year and the current status of individual audits as at 31st August 2016. This delivers 718 days (which includes both in-house staff and contractors) and takes into account the:
- work already commissioned from contractors in the first half of the year
 - further vacancies to the in-house staffing available, since the Audit Plan was produced
 - increase in specialist resources being bought in to cover IT audit, project assurance and contract audit work
 - time required to complete 2015/16 audits that had not been finalised as at June 2016, when the Head of Internal Audit produced her annual report
 - need to retain some of the service's budget to fund the permanent recruitment of two staff in 2016/17 now that the independent Internal Audit service review commissioned by the Council, has concluded. The independent service review has indicated the option to pursue a shared service arrangement.
- 3.3 Overall timescales have been agreed for delivering the blocks of remaining work, with named staff being allocated to many of these audits. Start dates for individual audits that have only recently been contracted out, are in the process of being agreed with the services concerned.

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. This primarily relates to the outstanding key financial systems work.
- 4.2 No minimal assurance opinions have been issued since the last report to the Audit Committee.

5. Internal Audit Performance Targets

- 5.1 As at 31 August 2016, the service is 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 0.16 days per FTE compared to a target of under 5 days per FTE
 - productivity is over target at 76.4% compared to 75% (including contractors)
 - 38% of reports have been finalised, issued to clients or are at draft report stage (therefore the work is substantially complete).
- 5.2 The UK Public Sector Internal Audit Standards (the Standards) have been updated and came into force on 1 April 2016. The key changes are the inclusion of:
- a Mission Statement
 - Core Principles for Professional Practice in Internal Auditing.
- 5.3 These were included in the Charter presented to the Audit Committee in March 2016. A full assessment of the service's compliance with these revised Standards still needs to be completed. The results of this exercise will be reported to the Audit Committee in due course.
- 5.4 The service has revised its approach to obtaining feedback from stakeholders so it focuses on obtaining evidence of compliance with some of the less tangible elements of the Standards.
- 5.5 Surveys are conducted using a standard template comprising of 10 questions. The maximum possible score is 20 which equates to two points for each 'yes' answer. Otherwise it is one for 'partly' and zero for 'no'. 'Not applicable' responses are disregarded.
- 5.6 Surveys are undertaken each quarter but are not done for every audit completed. Participants are selected so that all departments and as many service areas as possible are covered throughout the year. Different grades of staff are also selected as part of the sample.
- 5.7 Five surveys have been carried out to date in 2016/17:
- four covered six specific different audits
 - one covered a wide range of audits undertaken across a service area (rather than focusing specifically on a particular piece of work).
- 5.8 A summary of the questions and results are attached at **Appendix 3**. The lowest score for any of the ten questions was 80%, which given the way this is scored, still demonstrates a high level of compliance. Five questions scored 100%, including *'do you think internal audit adds value to the Council'*.

5.9 Nevertheless, the service will continue to identify actions it needs to take as a result of the feedback received. They will form part of the action plan that is maintained to address any issues arising from the annual review of compliance with the Standards.

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
- lack of management capacity to support and process work in timely manner and provide strategic leadership to the team
- possibility that the external supplier won't deliver contracted in work within the required deadlines to the expected quality standards
- maintaining relationships with clients / partners during a period of uncertainty whilst the service review was undertaken.

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 2016/17

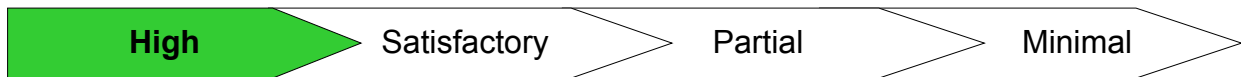
Appendix 2 Audit Opinions and Themes

- a • High Assurance
- b • Satisfactory Assurance
- c • Partial Assurance
- d • Other Audits and Grant Claims

Appendix 3 Stakeholder Surveys, Compliance with Professional Standards

Appendix 2a: Audit Opinion and Themes

Assurance



Key Financial Systems

Objective

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

Scope and Control Opinions

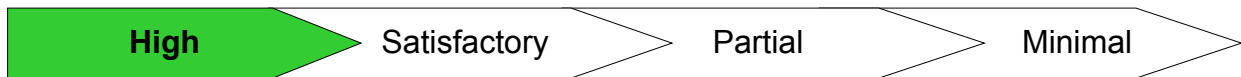
The audit evaluated the adequacy and effectiveness of the design and operation of the key controls listed in the table below, which also shows the assessed strength of each control.

Income Receipting and Banking

Key controls audited	Strength of control
<ul style="list-style-type: none"> Information from originating payment systems is accurate, complete and transferred to the cash receipting system in a timely manner. 	High
<ul style="list-style-type: none"> Payments by CHAPS and cheques are necessary, authorised and supported by appropriate documentation to confirm their validity. 	Satisfactory
<ul style="list-style-type: none"> Direct Debits are: <ul style="list-style-type: none"> authorised properly and supported by appropriate evidence to confirm their necessity and validity when they are set up regularly reviewed to confirm their ongoing necessity. 	High
<ul style="list-style-type: none"> Reconciliations between the Income Receipting and other key financial systems are complete, accurate and timely. <p><i>Note: This audit opinion is influenced by the reconciliations to the Income Receipting system that were tested within the other key financial systems audited this year.</i></p>	High
<ul style="list-style-type: none"> Staff declare relevant interests and appropriate action is taken to avoid conflicts of interest when allocating work. 	Partial
<ul style="list-style-type: none"> Staff access to, and permissions within, the online banking facility are restricted, according to assigned roles and responsibilities. 	High

Appendix 2a: Audit Opinion and Themes

Assurance



Key controls audited	Strength of control
<ul style="list-style-type: none"> Previous audit recommendations have been implemented properly, in a timely manner. 	Satisfactory

Issues (where partial or minimal assessment is given)

Staff have not updated their declarations of interest statements since June 2014. Action will be taken to refresh them this year.

Number of actions agreed: 2

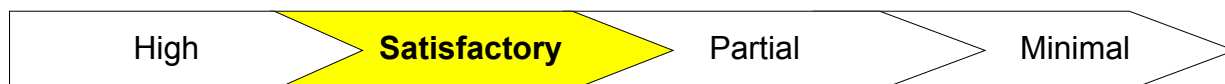
Treasury Management

Key controls audited	Strength of control
<ul style="list-style-type: none"> There is appropriate formulation and approval of the Treasury Management Policy and regular reporting in line with the CIPFA Code of Practice. 	High
<ul style="list-style-type: none"> Treasury management transactions are properly authorised and supported by appropriate evidence to confirm their validity (including investments placed, recalled and borrowings made and repaid). 	High
<ul style="list-style-type: none"> Treasury management transactions are promptly and accurately reflected in the General Ledger system. 	High
<ul style="list-style-type: none"> Previous audit recommendations have been implemented properly, in a timely manner. 	High

Number of actions agreed: 0

Appendix 1b: Assurance and Themes

Assurance



Public Health, Health Protection

Objective

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.

Themes

Overall, the Council is discharging its regulatory duties effectively with regard to the protection of the local population's health. The policy, procedure and working arrangements framework includes:

- a comprehensive Emergency Plan and Combined Operating Procedures in Essex (COPE) for multi-agency responsiveness to emergencies developed by the Essex Resilience Forum
- Business Continuity Procedures for the in-house service
- Cold Weather and Heatwave Plans adopted from Public Health England
- Seasonal Influenza Plan created with local partners
- an overarching plan for Control of Communicable Disease developed by Public Health England Essex Health Protection Team on behalf of Essex Directors of Public Health, Chief Officers of Local Authority Environmental Health Departments

All plans went through a high level of review, involving the Director of Public Health, the Local Health Resilience Partnership and Public Health England's Local Health Protection Team, to ensure they followed good practice.

A Memorandum of Understanding is in place between the members of the Local Health Resilience Partnership. This outlines the key roles and responsibilities of partners in the event of a significant public health incident or outbreak, as well as the agreement to provide resources and help to fellow partners.

To gain assurance regarding the preparedness of partner organisations to address public health issues, responsibility for which is defined within the Health & Social Care Act 2012, the Council is part of two Essex-wide groups. These groups also conduct exercises based on potential health protection scenarios and assess their success to ensure lessons are learnt. The Council also gains continuous assurance from the activities of Public Health England and the Local Health Protection Team.

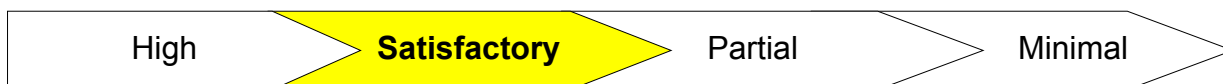
The budget for Health Protection within the Council is approximately £15,000. Whilst relatively small, it may be able to reclaim monies from partner health bodies if it was required to significantly increase spend in response to a significant public health incident, as part of a risk sharing agreement.

Increased reporting to Members and Senior Management is required to provide assurance regarding the work that the Director of Public Health and Public Health Team are carrying out in relation to health protection.

Number of actions agreed: 1

Appendix 1b: Assurance and Themes

Assurance



Key Financial Systems

Objective

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

Scope and Control Opinions

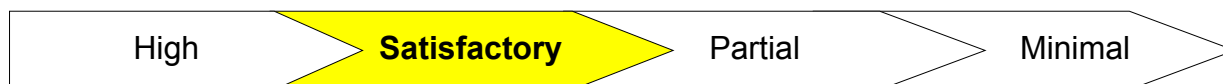
The audit evaluated the adequacy and effectiveness of the design and operation of the key controls listed in the table below, which also shows the assessed strength of each control.

Council Tax

Key controls audited	Strength of control
<ul style="list-style-type: none"> The list of properties subject to Council Tax is complete and accurate per the Local Land and Property Gazetteer and the Valuation Office notifications. 	High
<ul style="list-style-type: none"> The total amount of Council Tax to be collected from all properties is set up accurately, on a timely basis. 	Satisfactory
<ul style="list-style-type: none"> Discounts, disregards, exemptions and reliefs are accurately set up, on a timely basis. 	High
<ul style="list-style-type: none"> In-year adjustments to Council Tax accounts are accurate, applied promptly and supported by appropriate evidence to confirm their validity (i.e. change of occupancy, addition and removal of properties). 	High
<ul style="list-style-type: none"> Correct direct debits are raised. 	High
<ul style="list-style-type: none"> Payments received are accurate, complete and allocated to the correct Council Tax account, in a timely manner. 	High
<ul style="list-style-type: none"> Reconciliations between the Council Tax and General Ledger systems are complete, accurate and timely. 	High
<ul style="list-style-type: none"> Staff declare relevant interests and appropriate action is taken to avoid conflicts of interest when allocating work. 	Partial
<ul style="list-style-type: none"> Staff access to, and permissions within, the Council Tax system are restricted, according to assigned roles and responsibilities. 	High

Appendix 1b: Assurance and Themes

Assurance



Key controls audited	Strength of control
<ul style="list-style-type: none"> Previous audit recommendations have been implemented properly, in a timely manner. 	High

Issues (where partial or minimal assessment is given)

Staff have not updated their declarations of interest statements since June 2014. Action will be taken to refresh them this year.

Number of actions agreed: 2

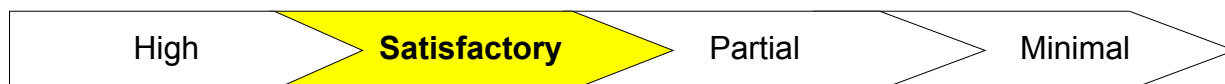
General Ledger

Key controls audited	Strength of control
<ul style="list-style-type: none"> Reconciliations between all key financial systems and the General Ledger are complete, accurate and timely. <p><i>Note: This audit opinion is influenced by the reconciliations to the General Ledger that were tested within all of the other key financial systems audited this year.</i></p>	Satisfactory
<ul style="list-style-type: none"> Reconciliations between the General Ledger and the bank account/s are complete, accurate and timely. 	High
<ul style="list-style-type: none"> Journals are accurate, authorised and supported by appropriate evidence to confirm their validity. 	Satisfactory
<ul style="list-style-type: none"> Virements are accurate, authorised and supported by appropriate evidence to confirm their validity. 	High
<ul style="list-style-type: none"> Previous audit recommendations have been implemented properly, in a timely manner. 	Satisfactory

Number of actions agreed: 3

Appendix 1b: Assurance and Themes

Assurance



Housing Benefits

Key controls audited	Strength of control
<ul style="list-style-type: none"> Applicable Housing Benefit rates and eligibility parameters are amended accurately and completely on a timely basis. 	High
<ul style="list-style-type: none"> There are appropriate arrangements in place to check that claims are processed by staff accurately, based on the supporting evidence. 	Satisfactory
<ul style="list-style-type: none"> There are appropriate arrangements in place to check that payments made to claimants are accurate. 	Satisfactory
<ul style="list-style-type: none"> Reconciliations between the Housing Benefit and General Ledger systems are complete, accurate and timely. 	High
<ul style="list-style-type: none"> Staff declare relevant interests and appropriate action is taken to avoid conflicts of interest when allocating work. 	Partial
<ul style="list-style-type: none"> Staff access to, and permissions within, the Housing Benefit system are appropriately restricted according to assigned roles and responsibilities. 	High
<ul style="list-style-type: none"> Previous audit recommendations have been implemented properly, in a timely manner. 	High

Issues (where partial or minimal assessment is given)

Staff have not updated their declarations of interest statements since June 2014. Action will be taken to refresh them this year.

Note:

Significant changes have been made to the quality assurance function within the Housing Benefit team during the year.

These changes have significantly strengthened the arrangements for confirming the appropriateness of claims and accuracy of payments made. As they were relatively new when the audit was completed, it is not possible to comment at this time, on their effectiveness in reducing errors in claims processed.

Caveat: The audit did not include testing individual claims to ensure they had appropriate supporting evidence or that the calculation is correct, as this is done extensively by External Audit when auditing the Housing Benefit Grant Claim.

Number of actions agreed: 1

Appendix 2c: Audit Opinion and Themes

Assurance



Key Financial System

Objective

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

Scope and Control Opinions

The audit evaluated the adequacy and effectiveness of the design and operation of the key controls listed in the table below, which also shows the assessed strength of each control.

Accounts Receivable

Key controls audited	Strength of control
<i>Service areas within the Council</i>	
<ul style="list-style-type: none"> Service areas' instructions to the Accounts Receivable team to raise debts are appropriately reviewed and authorised to confirm they are accurate and supported by appropriate evidence to confirm their validity. 	Partial
<i>Accounts Receivable Team</i>	
<ul style="list-style-type: none"> All instructions from originating service areas for debtors to be raised are: <ul style="list-style-type: none"> accurately and completely turned into an up to date, official Council invoice, on a timely basis recorded on the Accounts Receivable system. 	High
<ul style="list-style-type: none"> The correct VAT rates are applied to invoices raised. 	High
<ul style="list-style-type: none"> The required escalation process is applied following non-payment of invoices. 	Satisfactory
<ul style="list-style-type: none"> Parked or Suspended Debt (i.e. debt not being actively pursued) is properly authorised and supported by appropriate evidence to confirm the initial and ongoing validity of the action. 	High
<ul style="list-style-type: none"> Reconciliations between the Accounts Receivable and the General Ledger systems are complete, accurate and timely. 	Satisfactory

Appendix 2c: Audit Opinion and Themes

Assurance



Key controls audited	Strength of control
<ul style="list-style-type: none"> Staff declare relevant interests and appropriate action is taken to avoid conflicts of interest when allocating work. 	High
<ul style="list-style-type: none"> Staff access to, and permissions within, the Accounts Receivable system are restricted, according to assigned roles and responsibilities. 	Minimal
<ul style="list-style-type: none"> Previous audit recommendations have been implemented properly, in a timely manner. 	Satisfactory

Issues arising (where partial or minimal assessment is given)

On receiving online request forms, the Accounts Receivable (AR) team only check details for reasonableness and mathematical accuracy before turning it into an invoice. They do not receive any supporting information and therefore, are dependent on the service sending legitimate requests. Therefore, the risk remains that a fraudulent, malicious or inaccurate invoice could be raised if the details and amounts looked legitimate.

Last year, a recommendation was made regarding restricting access to both the online form itself and calculations of the cells within it. It was subsequently discovered that neither were an option due to restrictions around the flexibility of the system. A request is currently in the process of being made to develop Agresso to allow invoices to be raised by service areas themselves and then approved by the AR team within a workflow.

A previous recommendation made within the 2014/15 General Ledger report, regarding the regular review of all current permissions within Agresso to check whether they are in line with operational need, is yet to be fully implemented. After discussions with the Service Delivery Manager, Applications, it was noted that the review was a larger task than expected. The Agresso Review Group is currently 20% through the review. However, the Group is now running on a six-weekly basis to try and expedite implementation.

Agresso Support team staff have already attended training workshops that have included the administration of system security (access and permissions). However, at least one member of the team will attend a course specifically on system security in 2016/17 to ensure that the knowledge is comprehensive and embedded.

As a result of this, it is not possible to provide any assurance with regard to systems access permissions.

Number of actions agreed: 5

Appendix 2c: Audit Opinion and Themes

Assurance



Accounts Payable

Key controls audited	Strength of control
<ul style="list-style-type: none"> New suppliers and amendments to current supplier details are set up accurately and supported by appropriate evidence to confirm their validity. 	Satisfactory
<ul style="list-style-type: none"> The correct VAT rates are applied to payments made. 	High
<ul style="list-style-type: none"> Staff system permissions are configured to ensure payments are authorised in line with the Council's approved Scheme of Delegation. 	Partial
<ul style="list-style-type: none"> Cumulative payments made by batch input files are accurate, complete and in line with the instruction from the originating service area (Adult and Children's Social Care Files). 	Minimal
<ul style="list-style-type: none"> BACS payment runs are complete, accurate, and appropriately authorised. 	High
<ul style="list-style-type: none"> Staff access to, and permissions within, the BACS system are restricted according to assigned roles and responsibilities. 	High
<ul style="list-style-type: none"> Reconciliations between the Accounts Payable and General Ledger systems are complete, accurate and timely. 	High
<ul style="list-style-type: none"> Staff access to, and permissions within, the Accounts Payable system are restricted, according to assigned roles and responsibilities. 	Minimal
<ul style="list-style-type: none"> Previous audit recommendations have been implemented properly, in a timely manner. 	Partial

Issues arising (where partial or minimal assessment is given)

Scheme of Delegation

The Council relies on its Scheme of Delegation being robustly applied via the automated approval process within the Agresso Accounts Payable system, to ensure payments are accurate and valid.

Appendix 2c: Audit Opinion and Themes

Assurance



In order to ensure the Scheme of Delegation remains fit for purpose, twice yearly, independent management checks need to be undertaken to confirm that delegated authorities assigned to officers:

- continue to be appropriate
- are in line with the Council's approved Scheme of Delegation i.e. Council's Constitution Part 4(f) Financial Procedure Rules (Appendix E paragraph 1.13).

Batch Input Files

The Council uses a Batch Input File (BIF) process to import data from the Department for People's case management system Care First into Agresso in order that payments relating to adults and children can be made. Arrangements for confirming the imported data is accurate, authorised and in line with that from the originating system, still require improvement to ensure payments made are valid. The actions required include:

- ensuring only appropriate staff have access to the IT network files where BIF files are stored prior to and after processing
- strengthening the arrangements for authorising BIF files
- improving the format of Agresso reports so that the Department for People can reconcile payments to be made back to the originating system, Care First.

Going forward, the Department for People's current project to implement a new Case Management system includes the development of a finance module. This aims to considerably improve the existing arrangements for making payments to adults and children (implementation planned for 2017/18).

System access controls

The tasks available to Accounts Payable staff from the ID role assigned to them within the Agresso system, is not clear. The Council is part way through a review of all Agresso permissions to check whether they are in line with operational need. The Head of People and Policy is chairing the Agresso Review Group where progress on this assignment is reported and monitored (also see the Accounts Receivable audit).

Previous actions agreed

Satisfactory evidence was produced to demonstrate five of the original ten recommendations that remained relevant, had been implemented.

Further audit work will be included in 2016/17 to ensure these recommendations have become embedded in business as usual activities (e.g. see Audit Plan 2016/17 "Corporate Procurement Team Procure to Pay").

Where relevant, outstanding actions have been referred to in the findings above.

Number of actions: 7

Appendix 2d: Other Audits and Grant Claims

Local Growth Fund Grant

Purpose of funding

The South East Growth Deal aims to contribute to the Local Enterprise Partnership's Strategic Economic Plan by helping to renew the physical and intellectual capital of the South East. It focuses initially on transport and infrastructure.

Objective

Support economic growth in Southend by delivering 2015-16 projects as set out in the growth deal.

Opinion: Unqualified.

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Appendix 3: Stakeholder Surveys, Compliance with Professional Standards

Ref.	Question	Score
1. Setting up and planning the audit (PSIAS 1200 / 2200)		
1.1	Did we show a good level of knowledge and understanding of your service when discussing the potential scope and objective to be covered by the audit before fieldwork took place?	80%
2. Performing the audit (PSIAS 2300)		
2.1	Did we work effectively with you when doing the audit to minimise the impact on your service?	100%
2.2	Were we able to talk knowledgeably with you about information provided to us and queries we had during the audit?	100%
3. Communicating results (PSIAS 2400)		
3.1	Did we keep you informed of the progress of the audit and issues arising from the work in timely manner?	90%
3.2	Did we effectively explain to you where we felt action was required to improve your arrangements and why?	90%
3.3	Was the report fair and reflective of the work done by audit and the issues found as discussed with you?	88%
4. Independence and Objectivity (PSIAS 1100)		
4.1	Did we provide relevant evidence to back up our findings if required?	88%
4.2	At the end of the audit, did you understand the rationale for the overall opinion given?	100%
5. Improving governance, risk management and control processes (PSIAS 2100)		
5.1	Did we explain how the actions you agreed to take would strengthen your operational arrangements and why that is important?	100%
6. Managing the Internal Audit Activity (PSIAS 2000)		
6.1	Do you think internal audit adds value to the Council?	100%

Appendix 3: Stakeholder Surveys, Compliance with Professional Standards

Themes

The importance of collaboration and partnership was a strong theme across the surveys, with participants reporting that:

- Internal Audit welcomes “open challenge and discussion”
- there is an “easiness” in the way in which they could shape the scope of audits, discuss findings, and participate in identifying solutions (relates to **PSIAS 1200 / 2200**).

There was one instance where a contracted out audit was felt to be unnecessary, badly timed and communication could have been improved. Given the small number of surveys undertaken to date and how they are scored, this has had a noticeable impact on the score in this area (relates to **PSIAS 1200 / 2200**).

All interviewees found that the service worked flexibly and sensitively with them to minimise the impact of audits on their day-to-day business and capacity, which was especially appreciated in light of current resourcing and budgetary constraints (relates to **PSIAS 2300**).

The in-house team were praised for their “nuanced” understanding of the service areas and the topics they were auditing across the Council, with interviewees viewing them as inquisitive and keen to understand the subtleties and unique circumstances of the areas and people they were auditing (relates to **PSIAS 2300**).

Improving communication was a key issue that presented repeatedly (relates to **PSIAS 2400**). Interviewees reported delays in receiving reports and / or reduced communications once the fieldwork stage had ended. This lack of communication appeared to negatively impact those staff below Group Manager level, more. This suggests that the staff that participate closely in the fieldwork stage are invested in knowing the outcome of the effort they have put in. Staff above Group Manager level, seemed less affected.

Concerns were raised about how well the Audit Opinions are understood by the business as a whole. Again, staff below Group Manager level, seemed to be more personally affected by '*partial*' or '*minimal*' audit opinions. A question has been raised as to whether training or information should be given to staff on the meaning of the Audit Opinions and what they actually signify. This could be a stand-alone session or incorporated into the planning stage of the audit (relates to **PSIAS 1100**).

All interviewees felt that Internal Audit adds value to the Council, with one interviewee stating that it is “invaluable”, and “impartial in a way that no other service in the Council can be”. The ability of the service to pose questions and facilitate discussions that eventually brought real improvements to services was also a key theme for positive feedback throughout the surveys (relates to **PSIAS 2000**).

Improvement Plan

1. Setting up and planning the audit (**PSIAS 1200 / 2200**)

- Ensure all key staff involved in follow up audits have an opportunity to discuss the timing of the work and are clear what it involves.
- Produce a standard terms of reference for this type of work.

Appendix 3: Stakeholder Surveys, Compliance with Professional Standards

3. Communicating Results (PSIAS 2400)

- Carry out exit meetings for all audits, with the relevant staff in attendance.
- Build triggers into the audit approach that requires auditors to keep staff informed of when reports can be expected and if there are delays in producing them.

4. Independence and Objectivity (PSIAS 1100)

- Produce a simple handout that explains what the audit opinions are and how they are arrived at that can be shared with staff being audited.
- Ensure reasons for the audit opinion on individual jobs is also explained at the exit meeting.

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Southend-on-Sea Borough Council

Report of Corporate Director for Corporate Services

to

Audit Committee

on

21 September 2016

Report prepared by: Daniel Helps, Investigation & Forensics
Manager, Counter Fraud & Investigation

Agenda
Item No.

9

Counter Fraud & Investigation Directorate: Status Report

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the progress made in delivering the Corporate Counter Fraud & Investigation Strategy for 2016/17.

2. Recommendation

- 2.1 **The Audit Committee notes the Counter Fraud & Investigation Directorate's performance to date.**

3. Performance

- 3.1 The work programme consists of three main strands:

- Assessing compliance with relevant national frameworks
- Delivering a proactive programme of counter fraud work
- Investigating allegations of fraud, theft, bribery, corruption and money laundering offences, reported to the Directorate.

- 3.2 The current status of each of these work streams are detailed in this report, supported by individual appendices.

- 3.3 The formation of the government's Single Fraud Investigation Service in the Department for Work and Pensions now sees all housing and council tax benefit fraud work is managed outside of the Council. The Directorate does still have remaining responsible for progressing 'legacy' housing and council tax benefit fraud cases that were progressed into the judicial system.

- 3.4 **Appendix 1** outlines the flow of cases into the directorate for this year since 1st April 2016.

- 3.5 A number of successful outcomes have been achieved in different areas of the council where emerging threats are being seen. These have been detailed in **Appendix 2**.

4. Fighting Fraud & Corruption Locally

- 4.1 The original Local Government Fraud Strategy (Fighting Fraud Locally) 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 rests with CIPFA, supported by the Home Office and Cabinet Office who produced a revised strategy in May 2016.
- 4.3 The Directorate are now reviewing the council's compliance with this new strategy and will report on this at the next committee.

5. Proactive work programme

- 5.1 **Appendix 3** 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 with a noticeable increase in referrals for investigation being seen.
- 5.3 The government funded Counter Fraud Fund project, led by the Directorate resulted in **Operation Domus** being launched at an event on 5th July. A number of speakers appeared at the event including a keynote from Mike Gatrell, Chief Executive, South Essex Homes and Steve Worrton, Assistant Chief Constable, Essex Police.
- 5.4 Those invited to the launch included Local Authorities, Registered Housing Providers, Essex Police, Essex Fire & Rescue, Gang Masters Licencing Authority and others. A programme of collaborative work between the partners is now underway to reduce the harm to communities from fraud and other acquisitive crime in a social housing setting.
- 5.5 The directorate are also working closely with Internal Audit in relation to their scheduled audits on the Right to Buy and Housing Allocations process. The business learning from this work will be used to inform increased protection from fraud threats, where necessary.
- 5.6 Input from the directorate into the Housing Allocation process, to show areas that can be strengthened, have already been included in the preliminary recommendations made by Internal Audit.
- 5.7 South Essex Homes will be delivering some work in housing allocations from the council. The directorate have agreed to provide training to SEH staff and provide input into the procedures and policies that SEH will be implementing.

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. Fraud Awareness Training

- 7.1 The directorate is on track with its plan of fraud awareness training to all departments within the council and Members. Training events are scheduled to commence in September.

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.
- PKF Fraud Indicator Report

10. Appendices

- Appendix 1: Case Summary
- Appendix 2: Recent Case Examples
- Appendix 3: Proactive Work Programme
- Appendix 4: 2016/17 Corporate Counter Fraud and Investigation Strategy

Appendix 1 - Counter Fraud & Investigation Directorate Southend Borough Council Case Summary to July 2016

Case Status	Fraud Type				Total
	Housing Tenancy Fraud	Council Tax	Blue Badge	Other	

NB: Responsibility for investigating all Housing Benefit fraud transferred to the DWP on 2 November 2015. The Council no longer has any involvement in investigating benefit fraud.

Directorate Case Load					
Total Fraud Allegations Received (Between 01/04/16 – 12/07/16)	29	33	31	8	101
Passed to another agency**	0	0	0	0	0
No offences**	0	3	21	5	29
Under investigation**	42	9	20	18	89
Closed**	44	6	65	52	167

****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	0	1	9	0	10
Prosecution Action	2	1	0	1	4
Tenancy Property Recovered	3	0	0	0	3
Right to Buy Closed	5	0	0	0	5
Blue Badge Recovered	0	0	0	0	0
Warning Issued	0	0	0	0	0
Disciplinary Action	0	0	0	0	0
Fraud Prevention Saving	0	0	0	0	0

Value of Proven Fraud re Closed Investigations

Prosecution	Formal Caution	Other Fraud Savings ¹	Properties Recovered
£3,557	£7,299	£0	3
Right to Buy Fraud Savings ¹	Tenancy Fraud Savings ¹	Money Recovered ²	TOTAL³
£0	£252,000	£0	£262,856

¹ Money saved by the Council through preventative action by the Counter Fraud Directorate

² Money recovered from criminals by the Counter Fraud Directorate

³ Total loss figure to the Council

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Appendix 2 – Prosecution Summary: New Types of Fraud

This summary provides details of two Investigations that have been successful prosecuted by the directorate in Q1 2016. These are fraud types that have not previously been prosecuted by Southend-on-Sea Borough Council (the Council).

Council Tax

The liable Council Tax payer, Miss Mpofu, approached the Council claiming to be full time student. She provided a student certificate and received a zero rate on her Council Tax, meaning that she was exempt due to being a student and therefore avoided more than £2,000 in Council Tax liability.

The Directorate conducted an investigation after an allegation was received.

It was discovered that she had in fact stopped her university course shortly after enrolling and, significantly, after she had received all the relevant paperwork that would allow her to obtain the exemption from the Council.

Miss Mpofu was interviewed under caution and admitted the offence.

She pleaded guilty at court and was sentence to a conditional discharge and was ordered to pay the outstanding liability. She was also order pay the directorate's costs of £349 and a £15 victim charge.

Social Care

Miss Lane was appointed as a carer for an elderly person with disabilities. She was paid by the Council (via Vibrance) to provide care as required by the service user.

After a short time the service user 'dismissed' Miss Lane due to her not providing the service as required. Miss Lane continued to send in timesheets to Vibrance and forged the service user's signature, therefore receiving payment.

Miss Lane was interviewed under caution by the Directorate's officers and fully admitted the offence.

She was summonsed to attend court where she pleaded guilty but then failed to return for sentencing. The Directorate's officers worked hard to locate and trace her and she was then arrested by Essex Police and sent back to court where she received her sentence.

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Appendix 3: Proactive Work Programme as at June 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.	Ongoing	<p>This has commenced after an event on 5th July 2016.</p> <p>A programme of work is now underway with all the housing providers and Council's around the County, led by the Directorate.</p>
Right to Buy	Evaluate whether application processes can be strengthened to minimise the risk of fraud.	Ongoing	<p>Joint working activity is now underway with Internal Audit to ensure to improve business process knowledge and build appropriate measures to reduce potential fraud.</p>
Business Rates	Conduct a data matching exercise to identify possible misuse of exemptions claimed for commercial property, including 'Phoenix Companies'.	September 2016	<p>There is no national standard model for data matching in this area. Pushed back until national work plans are identified.</p>
	Identify, from the data matching exercise, a tool that can be installed for use in the continual prevention of false exemption claims.	September 2015	<p>At present, different data sets are being tested, in conjunction with the Revenue service, to ensure the results are reliable.</p>
	Evaluate whether Business Rates processes can be strengthened to minimise the risk of fraud.	September 2015	<p>Enquiries with BIS will be undertaken to obtain a national view point</p>
Council Tax	Evaluate whether Council Tax Discount and Exemption processes can be strengthened to minimise the risk of fraud.	Ongoing	<p>A joint working arrangement has been established with the Revenues service in relation to this.</p> <p>This joint working has already identified various potential frauds and savings</p>

Appendix 3: Proactive Work Programme as at June 2016

Risk area	Tasks	Planned for	Current status
Fraud Awareness	<p>Introduce a formal, detailed intelligence alert system across all Council departments to inform services of immediate fraud risks.</p> <p>Provide fraud awareness training to business areas</p>	<p>Ongoing</p> <p>Ongoing</p>	<p>Draft intelligence alert templates have been produced and are awaiting agreement to be circulated</p> <p>Next training in Q2</p>
National Fraud Initiative, Data Matching Exercise	Investigate high level recommended data matches until the 2016 exercise is complete.	Will report progress made on quarterly basis	Awaiting new match

2016/17 Corporate Counter Fraud and Investigation Strategy



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

Reported to Corporate Management Team and Audit Committee

2016/17 Corporate Counter Fraud and Investigation Strategy

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 will transfer to the Department for Work and Pensions (DWP) Single Fraud Investigation Service (SFIS). At present, the Council's view is that none of its staff will transfer to SFIS.

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.*

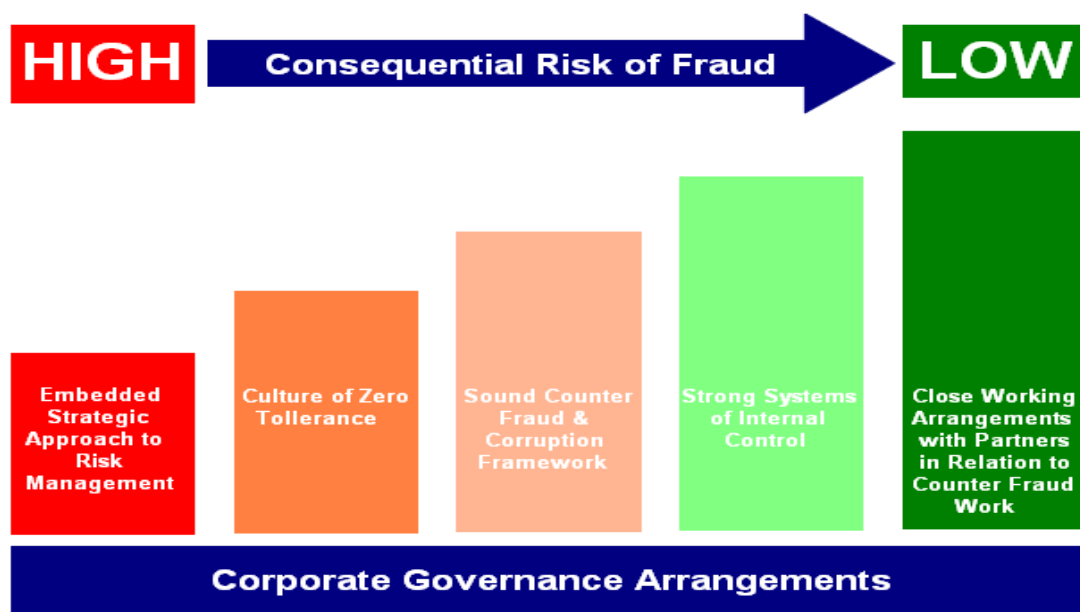
2016/17 Corporate Counter Fraud and Investigation Strategy

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:

2016/17 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.

2016/17 Corporate Counter Fraud and Investigation Strategy

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 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

2016/17 Corporate Counter Fraud and Investigation Strategy

Category	Value
False Insurance Claims	4.8m
Abuse of Position	4.5m
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 2016/17 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
- investigating allegations of fraud, theft, bribery, corruption and money laundering. (**Appendix 1**)
- delivering a programme of proactive work, including data matching exercises (**Appendix 3**)

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.

2016/17 Corporate Counter Fraud and Investigation Strategy

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 2016/17.

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.

2016/17 Corporate Counter Fraud and Investigation Strategy

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.

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.

Southend-on-Sea Borough Council

Report of Corporate Director for Corporate Services

to

Audit Committee

on

21 September 2016

Report prepared by: Linda Everard, Head of Internal Audit

Agenda
Item No.

10

Audit Committee Terms of Reference

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present a new Terms of Reference for the Audit Committee that reflects the current good practice guidelines set out in the publication, CIPFA, Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition.

2. Recommendations

- 2.1 **The Audit Committee approves the Terms of Reference and recommends its adoption to Council.**

3. Background

- 3.1 The first version of the UK Corporate Governance Code (the Code) was produced in 1992 by the Cadbury Committee and it has been updated a number of times since (the most recent version being published in April 2016). It is this document that developed the principle that *'the board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors'*. The Code then requires an audit committee to be established to do this and sets out how it should operate.
- 3.2 This Code has then been taken by the relevant professional / lead body for each sector, and tailored to reflect its specific operating environment.
- 3.3 There is no statutory requirement in local government to have an Audit Committee although this is now considered to be good practice. However the Accounts and Audit Regulations 2015 require councils to:
- conduct a review of the effectiveness of its system of internal control each financial year
 - prepare an annual governance statement
 - present the findings of this review to a committee or full Council to consider prior to approving the annual governance statement.

This is the role that has been delegated to the Audit Committee by Council.

- 3.4 This statutory requirement is then supported by good practice guidance, which consists of:
- CIPFA / Solace, Delivering Good Governance in Local Government, Framework 2016 Edition
 - CIPFA, Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition.

4. Terms of Reference

- 4.1 The Audit Committee's Terms of Reference is due for review so as part of this exercise, its compliance with the current good practice guidance was also assessed.
- 4.2 The new Terms of Reference is attached at Appendix 1. It contains a number of standard elements, i.e.:
- whether Cabinet members can have a role on the Audit Committee
 - the expectation that one member should have financial expertise
 - its powers to invite officers or councillors to attend to provide assurance in relation to the risk management, governance or control arrangements pertaining to their areas of activity or responsibility
 - that the Audit Committee reports to and discharges its duties on behalf of Council.
- 4.3 The only amendments made to these elements reflect that:
- the Committee now meets four instead of five times a year (refer 8.3.4)
 - going forward, there will no longer be a Corporate Director of Corporate Services role invited to attend every meeting (refer 8.3.5).
- 4.4 The key changes are to sections 8.3.1 to 8.3.3 which now set out the Audit Committee's purpose and remit.
- 4.5 In the last few years, a number of good practice governance type documents have been updated to introduce consistency across the framework the public sector / local government is expected to apply. The current Audit Committee guidance now reflects this although it does not change its purpose or remit fundamentally.
- 4.6 Therefore, the new Terms of Reference includes, from the guidance, the:
- 'purpose' which is now framed using the common terms such as 'governance, risk management and control' that are reflected throughout the public sector governance framework e.g. UK Public Sector Internal Audit Standards / Good Governance Guidance
 - 'remit', instead of making reference to a work programme and what it will cover.
- 4.7 The new Terms of Reference now reflects the Council's current operating arrangements as well as good practice guidance.

5. Independent, Co-opted Audit Committee member

- 5.1 The Council has recently advertised for a new co-opted member to join its Audit Committee. The closing date for applications is 23rd September 2016. Successful candidates will be invited for interview with the Chair and Vice Chair of the Audit Committee. The recommended appointment will then be taken to Council for approval.

6. Corporate Implications

6.1 Contribution to Council's Aims and Priorities

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

6.2 Financial Implications

None.

6.3 Legal Implications

Refer to Background, Section 3.

6.4 People and Property Implications

None.

6.5 Consultation

None.

6.6 Equalities Impact Assessment

None.

6.7 Risk Assessment

Without an effective Audit Committee, the Council is at risk of not obtaining ongoing assurance as to the robustness of its risk management, governance and control framework. An ineffective system of internal control potentially puts the delivery of Council services at risk.

6.8 Value for Money

None.

6.9 Community Safety Implications and Environmental Impact

None.

7. Background Papers

- The Accounts and Audit Regulations 2015
- Audit Committee Practical Guidance for Local Authorities and Police 2013 Edition
- UK Public Sector Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

8. Appendix

Appendix 1 Audit Committee Terms of Reference

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8. Audit Committee Terms of Reference

8.1 Membership

Nine Members of the Council and one non-voting co-opted member.

The membership should include:

- a Chairman who is not an Executive Councillor
- at least one member with financial expertise.

The membership should not include:

- more than one Councillor who is also a member of Cabinet
- the Councillor who is the Cabinet portfolio holder for corporate services.

Substitutes: Permitted in accordance with Standing Order 31.

Proportionality: Applies.

8.2 Quorum

As per Standing Order 38.1

8.3 Terms of Reference

8.3.1 The Audit Committee is a key component of the Council's corporate governance arrangements. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

8.3.2 Therefore the purpose of the Audit Committee is to:

- provide the Council with independent:
 - assurance of the adequacy of the risk management framework and the internal control environment
 - review of its governance, risk management and control frameworks.
- oversee:
 - the financial reporting and annual governance processes
 - internal audit and external audit, helping to ensure effective relationships exist and efficient and effective assurance arrangements are in place.

8.3.3 In order to be able to discharge its statutory responsibilities, its remit will cover the Council's:

- assurance statements including the Annual Governance Statement, so it can satisfy itself that they:
 - properly reflect the risk environment and any actions required to improve it
 - demonstrate how governance supports the achievements of the Council's objectives.
- Internal Audit function, with regards to its:

- independence, objectivity, performance, professionalism and effectiveness
- use within the Council's overall assurance framework.
- risk management arrangements and control environment so it can:
 - consider its effectiveness
 - review:
 - the organisation's risk profile
 - assurances provided that action is being on risk related issues, including those involving partnerships with other organisations.
- control environment, so it can evaluate its effectiveness, particularly with regard to ensuring:
 - value for money is delivered
 - the exposure to the risks of fraud and corruption are managed.
- reports and recommendations made by external audit and inspection agencies and their implications for governance, risk management or control
- the financial statements, external auditor's opinion and reports to Members and responses by management to issues raised by external audit
- treasury management, so it can effectively scrutinise and monitor delivery of the strategy and policies in accordance with the CIPFA Treasury Management Code of Practice
- the functions and effectiveness of the Audit Committee, including the production of its annual report.

8.3.4 The Committee will meet four times per year, with dates included in the Council Calendar. Further meetings can be arranged on an ad hoc basis as the Audit Committee deems appropriate.

8.3.5 The Head of Finance & Resources (S151 Officer), the Head of Internal Audit and the Council's External Auditors will be invited to attend every Audit Committee meeting. As well as reviewing documentation, the Audit Committee exercise the right to invite any other officers, Chairmen of other Committees or Cabinet Members to attend before it, as and when required. This would be to provide assurance in relation to the adequacy of the governance, risk management and control frameworks pertaining to their area of activity / responsibility.

It is the duty of those persons to attend if so required.

Where any member or officer is required to attend the Audit Committee under this provision, maximum notice will be given.

Where in exceptional circumstances, the Member or officer is unable to attend on the required date; an alternative date will be agreed with the Chairman.

8.4 Status of Meetings

Open to the public

8.5 Reports To

Council

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Agenda Ann

CIPFA Better Governance Forum

Audit Committee Update

Helping Audit Committees to Be Effective

Issue 20

CIPFA Survey on Audit Committees 2016

August 2016

Introduction

Dear audit committee member,

In the latest issue of Audit Committee Update we feature some of the main findings from our research into audit committees in local authorities and police. Further details will be on the CIPFA website shortly but this briefing provides the first insights. Our surveys were completed by 307 heads of internal audit, chief financial officers (CFOs) and chairs of audit committees at local authorities and police bodies and provide an excellent insight into the successes and challenges of audit committees in these sectors. We hope the material will help audit committee members and those working with the committee to compare and review their own arrangements and look for opportunities to improve further. We will be publishing further details to facilitate your comparisons.

The remainder of this issue focuses on keeping you up to date with our regular briefing covering recent legislation, reports and guidance.

Overall I hope you will find this issue interesting, informative and helpful in your work on the committee.

Best wishes

Diana Melville

CIPFA Better Governance Forum

Sharing this Document

Audit Committee Update is provided to subscribers of the Better Governance Forum for use within their organisations. Please feel free to circulate it widely to your organisation's audit committee members and colleagues. It can also be placed on an intranet. It should not be shared with audit committee members of organisations that do not subscribe to the Better Governance Forum or disseminated more widely without CIPFA's permission.

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Receive our Briefings Directly

This briefing will be sent to the main contact of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be sent to all audit committee members.

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website and download any of our guides and briefings directly. To register now, please visit www.cipfa.org/Register.

Previous Issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. Click on the links below to find what you need.

Issue	Principal Content	Link
Issues from 2010 – subsequent issues have updated the content in these issues.		
Issues from 2011		
4	Strategic Risk Management, Governance Risks in 2011, Role of the Head of Internal Audit	Issue 4
5	Understanding the Impact of IFRS on the Accounts, Key Findings from CIPFA’s Survey of Audit Committees in Local Government	Issue 5
6	Partnerships from the Audit Committee Perspective	Issue 6
Issues from 2012		
7	Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	Issue 7
8	Commissioning, Procurement and Contracting Risks	Issue 8
9	Reviewing Assurance over Value for Money	Issue 9
Issues from 2013		
10	Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
11	Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA’s Guidance on Audit Committees	Issue 11
12	Reviewing Internal Audit Quality, New CIPFA Publication, Audit Committees Practical Guidance for Local Authorities and Police, Regular Briefing on Current Issues	Issue 12
Issues from 2014		
13	Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	Issue 13
14	External Audit Quality and Independence, Government Consultation on Local Audit Regulations, CIPFA’s Consultation on a New Counter Fraud Code, Regular Briefing on Current Issues	Issue 14
15	CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, the Audit Committee Role in Countering Fraud, Regular Briefing on Current Developments	Issue 15

Issues from 2015		
16	What Makes a Good Audit Committee Chair? Governance Developments in 2015	Issue 16
17	The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments	Issue 17
18	Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors, Regular Briefing on Current Issues	Issue 18
Issues from 2016		
19	Good Governance in Local Government – 2016 Framework, Appointing Local Auditors, Regular Briefing on Current Issues	Issue 19

Workshops and Training for Audit Committee Members in 2016 from CIPFA

Introduction to the audit committee

This event is particularly suitable for those relatively new to the audit committee and it is applicable for audit committees in all parts of the public and not for profit sector. It includes an overview of the roles, responsibilities and core functions of the committee, together with sessions on working with the internal and external auditors.

- [13 September 2016, Leeds](#)
- [8 December 2016, London](#)

Developing the knowledge and skills of the audit committee

This training course will provide more in-depth knowledge of the core areas of an audit committee's functions, including risk management, assurance planning and improving the effectiveness of the committee.

- [14 September 2016, Leeds](#)
- [21 September 2016, London](#)

Developments in police audit committees

These events are suitable for members of the joint audit committees supporting police and crime commissioners (PCCs) and chief constables. These events are run in conjunction with CIPFA's Police Network.

- [15 September 2016, London](#)
- [28 September 2016, York](#)

Development day for local government audit committees

This workshop is suitable for audit committee members or those working with the audit committee in local government. It will cover an update on new developments and legislation relevant to the audit committee role. In addition, it will feature the new governance framework, internal audit developments and other key topics.

- 30 November 2016, London
- 7 December 2016, Birmingham

Further details and booking for these events will be available soon.

CIPFA events information and dates are available on the [website](#).

In house training and facilitation

In house audit committee training and guidance tailored to your needs is available. Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee
- working with internal and external auditors
- public sector internal audit standards
- corporate governance
- strategic risk management
- value for money
- fraud risks and counter fraud arrangements
- reviewing the financial statements
- assurance arrangements
- improving impact and effectiveness.

For further details contact blane.sweeney@cipfa.org or email diana.melville@cipfa.org or visit the [CIPFA website](#) where we have a brochure to download outlining the support we have available for audit committees.

CIPFA Survey on Audit Committees in Local Authorities and Police

In March and April this year CIPFA undertook a series of surveys on the operation of audit committees in local authorities and police. The surveys aimed to update our understanding of how committees in the sectors were operating and also identify results that would support organisations to review and assess their own committees. This briefing contains some of the key findings from the surveys and identifies the further information that is being made available by CIPFA.

Some of the survey results can be compared to the results of a similar survey by CIPFA in 2011. In addition, by covering committees in two different sectors comparisons can be made between police and local authority committees. The surveys sought the views of audit committee chairs and also the views of either the head of internal audit in local authorities or the CFO for the PCC. As a result we can compare two different perspectives.

The surveys had an overall response rate of 53% for the head of audit/CFO survey and 25% for the chairs' survey.

Featured results

Committee structure in local authorities

There has been an increase in the average size of audit committees in local authorities since 2011, from seven to nine. There has been a small increase in the number of co-opted independent members on the committee, from 31% of committees in 2011 to 39% in 2016. Almost all Northern Irish and Welsh committees have a co-opted member, as it is a statutory requirement in Wales and there has also been a strong push to encourage independents by the Northern Ireland Audit Office. In England, 50% of London boroughs and 65% of metropolitan district councils have a co-opted independent on their committees. Counties, districts and Scottish councils are the least likely to include a co-opted member.

Audit committee effectiveness

We asked the chairs of the audit committees and either the head of internal audit or CFO to express their views on the effectiveness of their committees. The graphs below show the similarities and differences of these views.

Based on the perceptions of key officers interacting with the audit committee, it would appear that police audit committees are more likely to be judged as 'very effective' than local authority audit committees are.

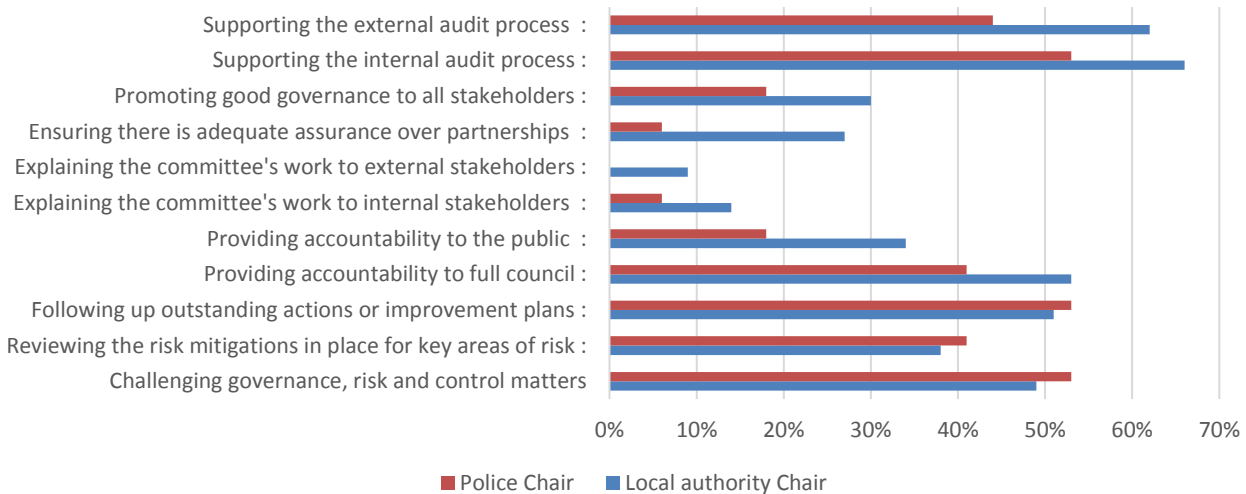
Comparison of views of effectiveness of local authority and police audit committees



Percentage of respondents answering 'very effective'.

There is, however, not the same distinction between the views of chairs. Local authority chairs are more positive than police chairs about their own effectiveness.

Comparison of views of effectiveness of local authority and police audit committee chairs



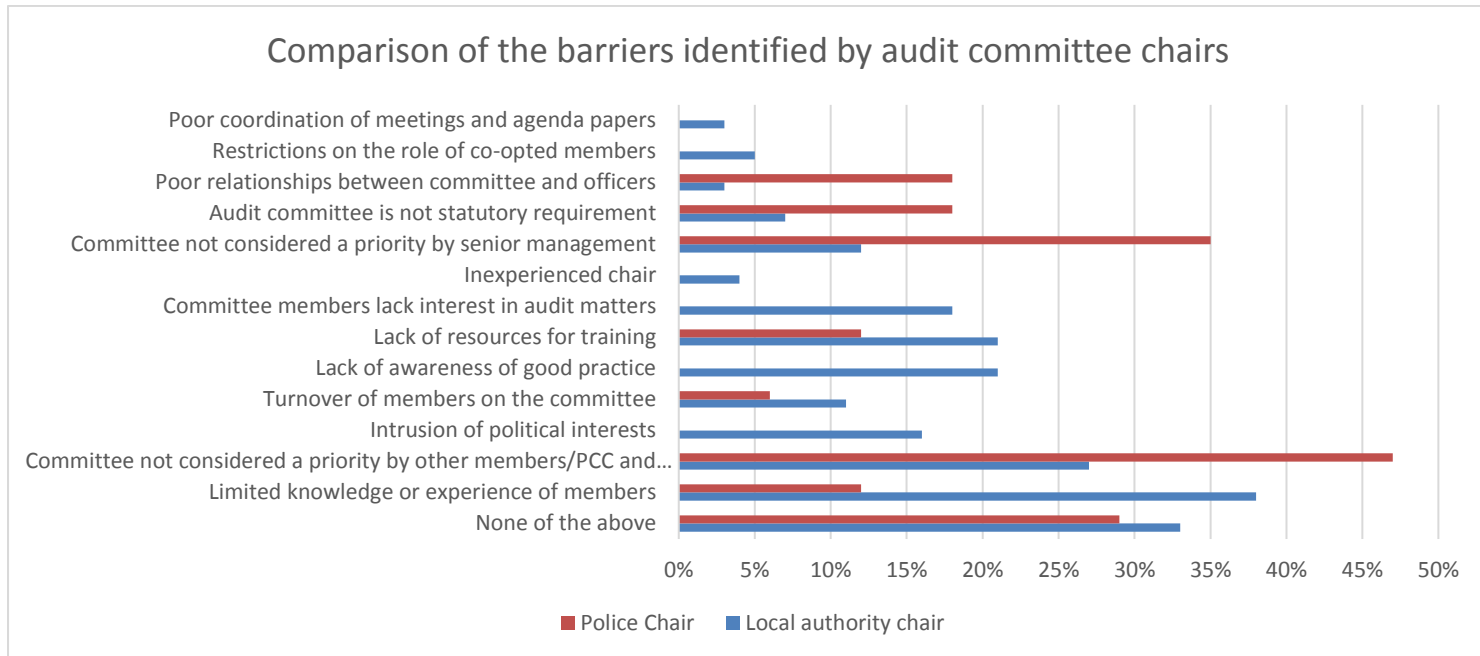
Percentage of respondents answering 'very effective'.

It is particularly interesting to note the profile of responses. Across all respondents 'supporting the internal audit process' came out as the area where the committee was most effective. 'Assurance over partnerships' was a much weaker area and communicating the work of the committee did not score highly either.

Addressing the barriers to effectiveness

The graph below compares the views of audit committee chairs on the barriers to improving the effectiveness of their committee. A significant number of both police and local authority

chairs did not identify any barriers, however other areas were considered to be important for a significant number of chairs. What is particularly striking is that police chairs and local authority chairs tended to identify different barriers. In the local authority sector 'limited knowledge and experience' was the major barrier, whereas police chairs were more likely to identify barriers resulting from poor working relationships: 'committee is not considered a priority by the PCC and chief constable' and 'committee is not considered a priority by senior management' scored the highest responses.



The difference here is not surprising considering the different composition of the committees: local authority committees are primarily made up of elected representatives whereas police committees are all made up of independent members appointed to the role. While police audit committee members may bring knowledge and experience to the role there is a risk that they will be less familiar with the challenges and approaches of the police and it may be more difficult to forge effective relationships. There has also been the added challenge of a new committee finding its feet during a time of unprecedented structural change.

Training and support for audit committee members

As well as formal training, audit committee members need access to briefings and updates on new developments in the organisation and on technical and professional matters that will feature on the committee agenda. We asked chairs about their access to this wider support.

Do members of the audit committee have access to any of the following resources and support?		
	Local authority chairs	Police chairs
Regular training on relevant subjects	62%	47%
Regular briefings on relevant subjects	82%	76%
Regular briefings or updates on developments affecting the council/police	84%	76%
None of the above	5%	12%

More chairs have access to briefings than formal training and a high percentage at both local authorities and police have access to updates on organisational developments. A small

percentage consider they don't have access to briefings or support at all, which is of concern.

It is clear from the responses and the comments that many organisations are trying to meet training and support needs.

- *At each audit committee meeting we ensure members are given a presentation on a topic of interest or service area/function of their choice to add variety to the agenda and enable them to learn more about council activities and services, in addition to usual briefings on emerging developments in risk and governance issues.*

Head of internal audit English district council

Chairs also commented on the importance of training to support their committee:

- *Audit committees in local government would operate more effectively if the skills and experience of members were formally captured and individual training programmes developed.*

Chair English district council

- *External training should be offered in house on a regular basis. Internal training is all well and good but there needs to be more input from impartial professionals who can provide committee members with the guidance as to what they should be looking for in audit terms.*

Chair English unitary council

- *I am embarrassed with the lack of skills and qualifications of many of our members. This despite a full and effective training programme being available. PLEASE do what you can to enforce obligatory training.*

Chair English district council

CIPFA appreciates the time taken by all those who responded to the survey and provided comments.

CIPFA has prepared extensive briefings on the findings which will be available to download from the website shortly. Better Governance Forum subscribers will also have access to tables showing the results of the survey. We hope that the material will inform all those working with audit committees or are members of audit committees. The briefings also make recommendations to draw attention to key findings.

CIPFA will also be writing to DCLG and the Home Office to draw their attention to some of the findings.

Diana Melville
Governance Advisor

Recent Developments You May Need to Know About

Legislation, regulations and consultations

Appointment of local auditors

Under the [Local Audit and Accountability Act 2014](#), the Audit Commission, which had previously managed the appointment of external auditors for local government bodies and health trusts, was abolished and new responsibilities to manage their own appointment of local auditors given to those bodies. The Act also provides for the appointment by the secretary of state of a 'sector led body' to be an appointing person. This body would provide the option of a managed appointment process for those who wished to select it.

Public Sector Audit Appointments (PSAA) have now been approved by DCLG to be a sector led body for principal authorities – councils, police and fire bodies. PSAA had already issued a prospectus setting out some of their proposals were they to be confirmed and they are seeking responses to their suggested approach. This is available on the [PSAA website](#).

If your organisation is considering choosing PSAA then it is likely that the formal invitation needs to be accepted in the autumn. The decision to choose this route must be made by the appropriate body: full council, the fire authority or the PCC. It cannot be delegated.

The appointment route set out in the legislation is to establish an auditor panel to advise on appointment, with the final decision again being made by full council, the fire authority or the PCC as appropriate. Authorities can work collaboratively, sharing a panel if they choose. All appointments must be in place by December 2017.

The previous issue of [Audit Committee Update](#) set out the details of the legislative requirements in more detail. There is also a publication, *Guide to Auditor Panels*, which can be downloaded from the [CIPFA website](#).

Reports, recommendations and guidance

Delivering Good Governance in Local Government

The guidance notes to support the new [Framework](#) are now available for English local authorities and for police. The publications for Welsh and Scottish authorities will be available in the autumn. The framework applies from April 2016 and will need to be reflected in the annual governance statement for 2016/17.

- [English local authorities](#)
- [Police](#)
- [Welsh local authorities](#)
- [Scottish local authorities](#)

Accountability System Statement

The updated system statement sets out the core local government accountability framework. It includes how the system responds to failure and how the department gets assurance and information on financial sustainability and effectiveness. There is also a new section on how the framework is being adapted in the light of devolution deals within England.

[Communities and Local Government](#)

Derby City Council: Report in the Public Interest

An external auditor issues a report in the public interest when there are serious failings of governance or financial management identified. Grant Thornton issued a report on Derby City Council because of the council's failures of governance in the management of major projects and the inappropriate involvement of members in operational matters. All reports in the public interest are published on the [PSAA website](#).

The National Audit Office's Role in Local Audit

This National Audit Office leaflet provides information on its role in local audit. It includes examples of its recent value-for-money work focused on local services, and contact details for you to provide views and suggestions or to ask questions about their work. Recent studies have included:

- financial sustainability of local authorities, capital expenditure and financing
- local enterprise partnerships
- financial sustainability of fire and rescue services.

[National Audit Office](#)

Cities and Local Growth – Public Accounts Committee

The Public Accounts Committee (PAC) has examined the devolution of powers, funding and responsibility to local areas through a range of mechanisms, including local enterprise partnerships, city deals and devolution deals. The committee has expressed concerns that "not all devolution deals are coherent: they lack clear objectives; and are not aligned geographically with other policies or local bodies. There has been insufficient consideration by central government of local scrutiny arrangements, of accountability to the taxpayer and of the capacity and capability needs of local and central government as a result of devolution."

The committee has also expressed concern that existing arrangements for scrutiny at the local level of devolved functions are neither robust enough nor well supported. It has recommended that the government should set out its plans for ensuring there is robust local scrutiny by November 2016. [Cities and Local Growth](#)

Cards on the Table: English Devolution and Governance

A report by the Centre for Public Scrutiny considering the role of governance in shaping the development of devolution deals. It is intended to be a resource to support those developing devolution arrangements and also to support those who will provide scrutiny of the arrangements. [Centre for Public Scrutiny](#)

Failing Well

This report from the Institute for Government provides insights on dealing with failure and turnaround from four critical areas of public service delivery. The report raises concerns that there is a greater risk of failure in the public services as a result of budget pressures and structural changes. It also highlights governance aspects that make an organisation more likely to fail. [Institute for Government](#)

CIPFA Fraud and Corruption Tracker 2016

The CIPFA Fraud and Corruption Tracker (CFaCT) is an annual survey of the fraud and corruption detected in local authorities across the UK. It examines levels of fraud and corruption detected each financial year, types of fraud and emerging trends. CIPFA estimates that over £271m worth of fraud has been detected or prevented within the public sector in 2015/16. [CIPFA Counter Fraud Centre](#)

National Fraud Initiative

Reports from the latest data matching investigations in the UK are now available for Wales, Scotland and Northern Ireland. The report for England has not been published yet.

- [Northern Ireland report](#)
- [Scotland report](#)
- [Wales report](#)

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020 7543 5600 \ www.cipfa.org

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Diana Melville
Governance Advisor
CIPFA
77 Mansell Street
London
E1 8AN
cipfa.org



Certificate No.

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delivering good governance

in Local Government
Framework
2016 Edition



CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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Solace, the Society of Local Authority Chief Executives and Senior Managers, is the representative body for senior strategic managers working in the public sector. We are committed to public sector excellence. We provide our members with opportunities for personal and professional development and seek to influence the debate about the future of public services to ensure that policy and legislation reflect the experience and expertise of our members.



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Members

Julie Parker (Chair)	<i>Non-executive Director and Independent Consultant</i>
Charlie Adan	<i>Babergh District Council/Mid Suffolk District Council</i>
David Aldous	<i>National Audit Office (NAO)</i>
Ivan Butler	<i>Denbighshire County Council</i>
Brenda Campbell	<i>Convention of Scottish Local Authorities (COSLA)</i>
Kirsty Cole	<i>Newark and Sherwood District Council/Lawyers in Local Government (LLG)</i>
Richard Feltham	<i>Kent Fire and Rescue Service</i>
Russell Frith	<i>Audit Scotland</i>
Alan Gay	<i>Leeds City Council</i>
Alan Geddes	<i>formerly Highland Council</i>
Jacqui McKinlay	<i>Centre for Public Scrutiny (CfPS)</i>
Stephen Hughes/Sarah Pickup	<i>Local Government Association (LGA)</i>
Ruth Hyde	<i>Broxtowe Borough Council</i>
Graeme McDonald	<i>Solace</i>
Cat McIntyre	<i>Association of Police and Crime Commissioners (APCC)</i>
Terry Osborne	<i>Essex County Council</i>
Marion Pryor	<i>Conwy County Borough Council</i>
Jon Rae	<i>Welsh Local Government Association (WLGA)</i>
Joe Simpson	<i>Leadership Centre for Local Government</i>
Mike Suarez	<i>Cheshire East Council</i>
Jason Vaughan	<i>West Dorset District Council/Weymouth and Portland Borough Council</i>
Bill Wilkinson	<i>CIPFA's Police Panel/Police and Crime Commissioners Treasurers' Society (PACCTS)</i>
Ian Williams	<i>London Borough of Hackney</i>
Ness Young	<i>Bridgend County Borough Council</i>

Secretariat

Kerry Ace (Secretary)	CIPFA
Diana Melville	CIPFA
Rachael Tiffen	CIPFA

Observer

Shehla Husain	<i>Department for Communities and Local Government (DCLG)</i>
---------------	---

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CHAPTER ONE

Introduction

- 1.1** Governance arrangements in the public services are keenly observed and sometimes criticised. Significant governance failings attract huge attention – as they should – and one significant failing can taint a whole sector. Local government organisations are big business and are vitally important to tax payers and service users. They need to ensure that they meet the highest standards and that governance arrangements are not only sound but are seen to be sound.
- 1.2** It is crucial that leaders and chief executives keep their governance arrangements up to date and relevant. The main principle underpinning the development of the new *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace, 2016) ('the Framework') continues to be that local government is developing and shaping its own approach to governance, taking account of the environment in which it now operates. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.
- 1.3** The Framework positions the attainment of sustainable economic, societal, and environmental outcomes as a key focus of governance processes and structures. Outcomes give the role of local government its meaning and importance, and it is fitting that they have this central role in the sector's governance. Furthermore, the focus on sustainability and the links between governance and public financial management are crucial – local authorities must recognise the need to focus on the long term. Local authorities have responsibilities to more than their current electors as they must take account of the impact of current decisions and actions on future generations.

CHAPTER TWO

Status

- 2.1** Section 3.7 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 notes:

Regulation 6(1)(a) of the Accounts and Audit Regulations 2015, Regulation 4(2) of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015, Regulation 5(2) of the Local Authority Accounts (Scotland) Regulations 2014 and Regulation 5(2) of the Accounts and Audit (Wales) Regulations 2014 require an authority to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts (England) (as a part of the Annual Accounts (Scotland)). Regulation 6(1)(b) of the Accounts and Audit Regulations 2015, Regulation 4(4) of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 and Regulation 5(4) of the Local Authority Accounts (Scotland) Regulations 2014 require that for a local authority in England, Northern Ireland and Scotland the statement is an Annual Governance Statement.

The preparation and publication of an Annual Governance Statement in accordance with Delivering Good Governance in Local Government: Framework (2016) would fulfil the statutory requirements across the United Kingdom for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts. In England the Accounts and Audit Regulations 2015 stipulate that the Annual Governance Statement must be “prepared in accordance with proper practices in relation to accounts”. Therefore a local authority in England shall provide this statement in accordance with Delivering Good Governance in Local Government: Framework (2016) and this section of the Code.

- 2.2** This Framework applies to annual governance statements prepared for the financial year 2016/17 onwards.

CHAPTER THREE

Requirements

- 3.1** The Framework defines the principles that should underpin the governance of each local government organisation. It provides a structure to help individual authorities with their approach to governance. Whatever form of arrangements are in place, authorities should therefore test their governance structures and partnerships against the principles contained in the Framework by:
- reviewing existing governance arrangements
 - developing and maintaining an up-to-date local code of governance, including arrangements for ensuring ongoing effectiveness
 - reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.
- 3.2** The term ‘local code’ essentially refers to the governance structure in place as there is an expectation that a formally set out local structure should exist, although in practice it may consist of a number of local codes or documents.
- 3.3** To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in this Framework. It should therefore develop and maintain a local code of governance/governance arrangements reflecting the principles set out.
- 3.4** It is also crucial that the Framework is applied in a way that demonstrates the spirit and ethos of good governance which cannot be achieved by rules and procedures alone. Shared values that are integrated into the culture of an organisation, and are reflected in behaviour and policy, are hallmarks of good governance.

Applicability and terminology

APPLICABILITY

- 4.1** The Framework is for all parts of local government and its partnerships, including:
- county councils
 - district, borough and city councils
 - metropolitan and unitary councils
 - the Greater London Authority and functional bodies
 - combined authorities, city regions, devolved structures
 - the City of London Corporation
 - combined fire authorities
 - joint authorities
 - police authorities, which for these purposes since 2012 includes both the police and crime commissioner (PCC) and the chief constable
 - national park authorities.
- 4.2** The Framework is applicable to a system involving a group of local government organisations as well as to each of them individually. The Framework principles are therefore intended to be relevant to all organisations and systems associated with local authorities, ie joint boards, partnerships and other vehicles through which authorities now work. However, a one-size-fits-all approach to governance is inappropriate. Not all parts of the Framework will be directly applicable to all types and size of such structures, and it is therefore up to different authorities and associated organisations to put the Framework into practice in a way that reflects their structures and is proportionate to their size.

TERMINOLOGY

- 4.3** The terms ‘authorities’, ‘local government organisations’ and ‘organisations’ are used throughout this Framework and should be taken to cover any partnerships and joint working arrangements in operation.
- 4.4** In the police service, where the accountabilities rest with designated individuals rather than a group of members, terms such as ‘leader’ should be interpreted as relating to the PCC or the chief constable as appropriate.

CHAPTER FIVE

Guidance notes

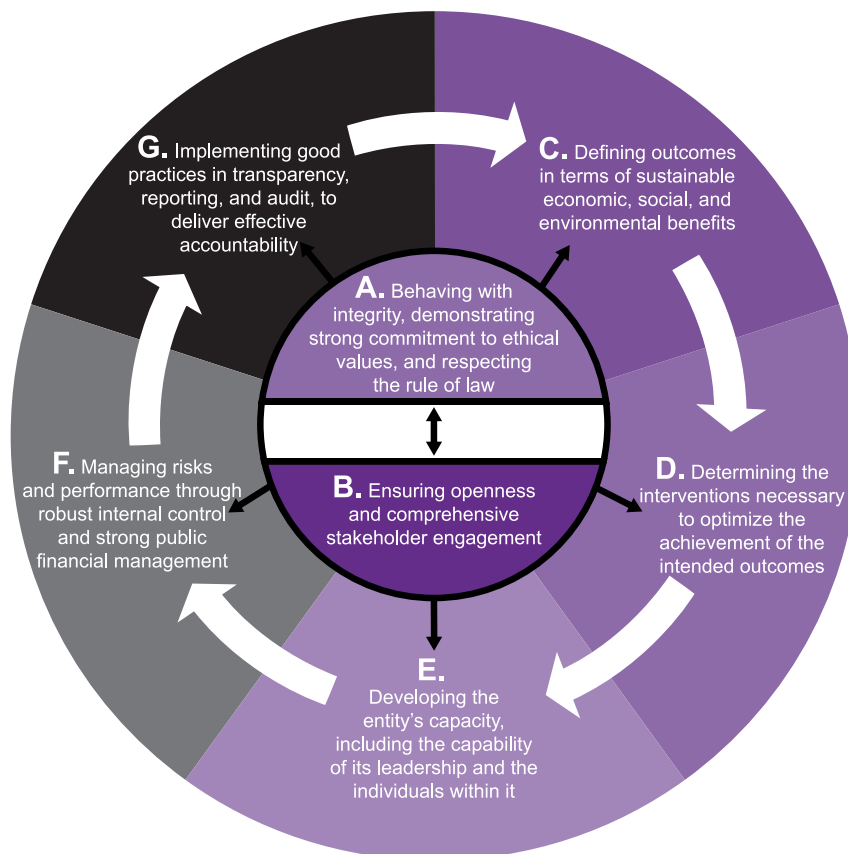
- 5.1** In recognition of the separate legislation applicable to different parts of local government, guidance notes to accompany the Framework have been developed for:
- local government in England (excluding police)
 - local government in Wales (excluding police)
 - police in England and Wales
 - local government in Scotland.
- 5.2** The guidance notes, which should be used in conjunction with the Framework, are intended to assist authorities across their governance systems, structures and partnerships in reviewing their governance arrangements. It will also help them in interpreting the overarching principles and terminology contained in the Framework in a way that is appropriate for their governance structures, taking account of the legislative and constitutional arrangements that underpin them.

The principles of good governance – application

DEFINING THE CORE PRINCIPLES AND SUB-PRINCIPLES OF GOOD GOVERNANCE

6.1 The diagram below, taken from the *International Framework: Good Governance in the Public Sector* (CIPFA/IFAC, 2014) (the ‘International Framework’), illustrates the various principles of good governance in the public sector and how they relate to each other.

Achieving the Intended Outcomes While Acting in the Public Interest at all Times



The International Framework notes that:

Principles A and B permeate implementation of principles C to G. The diagram also illustrates that good governance is dynamic, and that an entity as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.

DEFINING GOVERNANCE

6.2 The International Framework defines governance as follows:

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

The International Framework also states that:

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.

Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

6.3 In local government, the governing body is the full council or authority. In the police, PCCs and chief constables are corporations sole and are jointly responsible for governance. The many references to 'members' in the tables which follow should be read in the context that the principles set out apply equally in the police.

PRINCIPLES OF GOOD GOVERNANCE IN LOCAL GOVERNMENT

6.4 The core principles and sub-principles of good governance set out in the table below are taken from the International Framework. In turn they have been interpreted for a local government context.

It is up to each local authority or local government organisation to:

- set out its commitment to the principles of good governance included in this Framework
- determine its own governance structure, or local code, underpinned by these principles
- ensure that it operates effectively in practice.

Core principles and sub-principles of good governance

Core principles (shown in bold)	Sub-principles (shown in bold)
Acting in the public interest requires a commitment to and effective arrangements for:	Behaviours and actions that demonstrate good governance in practice are illustrated in the bullet points.
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Behaving with integrity
<p>Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.</p>	<ul style="list-style-type: none"> ■ Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation ■ Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles) ■ Leading by example and using the above standard operating principles or values as a framework for decision making and other actions ■ Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively
	Demonstrating strong commitment to ethical values
	<ul style="list-style-type: none"> ■ Seeking to establish, monitor and maintain the organisation’s ethical standards and performance ■ Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation’s culture and operation ■ Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values ■ Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation

Core principles (shown in bold)	Sub-principles (shown in bold)
	<p>Respecting the rule of law</p> <ul style="list-style-type: none"> ■ Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations ■ Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements ■ Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders ■ Dealing with breaches of legal and regulatory provisions effectively ■ Ensuring corruption and misuse of power are dealt with effectively
<p>B. Ensuring openness and comprehensive stakeholder engagement</p> <p>Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.</p>	<p>Openness</p> <ul style="list-style-type: none"> ■ Ensuring an open culture through demonstrating, documenting and communicating the organisation’s commitment to openness ■ Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided ■ Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear ■ Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action <p>Engaging comprehensively with institutional stakeholders</p> <p>NB institutional stakeholders are the other organisations that local government needs to work with to improve services and outcomes (such as commercial partners and suppliers as well as other public or third sector organisations) or organisations to which they are accountable.</p> <ul style="list-style-type: none"> ■ Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably

Core principles (shown in bold)**Sub-principles (shown in bold)**

- Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively
- Ensuring that partnerships are based on:
 - trust
 - a shared commitment to change
 - a culture that promotes and accepts challenge among partners

and that the added value of partnership working is explicit

Engaging with individual citizens and service users effectively

- Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes
- Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement
- Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs
- Implementing effective feedback mechanisms in order to demonstrate how views have been taken into account
- Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity
- Taking account of the impact of decisions on future generations of tax payers and service users

Principles (shown in bold)	Sub-principles (shown in bold)
<p>In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance also requires a commitment to and effective arrangements for:</p>	<p>Behaviours and actions that demonstrate good governance in practice are illustrated in the bullet points.</p>
<p>C. Defining outcomes in terms of sustainable economic, social, and environmental benefits</p> <p>The long-term nature and impact of many of local government’s responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation’s purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.</p>	<p>Defining outcomes</p> <ul style="list-style-type: none"> ■ Having a clear vision, which is an agreed formal statement of the organisation’s purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation’s overall strategy, planning and other decisions ■ Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer ■ Delivering defined outcomes on a sustainable basis within the resources that will be available ■ Identifying and managing risks to the achievement of outcomes ■ Managing service users’ expectations effectively with regard to determining priorities and making the best use of the resources available <p>Sustainable economic, social and environmental benefits</p> <ul style="list-style-type: none"> ■ Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decisions about service provision ■ Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation’s intended outcomes and short-term factors such as the political cycle or financial constraints ■ Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs ■ Ensuring fair access to services

Principles (shown in bold)	Sub-principles (shown in bold)
<p>D. Determining the interventions necessary to optimise the achievement of the intended outcomes</p> <p>Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.</p>	<p>Determining interventions</p> <ul style="list-style-type: none"> ■ Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided ■ Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts <p>Planning interventions</p> <ul style="list-style-type: none"> ■ Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets ■ Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered ■ Considering and monitoring risks facing each partner when working collaboratively, including shared risks ■ Ensuring arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances ■ Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured ■ Ensuring capacity exists to generate the information required to review service quality regularly ■ Preparing budgets in accordance with objectives, strategies and the medium term financial plan ■ Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy

Principles (shown in bold)	Sub-principles (shown in bold)
	<p>Optimising achievement of intended outcomes</p> <ul style="list-style-type: none"> ■ Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints ■ Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term ■ Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage ■ Ensuring the achievement of ‘social value’ through service planning and commissioning
<p>E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it</p> <p>Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.</p>	<p>Developing the entity’s capacity</p> <ul style="list-style-type: none"> ■ Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness ■ Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently ■ Recognising the benefits of partnerships and collaborative working where added value can be achieved ■ Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources <p>Developing the capability of the entity’s leadership and other individuals</p> <ul style="list-style-type: none"> ■ Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained ■ Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body ■ Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other’s authority

Principles (shown in bold)**Sub-principles (shown in bold)**

- Developing the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:
 - ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged
 - ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis
 - ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external
- Ensuring that there are structures in place to encourage public participation
- Taking steps to consider the leadership’s own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections
- Holding staff to account through regular performance reviews which take account of training or development needs
- Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing

Principles (shown in bold)	Sub-principles (shown in bold)
<p>F. Managing risks and performance through robust internal control and strong public financial management</p> <p>Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.</p> <p>A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability.</p> <p>It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.</p>	<p>Managing risk</p> <ul style="list-style-type: none"> ■ Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making ■ Implementing robust and integrated risk management arrangements and ensuring that they are working effectively ■ Ensuring that responsibilities for managing individual risks are clearly allocated <p>Managing performance</p> <ul style="list-style-type: none"> ■ Monitoring service delivery effectively including planning, specification, execution and independent post implementation review ■ Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation’s financial, social and environmental position and outlook ■ Ensuring an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation’s performance and that of any organisation for which it is responsible (Or, for a committee system) Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making ■ Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement ■ Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (eg financial statements)

Principles (shown in bold)**Sub-principles (shown in bold)****Robust internal control**

- Aligning the risk management strategy and policies on internal control with achieving objectives
- Evaluating and monitoring risk management and internal control on a regular basis
- Ensuring effective counter fraud and anti-corruption arrangements are in place
- Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor
- Ensuring an audit committee or equivalent group/function, which is independent of the executive and accountable to the governing body:
 - provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment
 - that its recommendations are listened to and acted upon

Managing data

- Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data
- Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies
- Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring

Strong public financial management

- Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance
- Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls

Principles (shown in bold)	Sub-principles (shown in bold)
<p>G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability</p> <p>Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.</p>	<p>Implementing good practice in transparency</p> <ul style="list-style-type: none"> ■ Writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate ■ Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand <p>Implementing good practices in reporting</p> <ul style="list-style-type: none"> ■ Reporting at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way ■ Ensuring members and senior management own the results reported ■ Ensuring robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement) ■ Ensuring that this Framework is applied to jointly managed or shared service organisations as appropriate ■ Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations <p>Assurance and effective accountability</p> <ul style="list-style-type: none"> ■ Ensuring that recommendations for corrective action made by external audit are acted upon ■ Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon ■ Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations ■ Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement ■ Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met

Annual review and reporting

THE ANNUAL GOVERNANCE STATEMENT

- 7.1** Local authorities are required to prepare an annual governance statement (see Chapter two) in order to report publicly on the extent to which they comply with their own code of governance, which in turn is consistent with the good governance principles in this Framework. This includes how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the effectiveness of the governance and internal control framework.
- 7.2** The annual governance statement is a valuable means of communication. It enables an authority to explain to the community, service users, tax payers and other stakeholders its governance arrangements and how the controls it has in place manage risks of failure in delivering its outcomes. It should reflect an individual authority's particular features and challenges.
- 7.3** The annual governance statement should provide a meaningful but brief communication regarding the review of governance that has taken place, including the role of the governance structures involved (such as the authority, the audit and other committees). It should be high level, strategic and written in an open and readable style.
- 7.4** The annual governance statement should be focused on outcomes and value for money and relate to the authority's vision for the area. It should provide an assessment of the effectiveness of the authority's governance arrangements in supporting the planned outcomes – not simply a description of them. Key elements of an authority's governance arrangements are summarised in the next section.
- 7.5** The annual governance statement should include:
- an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the authority's code of governance
 - reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment, such as the authority, the executive, the audit committee, internal audit and others as appropriate
 - an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework

- an agreed action plan showing actions taken, or proposed, to deal with significant governance issues
 - reference to how issues raised in the previous year's annual governance statement have been resolved
 - a conclusion – a commitment to monitoring implementation as part of the next annual review.
- 7.6** The annual governance statement should be signed by the leading member (or equivalent) and chief executive (or equivalent) on behalf of the authority.
- 7.7** The annual governance statement should be approved at a meeting of the authority or delegated committee (in Scotland, the authority or a committee with a remit including audit or governance).
- 7.8** Local authorities are required to include the annual governance statement with their statement of accounts. As the annual governance statement provides a commentary on all aspects of the authority's performance, it is appropriate for it to be published, either in full or as a summary, in the annual report, where one is published. It is important that it is kept up to date at time of publication.

GOVERNANCE ARRANGEMENTS

- 7.9** Key elements of the structures and processes that comprise an authority's governance arrangements are summarised below. They do not need to be described in detail in the annual governance statement if they are already easily accessible by the public, for example through the authority's code of governance.
- Developing codes of conduct which define standards of behaviour for members and staff, and policies dealing with whistleblowing and conflicts of interest and that these codes and policies are communicated effectively.
 - Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.
 - Documenting a commitment to openness and acting in the public interest.
 - Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.
 - Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning.
 - Translating the vision into courses of action for the authority, its partnerships and collaborations.
 - Reviewing the effectiveness of the decision-making framework, including delegation arrangements, decision-making in partnerships, information provided to decision makers and robustness of data quality.
 - Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money.

- Defining and documenting the roles and responsibilities of members and management, with clear protocols for effective communication in respect of the authority and partnership arrangements.
- Ensuring that financial management arrangements conform with the governance requirements of the [CIPFA Statement on the Role of the Chief Financial Officer in Local Government \(2015\)](#) or [CIPFA Statement on the Role of the Chief Financial Officer of the Police and Crime Commissioner and the Chief Financial Officer of the Chief Constable \(2014\)](#) as appropriate and, where they do not, explain why and how they deliver the same impact.
- Ensuring effective arrangements are in place for the discharge of the monitoring officer function.
- Ensuring effective arrangements are in place for the discharge of the head of paid service function.
- Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.
- Reviewing the effectiveness of the framework for identifying and managing risks and for performance and demonstrating clear accountability.
- Ensuring effective counter fraud and anti-corruption arrangements are developed and maintained in accordance with the [Code of Practice on Managing the Risk of Fraud and Corruption \(CIPFA, 2014\)](#).
- Ensuring an effective scrutiny function is in place.
- Ensuring that assurance arrangements conform with the governance requirements of the [CIPFA Statement on the Role of the Head of Internal Audit \(2010\)](#) and, where they do not, explain why and how they deliver the same impact.
- Undertaking the core functions of an audit committee, as identified in [Audit Committees: Practical Guidance for Local Authorities and Police \(CIPFA, 2013\)](#).
- Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.
- Incorporating good governance arrangements in respect of partnerships and other joint working and ensuring that they are reflected across the authority's overall governance structures.



Registered office:

77 Mansell Street, London E1 8AN

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700

www.cipfa.org

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Delivering Good Governance in Local Government: Framework (2016 Edition)

Get the most from this publication

It is crucial that leaders and chief executives keep their governance arrangements up to date and relevant.

The main principle underpinning the development of this new Framework continues to be that local government is developing and shaping its own approach to governance, taking account of the environment in which it now operates.

The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach.

Read the full publication [here](#).



The overall aim is to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The Framework positions the attainment of sustainable economic, societal, and environmental outcomes as a key focus of governance processes and structures.

WHAT DOES IT DO?

The Framework defines the principles that should underpin the governance of each local government organisation.

It provides a structure to help individual authorities with their approach to governance.

Whatever form of arrangements are in place, authorities should therefore test their governance structures and partnerships against the principles contained in the Framework by:

- reviewing existing governance arrangements
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring ongoing effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how

they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in this Framework.

It should therefore develop and maintain a local code of governance/governance arrangements reflecting the principles set out.

It is essential that the Framework is applied in a way that demonstrates the spirit and ethos of good governance which cannot be achieved by rules and procedures alone. Shared values that are integrated into the culture of an organisation, and are reflected in behaviour and policy, are hallmarks of good governance.

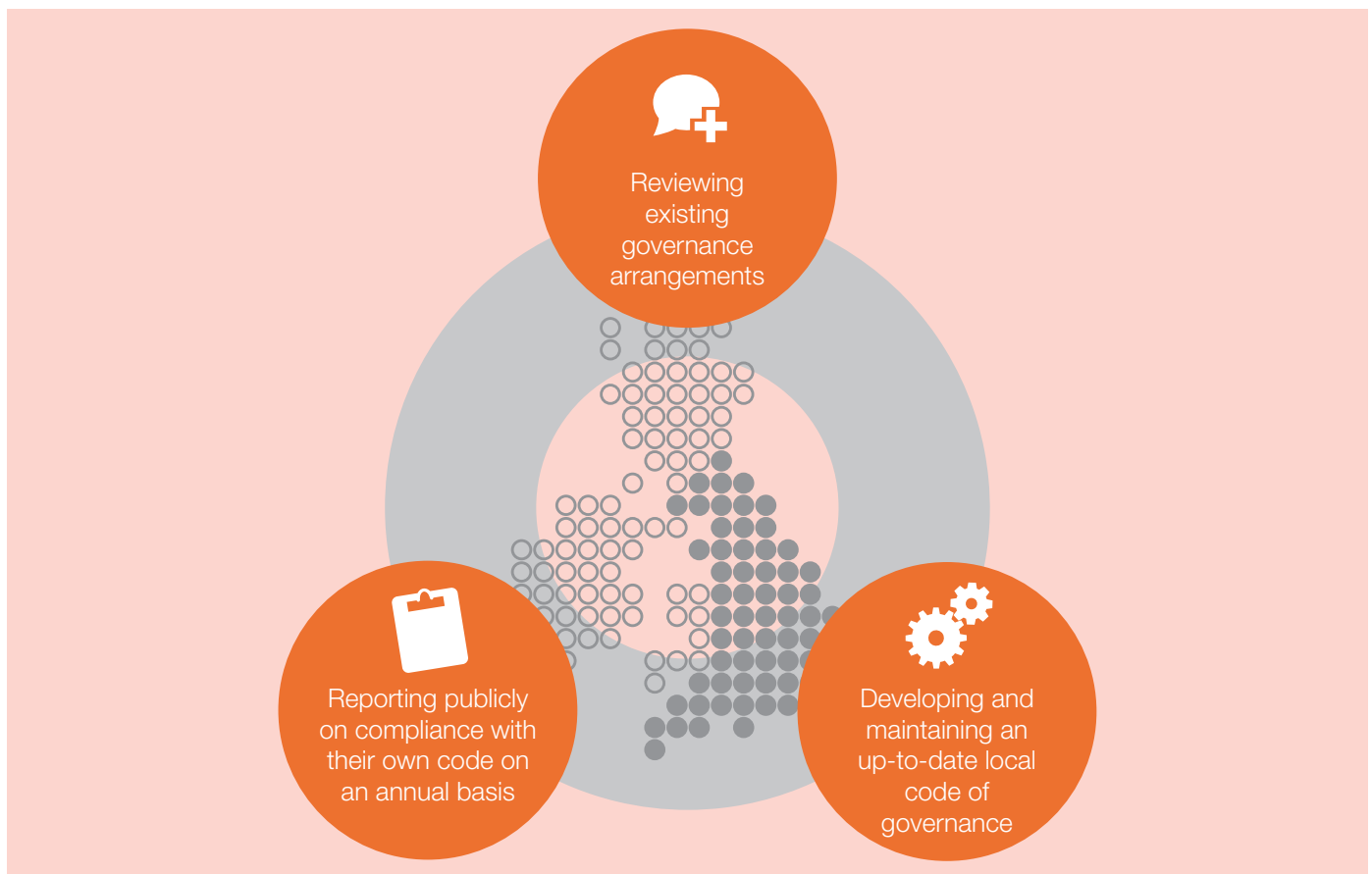
The preparation and publication of an Annual Governance Statement in accordance with this Framework fulfils the statutory requirements across the United Kingdom for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts.

The Framework applies to annual governance statements prepared for the financial year 2016/17 onwards.

YOU MIGHT ALSO BE INTERESTED IN THIS CIPFA PUBLICATION:

- [Delivering Good Governance in Local Government: Guidance Notes for English Authorities \(2016 Edition\)](#)

Test your governance structures and partnerships against the principles contained in the Framework



delivering good governance

in Local Government
Guidance Notes for English Authorities
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delivering good governance

in Local Government
Guidance Notes for English Authorities
2016 Edition



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77 Mansell Street, London E1 8AN

020 7543 5600 \ publications@cipfa.org \ www.cipfa.org

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THE WORKING GROUP

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Members

Julie Parker (Chair)	<i>Non-executive Director and Independent Consultant</i>
Charlie Adan	<i>Babergh District Council/Mid Suffolk District Council</i>
David Aldous	<i>National Audit Office (NAO)</i>
Ivan Butler	<i>Denbighshire County Council</i>
Brenda Campbell	<i>Convention of Scottish Local Authorities (COSLA)</i>
Kirsty Cole	<i>Newark and Sherwood District Council/Lawyers in Local Government (LLG)</i>
Richard Feltham	<i>Kent Fire and Rescue Service</i>
Russell Frith	<i>Audit Scotland</i>
Alan Gay	<i>Leeds City Council</i>
Alan Geddes	<i>formerly Highland Council</i>
Stephen Hughes/Sarah Pickup	<i>Local Government Association (LGA)</i>
Ruth Hyde	<i>Broxtowe Borough Council</i>
Graeme McDonald	<i>Solace</i>
Cat McIntyre	<i>Association of Police and Crime Commissioners (APCC)</i>
Jacqui McKinlay	<i>Centre for Public Scrutiny (CfPS)</i>
Terry Osborne	<i>Essex County Council</i>
Marion Pryor	<i>Conwy County Borough Council</i>
Jon Rae	<i>Welsh Local Government Association (WLGA)</i>
Joe Simpson	<i>Leadership Centre for Local Government</i>
Mike Suarez	<i>Cheshire East Council</i>
Jason Vaughan	<i>West Dorset District Council/Weymouth and Portland Borough Council</i>
Bill Wilkinson	<i>CIPFA's Police Panel/Police and Crime Commissioners Treasurers' Society (PACCTS)</i>
Ian Williams	<i>London Borough of Hackney</i>
Ness Young	<i>Bridgend County Borough Council</i>

Secretariat

Kerry Ace (Secretary)	CIPFA
Diana Melville	CIPFA
Rachael Tiffen	CIPFA

Observer

Shehla Husain *Department for Communities and Local Government (DCLG)*

CIPFA would like to thank the authorities that have kindly supplied us with case study material.

Solace, the Society of Local Authority Chief Executives and Senior Managers, is the representative body for senior strategic managers working in the public sector. We are committed to public sector excellence. We provide our members with opportunities for personal and professional development and seek to influence the debate about the future of public services to ensure that policy and legislation reflect the experience and expertise of our members.

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Preface

These guidance notes relate to [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016) which is intended to be used as best practice for developing and maintaining a locally adopted code of governance.

These guidance notes are intended to assist local authorities and associated organisations and systems – combined authorities, joint boards, partnerships and other vehicles through which authorities now work – in reviewing the effectiveness of their own governance arrangements by reference to best practice and using self-assessment.

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CHAPTER ONE

Introduction

DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT: RELATIONSHIP WITH THE FRAMEWORK

- 1.1** *Delivering Good Governance in Local Government: Framework*, published by CIPFA in association with Solace in 2007, set the standard for local authority governance in the UK. CIPFA and Solace reviewed the Framework in 2015 to ensure it remains ‘fit for purpose’ and published a revised edition in spring 2016. A comparison of the principles from the Framework (2016) and those included in the Framework (2007) is included for information at Appendix A to these guidance notes.
- 1.2** The new *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace, 2016) applies to annual governance statements prepared for the financial year 2016/17 onwards.
- 1.3** The concept underpinning the Framework is that it is helping local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that:
 - resources are directed in accordance with agreed policy and according to priorities
 - there is sound and inclusive decision making
 - there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.
- 1.4** The Framework draws on earlier work on governance in the public services which is briefly outlined at Appendix B to these guidance notes.
- 1.5** It is intended that the Framework is used by local authorities (across their governance systems, structures and partnerships) including:
 - county councils
 - district, borough and city councils
 - metropolitan and unitary boroughs
 - the Greater London Authority and functional bodies
 - combined authorities, city regions, devolved structures
 - the City of London Corporation
 - combined fire authorities
 - joint authorities

- police authorities, which for these purposes since 2012 includes both the police and crime commissioner (PCC) and the chief constable
- national park authorities.

PURPOSE OF THE GUIDANCE NOTES

- 1.6** These guidance notes should be used in conjunction with the Framework. They are intended to assist authorities across their governance systems, structures and partnerships in reviewing and testing their governance arrangements against the principles for good governance. They will also help them in interpreting the principles and terminology contained in the Framework in a way that is appropriate for their governance structures, taking account of the legislative and constitutional arrangements that underpin them. However, it is not intended that these guidance notes are in any way prescriptive – all authorities are encouraged to consider carefully the content of the Framework and to use it in a way that best reflects their structure, type, functions and size.
- 1.7** These guidance notes are aimed at local government in England (separate guidance notes are being prepared for the police) and will be particularly useful for officers. They are intended to help those supporting political and officer leadership with establishing robust governance. They signpost component parts of the process and establish a hierarchy of support.
- 1.8** These guidance notes aim to assist authorities in:
- considering how they might go about reviewing their governance arrangements
 - developing and reviewing governance arrangements across the whole governance system including partnerships, shared services and alternative delivery vehicles
 - developing and updating their own local codes of governance
 - demonstrating compliance with the principles of good governance.
- 1.9** The term ‘local code’ essentially refers to the governance structure in place, as there is an expectation that a formally set out local structure should exist, although in practice it may consist of a number of local codes or documents. For example, Staffordshire County Council draws together on a single sheet all its systems, processes and documents that contribute to the authority’s governance. The extent to which they are in place and effective is considered as part of the authority’s annual review.
- 1.10** It is suggested that, in using the Framework and guidance notes, authorities should nominate an individual or group of individuals within the authority who have appropriate knowledge and expertise and levels of seniority to:
- consider the extent to which the authority complies with the principles of good governance set out in the Framework
 - identify systems, processes and documentation that provide evidence of compliance
 - identify the individuals and committees responsible for monitoring and reviewing the systems, processes and documentation identified
 - identify issues that have not been addressed in the authority and consider how they should be addressed

- identify the individuals who would be responsible for undertaking the actions that are required.
- 1.11 The review of governance arrangements must be reported on within the authority, for example to the audit committee or other appropriate member body, and externally with the published accounts of the authority. In doing this, the authority is looking to provide assurance that:
- its governance arrangements are adequate and working effectively in practice
 - where the reviews of the governance arrangements have revealed significant gaps which will impact on the authority achieving its objectives, what action is to be taken to ensure effective governance in future.

TERMINOLOGY

- 1.12 The terms ‘authorities’, ‘local government organisations’ and ‘organisations’ are used throughout the guidance notes and should be taken to cover any partnerships and joint working arrangements in operation. A full glossary of terms used in the Framework and guidance notes is included at Appendix C.
- 1.13 In the police service, where the accountabilities rest with designated individuals rather than a group of members, terms such as ‘leader’ should be interpreted as relating to the PCC or the chief constable as appropriate.

Context for the update

- 1.14 Local government continues to undergo significant change, much of which has been driven by austerity measures. In order to cope with this climate of austerity, authorities will need to continue to adapt the way in which they operate. Local authorities have responded by increasing collaboration and developing their role as ‘enablers’. Authorities will continue to make difficult decisions which may mean that certain services are no longer provided, but in doing this they need to communicate effectively with their communities, service users, stakeholders and individuals to ensure that the most vulnerable citizens are protected.
- 1.15 In addition to economic and financial challenge, the integrated health and social care programme, devolution, the [Localism Act 2011](#), the [Police Reform and Social Responsibility Act 2011](#), the [Cities and Local Government Devolution Act 2016](#) and other key legislation have brought new roles, opportunities and greater flexibility for authorities.
- 1.16 The development of combined authorities, devolution deals together with elected mayors brings about the chance to design governance structures from the bottom up. It provides the opportunity to ensure that the core principles of good governance covering openness and stakeholder engagement, defining outcomes, monitoring performance and demonstrating effective accountability are integrated and embedded within the new structures and that mechanisms for effective scrutiny are established. It is clear that to bid successfully for devolved power will require good governance to be demonstrated as well as crucial in using such powers effectively.
- 1.17 Other developments are resulting from the Home Office’s wider responsibility for fire, encouraging greater collaboration between ‘blue light’ services. Fire authorities are now

looking at mergers and joint working proposals with each other plus wider collaboration with the police sector.

- 1.18** New responsibilities and the development of innovative collaborative structures and ways of working provide challenges for governance such as ensuring transparency, and, in particular, for managing risk. Whether working with other authorities, public sector bodies, the third sector or private sector providers, local authorities must ensure that robust governance arrangements are established at the outset which provide for a shared view of expected outcomes supported by effective mechanisms for control and risk management thereby ensuring that the public purse is properly protected. It is vital that all joint arrangements observe all the principles of good governance and are managed and reviewed with the same rigour.

The ‘governing body’ in a local authority

INTRODUCTION

- 2.1** The International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) defines the governing body as:

The person(s) or group with primary responsibility for overseeing an entity's strategic direction, operations and accountability.

- 2.2** In local government the governing body is the full council or authority.

RESPONSIBILITIES

- 2.3** Elected members are collectively responsible for the governance of the council. The full council's responsibilities include:
- agreeing the council's constitution, comprising the key governance documents including the executive arrangements and making major changes to reflect best practice
 - agreeing the policy framework including key strategies and agreeing the budget
 - appointing the chief officers
 - appointing committees responsible for overview and scrutiny functions, audit and regulatory matters and also for appointing members to them.
- 2.4** The **Local Government Act 2000** required councils with populations over 85,000 to adopt a mayor or leader and cabinet model. This meant decision-making power was placed with either a mayor directly elected by local residents or a council leader with a small ‘cabinet’ or ‘executive’ who had the power to make decisions both individually and collectively. Local authorities were also required to establish an overview and scrutiny function for members outside the cabinet through which they could question and challenge policy and the performance of the executive and promote public debate.
- 2.5** The executive is responsible for:
- proposing the policy framework and key strategies
 - proposing the budget
 - implementing the policy framework and key strategies.
- 2.6** The chief executive advises councillors on policy and necessary procedures to drive the aims and objectives of the authority. The chief executive leads a management team consisting of senior managers. The chief financial officer, monitoring officer and other senior managers

are responsible for advising the executive and scrutiny committees on legislative, financial and other policy considerations to achieve the aims and objectives of the authority. They are responsible for implementing councillors' decisions and for service performance.

2.7 The **Localism Act 2011** allowed councils in England to change their governance arrangements. They may adopt a committee based system for decision making as an alternative to the leadership/cabinet model or to a directly elected mayor model, should they wish, subject to a local referendum. The key elements of the framework include the following:

- Removal of restrictions, set out in the 2000 Act, which require all councils in England with a population of 85,000 or more to operate executive arrangements – either the leader and cabinet or mayor and cabinet model.
- Councils in England have the freedom to decide what governance model to adopt, including the committee system.
- Councils opting to operate the committee system are able to decide how to discharge their functions, subject to the requirement to have certain statutory committees, such as a licensing committee.
- Councils choosing to operate the committee system are not required to have an overview and scrutiny committee, under Section 21 of the 2000 Act.

2.8 Fire authorities and joint authorities, including waste disposal authorities, passenger transport authorities and combined fire and rescue authorities, do not have directly elected members. Instead they have members appointed to the authority by the local council. National park authorities also have members appointed by the secretary of state. Members are responsible for setting policies and priorities and the efficient and effective use of resources. These authorities do not have formal constitutions but rely on the schemes of delegation and operate a traditional local authority committee model. In fire and rescue authorities, the fire brigade operates as the executive arm with the fire service providing scrutiny.

2.9 In the police, police and crime commissioners (PCCs) and chief constables are corporations sole and are jointly responsible for governance. Separate guidance notes have been prepared for the police, but the principles included in the Framework are equally relevant to them.

Working in partnership

INTRODUCTION

- 3.1** Effective service provision has meant that local authorities have always needed to work in partnership with other bodies. However, joint working and the use of a range of alternative delivery vehicles has increased over recent years as local government has coped with less resources.
- 3.2** An individual council may retain responsibility for the provision of services but other councils or organisations may provide these on their behalf. Collaborations bring about stronger relationships between authorities which may result in a more formal relationship at a later stage such as a combined authority.
- 3.3** Examples of joint working include:
- joint commissioning with other public bodies
 - joint ventures with other public sector bodies
 - partnerships with the private sector, including outsourcing
 - shared services such as:
 - joint management teams
 - joint provision with other local authorities such as back office functions
 - joint working in the fire service.

COMBINED AUTHORITIES AND DEVOLUTION

- 3.4** The [Local Democracy, Economic Development and Construction Act 2009](#) permits combined authorities to be established; a legal structure that may be set up by two or more local authorities in England. The 2009 Act permits the authorities to undertake functions related to economic development, regeneration, or transport.
- 3.5** The [Cities and Local Government Devolution Act 2016](#) gives combined authorities further powers to enable growth and public service reform in their areas. They are also permitted to have a directly-elected mayor who will be able to exercise the functions of the police and crime commissioner for their area. The 2016 Act requires each combined authority to set up at least one overview and scrutiny committee.
- 3.6** The Greater Manchester Combined Authority was established in 2011, and a devolution agreement was announced in November 2014. The devolution agreement provides the authority with additional powers to support business growth, join up budgets in health and social care and elect a metro mayor. Since then, deals with several other areas have been agreed. Devolution deals negotiated to date have mostly involved transfer of powers over

services such as business support, further education and skills funding, transport budgets and land management, with involvement in health and policing being less common.

- 3.7** The devolution agenda is driving new and rapidly-evolving models of collaboration with a focus on place-based outcomes, bringing about specific challenges and issues for governance. For such arrangements, clarity of vision is crucial. It is also essential that at the negotiation stage, communities are able to understand what the objectives for devolution are and are consulted accordingly.
- 3.8** Devolved organisations will need to act transparently where there are potential conflicts between the long term view required for outcomes such as economic regeneration and short term factors such as the political cycle. Other key features for arrangements to be successful include strong collaborative – and clearly accountable – leadership (which doesn't feel like a takeover to those outside a dominant organisation).
- 3.9** Partnership working can be a challenge across local government, but working with other sectors adds greater complexity. Relationships between clinical commissioning groups and local authorities need to be clearly defined owing to statutory and cultural differences. Staff from each sector need to be clear regarding the outcomes to be achieved and that workforce differences are or will be addressed.
- 3.10** Where there are proposals to merge police and crime commissioner (PCC) powers with elected mayors, accountability will need to be carefully thought through as current police force areas are not coterminous with local government boundaries. Consideration will therefore be needed on how the mayor's accountability will be shared with PCCs.

CASE STUDIES

- 3.11** This section outlines four case studies which have been provided by the following authorities and shows how they have approached governance issues in relation to partnership working:
1. **Cheshire East** – establishing alternative service delivery vehicles.
 2. **Leeds City Council** – developing a public service led mutual social enterprise.
 3. **Anonymous** – joint committee governance arrangements – solving problems.
 4. **Highland Partnership** – lead agencies for health and social care.
- 3.12** There follows a section highlighting questions that members and officers in an authority might consider to help ensure that the principles of good governance are embedded within the authority's partnership working.
- 3.13** The final section of this chapter outlines the issues to consider when looking at, implementing and reviewing arrangements for sharing chief executives and management teams.

Cheshire East Council – establishing alternative service delivery vehicles

The following case study looks at how Cheshire East Council set up alternative service delivery vehicles and outlines its approach to specific governance issues.

BECOMING A COMMISSIONING AUTHORITY

Cheshire East Council ('the council') set out a three year plan in February 2013 which would see the birth of new alternative service delivery vehicles (ASDVs) as a way of encouraging entrepreneurial spirit, innovation and culture change, helping to bridge the gap between budget availability and desired outcomes.

In order to support the delivery of a range of resident-focused outcomes, the council prioritised projects and rolled out a new project management framework and associated training, including a new two-stage project endorsement process involving senior officers from each professional discipline as well as members.

ANSA ENVIRONMENTAL SERVICES LIMITED

Ansa Environmental Services Limited (Ansa), an ASDV, was set up as a 'Teckal-exempt', wholly owned company of the council, enabling the council to directly award work to Ansa. It also offered the council a way of retaining corporate oversight via various governance processes including its group holding company, Cheshire East Residents First (CERF). The 'Teckal' exemption (now codified in Regulation 12 of the Public Contracts Regulations 2015) offers Ansa the opportunity to grow its business by allowing other public sector bodies to 'buy-in' to Ansa, thus dramatically speeding up procurement and mobilisation of new contracts for services and lowering traditional procurement costs.

CREATION OF ANSA

The council's environmental services and bereavement and street cleansing departments were ripe for change and there was significant support from employees, councillors and management for developing an arm's-length company as an alternative to full outsourcing.

Following a service review, focus groups and employee consultation, the departments were realigned to form Ansa and a separate company, Orbitas Bereavement Services Limited, which both began trading in April 2014. Ansa was set the challenge to maintain high quality services to over 165,000 households while delivering £2.5m in efficiency savings within the first five years and to grow its income by 2.5%. Ansa now delivers waste, street cleansing, fleet, grounds and parks services on behalf of the council and external customers and has added training and business change consultancy to its offering.

Kevin Melling, Ansa Managing Director, says:

Our success reflects the passion and commitment of managers and employees to making Ansa the best service provider it can be for the benefit of local residents and wider customer base. Ansa is performing well across all of its services, including raising the bar on its recycling rate and diversion from landfill and receiving external recognition for its parks and grounds delivery. The achievement of both Royal Society for the Prevention of Accidents Gold Award and ISO 9001 on the first year of entry reflects positively on the safety, efficiency and quality standards of the organisation. This, together with a strong financial performance, sets a platform for future growth and development of the company as Ansa becomes increasingly commercial.

Given that Ansa exceeded all of its key performance indicators (KPIs), delivered £1.3m of the five year savings' target early, and made an operating profit, confidence in Ansa is high. The council and Ansa are in discussions to extend the contract by a further ten years with the option of further extensions.

STAKEHOLDER ENGAGEMENT

Jane Thomason, Chief Operating Officer:

Effective engagement with stakeholders including clients, residents, employees and members is essential to our success, allowing us to deliver performance improvements and efficiencies across the business while maintaining high levels of customer satisfaction. Our passion and enthusiasm make us attractive as both a supplier and employer, as we work together to grow our business and deliver a high quality service.

PROJECT AND PROGRAMME GOVERNANCE

The ASDV projects were overseen by individual project boards and a programme steering group. Professional advice was procured before either party entered into new contractual arrangements. A formal business case and company business plan were developed and then independently audited. Final approval was achieved through a series of related cabinet papers, ensuring legal, financial and constitutional compliance. Following project-delivery, an in-depth 'lessons learned' session was held, significantly speeding up and smoothing implementation of later ASDVs.

CORPORATE GOVERNANCE

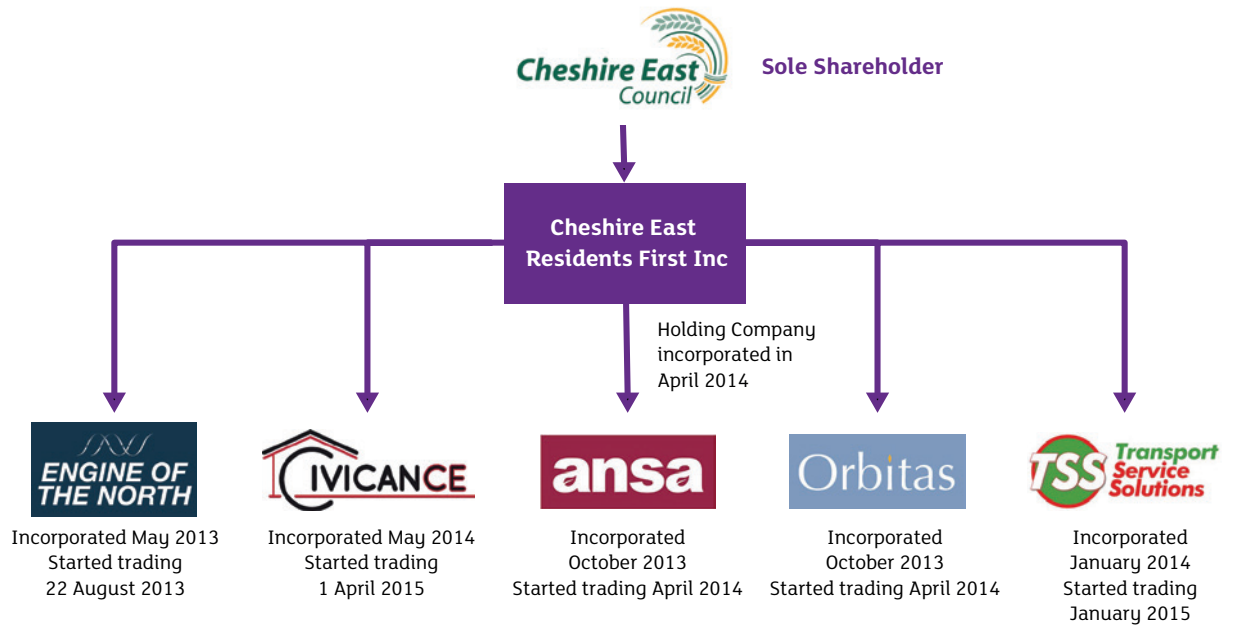
During the projects, a clear separation of roles was defined for those who would 'commission' and those who would 'deliver' the service. A detailed contract was agreed which included KPIs and a service specification drawn up by the commissioner and corresponding method statements from Ansa. An annual management fee review process was built-in together with an agreement to buy back those support services not due to transfer to the new company, providing a measure of stability, continuity, and, council control. Where appropriate, contracts were novated across to Ansa, with the balance either bought back via the council or re-tendered in Ansa's name.

New governance processes were developed and then approved by Ansa's board, including a balanced scorecard approach to risk management and a performance management framework. Ansa reports into a quarterly shareholder board and submits updated business plans via this route. The annual management fee is negotiated via the commissioning manager together with any in-year changes to scope of work and associated additional income and/or savings targets. Ansa has retained pre-existing employee terms and conditions including pensions. Where possible, Ansa is taking the opportunity to become more flexible and agile by streamlining processes and procedures, re-procurement of key contracts and realignment of resources.

FUTURE GROWTH POTENTIAL

Ansa is in talks with a number of public and private sector bodies about how it can work collaboratively and profitably to optimise resources, efficiency and deliver best value and is building a reputation for responsive and reliable, quality environmental services.

Group structure



Leeds City Council – development of a public service staff led mutual

Leeds City Council has recently encouraged and nurtured the development of a public service staff led mutual, Aspire Community Benefit Society, to deliver its in-house care services for adults with learning disabilities, enabling managers and staff to build a long term sustainable future for a service to over 1000 of the city’s most vulnerable adults. In doing so it has freed up the enterprising spirit of staff to operate in an organisational form that is established to benefit the needs of the community.

The challenge was to ensure that the transition process and the new alternative delivery model governance arrangements were carried out in accordance with the authority’s governance and decision-making frameworks.

The key areas in which both internal governance processes relating to the transfer of the service, and the governance arrangements for the new alternative delivery model, were delivered have been outlined under the principles contained in the council’s code of corporate governance.

BEHAVING WITH INTEGRITY

The social enterprise agreed to adopt the council’s HR policies and procedures, and there was also agreement to buy back support services, which provides good conduct and behaviour in line with the council’s existing standards.

DEFINING OUTCOMES FOR THE COUNCIL AND COMMUNITY NEEDS

The proposal for the creation of a social enterprise for learning disability services was intended to contribute to the delivery of the city and council’s priorities in the following areas:

- Civic enterprise – a new leadership style for local government where councils become more enterprising, businesses and other partners become more civic and citizens become more engaged.
- Better lives through enterprise – a revised role for adult social care, as it moves from being a direct provider of services to being a co-ordinator of the provision.
- Ensuring quality services that are viable and sustainable.
- Socially responsible employers in the marketplace, stimulating jobs and good growth locally.

In addition, the detailed service specification was drawn up to promote the delivery of the council’s learning disability strategy and the priorities of customers:

- More opportunities to be available for disabled people in mainstream services, eg leisure, education and employment.
- More choice and easier access to housing.
- A skilled workforce able to meet a diverse range of need in the community and at home.
- Innovative ways of meeting the needs of individuals within shared support environments.
- Specialist services to support individuals with very complex needs in Leeds and prevent them from being sent out of area away from their communities.

HAVING CLEAR RESPONSIBILITIES AND ARRANGEMENTS TO DELIVER EFFECTIVE ACCOUNTABILITY

Clear governance arrangements for the alternative delivery model were integral to the transfer of the service. The social enterprise has a board of directors and comprises a non-executive chair, six members of the company (three of whom are union stewards), three people who use the services, three independent non-executive specialists from the community and three nominations from the council.

DETERMINING THE INTERVENTIONS NECESSARY TO ACHIEVE INTENDED OUTCOMES

A strategic governance board (chaired by the executive member for adult social care) was established from the outset and included representation from across the council and trade unions.

Terms of reference were established for the strategic governance board to ensure that everyone was aware of its function and its decision making capacity.

DEVELOPING THE ENTITY'S CAPACITY INCLUDING THE CAPABILITY OF MEMBERS AND OFFICERS

The service obtained independent support from the Cabinet Office Mutuals Support Programme. Part of this support focused on testing and updating the existing five year integrated business plan. This involved working through the preferred legal and governance models of the alternative delivery model.

The social enterprise has a five-year contract with the council, based on the council's standard terms and conditions, with a contract price based on an agreement to buy-back support services (such as HR, IT and finance) from the council. The contract will be monitored by the council's own monitoring officers and there will be quarterly performance review meetings with an overall annual review of the contract.

COMPREHENSIVE STAKEHOLDER ENGAGEMENT

A formal consultation with staff was undertaken, with each staff member being invited to attend both informal and larger scale engagement events, with trade union representatives present. This was followed by a staff survey where 78% of staff members voted in favour of moving the service to a social enterprise. The social enterprise has confirmed its commitment to positive employee relations and collective bargaining. The social enterprise has proposed a joint negotiation and consultative committee and a health and safety committee very similar to that which is currently in place in the council.

Feedback gathered from current service users was used to shape the service specifications and ensure that the services to be provided are in line with current and predicted future needs for people with learning disabilities, as detailed in the adult social care market position statement.

Anonymous – joint committee governance arrangements – solving problems

This case study was included in the 2012 guidance notes but it remains relevant and provides useful pointers in today's climate.

The joint committee had always performed well, requiring little involvement from the lead authority and had returned substantial annual dividends to member authorities. Then things started to go very wrong; there were significant operational failures and excessive spending and falling revenues wiped out almost all the profits. Governance arrangements were in place for the historically stable organisation but it became rapidly apparent that they were not sufficient in a dynamically changing environment with 'rogue' factors at work. Stopping the decline and returning the organisation to good performance and profitability took an enormous amount of time, cost and effort with massive reputational and personal risk for some officers.

The governance arrangements in place and written into the constitution covered:

- the purpose and objectives of the organisation
- the role and responsibilities of the director
- the role and responsibilities of the statutory officers from the lead authority
- the delegations and authority of the director
- financial and contract procedure rules.

Arrangements were also in place in relation to lead authority control and oversight of banking arrangements. This proved critical to the early identification by the lead authority of problems arising (through observation of cash flows) when the organisation's reporting to members was inaccurate and misleading.

Problems in applying good governance were as follows:

- Arrangements were ignored by key people. Decisions were being made but not transparently reported.
- The size of the joint committee was an issue. Its membership covered a wide cross section of 'owning' authorities but with no relationship (local or political) other than being present at the same committee meetings three or four times a year.
- The members had little understanding of the role of the lead authority so when advice was given it was repeatedly ignored.
- The director was not line managed by any authority so there was an inability to direct a change in behaviour or approach.
- The role and purpose of the organisation had become blurred and misunderstood over time and was potentially in conflict with the local authorities that 'owned' it.
- In the absence of an audit committee, governance concerns were not independently and closely monitored.
- Whistleblowing arrangements were ineffective as they were not sufficiently independent.
- The activity wasn't actually unlawful, making it difficult for the lead authority to 'force' action to be taken.
- Member decision making was technically correct in governance terms (formal reports from the lead authority clearly stated the problems but members chose not to agree recommendations).

Improvements made to avoid a recurrence of problems (once the problems had been resolved and action eventually taken) included the following:

- Member training – their role, the role of the organisation and the role of the statutory officers.
- A strategic officer group was established chaired by the lead authority and consisting of senior officers from all the member authorities which now meets in advance of each committee meeting to consider implications and hold the director to account.
- A small and focused audit committee has been established.
- A whistleblowing hotline and website through to lead authority has been set up. It is therefore independent of the organisation's management.
- The constitution, delegations and procedure rules have been reviewed and updated by officers of all member authorities ensuring everyone is aware of them and members are fully briefed.

Highland Partnership – lead agencies for health and social care

This case study looks at the partnership established by the Highland Council and NHS Highland to provide adult health and social care.

LEAD AGENCY MODEL

The Highland Council and NHS Highland entered into a partnership agreement in 2012, heralding the beginning of service integration. This was the start of a five year plan which set out the vision and expected outcomes for improving health and social care.

The council and health board had considered alternative governance models, such as a new body corporate between the organisations, but settled on ‘single governance, single management and single budget’ via the lead agency model. This was influenced by developments in English authorities, such as Torbay Council and North East Lincolnshire Council.

Accordingly, since 2012, adult social care has been commissioned by Highland Council from NHS Highland, as part of an integrated approach to the delivery of adult health and care services. Community based child health has been commissioned by NHS Highland from Highland Council, and delivered within a single department that includes education and children’s social care. Fifteen hundred social care staff transferred to the health board and 200 health staff transferred to the council to deliver these services.

The lead agency model depends on the following arrangements:

- A joint approach (with partners) to strategic planning and commissioning, with the development of a joint strategic plan that establishes strategic direction and improvement outcomes (co-ordinated by each lead agency).
- The commissioning agency sets out the service requirement, and provides the resource to achieve it. This is in line with, and integrated into, the strategic plan.
- The lead agency delivers the service requirement, against performance outcome targets and standards.
- The commissioning agency monitors the delivery of the commission against the agreed outcomes.

A governance structure was put in place in each organisation to ensure effective decision making, monitor progress and continue to modify arrangements as the transformation programmes progressed. This was based on existing legislation, and a strategic commissioning group brought the agency leaders together with other stakeholders to help ensure continuing joined up decision making.

DEVELOPMENTS SINCE 2012

In 2014, changes in Scottish legislation to drive health and care integration across the country resulted in the development of the integration scheme with the partnership agreement remaining as detailed guidance. This also marked the transition from the strategic commissioning group to a joint monitoring committee.

This change provided an opportunity to further review the governance arrangements to minimise duplication and bureaucracy, while still providing robust scrutiny, and in particular to ensure that:

- the governance arrangements are predicated on the lead agency principles of ‘single governance, single budget, single management’

- each lead agency has a single governance committee to scrutinise performance and to consider policy and service development
- the governance structure provides an acceptable level of assurance as well as a route for further scrutiny should that assurance not be achieved
- assurance reporting is scheduled to reflect meaningful information and progress to mirror collection of much of the data and to enable scheduling of governance meetings for lead agency and commissioner reporting.

The review focused on the best arrangements to achieve the improved service outcomes, the articulation of strengths and weaknesses in the current system, and exploration of options to deliver better, consistent governance across the lead agencies.

The first stage of the review involved asking “what is it that we need to discharge our governance responsibilities?” The second stage considered “recommendations regarding the establishment and population of a structure to achieve this”.

The joint monitoring committee also took account of the expanding role of the locality partnerships, which had been developed to influence the local delivery of health and care and were developing a wider community planning role. Although not part of the governance structure of the lead agency model, these partnerships are considered integral to the local delivery of the strategic plans. It is envisaged that each locality will maintain and monitor local plans for improving services to adults and children, reflecting local and authority-wide priorities and outcome targets.

The review has clarified the process whereby the lead agency will provide scrutiny over the delivery of services, and the commissioning agency will receive assurance reports based on the exercising of that scrutiny, and will receive a regular performance report relating to the delivery of the outcomes that are set out in the commission.

It is intended that the performance report will take the format of an agreed template, for use by both adult and children’s services, wherever possible based around critical outcome indicators, and will only include proxy process or input indicators where outcome measures are not possible.

These various formal processes will be supported by ongoing, formal and informal liaison between officers and senior members of the board and council, as it is recognised that good governance is supported by ongoing good working relationships.

EMBEDDING THE PRINCIPLES OF GOOD GOVERNANCE IN PARTNERSHIPS

3.14 The following section highlights questions that members and officers in an authority might consider when looking at, implementing and reviewing partnership arrangements. They are set against the principles of good governance from *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace, 2016).

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

3.15 It is important that values are agreed for partnerships at the outset and that they are clearly understood and communicated.

- Have values for the partnership been agreed and have they been communicated to all concerned?
- How will they be monitored?
- Are there any particular issues that need to be resolved as a result of working with private sector providers?
- Do all the partners share in these values?
- Has the 'tone from the top' been established?
- Is there clarity over partners' statutory duties?
- Are the leaders and staff associated with the partnership committed to it?
- How will a collaborative partnership be built/maintained and parochialism be guarded against?

B. Ensuring openness and comprehensive stakeholder engagement

3.16 For partnership working to be effective, partners must have trust in each other and therefore be open with each other and their stakeholders about their activities. Where different sector bodies are working together, the partnership will need to understand and accommodate the different cultures of partnership organisations. For example, the multi-faceted focus of a local authority versus the singular focus of a health organisation. This could potentially influence the level of importance placed on a partnership by different organisations, and is therefore an important consideration.

3.17 The legislative and governance arrangements underpinning different sectors should also be taken into account. For example, local authorities have local political leadership, in the NHS board membership is made up of officers and non-executive directors, and charities will have trustees (often dedicated volunteers).

- Is there high level agreement between the partners concerning the value of and intention towards partnership working and collaboration?
- Is the importance of trust recognised at all levels and its role in supporting change?
- Is the partnership taking place in an atmosphere of trust?
- How will those leading the partnership ensure that different cultures within partnership organisations are understood and respected?

- What issues might different cultures generate? Are there any that might cause problems and if so, how might they be resolved?
- Do the partners understand how the governance arrangements in each partner operate?
- What issues might different governance arrangements introduce? Are there any that might cause problems and if so, how might they be resolved?
- Have exit arrangements been defined? What might trigger them?
- How are conflicts dealt with?
- How will effective communication be developed and maintained?
- How will effective stakeholder engagement be maintained?

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

3.18 Partnership working may be employed for a number of reasons, for example to improve service quality and outcomes. Combined commissioning may be aimed at increasing spending power and reducing costs.

- Is there a shared vision and are there clearly defined outcomes that have been agreed upon by all partners and are supported by stakeholders?
- Has the vision been communicated appropriately?
- Where a longer term view is required in relation to agreed outcomes, how will a focus be maintained when there are potential conflicts such as the political cycle or immediate local challenges to deal with?
- Have appropriate performance indicators been agreed by the partners?
- Will working in partnership add value?
- Have the benefits been clearly mapped out?

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

3.19 Even where it appears obvious that working in partnership will improve outcomes, there still needs to be detailed discussion at a strategic level to clarify the aims of the partnership and specific issues such as control of resources.

- Is there a clear strategy on what is to be delivered and how this is to be done?
- Do members and officers receive support in making decisions in respect of their partnership roles?
- Are partner roles and responsibilities agreed and understood?
- Is there clarity over who has the responsibility to make decisions?
- Has consideration been given to the best way to evaluate the effectiveness of joint activities in achieving goals?
- Have clear parameters been established covering such issues as:
 - structure
 - control

- devolved decision making
- accountability.
- Have structures and processes been negotiated and are they written in to terms of agreement?

E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it

3.20 Effective partnership working requires a different type of leadership – one that is distributed across organisations. Therefore leaders need to be empowered to work within and across organisations where they may not have hierarchical authority over others. Dedicated roles are also required to do this. This type of leadership requires different forms of communication, interaction and power sharing as well as staff development.

3.21 With regard to leadership, the following could be considered:

- While developing partnership arrangements/devolved arrangements, how will the organisation ensure that it does not lose sight of its own current challenges?
- Does the partnership have strong, effective and collaborative leadership?
- Are members able to scrutinise and challenge effectively?
- Are partners able to work flexibly and is this reflected in their attitude so that it benefits the partnership?
- Is there a consistent policy in place for dealing with differences in employment terms and conditions?
- Do partnership leaders have the ability to work across organisational boundaries and to confront and influence the barriers that they may encounter?
- Do those in the partnership have the authority to make decisions?
- Do they have the resources required in relation to the partnership’s remit and their own responsibility to deliver results?
- Are the levels of delegation of control over services/spending matched between partnership organisations?
- Do those involved in governance roles within the partnership have the skills required?
- What particular skills are required in a devolved arrangement? For example, commercial awareness and the ability to negotiate/broker deals. How will such skills be acquired if they are currently not available?
- Do those in governance roles in the partnership know how to deal with apparent competing and/or conflicting demands and interests in respect of the partnership versus their authority role?
- Is training available for them?
- How will difficulties be dealt with?
- Are there any strategic and operational management gaps between organisational boundaries? If so, how will they be managed?

F. Managing risks and performance through robust internal control and strong public financial management

3.22 Partnership working can introduce specific challenges in terms of risks facing partners and the need for effective internal control and public financial management.

3.23 Local authorities need to scrutinise the governance of partnership arrangements closely. Although scrutiny committees may not be permitted to access all the information they would like owing, for example, to contractual arrangements with private sector providers, their oversight of outsourced services and joint operations should still allow for an element of openness and accountability that might otherwise not exist. Good practice in scrutiny is covered in Chapter six of this guide.

- Has an appraisal of the various options been undertaken?
- Is the business case for the proposal sound?
- When considering outsourcing a service has an effective due diligence process been undertaken?
- Are there clear structures and processes in place for balancing innovation and risk?
- Are partnerships reviewed regularly to see how effectively they are working?
- Do contracts with private sector providers include appropriate break clauses that would enable renegotiation if circumstances change?
- Are funding arrangements clearly specified?
- Are appropriate systems in place so that expenditures against milestones and deliverables can be properly managed?
- Do those involved in partnerships between different sectors (such as local government and health) understand the different finance systems, terminology and performance measures used by the other sector?
- How is the risk profile for joint ventures considered prior to agreement?
- How are risks associated with the partnership identified and managed?
- Are the risks facing each organisation carefully considered and monitored as part of joint work, particularly any shared risks?
- How are risks shared?
- Has a risk share agreement been drawn up?
- How are the following dealt with:
 - cost overruns
 - different performance and financial frameworks in place in partner organisations?
- Does the partnership provide for consistent monitoring and measurement?
- How are partnerships scrutinised?
- How will the budget be scrutinised and monitored in a devolved arrangement?
- What is the impact of a devolved arrangement on management reporting?
- How effective is the scrutiny?

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

- Does the partnership report on its performance on a regular basis?
- Are partnerships covered in the annual governance statement?

Further guidance

- [The Commissioning Joint Committee Guide to Alternative Bases of Service Provision](#) (CIPFA, 2012)
- [Crossing the Border: Research into Shared Chief Executives](#) (Local Government Association, 2012)
- [The Excellent Finance Business Partner](#) (CIPFA, 2015)
- Fischbacher-Smith M (2015) Minding the Gaps: Managing Difference in Partnership Working, *Public Money and Management*, 35, 195–202
- Johnson K (2015) Public Governance: The Government of Non-state Actors in ‘Partnerships’, *Public Money and Management*, 35, 15–22
- [Local Government Governance Review 2015: All Aboard?](#) (Grant Thornton, 2015)
- [Responding to the Challenge: Alternative Delivery Vehicles in Local Government](#) (Grant Thornton, 2014)
- [Shared Chief Executives and Joint Management: A Model for the Future?](#) (IDeA, 2009)

SHARED CHIEF EXECUTIVES AND MANAGEMENT TEAMS – QUESTIONS TO CONSIDER

3.24 The following section highlights questions that members and officers in an authority might consider (in the light of the good governance principles) when looking at, implementing and reviewing arrangements for sharing chief executives and management teams.

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Consideration and implementation stages

- Should authorities declare their non-negotiable issues/areas early on to help build trust?
- Do the authorities have similar cultures (management as well as organisational)? If not, would it be beneficial to consider how they might be brought closer together?
- In the event of talks breaking down, how will the authorities ensure that they retain a good relationship in the future?

Review stage

- Has an atmosphere of mutual trust between the authorities and key players been maintained? How can officer support assist here?
- Have any problems arisen as a result of different cultures? How have they been resolved?
- Are members and officers personally committed to the initiative?

B. Ensuring openness and comprehensive stakeholder engagement

Consideration and implementation stages

- Has there been an open debate between the senior officers and members of the authorities about the costs and benefits of the proposed scheme?
- How can momentum be maintained during talks?
- Do the authorities have an agreed media management policy in place for communicating with the public?
- How will successes be communicated to the public?
- What communication channels will need to be established to reach all levels of the authority? How will they be enacted to ensure updates on a regular basis, for example a weekly bulletin or regular emails communicating successes and future plans? These can be used to build relations with new members/officers.

Review stage

- Has effective communication been maintained at all levels?

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

Consideration and implementation stages

- Has a common vision of the outcome of the shared service/shared chief executive arrangement been agreed by all parties?
- Has the vision been agreed between the authorities prior to working out the detail of the arrangement?
- Are the plans locally driven?
- How can a clear and consistent political will be encouraged?
- Would it be helpful for the authorities to agree a set of joint priorities?
- What will be the outcome/benefits for the community of sharing the chief executive/ other shared arrangements?
- Is there a clear exit strategy if required and how would it be triggered?
- How will the on-going support of the members be secured? How will that support be used for promoting the initiative to staff and the wider public?

Review stage

- Have the outcome/benefits for the community of sharing the chief executive/other shared arrangements been realised?
- Are the authorities now under different political control? What particular challenges did this introduce and how were they overcome?
- Is there a common vision of the outcome of the shared service/shared chief executive arrangement that has been agreed by all parties?

- Where benefits have not been realised, how will this be resolved?

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Consideration and implementation stages

- Are the proposed arrangements sufficiently flexible so that they enable the authorities concerned to be able to access the managerial expertise they require in-house on a sustainable basis?
- How will expectations be managed regarding what can be delivered in relation to shared chief executive arrangements and other shared services? Has the use of technologies that might overcome problems regarding logistics been fully considered?
- Will the shared chief executive have access to appropriate resources – such as a personal assistant at each local authority – to ensure he/she can work effectively?
- What arrangements will be put in place to evaluate the success of the shared arrangements and to identify areas for improvement?

Review stage

- Have the arrangements to evaluate the success of the shared arrangements worked effectively?

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

Consideration and implementation stages

- Are there opportunities for the chief executives and leaders concerned to develop good relationships with other authorities with the potential to share services prior to more detailed discussions?
- How can equity between the authorities be assured so that the initiative is not perceived as a takeover or one council appearing too self-interested (for example, in relation to officer appointments)?
- How will fears be allayed that in the chief executive structure, one authority might be prioritised over another?
- Would it be helpful for members to be able to voice concerns/expectations on a regular basis possibly with members from the other authority?
- How will the shared chief executive retain a connection with staff?
- How will fears by members about loss of officer support be allayed?
- How will the authorities ensure that the shared vision is followed through?

Review stage

- Has staff morale been maintained?
- Is there still clear and robust leadership which focuses on outcomes?
- Has organisational efficiency been maintained?
- Do members receive effective officer support?
- Is the structure sufficiently flexible? Will it accommodate changes in the partners' circumstances?

F. Managing risks and performance through robust internal control and strong public financial management**Consideration and implementation stages**

- Has political buy in been secured at an early stage?
- Are the estimated savings on which the plans are based 'realistic'?
- Are the services between the authorities sufficiently aligned to enable synergies to work?
- Has the scheme secured the support of officers?
- How will a balanced process involving officer appointments between the authorities in the case of a shared management team be managed?
- How have the risks of the proposed approach been assessed? How will they be managed?

Review stage

- Is there still political and officer support for the initiative?
- Were the estimated savings on which the plans are based 'realistic'?
- Have any unexpected problems materialised? How were they dealt with?

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

- How will the authority ensure that accountabilities remain clear to the public?
- Is the authority's leadership clear to all stakeholders?

Practical examples and case studies

CASE STUDIES FROM LOCAL GOVERNMENT

- 4.1** A number of authorities have supplied material, illustrated below, on how they have tackled governance issues across a range of areas:
- Essex County Council – embedding good governance across the organisation.
 - Broxtowe Borough Council – an ethical mind set.
 - Conwy County Borough Council – an entrepreneurial council.
 - Cardiff City Council – various issues.
 - Staffordshire County Council – governance framework illustrated in a single sheet.
 - West Midlands Pension Fund – good practice in stakeholder engagement.

Essex County Council – embedding good governance across the organisation

This case study outlines Essex County Council's actions to improve its governance arrangements and establish a culture of good governance.

INTRODUCTION

In 2010, Essex County Council ('the council') made a solid commitment to enhance its corporate governance arrangements in support of its transformation process. The council's reputation was under the spotlight following the departure of the previous leader during the House of Lords expenses scandal. Both matters led to the establishment of a corporate governance project championed by the subsequent leader of the council and the then chief executive. In time, this has led to a robust 'business as usual' culture of good governance across the authority.

The project first identified gaps in the council's systems and processes by inviting external auditors to carry out two 'ethical governance audits'. Their findings were combined with those from internal assurance services to create a programme of work, outlined each year in the council's annual governance statement.

The initial phase of the project saw a focus on making improvements in the structure, clarity and robustness of systems and policies. Once the bulk of that was underway to give the work a foundation, the project's focus shifted to cultural and behavioural considerations, and to working out how to embed those improvements across the whole of the organisation. A key

goal was to enshrine good governance as a responsibility for all leaders, not just those few charged with specific governance roles.

LEADING FROM THE TOP

The council established a corporate governance steering board chaired by the leader of the council. Its membership includes the leaders of the three main political groups. Supported by a bespoke corporate governance performance report, the board monitors governance arrangements and helps to identify areas for improvement. Influential elected members are thereby seen to set the standard for others to follow.

The project was sponsored by the chief financial officer, providing senior leadership from among the officer corps. In time it was handed to the council's monitoring officer to embed the new processes and culture across the council under 'business as usual'. The monitoring officer remains responsible for the council's assurance framework.

DEDICATED RESOURCE

The council committed appropriate funding to the project to ensure it was adequately resourced and could bring about a real step change in the control environment. The project was run as part of the council's transformation programme, recognising that good governance is key to successful organisational change.

One of the benefits realised by the project was the establishment of a permanent resource dedicated to co-ordinating the council's governance arrangements after project closure. This is not a compliance role but one of analysis and co-ordination, maintaining the council's focus on this key area, bringing together people from across the council in shared responsibility.

ASSURANCE FUNCTIONS

Some years ago, the council brought together all its assurance functions (other than finance) into a single team led by the monitoring officer. This created a strong and cohesive team, made up of professionals from various disciplines, to work together to improve and embed good governance. The team brings together corporate lawyers, auditors, strategic risk advisers, democratic services officers, officers from scrutiny, equalities, health and safety, business continuity planning and member support. The team works together and with others to identify areas of weakness and deliver improvements which benefit the council and its residents.

CHANGING BEHAVIOURS

The latter part of the project and subsequent work was aimed at influencing attitudes, values and behaviours. The improvement project was as much about this as it was about changing the 'nuts and bolts'. A tone was set by the leaders of the organisation which was then echoed through all subsequent internal communication as improvements were implemented, line managers 'walked the talk' through extremely high completion rates of the governance e-learning course, and a major internal consultation and focus on reducing perceived bureaucracy has made it easier for people to knowingly do the right thing.

Some key elements delivered across the council during this time were as follows:

- The creation of a regular 'corporate governance dashboard' to support informed conversations among officers and members about the council's governance.
- The development of bespoke corporate governance e-learning modules, mandatory for all relevant employees and councillors, and publicly endorsed by group leaders and the councillor-led 'member development steering group'.

- The development of enhanced induction arrangements for officers and members which feature corporate governance.
- A review of cabinet and committee governance, including decision-making.
- Raising the profile of freedom of information legislation and complaint handling data to encourage personal responsibility and transparency.
- Implementation of a 'Speak Up!' campaign.
- Updating and strengthening the role of the monitoring officer in the council through the creation of a dedicated corporate governance budget and team.
- A review of the scrutiny function.
- Implementation of automated audit (internal and external) recommendation tracking.
- A 'bonfire of bureaucracy' – a thoughtful employee engagement exercise with a provocative name, encouraging open debate about the role of bureaucracy and bringing about a number of employee-led improvements.

Broxtowe Borough Council – an ethical mind set

Each year the management team at Broxtowe Borough Council undertakes an ethical exercise as part of an away day. The team looks across sectors at high profile cases showing where something has gone wrong, for example Volkswagen and Operation Yewtree. The team asks itself if something similar could occur at the authority and if it did, would it have been uncovered by the current governance framework? The authority has found this approach to be a creative way of undertaking a governance enquiry using a fundamentally ethical mind set rather than using a checklist.

Extracts from the reports presented at the council's away days are set out below drawing on experiences in the NHS.

LEARNING LESSONS FROM RECENT EXPERIENCE IN THE NHS

Purpose of the report

To stimulate a discussion about what relevant lessons can be learnt from NHS experience, various parts of which have been the subject of a number of critical reports following major failings in patient care, with a view to incorporating lessons which can be learnt into our management practice within Broxtowe.

Detail

The management failings in a number of NHS trusts have been examined in some detail to identify the key aspects of poor, unsafe or dangerous practice. Within this report each inquiry is examined in turn, identifying the main management failings associated with each, and questions for reflection are set out to aid our discussion. There are three overarching themes which are summarised below.

1. Inadequate use of data

In each case, those responsible for running the establishment should have known of failings which were only fully uncovered following external review. Good management analysis of data which was already available would have highlighted dangers, signals and problems. However, through:

- fragmentation (an inability to piece together data which existed in different places)
- a pursuit of other priorities which were thought at the time to be more important
- a lack of urgency
- an inability to use the data to create momentum for change

the problems which should have been identified and dealt with continued to the detriment of patient care.

2. Insufficient emphasis on customer (patient) care and insufficient knowledge about what was happening on the front line

Managers became detached and insulated from the problems at each establishment, with the result that they:

- either did not know or did not care sufficiently
- did not adequately prioritise the problems which existed
- were not strongly enough motivated to urgently put problems right.

In most cases they ‘lost the plot’ – forgetting the main purpose of their management activity and putting other goals, particularly financial ones, ahead of patient care.

3. Accountability

In each case the opprobrium heaped on the aforesaid failing managers is tangible. There is a new clamour for managers to be held to account for their past failings. New models with which to measure effectiveness are being used and are being used retrospectively to identify specific failings and individual culpability. The use of data (quantitative and qualitative) and the rigour with which we as managers hold responsible officers (and each other) to account for quality service delivery will be increasingly demanding and relevant to local government in the coming days, particularly where lives are at risk.

NHS HOSPITAL

A television documentary by Panorama in May 2011 exposed the shocking routine mistreatment of people with learning disabilities.

The failings identified included the following:

- Almost half of patients were placed far away from home (not within easy reach of relatives).
- Average length of stay was 19 months – predominantly people were admitted after a crisis but there was no urgency relating to move on plans.
- There were a very high level of recorded physical interventions (restraint which could not under any circumstances have been considered ‘normal’).
- Opportunities to pick up failings in quality of care were repeatedly missed, eg patients attended A&E on 78 occasions; police had 29 reported incidents and there were 40 safeguarding reports to the local Council.
- Routine healthcare needs were not attended to, for example dental problems.
- There was little opportunity for outsiders to observe daily living, which enabled the development of a closed and punitive culture.
- A failure of provider to pick up on any of the above markers or provide a focus on clinical governance or key quality markers.
- Adult safeguarding systems failed to link together disparate pieces of information.
- Serious failings in commissioning led to failure to assess the needs of individuals and promote their rehabilitation back home. There was a lack of evidence that people had meaningful activity during the day.
- Mental Health Act Commissioner failed to follow up referrals and the Care Quality Commission (CQC) did not respond to whistleblowing.

QUESTIONS TO REFLECT ON:

- Do our performance management arrangements alert managers to ‘danger signals’?
- Do our systems (particularly concerning vulnerable people) enable us to piece together information from multiple sources?
- Do we have clear ‘quality models’ we can benchmark services against?
- Do we reflect on the quality of our commissioning processes and learn lessons when we go wrong?

- Do our complaints and whistleblowing processes work properly in all situations, eg in retirement living?
- Do we need to promote the complaints system and promote advocacy and/or independent visiting arrangements?
- Should we do more to promote feedback on service quality especially where vulnerable people are involved?

KEOGH REVIEW INTO THE QUALITY OF CARE AND TREATMENT PROVIDED BY 14 HOSPITAL TRUSTS IN ENGLAND

Sir Bruce Keogh was asked by the prime minister to conduct a review into the quality of care and treatment provided by hospital trusts with persistently high mortality rates. This was prompted by the fact that the failures at Mid Staffordshire NHS Foundation Trust were associated with failures in all three dimensions of quality: clinical effectiveness, patient experience and safety. He selected 14 hospitals for investigation based on the fact that they were outliers for the previous two years on the hospital mortality index or standardised mortality index.

Sir Bruce Keogh adopted a methodology which included looking at hard data and combining that with soft intelligence. The model combined a clear trigger for action followed by detailed data analysis leading to key lines of enquiry rather than an inspection based on a predetermined framework. He used a multidisciplinary diverse team 15 to 20 strong (including patients, front line doctors and nurses) to go into the hospitals to get under the skin of each hospital. There were no rigid tick box criteria. Staff and patient focus groups were important in the new process.

FINDINGS

- Poor hospitals regard listening to staff and patients and engaging them in improving services as a low priority.
- Poor hospitals have limited capability to use data to drive quality improvement.
- Boards had not grasped the quality agenda because they were chasing other targets, such as waiting times. Often financial challenges took a higher priority than dealing with quality issues.
- Some trusts were acting in professional isolation. This meant that they were ‘behind the curve’ and not in touch with best practice.
- There was a lack of value and support given to front line officers.
- Some boards used data simply for reassurance rather than the forensic sometimes uncomfortable pursuit of improvement.

QUESTIONS FOR REFLECTION

- Do we run the risk of ‘hitting the target but missing the point’?
- Do we have any areas of in-attentional blindness?
- Do we have an over-emphasis on overcoming the financial challenge we face at the expense of quality failing or customer failing?
- Are we sufficiently well in touch with best practice?
- Do we use data for reassurance rather than the ‘forensic sometimes uncomfortable pursuit of improvement’?

- Do we place sufficient emphasis and value on what front line staff think of our progress/ service delivery quality?

Conwy County Borough Council – Entrepreneurial Council 2015

The following case study demonstrates how Conwy County Borough Council (‘the council’) considered the outcomes it wished to achieve and was able to take advantage of an innovative opportunity to assist towards the achievement of its vision. The project was to develop a strategic approach for delivering major events in order to use them to raise the profile of the area and create an economic benefit for the county.

In 2010, the council recognised that events are an important part of the area’s economy, which led to the development of the first events strategy. The strategy acts as a key economic driver, with the corporate events programme being seen as an essential part of the council’s regeneration work across the county.

THE PROJECT’S OBJECTIVES

In addition to the desire to raise the profile of the area and provide an economic boost, the council wanted to maximise the use of built and natural key assets, eg water sports, outdoor activities, cultural events, Theatr Colwyn, Venue Cymru, Porth Eirias and Eirias. Central to the approach has been to get Conwy County noticed on the world map, and this was achieved through attracting a certain calibre of events and the partners involved, such as international motor sports who organise and run Wales Rally GB, the thirteenth round of the World Rally Championship.

THE COUNCIL’S APPROACH

The council’s strategy does not sit on a shelf but rather is a ‘way of life’; it’s about doing the best for the area in which people work and live. It’s called the **three Ps!**:

1. **Place** – what we have to offer.
2. **People** – who we serve and our team.
3. **Passion** – our love of what we do and the beautiful location of Conwy County.

The council saw an opportunity and gap in the market because of other public sector organisations pulling away from supporting events as they considered them not to be core activities. Elected members and senior team showed vision, commitment and a forward thinking outlook. They bought into the strategy and because of this the council has been able to take advantage of the opportunities and increase the number of successful events the county hosts or runs.

Some would say that what the council is doing is bold and brave when the authority is under pressure to protect core services, but the authority sees the work that is done on events as underpinning the economy of the county and an essential part of the council’s priorities. The focus over the next few years is to continue to push the boundaries and attract events that generate significant direct economic, social and cultural benefits to Conwy County.

THE PROJECT’S ACHIEVEMENTS

The most significant achievement is the financial return. The council has been able to independently verify that over the last two years, for every £1 in sponsorship that has been invested, the authority has seen a return on investment of over £32.00. On top of the measured financial return there is the considerable coverage that the county receives by

hosting world events as well as other measures, such as the events programme definitely contributing to Llandudno being voted the number three destination in the UK to visit behind Edinburgh and London.

Cardiff City Council – practical examples

The following examples illustrate where Cardiff City Council ('the council') has been able to improve its governance arrangements in various areas.

GOVERNANCE AND ENGAGEMENT PROJECT

As part of an organisational development programme, the council has a governance and engagement project, led by the director of governance and legal services, which reports to the enabling and commissioning board (chaired by the corporate director resources) on a monthly basis. The project aims to ensure that the council has robust governance arrangements by "promoting openness through increased citizen engagement and information sharing, enabling transparent decision making and providing clearer opportunities for people to participate in decision making processes".

IMPROVING SCRUTINY

The council has also adopted an improving scrutiny project, which has formulated 20 development actions, one of which is an annual self-assessment by the council's five scrutiny committee chairs on the conduct and impact of scrutiny. The assessment methodology is based on the Characteristics of Effective Scrutiny in Wales, which makes parallel provisions to parts of the revised governance Framework (and will be reviewed to consider any further changes to reflect the revised CIPFA/Solace Framework).

RELATIONSHIP MEETINGS

We have introduced an arrangement whereby internal audit officers have a 'relationship meeting' with each director every quarter, which is proving to be useful and mutually beneficial. It provides for a regular dialogue between internal audit and senior management to help the understanding of risks, challenges and priorities across directorates, to enable audit resources to be targeted to best effect, thereby ensuring internal audit continues to add value. This also provides an opportunity to discuss matters arising from audits and working together to consider how the internal control environment can be best enhanced, recognising the resource pressures faced by management teams.

SENIOR MANAGEMENT ASSURANCE STATEMENT

All council directors are required to complete a senior manager assurance statement (SMAS) every six months, and internal audit officers offer a challenge to how the statement is completed, seeking more evidence to support a director's view. The council has developed its statement over the years and believes it is very effective in recognising the key role directors play in owning governance arrangements and being held to account for this.

The SMAS has also become a key means of highlighting and monitoring the significant issues within the council, which may or may not be captured as part of the corporate risk management arrangements, so that senior managers as a whole can be made aware of emerging issues and seek a strategic corporate means of mitigating the associated risks. The council intends to introduce a separate assurance statement for the chief executive to complete at year end.

CORPORATE PARENTING AND SCHOOL GOVERNOR APPOINTMENTS

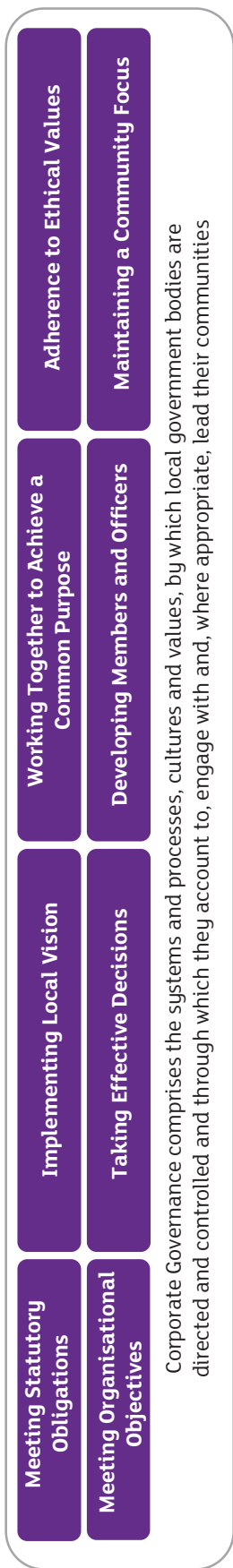
In order to improve the effectiveness with which the council discharges its corporate parenting role for all children in the care of the local authority, the council has established a corporate parenting advisory committee. Similarly, in order to improve the process for school governor appointments, the council has established a local authority governor panel.

Staffordshire County Council – single sheet framework

Staffordshire County Council draws together on a single sheet all its systems, processes and documents that contribute to the authority's governance. The extent to which they are in place and effective is considered as part of the authority's annual review. The document is reproduced below.

Staffordshire County Council Corporate Governance Framework

Principles, Statutory Obligations and Organisational Objectives



West Midlands Pension Fund – good practice in stakeholder engagement

This case study looks at the arrangements that West Midlands Pension Fund has in place for effective engagement with its stakeholders. CIPFA carried out a governance assessment at WMPF in 2015 and this case study is drawn from the findings.

INTRODUCTION

West Midlands Pension Fund (WMPF) is one of the larger local government administrated pension funds in the country. Affiliated to Wolverhampton City Council by statute, the fund is an autonomous organisation with its own governance arrangements.

WMPF has over 275,000 members and 450 scheme employers as at 31 March 2015. It has 116 staff and is governed by a pensions committee whose role is to manage, administer benefits and strategically manage the fund's assets. It is a committee of Wolverhampton City Council (the administering authority) which has representation from the seven West Midlands metropolitan district councils and local trade unions.

STAKEHOLDER ENGAGEMENT

WMPF's stakeholders include recipients of pensions, members who are paying in to the fund, and employing organisations. There is a culture of open and constructive engagement by WMPF with its key stakeholders and the interests of members are at the forefront of the way WMPF is governed and managed.

WMPF has a variety of ways in which members and organisations are engaged. This is guided by its customer engagement strategy that sets out why and how it engages with its stakeholders and includes:

- Surveys (available online at www.wmpfonline.com, via customer service advisors and in reception) which record feedback on many aspects of customer service including the quality of written material, online communication, in-person customer service, as well as gathering data on whether customers believe they are treated fairly by the fund.
- Quarterly briefing notes and e-newsletters for stakeholders.
- A robust complaints process which is monitored by the compliance and risk function of the fund.
- A self-service officer compliment system where data is captured regarding customer compliments.
- A customer journey mapping programme which ensures stakeholders are involved in changes to internal processes designed to benefit customers.
- Face-to-face contact, for example at WMPF events such as the annual general meeting (for trustees and employer) or roadshow programme or visitors to the reception (available to all members at any time).

QUALITY IMPROVEMENT

WMPF has a culture of quality improvement. For example, the staff forum is the primary vehicle for providing feedback to identify service improvements to customers. Customer service training is provided as core training for front line staff.

In addition, there are defined quality assurance systems, independently accredited such as the customer service excellence award. WMPF established consultation groups to review the

2014 changes to the pension scheme, and they increased the availability of information and presentation services to customers to help raise awareness of the 2014 scheme changes.

WMPF is very open about the services it provides, its performance and decisions that are taken. This information is all easily accessible and available on its website. Pension committee meetings are open to the public (except for reserved business) and minutes are also made available on the council's website.

CASE STUDIES FROM OTHER SECTORS

4.2 Sectors other than local government can be useful in providing learning points, particularly in this era of increased collaboration. Set out below are the following case studies:

- Mid Staffordshire NHS Foundation Trust
- Barnsley College
- Stakeholder engagement
- Includem
- Northern Ireland Events Company

Mid Staffordshire NHS Foundation Trust

Mid Staffordshire NHS Foundation Trust is well known for the failings that occurred prior to 2010 in relation to the operation of the health care system as a whole. The key events and timelines are noted in the following table as concerns about the trust increased.

2001	<ul style="list-style-type: none"> ■ Stafford Primary Care Group wrote a report critical of the Mid Staffordshire General Hospital's management and leadership
2002	<ul style="list-style-type: none"> ■ The Commission for Health Improvement published a highly critical report of the trust's low staffing levels, poor quality of clinical data and poor standards of cleanliness
2003	<ul style="list-style-type: none"> ■ A peer review report into care for critically ill and injured children raised serious concerns about the accident and emergency department
2004	<ul style="list-style-type: none"> ■ The trust received a Healthcare Commission zero star rating after receiving a three star rating the previous year
2005	<ul style="list-style-type: none"> ■ The Barry Report looked into whistleblowing complaints
2006	<ul style="list-style-type: none"> ■ The trust requested £1m for redundancies on two occasions ■ A peer review of critical children's services and the accident and emergency department raised serious safety concerns ■ The trust's auditors raised concerns over risk management and assurance
2007	<ul style="list-style-type: none"> ■ A national report on mortality rates showed that the trust was the second worst outlier in the country ■ Mortality alerts for a number of conditions raised Healthcare Commission concerns ■ The Royal College of Surgeons' report described a dysfunctional surgical department at the trust
2008	<ul style="list-style-type: none"> ■ Mid Staffordshire NHS Trust was awarded foundation trust status ■ The Healthcare Commission launched a full investigation into the trust
2009	<ul style="list-style-type: none"> ■ The Healthcare Commission report revealed: <ul style="list-style-type: none"> – a chronic nursing staff shortage – equipment problems – poor weekend medical cover – a bullying culture – that targets overrode quality ■ The health secretary announced an independent inquiry into the trust's failings following further reports and calls for a full public inquiry

The following summary outlines some specific governance failings that were noted in the Report of the Mid Staffordshire NHS Foundation Trust Public Inquiry (the Francis report), published in 2013, and how they fit with the respective principles from the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014).

A. BEHAVING WITH INTEGRITY, DEMONSTRATING STRONG COMMITMENT TO ETHICAL VALUES, AND RESPECTING THE RULE OF LAW

- There was a negative culture at the trust and one of self-promotion rather than critical analysis.

- An ineffective trust whistleblowing policy meant that warning signs pointing to serious problems were not resolved.
- The regulator fiercely guarded its independence rather than fostering good relationships with others.
- The local medical community failed to raise concerns until it was too late.

B. ENSURING OPENNESS AND COMPREHENSIVE STAKEHOLDER ENGAGEMENT

- There wasn't a culture of openness or stakeholder engagement so instances of poor care were not addressed.
- Staff and patient surveys continually gave signs of dissatisfaction but no effective action was taken.
- Problems indicated by formal assurance systems were ignored and put down to poor record keeping.
- Insufficient priority was given to communication with regulatory and supervisory bodies.

C. DEFINING OUTCOMES IN TERMS OF SUSTAINABLE ECONOMIC, SOCIAL, AND ENVIRONMENTAL BENEFITS

- The trust pursued the wrong priorities and prioritised finances and the foundation trust application over care quality.
- The regulator focused on corporate governance and financial control without properly considering issues of patient safety and poor care.

D. DETERMINING THE INTERVENTIONS NECESSARY TO OPTIMISE THE ACHIEVEMENT OF THE INTENDED OUTCOMES

- The board permitted a mismatch between the resources allocated and the needs of the services to be delivered.
- There was no detailed scrutiny by the oversight body regarding the impact of the trust's financial plan and associated staff cuts on patient care.

E. DEVELOPING THE ENTITY'S CAPACITY, INCLUDING THE CAPABILITY OF ITS LEADERSHIP AND THE INDIVIDUALS WITHIN IT

- The trust lacked a sense of collective responsibility for ensuring quality of care.
- Poor leadership, recruitment of staff and training led to declining professionalism and tolerance of poor standards.
- The trust board took false assurance from good news and tolerated/explained away bad news.
- Senior clinical staff were disengaged from the trust's leadership.

F. MANAGING RISKS AND PERFORMANCE THROUGH ROBUST INTERNAL CONTROL AND STRONG PUBLIC FINANCIAL MANAGEMENT

- Priority was given to ensuring the trust's books were in order for its foundation trust application.
- The purchaser/commissioning function was re-organised but a system to manage the inevitable risks was not put in place.
- Metrics focused on patient safety and outcome based performance measures were replaced with more indirect ones.

- It was unclear who had responsibility for following up peer review recommendations.

G. IMPLEMENTING GOOD PRACTICES IN TRANSPARENCY, REPORTING, AND AUDIT, TO DELIVER EFFECTIVE ACCOUNTABILITY

- The regulator relied on the trust's assurances regarding quality issues.
- External agency responsibilities and accountabilities were not well defined resulting in 'regulatory gaps'.
- Serious concerns raised by auditors were not picked up by the regulator and the Department of Health.
- Local scrutiny committees failed to appreciate the seriousness of the signs indicating the trust's deficiencies.

Barnsley College – a further education college in the North East of England

BACKGROUND

Barnsley College is a large tertiary college serving Barnsley and surrounding areas in South Yorkshire. In 2013/14 it had 9,550 students and generated an operating surplus of £1.35m.

Over recent years Barnsley College has undergone a massive redevelopment, with many superb new facilities available to students. Work on the Old Mill Lane campus was completed in 2011 and this now serves as the main campus building. The college invested just over £8.8m in capital projects in 2013/14.

In 2010, governance at Barnsley College was judged to be outstanding according to its inspection report. This case study describes the characteristics of this college's governance.

OVERVIEW – THE PROVIDER'S MESSAGE

Chair of Governors:

Following the crisis in 2000, three successive principals brought their particular focus and specialisms into play, until the college was judged outstanding in 2010. Along the way, the make-up, delivery and practice of governance changed too. But the biggest series of changes to the governing body and to governance itself has occurred since 2008.

THE GOOD PRACTICE IN DETAIL

Governance at Barnsley College was judged good in 2003 and 2007, and outstanding in 2010. The chair of governors at that time, Frank Johnston, was appointed in 2009, having been vice-chair for the previous seven years. He identified the catalyst for the transition from good to outstanding as a change to the practice of governance. There is a participative approach in which the chair, the board and the principal work together to achieve common goals. This partnership model is also central to the principal's approach to the wider leadership and management of the college.

The 2003 inspection report stated that "governors and senior managers set a clear strategic direction and give strong leadership", and the 2007 report that "the college is well led and governance is good, the principal and governors have reviewed the mission and strategic aims which now focus more clearly on learners and their achievements."

By 2010 the inspection report made it clear that governance had moved up a gear to outstanding:

Governors make a valuable contribution to setting a clear strategic direction and ambitious targets for the college. They understand the college and its context extremely well and monitor academic and financial performance rigorously. The full governing body considers curriculum and quality matters, which enables governors to have a clear strategic oversight of performance.

In the words of the chair:

The governing body is more concerned with outcomes than protocols; its model of governance is that the college is a business, the governors are non-executive directors and the principal is the executive director.

To make it work, the board embraced a participative, team-based approach in which governance is dynamic, business-minded and community-focused. The board's essential role remains traditional in the sense that it sets and reviews the college's mission, values and strategic priorities, but the framework within which it operates has been changed. It is highly structured and focused and incorporates the following features:

- The annual process of setting strategy begins with a two day governors' strategic seminar held in January. The seminar is the start of the process of updating the development plan, which is the key strategic document.
- The senior management team (SMT) formally proposes the college's strategic priorities to governors at the March board meeting. Once the strategic priorities are agreed, the SMT produces the following year's development plan which is presented to the board for approval in July.
- The development plan provides a challenging framework and articulates the strategic priorities agreed by the board in March.
- Progress against the development plan is monitored regularly by governors, the SMT and other managers. Throughout the year governors receive updates on specific developments such as external inspections and progress reports relating to specific strategies and action plans.

Within this structure, there is much else that is good practice. For example:

- Board papers and reports are as succinct as possible, as are most documents produced for governors' consideration.
- Governors receive briefing packs on events and progress between board meetings.
- A link governor scheme involves governors making one or more linked visits to the college each year after which governors provide written feedback for the governing body and the principal. Each visit is linked to a strategic priority.
- Governors undergo a formal interview process and their skills are assessed against a skills matrix. Vacancies are advertised and targeted at community groups or employers when specific skills are sought.
- Individual appraisals for governors have been introduced.
- Governors produce an annual self-assessment report using a ten-point checklist.

Stakeholder engagement

The following is taken from an example provided by the Institute of Internal Auditors – Australia. It shows how an organisation can develop a stakeholder relationship and communication plan.

A public sector entity introduced a plan to identify and categorise its stakeholders. Stakeholder power was determined along with attention and influence. By initiating communication and stakeholder management, the entity can now identify and manage mutual interests more effectively while accomplishing organisational objectives.

The benefits of a stakeholder management system include the following:

- The most influential stakeholders are identified and their input can then be used to support the entity.
- Support from the most influential stakeholders will assist the entity in achieving its objectives.
- By frequently communicating with stakeholders, the entity can ensure that it fully understands the benefits offered as well as the associated costs.
- The entity can anticipate likely reactions of stakeholders to organisational communications and progress more effectively, and can build into its strategy the actions that will be needed to capitalise on positive reaction while avoiding or addressing any negative reactions.
- The entity can identify conflicting objectives among stakeholders and develop a strategy to resolve any issues that arise.

Includem

This case study illustrates how a small charity in Scotland ensures that its values are embedded across the organisation. CIPFA carried out a governance assessment at Includem in 2015 and this case study is drawn from the findings.

BACKGROUND

Includem is a registered charity constituted as a limited company under the Companies Act 2006. It has an annual turnover of £3.8m and employs 90 staff mainly in the west of Scotland. It provides one-to-one support to society's most vulnerable and troubled young people, providing intensive support in the community to around 400 young people each year across Scotland. It works primarily to support young people aged 12 to 18 who are subject to formal measures of care and who are looked after at home or in other community placements. Most of Includem's work is commissioned by local councils and grant awarding bodies.

Includem recognises the need not just to be a supplier of services to local government, but also to share the same values as its client councils and seek common outcomes for citizens.

EMBEDDING CORE VALUES

Includem's values are explicit, easily understood and memorable. The application of those values is apparent in the following ways:

- Testing candidates during recruitment exercises to see if they share the same values. This involves staff at different functions and levels (not just line managers) in the selection process.
- Reviewing again knowledge of values during annual appraisals and monitoring behaviours and staff conduct to ensure consistency with those values.
- Using a monitoring system specifically designed to oversee the welfare and protection of young people (one of the main risks at Includem).
- Involving all staff (including 'back office' personnel) in annual events who engage with their young people and their families, to celebrate success and share in positive outcomes which helps to further the entity's values.
- Ensuring the values and purpose of Includem are widely known by all staff and board members.
- Ensuring that at board meetings young people are the main focus of discussions and that decisions taken are about sustaining the services provided to them.

Northern Ireland Events Company

This case study illustrates what can happen when an organisation loses sight of its core purpose. It highlights the risks when setting up new public bodies and problems with strategic drift.

Analysis of The Northern Ireland Events Company (2015), a report produced by the Northern Ireland Audit Office (NIAO), shows that the Northern Ireland Events Company (NIEC) displayed weaknesses in almost all aspects of governance, including:

- a lack of scrutiny and oversight
- examples of conflicts of interest
- deficits caused by financial mismanagement
- failure to uphold ethical standards
- an unacceptable level of performance and accountability by the accounting officer.

Among a catalogue of failure was that NIEC lost sight of its original purpose. It was incorporated as a limited liability company with a remit to support major events in Northern Ireland. Its main source of funding was provided by central government and it was controlled by a board of publicly appointed non-executive directors. Day to day management was carried out by an executive management team, headed by a chief executive, who was also appointed accounting officer by the sponsor department.

Originally, NIEC was established because government believed that a separate events organisation, sponsored and funded by a government department, could attract private sector investment and be at 'arm's-length' from government. It was therefore established as a private company limited by guarantee.

A major contributing factor to the failure of NIEC was a change in strategic direction to take ownership of and promote events, as well as to grant fund events. Initially, NIEC primarily provided grant funding to external event organisers who took the bulk of the risk relating to events and limiting any losses to the amount of grant provided to organisers. However, within five years of being established, NIEC began to become involved in promotional activities related to major events, motocross events being one example. In promoting events NIEC contracted directly with, and paid fees to, rights holders. It also contracted directly with and paid suppliers for goods and services. This change in strategic direction greatly increased the financial risk to which NIEC was exposed.

Investigations, notably by company inspectors appointed by the Department of Enterprise, Trade and Investment (DETI) under Article 425(2) of the Companies (Northern Ireland) Order 1986, found no evidence that the change in strategic direction from grant funder (with limited liabilities) to a promoter (with unlimited liabilities) was supported by a NIEC board decision or approved by the sponsor government department. Instead, it appears that the change came about as a result of 'strategic drift' over a period of time. According to the auditors, some board members told company inspectors that they were unaware that NIEC was promoting events. Having failed to identify the significant change in business activities, the board did not recognise the increased financial and operational risk that this change brought with it.

ANNUAL GOVERNANCE STATEMENTS

Reporting

- 4.3** Local authorities are required to prepare a governance statement in accordance with *Delivering Good Governance in Local Government: Framework* and to report publicly on the extent to which they comply with their own code of governance on an annual basis, including how they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the governance and internal control framework of an organisation.
- 4.4** Key good practice features of an annual governance statement are described below:
- The statement has been properly approved.
 - It is regarded as a valuable means of communications which will enable stakeholders to understand the authority's governance arrangements.
 - It is easily accessible by authority members and members of the public, for example:
 - through its prominent display on the authority's website
 - publishing it with, but separately from, the statement of accounts.
 - It has been clearly thought out and reflects the vision, character and structure of the authority, ie the big picture and not the detail.
 - It demonstrates ownership by the authority and has a high status within senior management.
 - It is a genuinely shared effort with wide input from outside the finance and audit functions.
 - It is a key document for showing how the authority is achieving its strategic objectives.
 - It is in an open and readable style.
 - It demonstrates challenge.
 - Issues are clearly articulated and it communicates a clear and concise message.
 - Weaknesses together with areas for improvement are highlighted.
 - It clearly communicates what has been done to resolve significant control issues and what remains to be done.
 - Actions identified are specific, measurable, achievable, realistic and time-related (SMART).
 - Responsibility for those actions is clearly identified.
 - It is a 'living' document, ie it is not focused exclusively on year end and communicates significant issues which may change from year to year.
- 4.5** Other innovative features might include the following:
- Good use of diagrams to communicate the message more effectively and reduce the need for text.
 - Use of hyperlinks to key governance documents to facilitate a brief and more user friendly statement.

Examples

4.6 Set out below are some recent annual governance statements (AGSs) from the following organisations that illustrate some of the points summarised above:

- London Borough of Lewisham
- Milton Keynes Council
- Huntingdonshire District Council
- Kent Fire and Rescue Service

London Borough of Lewisham – extract from AGS 2014/15

HOW HAS THIS STATEMENT BEEN PREPARED?

Every year a review of the effectiveness of the council’s governance framework is conducted by the annual governance statement working party which comprises a team of policy, legal and audit officers with expertise in governance and internal control matters. The group meets quarterly to collate and evaluate governance evidence and identify areas requiring action, and is responsible for analysing CIPFA/Solace guidance in relation to the development of this statement and ensuring that the statement is approved via the council’s key control mechanisms.

WHAT ARE THE COUNCIL’S GOVERNANCE ARRANGEMENTS?

The council’s governance arrangements aim to foster:

- effective leadership and high standards of behaviour
- a culture based on openness and honesty
- an external focus on the needs of service users and the public.

Lewisham’s directly elected mayor provides the council with clear strategic direction and effective leadership, but the council also benefits from the perspectives and contributions of its 54 councillors.

The council’s constitution clearly defines the roles of councillors and officers, and this clarity contributes to effective working relationships across the council. The constitution working party, the standards committee and the audit panel monitor and challenge the governance arrangements and ensure their robustness. The council has worked closely with its partners, both strategic and operational, primarily through the Lewisham congress, which had its first annual meeting in October 2014.

The council has two statutory partnership boards:

1. The safer Lewisham partnership, which works to protect the community from crime and help people feel safer.
2. The health and wellbeing board, which works to identify local health challenges and lead on the activity necessary to address them.

Milton Keynes Council – extract from AGS 2013/14 Annual Governance Statement Action Plan 2013/14

Issue	Action	Outcome	Lead Officer	Completion Date
1 There is a budget gap as identified in The Medium Term Financial Plan	Effective process used for managing budgets and monitoring and achieving identified savings	2014/15 outturn in line with budget and forecasts Balanced budget set for 2015/16 Action plan in place to address budget gap for future years	Corporate Director Resources/ AD Financial Management	March 2015
2 There will be a new administration after several years	Cabinet members are fully briefed on relevant issues. Officers and members are aware of, and conform to, the member/officer protocol.	Effective transition of Leadership	CLT/ Council Leader	September 2014
3 Officers working across new boundaries	Council processes aligned to the new boundaries	Members issues are referred to the correct member in the first instance	CLT	June 2014
4 A significant number of new members	Effective training delivered to all members. Clarity of roles and responsibilities to be provided.	Role profiles agreed and in place. Newly elected members in receipt of personal development plans and to have received appropriate training	AD Law & Governance/ Member & Electoral Services Manager	December 2014
5 Overview and Scrutiny arrangements are not effective in holding the Executive to account and developing policy.	To undertake a review of existing arrangements, and agree on issues, solutions and way forward.	Agreed timescale for implementation of proposal	AD Law & Governance/ Committee Services & Scrutiny Manager	January 2015
6 Transition resulting from appointment of a new Chief Executive and a further four members of the Senior Leadership Team	Processes are in place to manage the changes at Senior level to ensure new officers fully deliver their roles and responsibilities effectively.	Senior Officers in post on permanent appointments. Seamless transition for the Council with no adverse impact to service delivery.	CLT/ HR Service Delivery Manager	December 2014
7 The Council's Code of Corporate Governance has not been updated since 2010.	A review of the Council's Code of Corporate Governance to be undertaken to ensure that it describes the Council's governance framework and the arrangements through which this is delivered.	A fit for purpose Code of Corporate Governance which is complied with.	CLT/ Corporate Director Resources	March 2015
8 Increased reliance on a wide range of Partners to work with the Council to deliver key services e.g. health	The process for overseeing and monitoring key partnerships is effective	Annual review provides assurance of effective partnership governance arrangements	CLT/ Head of Policy & Performance	January 2015
9 An increasing number of core services are being delivered through large and complex contracts.	Arrangements for effective contract management are in place.	Internal Audit to provide at least a satisfactory opinion on audits of large contracts	CLT/ AD Public Realm	December 2014
10 There is a need to demonstrate that proposed benefits are achieved from major programmes and projects.	Arrangements are in place to formally evaluate benefits gained from all major programmes and projects.	Benefits realisation review undertaken providing at least satisfactory opinion	CLT	December 2014



Huntingdonshire District Council – extract from AGS 2013/14

The following action has been taken:

- The programme and project management toolkit was approved by the project management working board and launched in June 2014.
- The managing director attended the July 2014 panel meeting and explained how a culture of compliance was being promoted and that the new management team would be charged with delivery of the audit actions as a priority.
- The management team formally consider all audit reports that have been given 'limited' or 'little' assurance opinions and agree with the relevant manager those improvements that need to be made.
- The head of resources has appointed temporary staff to the debtors team to deal with the issues identified by internal audit.
- Each year the panel considers how effective it has been in overseeing the council's governance arrangements.

This governance statement is reported to council once it has been approved. The chair of the panel submits a report to the same council meeting which summarises the work of the panel, so allowing the council to take comfort that key governance processes are being reviewed.

Kent Fire and Rescue Service – extract from AGS 2014/15. Principle 5: Develop the capacity and capability of Members and Officers to be effective and to deliver services effectively

Principle 5: Develop the capacity and capability of Members and Officers to be effective and to deliver services effectively		
How We Meet these Principles	Where You Can See Governance in action	Assurance Received and Issues Identified
<ul style="list-style-type: none"> • We provide all staff with role maps or job descriptions setting out their duties clearly and document the personal qualities and attributes required for each post. • We operate an appraisal scheme for all staff to identify development and skills needs and assess performance. • We produce a Workforce Strategy setting out the key objectives for developing and training our staff. • We operate a protocol to govern the relationship between Members and officers that ensures access to appropriate information. • We treat everyone fairly and equally. • We take the Health and Safety of our Staff extremely seriously. • We provide new Members with induction training on appointment. • We evaluate the training needs of Members and run briefings on key topics to ensure they have the knowledge and information to make effective decisions. 	<p style="text-align: center;">Our Current Vacancies Adverts</p> <p style="text-align: center;">Workforce Strategy 2013-2017</p> <p style="text-align: center;">Convention on Member/Officer Relations</p> <p style="text-align: center;">Equality and Diversity Vision and Objectives</p> <p style="text-align: center;">Corporate Health Indicators</p> <p style="text-align: center;">Member Training Programme</p>	<div style="text-align: center;"></div> <p>A programme of training and briefing sessions for elected Members has been agreed to ensure Members remain up to date with current issues, are clear about their roles, and have sufficient information to make informed decisions.</p> <p>The qualifications, skills, behaviours and personal attributes required by staff in their roles are identified and documented, and reviewed annually.</p> <p>All employees receive annual appraisals which include an assessment of future training and development needs.</p> <div style="text-align: center;"></div> <p>The current economic situation is likely to continue to see a reduction in the number of staff employed by the Authority. We have identified that this presents a potential risk to our ability to retain the skills and experience needed, and to identify suitable candidates for promotion in the future. Measures are being implemented to combat this risk.</p>

EMBEDDING GOOD GOVERNANCE – GENERAL POINTS

Introduction

- 4.7 **Delivering Good Governance in Local Government: Framework** (CIPFA/Solace, 2016) notes that it is crucial that governance arrangements are applied in a way that demonstrates the spirit and ethos of good governance which cannot be achieved by rules and procedures alone. Effectively, good governance needs to be embedded in an organisation. It needs to permeate every aspect of the organisation's culture. Therefore 'hearts and minds' must be won over – the need for and value of good governance must be explicit.
- 4.8 This section of the guidance notes provides some issues to consider in ensuring that good governance is appropriately embedded.

Issues to consider

- How is governance perceived in your organisation? Is it regarded as an enabler in terms of innovation or a barrier to it?
- How has the organisation tried to embed good governance in its culture? Has this been successful?
- Are the benefits of good governance transparent in your organisation? For example:
 - better informed and improved decision making
 - clear demonstration of integrity and probity
 - clear focus on outcomes
 - developing a risk management culture.
- How are the benefits of good governance communicated to those who may not be aware of them including some members and senior officers?
- How does the organisation engage with its members on governance issues? How might this be improved?
- Do managers and officers feel free to raise any concerns that they might have?
- Is the organisation's code of governance accessible? Is it easy to understand?
- How are good governance principles communicated to the organisation's contractors and partners? How effective is that communication?
- How is the importance of maintaining standards communicated? Is it successful?
- Is appropriate induction and training available to those who need it?
- Does the concept of good governance have support from the top of the organisation – the chief executive and leader? How do they demonstrate this?
- How are the political groups involved in developing and maintaining good governance?
- How does the organisation ensure that governance structures continue to be up to date and relevant? For example, decision making frameworks, roles and responsibilities and schemes of delegation.
- What is the monitoring officer's role in enabling and facilitating good governance?

USE OF INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

- 4.9** Reinforced by the use of appropriate social media and other communication and consultation techniques, ICT can promote good governance in three basic ways, according to [Information Technology for Good Governance](#) (2001):
1. Increasing transparency, information, and accountability.
 2. Facilitating accurate decision making and public participation.
 3. Enhancing the efficient delivery of public goods and services.
- 4.10** Deployment of new technology can also pose serious risks, however, and cause many problems when either the technical or organisational aspects of its implementation and operation are not properly planned and managed. The right skills will be required both during and after implementation. The governing body should approve the ICT strategy and ensure there is appropriate oversight of ICT projects. It should also make sure that senior management sufficiently addresses ICT security, and specifically cyber security, whether developed in-house or outsourced.

Schedule to assist in putting the principles into practice

- 5.1** The following section looks at examples of the systems, processes and documents that might be cited by an authority as evidence of compliance with good practice.
- 5.2** The illustrative table below includes the following:
- Columns 1 and 2 reproduced from [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016) illustrating:
 - the core principles and sub-principles of good governance and the behaviours and actions that demonstrate good governance.
 - Column 3 outlining:
 - examples of systems, processes and documentation and other evidence that may be used to demonstrate compliance (for illustration purposes only)
 - self-assessment tools and sources of further guidance.
- 5.3** If using this approach, it should be stressed that authorities will need to assess how far their processes and documentation meet the criteria suggested, otherwise the exercise will become a box-ticking process rather than a qualitative exercise. One way to make the exercise more challenging would be to score the authority's arrangements on a scale of 0 to 10, where 10 represents very best practice. This could be done by adding two extra columns – one for a self-assessment score and one to add plans for improvement.
- 5.4** Authorities might find this a practical way of approaching the task. Authorities should not, however, feel constrained by either the format or the examples listed.

Schedule to assist in putting the principles of good governance into practice

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
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Acting in the public interest requires a commitment to and effective arrangements for:

<p>A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p> <p>Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.</p>	<p>Behaving with integrity</p> <ul style="list-style-type: none"> ■ Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation ■ Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles) ■ Leading by example and using these standard operating principles or values as a framework for decision making and other actions ■ Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively 	<ul style="list-style-type: none"> ■ Codes of conduct ■ Individual sign off with regard to compliance with code ■ Induction for new members and staff on standard of behaviour expected ■ Performance appraisals ■ Communicating shared values with members, staff, the community and partners ■ Decision making practices ■ Declarations of interests made at meetings ■ Conduct at meetings ■ Shared values guide decision making ■ Develop and maintain an effective standards committee ■ Anti-fraud and corruption policies are working effectively ■ Up-to-date register of interests (members and staff) ■ Up-to-date register of gifts and hospitality ■ Whistleblowing policies are in place and protect individuals raising concerns ■ Whistleblowing policy has been made available to members of the public, employees, partners and contractors
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1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
		<ul style="list-style-type: none"> ■ Complaints policy and examples of responding to complaints about behaviour ■ Changes/improvements as a result of complaints received and acted upon ■ Members and officers code of conduct refers to a requirement to declare interests ■ Minutes show declarations of interest were sought and appropriate declarations made
	<p>Demonstrating strong commitment to ethical values</p> <ul style="list-style-type: none"> ■ Seeking to establish, monitor and maintain the organisation's ethical standards and performance 	<ul style="list-style-type: none"> ■ Scrutiny of ethical decision making ■ Championing ethical compliance at governing body level
	<ul style="list-style-type: none"> ■ Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation 	<ul style="list-style-type: none"> ■ Provision of ethical awareness training
	<ul style="list-style-type: none"> ■ Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values 	<ul style="list-style-type: none"> ■ Appraisal processes take account of values and ethical behaviour ■ Staff appointments policy ■ Procurement policy
	<ul style="list-style-type: none"> ■ Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with high ethical standards expected by the organisation 	<ul style="list-style-type: none"> ■ Agreed values in partnership working: <ul style="list-style-type: none"> – Statement of business ethics communicates commitment to ethical values to external suppliers – Ethical values feature in contracts with external service providers ■ Protocols for partnership working
	<p>Respecting the rule of law</p> <ul style="list-style-type: none"> ■ Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations 	<ul style="list-style-type: none"> ■ Statutory provisions ■ Statutory guidance is followed ■ Constitution

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	<ul style="list-style-type: none"> ■ Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements 	<ul style="list-style-type: none"> ■ Job description/specifications ■ Compliance with CIPFA’s <i>Statement on the Role of the Chief Financial Officer in Local Government</i> (CIPFA, 2015) ■ Terms of reference ■ Committee support
	<ul style="list-style-type: none"> ■ Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders 	<ul style="list-style-type: none"> ■ Record of legal advice provided by officers
	<ul style="list-style-type: none"> ■ Dealing with breaches of legal and regulatory provisions effectively 	<ul style="list-style-type: none"> ■ Monitoring officer provisions ■ Record of legal advice provided by officers ■ Statutory provisions
	<ul style="list-style-type: none"> ■ Ensuring corruption and misuse of power are dealt with effectively 	<ul style="list-style-type: none"> ■ Effective anti-fraud and corruption policies and procedures ■ Local test of assurance (where appropriate)
		<p>Further guidance</p> <ul style="list-style-type: none"> ■ <i>Statement on the Role of the Chief Financial Officer in Local Government</i> (CIPFA, 2015) ■ <i>Illustrative Text for Local Code of Conduct</i> (DCLG, 2012) ■ <i>LGA Template Code of Conduct</i> ■ <i>Code of Ethics for Local Public Service Managers – Consultation</i> (Solace, 2015) ■ <i>Code of Practice on Managing the Risk of Fraud and Corruption</i> (CIPFA, 2014) ■ <i>Code of Practice on Managing the Risk of Fraud and Corruption: Guidance Notes</i> (CIPFA, 2014) ■ <i>Ethics in Practice: Promoting Ethical Standards in Public Life</i> (Committee on Standards in Public Life, 2014) ■ <i>Standards Matter: A Review of Best Practice in Promoting Good Behaviour in Public Life</i> (Committee on Standards in Public Life, 2013)

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
<p>B. Ensuring openness and comprehensive stakeholder engagement</p> <p>Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.</p>	<p>Openness</p> <ul style="list-style-type: none"> ■ Ensuring an open culture through demonstrating, documenting and communicating the organisation’s commitment to openness ■ Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided ■ Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear ■ Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action 	<ul style="list-style-type: none"> ■ Annual report ■ Freedom of Information Act publication scheme ■ Online council tax information ■ Authority’s goals and values ■ Authority website ■ Record of decision making and supporting materials ■ Decision making protocols ■ Report pro-formas ■ Record of professional advice in reaching decisions ■ Meeting reports show details of advice given ■ Discussion between members and officers on the information needs of members to support decision making ■ Agreement on the information that will be provided and timescales ■ Calendar of dates for submitting, publishing and distributing timely reports is adhered to ■ Community strategy ■ Use of consultation feedback ■ Citizen survey

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
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Engaging comprehensively with institutional stakeholders

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| <ul style="list-style-type: none"> ■ Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably | <ul style="list-style-type: none"> ■ Communication strategy |
| <ul style="list-style-type: none"> ■ Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively | <ul style="list-style-type: none"> ■ Database of stakeholders with whom the authority should engage and for what purpose and a record of an assessment of the effectiveness of any changes |
| <ul style="list-style-type: none"> ■ Ensuring that partnerships are based on: <ul style="list-style-type: none"> – trust – a shared commitment to change – a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit | <ul style="list-style-type: none"> ■ Partnership framework ■ Partnership protocols |

Engaging stakeholders effectively, including individual citizens and service users

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| <ul style="list-style-type: none"> ■ Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes. | <ul style="list-style-type: none"> ■ Record of public consultations ■ Partnership framework |
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1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	<ul style="list-style-type: none"> ■ Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement 	<ul style="list-style-type: none"> ■ Communications strategy
	<ul style="list-style-type: none"> ■ Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs 	<ul style="list-style-type: none"> ■ Communications strategy ■ Joint strategic needs assessment
	<ul style="list-style-type: none"> ■ Implementing effective feedback mechanisms in order to demonstrate how their views have been taken into account 	<ul style="list-style-type: none"> ■ Communications strategy
	<ul style="list-style-type: none"> ■ Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity 	<ul style="list-style-type: none"> ■ Processes for dealing with competing demands within the community, for example a consultation
	<ul style="list-style-type: none"> ■ Taking account of the interests of future generations of tax payers and service users 	<ul style="list-style-type: none"> ■ Reports ■ Joint strategic needs assessment
		<p>Further guidance</p> <ul style="list-style-type: none"> ■ Good Governance Principles for Partnership Working (Audit Scotland, 2011) ■ Community Planning Toolkit – Working Together, Community Places through the Support of the Big Lottery Fund (2014)

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
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In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance in local government also requires effective arrangements for:

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The long-term nature and impact of many of local government’s responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority’s purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.

Defining outcomes

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| <ul style="list-style-type: none"> ■ Having a clear vision which is an agreed formal statement of the organisation’s purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation’s overall strategy, planning and other decisions | <ul style="list-style-type: none"> ■ Vision used as a basis for corporate and service planning |
| <ul style="list-style-type: none"> ■ Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer | <ul style="list-style-type: none"> ■ Community engagement and involvement ■ Corporate and service plans ■ Community strategy |
| <ul style="list-style-type: none"> ■ Delivering defined outcomes on a sustainable basis within the resources that will be available | <ul style="list-style-type: none"> ■ Regular reports on progress |
| <ul style="list-style-type: none"> ■ Identifying and managing risks to the achievement of outcomes | <ul style="list-style-type: none"> ■ Performance trends are established and reported upon ■ Risk management protocols |
| <ul style="list-style-type: none"> ■ Managing service users expectations effectively with regard to determining priorities and making the best use of the resources available | <ul style="list-style-type: none"> ■ An agreed set of quality standard measures for each service element and included in service plans ■ Processes for dealing with competing demands within the community |

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	<p>Sustainable economic, social and environmental benefits</p> <ul style="list-style-type: none"> ■ Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision 	<ul style="list-style-type: none"> ■ Capital investment is structured to achieve appropriate life spans and adaptability for future use or that resources (eg land) are spent on optimising social, economic and environmental wellbeing: <ul style="list-style-type: none"> – Capital programme – Capital investment strategy
	<ul style="list-style-type: none"> ■ Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints 	<ul style="list-style-type: none"> ■ Discussion between members and officers on the information needs of members to support decision making ■ Record of decision making and supporting materials
	<ul style="list-style-type: none"> ■ Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs 	<ul style="list-style-type: none"> ■ Record of decision making and supporting materials ■ Protocols for consultation
	<ul style="list-style-type: none"> ■ Ensuring fair access to services 	<ul style="list-style-type: none"> ■ Protocols ensure fair access and statutory guidance is followed <p>Further guidance</p> <ul style="list-style-type: none"> ■ Building Partnerships: Insights from the Devolution Summit (CIPFA/Grant Thornton, 2015)

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
<p>D. Determining the interventions necessary to optimise the achievement of the intended outcomes</p> <p>Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.</p>	<p>Determining interventions</p> <ul style="list-style-type: none"> ■ Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided ■ Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts <p>Planning interventions</p> <ul style="list-style-type: none"> ■ Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets ■ Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered ■ Considering and monitoring risks facing each partner when working collaboratively including shared risks ■ Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances 	<ul style="list-style-type: none"> ■ Discussion between members and officers on the information needs of members to support decision making ■ Decision making protocols ■ Option appraisals ■ Agreement of information that will be provided and timescales <hr/> <ul style="list-style-type: none"> ■ Financial strategy <hr/> <ul style="list-style-type: none"> ■ Calendar of dates for developing and submitting plans and reports that are adhered to <hr/> <ul style="list-style-type: none"> ■ Communication strategy <hr/> <ul style="list-style-type: none"> ■ Partnership framework ■ Risk management protocol <hr/> <ul style="list-style-type: none"> ■ Planning protocols

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	<ul style="list-style-type: none"> ■ Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured 	<ul style="list-style-type: none"> ■ KPIs have been established and approved for each service element and included in the service plan and are reported upon regularly
	<ul style="list-style-type: none"> ■ Ensuring capacity exists to generate the information required to review service quality regularly 	<ul style="list-style-type: none"> ■ Reports include detailed performance results and highlight areas where corrective action is necessary
	<ul style="list-style-type: none"> ■ Preparing budgets in accordance with organisational objectives, strategies and the medium term financial plan 	<ul style="list-style-type: none"> ■ Evidence that budgets, plans and objectives are aligned
	<ul style="list-style-type: none"> ■ Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy 	<ul style="list-style-type: none"> ■ Budget guidance and protocols ■ Medium term financial plan ■ Corporate plans
	<p>Optimising achievement of intended outcomes</p> <ul style="list-style-type: none"> ■ Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints 	<ul style="list-style-type: none"> ■ Feedback surveys and exit/ decommissioning strategies ■ Changes as a result
	<ul style="list-style-type: none"> ■ Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term 	<ul style="list-style-type: none"> ■ Budgeting guidance and protocols

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	<ul style="list-style-type: none"> ■ Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage 	<ul style="list-style-type: none"> ■ Financial strategy
	<ul style="list-style-type: none"> ■ Ensuring the achievement of 'social value' through service planning and commissioning. The Public Services (Social Value) Act 2012 states that this is "the additional benefit to the community...over and above the direct purchasing of goods, services and outcomes" 	<ul style="list-style-type: none"> ■ Service plans demonstrate consideration of 'social value' ■ Achievement of 'social value' is monitored and reported upon

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
<p>E. Developing the entity's capacity, including the capability of its leadership and the individuals within it</p> <p>Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfill its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.</p>	<p>Developing the entity's capacity</p> <ul style="list-style-type: none"> ■ Reviewing operations, performance use of assets on a regular basis to ensure their continuing effectiveness ■ Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the authority's resources are allocated so that outcomes are achieved effectively and efficiently ■ Recognising the benefits of partnerships and collaborative working where added value can be achieved ■ Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources <p>Developing the capability of the entity's leadership and other individuals</p> <ul style="list-style-type: none"> ■ Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained ■ Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body 	<ul style="list-style-type: none"> ■ Regular reviews of activities, outputs and planned outcomes ■ Utilisation of research and benchmarking exercise ■ Effective operation of partnerships which deliver agreed outcomes ■ Workforce plan ■ Organisational development plan ■ Job descriptions ■ Chief executive and leader pairings have considered how best to establish and maintain effective communication ■ Scheme of delegation reviewed at least annually in the light of legal and organisational changes ■ Standing orders and financial regulations which are reviewed on a regular basis

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	<ul style="list-style-type: none"> ■ Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads the authority in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority 	<ul style="list-style-type: none"> ■ Clear statement of respective roles and responsibilities and how they will be put into practice
	<ul style="list-style-type: none"> ■ Developing the capabilities of members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by: <ul style="list-style-type: none"> – ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged 	<ul style="list-style-type: none"> ■ Access to update courses/ information briefings on new legislation ■ Induction programme ■ Personal development plans for members and officers

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	<ul style="list-style-type: none"> – ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis – ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external 	<ul style="list-style-type: none"> ■ For example, for members this may include the ability to: <ul style="list-style-type: none"> – scrutinise and challenge – recognise when outside expert advice is required – promote trust – work in partnership – lead the organisation – act as a community leader ■ Efficient systems and technology used for effective support ■ Arrangements for succession planning
	<ul style="list-style-type: none"> ■ Ensuring that there are structures in place to encourage public participation 	<ul style="list-style-type: none"> ■ Residents' panels ■ Stakeholder forum terms of reference ■ Strategic partnership frameworks
	<ul style="list-style-type: none"> ■ Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections 	<ul style="list-style-type: none"> ■ Reviewing individual member performance on a regular basis taking account of their attendance and considering any training or development needs ■ Peer reviews
	<ul style="list-style-type: none"> ■ Holding staff to account through regular performance reviews which take account of training or development needs 	<ul style="list-style-type: none"> ■ Training and development plan ■ Staff development plans linked to appraisals ■ Implementing appropriate human resource policies and ensuring that they are working effectively

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	<ul style="list-style-type: none"> ■ Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing 	<ul style="list-style-type: none"> ■ Human resource policies <hr/> <p>Further guidance</p> <ul style="list-style-type: none"> ■ Devo Why? Devo How? Guidance (and Some Answers) About Governance Under English Devolution (Centre for Public Scrutiny, 2015) ■ Responding to the Challenge: Alternative Delivery Models in Local Government (Grant Thornton, 2014) ■ The Excellent Finance Business Partner (CIPFA, 2015)

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
<p>F. Managing risks and performance through robust internal control and strong public financial management</p> <p>Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.</p> <p>A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability.</p> <p>It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.</p>	<p>Managing risk</p> <ul style="list-style-type: none"> ■ Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making ■ Implementing robust and integrated risk management arrangements and ensuring that they are working effectively ■ Ensuring that responsibilities for managing individual risks are clearly allocated <p>Managing performance</p> <ul style="list-style-type: none"> ■ Monitoring service delivery effectively including planning, specification, execution and independent post implementation review ■ Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation’s financial, social and environmental position and outlook 	<ul style="list-style-type: none"> ■ Risk management protocol ■ Risk management strategy/ policy formally approved and adopted and reviewed and updated on a regular basis ■ Risk management protocol ■ Performance map showing all key activities have performance measures ■ Benchmarking information ■ Cost performance (using inputs and outputs) ■ Calendar of dates for submitting, publishing and distributing timely reports that are adhered to ■ Discussion between members and officers on the information needs of members to support decision making ■ Publication of agendas and minutes of meetings ■ Agreement on the information that will be needed and timescales

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	<ul style="list-style-type: none"> ■ Ensuring an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation’s performance and that of any organisation for which it is responsible (OR, for a committee system) Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making 	<ul style="list-style-type: none"> ■ The role and responsibility for scrutiny has been established and is clear ■ Agenda and minutes of scrutiny meetings ■ Evidence of improvements as a result of scrutiny ■ Terms of reference ■ Training for members ■ Membership
	<ul style="list-style-type: none"> ■ Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement 	<ul style="list-style-type: none"> ■ Calendar of dates for submitting, publishing and distributing timely reports that are adhered to
	<ul style="list-style-type: none"> ■ Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (eg financial statements) 	<ul style="list-style-type: none"> ■ Financial standards, guidance ■ Financial regulations and standing orders
	Robust internal control	
	<ul style="list-style-type: none"> ■ Aligning the risk management strategy and policies on internal control with achieving the objectives 	<ul style="list-style-type: none"> ■ Risk management strategy ■ Audit plan ■ Audit reports
	<ul style="list-style-type: none"> ■ Evaluating and monitoring the authority’s risk management and internal control on a regular basis 	<ul style="list-style-type: none"> ■ Risk management strategy/ policy has been formally approved and adopted and is reviewed and updated on a regular basis
	<ul style="list-style-type: none"> ■ Ensuring effective counter fraud and anti-corruption arrangements are in place 	<ul style="list-style-type: none"> ■ Compliance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014)

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	<ul style="list-style-type: none"> ■ Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor 	<ul style="list-style-type: none"> ■ Annual governance statement ■ Effective internal audit service is resourced and maintained
	<ul style="list-style-type: none"> ■ Ensuring an audit committee or equivalent group or function which is independent of the executive and accountable to the governing body: <ul style="list-style-type: none"> – provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment – that its recommendations are listened to and acted upon 	<ul style="list-style-type: none"> ■ Audit committee complies with best practice. See Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013) ■ Terms of reference ■ Membership ■ Training
	<p>Managing data</p>	
	<ul style="list-style-type: none"> ■ Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data 	<ul style="list-style-type: none"> ■ Data management framework and procedures ■ Designated data protection officer ■ Data protection policies and procedures
	<ul style="list-style-type: none"> ■ Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies 	<ul style="list-style-type: none"> ■ Data sharing agreement ■ Data sharing register ■ Data processing agreements
	<ul style="list-style-type: none"> ■ Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring 	<ul style="list-style-type: none"> ■ Data quality procedures and reports ■ Data validation procedures

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	<p>Strong public financial management</p> <ul style="list-style-type: none"> ■ Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance ■ Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls 	<ul style="list-style-type: none"> ■ Financial management supports the delivery of services and transformational change as well as securing good stewardship ■ Budget monitoring reports
		<p>Further guidance</p> <ul style="list-style-type: none"> ■ From Bolt-on to Built-in: Managing Risk as an Integral Part of Managing an Organization (IFAC, 2015) ■ Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Code of Practice on Managing the Risk of Fraud and Corruption: Guidance Notes (CIPFA, 2015) ■ Whole System Approach to Public Financial Management (CIPFA, 2012) ■ Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
<p>G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability</p> <p>Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.</p>	<p>Implementing good practice in transparency</p> <ul style="list-style-type: none"> ■ Writing and communicating reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate ■ Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand 	<ul style="list-style-type: none"> ■ Website ■ Annual report
	<p>Implementing good practices in reporting</p> <ul style="list-style-type: none"> ■ Reporting at least annually on performance, value for money and the stewardship of its resources ■ Ensuring members and senior management own the results ■ Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (annual governance statement) ■ Ensuring that the Framework is applied to jointly managed or shared service organisations as appropriate 	<ul style="list-style-type: none"> ■ Formal annual report which includes key points raised by external scrutineers and service users' feedback on service delivery ■ Annual financial statements ■ Appropriate approvals ■ Annual governance statement ■ Annual governance statement

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	<ul style="list-style-type: none"> ■ Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations 	<ul style="list-style-type: none"> ■ Format follows best practice
	<p>Assurance and effective accountability</p> <ul style="list-style-type: none"> ■ Ensuring that recommendations for corrective action made by external audit are acted upon ■ Ensuring an effective internal audit service with direct access to members is in place which provides assurance with regard to governance arrangements and recommendations are acted upon 	<ul style="list-style-type: none"> ■ Recommendations have informed positive improvement ■ Compliance with CIPFA’s Statement on the Role of the Head of Internal Audit (2010) ■ Compliance with Public Sector Internal Audit Standards
	<ul style="list-style-type: none"> ■ Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations 	<ul style="list-style-type: none"> ■ Recommendations have informed positive improvement
	<ul style="list-style-type: none"> ■ Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement 	<ul style="list-style-type: none"> ■ Annual governance statement
	<ul style="list-style-type: none"> ■ Ensuring that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met 	<ul style="list-style-type: none"> ■ Community strategy

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
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Further guidance

- Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)
 - Get in on the Act: The Local Audit and Accountability Act 2014 (LGA, 2014)
 - Governance Mark of Excellence (CIPFA)
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Other governance issues

SCRUTINY

Introduction

- 6.1** The [Local Government Act 2000](#) brought in arrangements that defined a scrutiny role for elected members. By sitting on the overview and scrutiny committees they hold the politicians who form the executive or cabinet to account, and scrutinise the work of other agencies providing local services. The Act introduced a clear distinction between the executive's role in proposing and implementing policies, and the role of non-executive members in reviewing policy and scrutinising executive decisions.
- 6.2** The overview and scrutiny committees were given powers to study decisions and policies of bodies other than councils operating in their areas and to require council officials and cabinet members to attend and answer questions. They are able to make recommendations and propose changes to be considered by the executive. Challenge and scrutiny contribute to good governance by being a key part of transparent and accountable decision making, policy making and review.
- 6.3** Through the scrutiny process, councillors have been given significant power to hold their partners to account. The [Health and Social Care Act 2001](#) gave councils responsibility for scrutinising local NHS trusts, including primary care trusts. Powers were further expanded by the [Police and Justice Act 2006](#), which provided powers to scrutinise the work of crime and disorder reduction partnerships. The [Local Government and Public Involvement in Health Act 2007](#) gave powers to local government to scrutinise other partner organisations, including bodies such as the Environment Agency. It also brought in other provisions that affect how scrutiny committees work, including powers over the creation of joint committees and powers to resolve local problems through the 'councillor call for action'.
- 6.4** The [Localism Act 2011](#) consolidated the content of the 2000, 2001, 2007 and 2009 Acts. It involved some minor amendments, particularly in the powers of district councils and the role of scrutiny in relation to local partners.
- 6.5** Through the 2011 Act, the government has encouraged greater use of the directly elected mayor model of governance; a role focusing on long-term strategic decisions bringing together different agencies to facilitate improved public services. A partnership focused mayoral model needs to be accompanied by strong overview and scrutiny of partnerships. At the same time, the 2011 Act permits local authorities to choose to introduce a committee system for decision-making purposes which may (although this is not a requirement) operate a system for scrutiny and review.

The importance of effective scrutiny

- 6.6** It is essential that local authorities, whatever form of governance structure they choose, should benefit from a culture of (and structure for) scrutiny which is effective at challenging the way an authority operates. The increase in the use of alternative delivery models and vehicles, including outsourcing and complex joint arrangements for service provision, means that scrutiny committees are a crucial mechanism for ensuring oversight.
- 6.7** Authorities electing to adopt a committee system need to ensure that they are able to exercise effectively their scrutiny powers around healthcare, social care and health improvement, crime and disorder and external partners, as well as independent challenge to decisions made by their committees. Authorities need to think through how a system of checks and balances will exist in order to ensure their committees drive forward improvements while mitigating risks.
- 6.8** Overview and scrutiny structures should play an important role in facilitating accountability in devolved regions and in relation to elected mayors.

Principles of good scrutiny

- 6.9** The Centre for Public Scrutiny has established four core principles of good scrutiny:
- Provides critical friend challenge to executive policy makers and decision takers.
 - Enables the voice and concerns of the public.
 - Is carried out by independent-minded councillors who lead and own the process.
 - Drives improvement in public services.
- 6.10** Local authority overview and scrutiny committees have the power to summon members of the executive and officers of the authority before it to answer questions, and are able to invite other persons to attend meetings to give their views or submit evidence.

The role of scrutiny

- 6.11** The role of scrutiny is to review policy and to challenge whether the executive has made the right decisions to deliver policy goals. The scrutiny committee is able to provide a long-term view of strategic issues and also to look in detail at key aspects of the authority's operations. This is different from the role of the audit committee, which exists to provide independent assurance that there are adequate controls in place to mitigate key risks and to provide assurance that the authority, including the scrutiny function, is operating effectively. That said, an audit committee's judgements may well be informed by the results of scrutiny within the authority.
- 6.12** The scrutiny function has the following legislative roles:
- Holding the executive to account.
 - Policy development and review.
 - External scrutiny – scrutiny committees have the power to consider matters that are not the responsibility of the local authority, but which affect the authority's area or its inhabitants.

6.13 Scrutiny and overview committees have other key roles, which include:

- providing satisfying and meaningful roles for non-executive members
- considering budget proposals
- considering general performance, management and review
- ensuring corporate priorities are met
- monitoring and revising the constitution
- engaging partner organisations, the public and the press
- holding partnerships to account.

Making scrutiny effective

6.14 An effective scrutiny function is characterised by the following:

- It has a clearly defined role within the authority's governance structure.
- It has clear terms of reference that set out its role in respect of independent scrutiny of decisions and performance.
- It is adequately resourced and appropriately structured with access to independent advice.
- Meetings are held on a timely basis.
- The authority's leadership is willing to be challenged and regards robust (and resourced) challenge as a necessary part of good governance.
- It is led and owned by members who are committed to improving their own performance and skills.
- It is understood and valued throughout the authority and public awareness is high. It is clear that it is not a substitute for an audit committee.
- There is a willingness to look beyond the boundaries of the authority to all agencies that affect the locality.
- The chair and members are willing to challenge the executive through questioning on topics of local relevance where there is a realistic prospect of influencing change.
- The chair and vice-chair work with the scrutiny officer in deciding how to structure meetings, who to invite and how an investigation should be conducted.
- The chair and members have the necessary skills, training and confidence to allow them to scrutinise and challenge effectively.
- The chair is:
 - not a member of the political administration
 - appropriately knowledgeable and skilled to be able to manage the meeting
 - firm and tactful with those answering questions
 - able to understand technical issues quickly
 - able to lead, inspire and motivate the team
 - a visible champion for scrutiny, raising its profile internally and externally
 - proactive.

- It is not, or seen to be, controlled by the executive.
- The executive receives reports from the committee sympathetically and acts upon them as appropriate in order to effect improved outcomes in service delivery.
- The committee presents reports with sound recommendations based on the best evidence available and with all-party support wherever possible.
- Scrutiny has effective support from capable officers. Their duties are likely to include:
 - working with the committee chair and vice-chair
 - planning research
 - preparing background reports
 - inviting and briefing witnesses
 - writing draft reports.
- Scrutiny officers have:
 - excellent research skills
 - knowledge of the local area
 - an interest in local and general affairs
 - a diplomatic approach.
- Participants are willing to share and expect something constructive from the process.
- Concerns are taken seriously and where relevant incorporated into appropriate recommendations.

Further guidance

- [Building Partnerships: Insights from the Devolution Summit](#) (CIPFA/Grant Thornton, 2015)
- Coulson A and Whiteman P (2012) Holding Politicians to Account? Overview and Scrutiny in English Local Government, *Public Money and Management*, 32, 185–192
- [Devo Why? Devo How? Questions \(and Some Answers\) About Governance Under English Devolution](#) (Centre for Public Scrutiny, 2015)
- [The Good Scrutiny Guide](#) (Centre for Public Scrutiny, 2nd Edition)
- [Leadership of Place: The Role of Overview and Scrutiny](#) (Leadership Centre for Local Government)
- [Musical Chairs: Practical Issues for Local Authorities in Moving to a Committee System](#) (Centre for Public Scrutiny, 2012)
- [Raising the Stakes: Financial Scrutiny in Challenging Times: A Guide for Welsh Local Authorities](#) (Centre for Public Scrutiny/Grant Thornton, 2014)

FRAUD

Introduction

- 6.15** Fraud costs the public sector around £21bn annually and of this total, approximately £2bn is specifically in local government. Fraud can be a major risk to councils both financially and reputationally and needs to be considered as part of formal risk management processes.
- 6.16** Local authorities are urged to make use of the guidance, toolkits and websites available to them in developing robust processes for countering fraud.

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

- 6.17** In October 2014, CIPFA published its [Code of Practice on Managing the Risk of Fraud and Corruption](#). The Code sets out five key principles that define the governance and operational arrangements necessary for an effective counter fraud response. These are as follows:
- **Acknowledge the responsibility of the governing body for countering fraud and corruption**
The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.
 - **Identify the fraud and corruption risks**
Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.
 - **Develop an appropriate counter fraud and corruption strategy**
An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.
 - **Provide resources to implement the strategy**
The organisation should make arrangements for appropriate resources to support the counter fraud strategy.
 - **Take action in response to fraud and corruption**
The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud. There should be a report to the governing body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy from the lead person(s) designated in the strategy. Conclusions should be featured in the annual governance statement.
- 6.18** The Code sets out the steps each authority should take in order to embed effective standards for countering fraud and corruption in their organisation. The Code is underpinned by a set of guidance notes that explain the importance of the principles and help organisations to apply them in practice. An assessment tool is also available to help organisations assess the strength of their arrangements against the Code.

- 6.19** The Code can be used to present to audit committees as a measure of what actions need to be taken to improve counter fraud arrangements, building counter fraud work into good governance for organisations.

Local government counter fraud and corruption strategy

- 6.20** Fighting Fraud and Corruption Locally 2016 (FFCL) is the local government counter fraud and corruption strategy. It is endorsed by central government, the Local Government Association and Solace. It was researched by the CIPFA Counter Fraud Centre (CCFC) and written by local authorities for local authorities. The CCFC hosts the day to day operations of FFCL for its independent board and it has a dedicated [website](#) with a good practice bank.
- 6.21** The FFCL Strategy 2016–2018 has two parts:
- The Strategy, which contains top level messages, is aimed at chief executives, finance directors and those charged with governance.
 - The Companion, which is aimed at those involved in the day to day operations in counter fraud in local authorities.
- 6.22** The Strategy contains recommendations for chief executives to ensure their authority addresses the areas raised in the Strategy in order to create a robust response to tackling fraud and corruption. The Companion document contains good practice as well as a checklist which local authorities should follow and use as self-assessment. The outcome of this assessment should be produced for leadership teams and/or audit committees.
- 6.23** The CCFC also conducts the [CIPFA Fraud and Corruption Tracker](#) (CFaCT), an annual survey of local authorities asking questions devised by the FFCL Board to assess adherence and response to the strategy. The survey is endorsed and supported by the Local Government Association (LGA), the National Audit Office (NAO) and the National Crime Agency (NCA), and it feeds back into the national response for the UK. Those charged with governance should ensure completion of this survey.

Further guidance

- [CIPFA Better Governance Forum](#)
- [CIPFA Counter Fraud Centre](#)
- [CIPFA Fraud and Corruption Tracker \(CFaCT\)](#)
- [Code of Practice on Managing the Risk of Fraud and Corruption \(CIPFA, 2014\)](#)
- [Code of Practice on Managing the Risk of Fraud and Corruption: Guidance Notes \(CIPFA, 2014\)](#)
- [Counter Fraud Code of Practice Assessment Tool](#)
- [Fighting Fraud and Corruption Locally 2016](#)
- [National Anti-Fraud Network \(NAFN\)](#)

MAINTAINING STANDARDS

Introduction

- 6.24 The [Localism Act 2011](#) repealed most of the standards provisions in the [Local Government Act 2000](#), including the statutory code of conduct, the Standards Board and the legal requirement to have a standards committee. The 2011 Act instead imposes a duty on local authorities to promote and maintain high standards of conduct by members and co-opted members and an obligation to adopt a code of conduct consistent with the Nolan Principles. The 2011 Act otherwise provides wider flexibility, reflecting localism principles, for authorities to meet the duty structurally, and through arrangements for investigating complaints. Criminal offences were also created dealing with the non-notification and non-disclosure of ‘disclosable pecuniary interests’, improper participation in authority business and the provision of false and misleading information.
- 6.25 It is essential that despite financial constraints authorities continue to prioritise and monitor ethical standards.

Duty to promote and maintain high standards of conduct

- 6.26 This duty included in the 2011 Act links with the first principle of the CIPFA/Solace Framework: *Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law* and its supporting principles. Shared values that become integrated into the culture of an organisation and are reflected in behaviour and policy are hallmarks of good governance.

Code of conduct

- 6.27 CIPFA believes that codes of conduct are an essential component of good corporate governance for all public service bodies, as they define the values and standards of behaviour expected of individuals. In our view nationally set codes of conduct can be used to promote consistent standards of conduct and probity, and to provide assurance for community stakeholders. Their existence helps minimise lapses and provides a framework for personal accountability. Basic standards and practices should be consistent across the sector.

Members

- 6.28 The Department for Communities and Local Government (DCLG) has published an [Illustrative Text for Local Code of Conduct \(2012\)](#) setting out what a council’s code of conduct might look like under the 2011 Act.
- 6.29 The Local Government Association (LGA), with support from Solace and the Association of Council Secretaries and Solicitors (ACSeS), has published a [Template Code of Conduct](#) based on the seven principles of public life.

Officers and staff

- 6.30 Local authorities are free to decide to institute a code of conduct for their own staff. CIPFA is working with Solace and a range of professional bodies to develop a new code of ethics for professional leaders in local public services. The code of ethics will outline the principles

of behaviour that promote and reinforce the highest standards from everyone in senior professional leadership roles across the local public services.

- 6.31** The code is an overarching statement of ethics, based upon behaviours and therefore focuses on the individual, as opposed to groups or organisational culture. It is intended to be applicable to all those who hold senior management roles in local public services led by locally elected politicians. The new code will be published in 2016.
- 6.32** A number of senior professionals within local public services are already subject to specific professional codes of ethics and behaviour, and the new code does not replace these professional codes which are likely to be more detailed in nature.

Standards committee

- 6.33** Local authorities are required by the [Localism Act 2011](#) to have in place a mechanism to investigate alleged breaches of the members' code of conduct. At least one 'independent' person must be appointed to advise an authority before a decision regarding the allegation can be made. Although no longer a legal requirement, a standards committee at a local level can provide an effective mechanism for complaints to be investigated. It should act as a disincentive to misconduct through objective overview and complaints handling. Local standards committees, among other things, should help promote confidence in local democracy. To be effective they must be chaired by an independent person, appointed through open competition, who is able to command the trust of all political parties and of the public.

Duty to promote and maintain standards

- 6.34** As well as ensuring compliance with the provisions of the 2011 Act, authorities should consider how they will fulfill the duty to promote and maintain standards. The following actions will help support the achievement of this duty:
- Embedding high ethical standards in the culture of the authority.
 - Reinforcing high standards through positive leadership.
 - Ensuring ethical awareness is addressed as part of the induction and training programme for all members/co-opted members and providing regular updates.
 - Providing guidance to members on the application of codes of conduct and other aspects of the authority's ethical framework when participating in partnership bodies or other representative roles.
 - Ensuring that there are systems and appropriate sanctions in place to deal robustly with instances of bullying and harassment which make clear to whom and how both members and staff may complain.
 - Ensuring that an effective whistleblowing policy is in place.
 - Specifying ethical requirements in contracts with suppliers responsible for delivering public services.
 - Undertaking periodic surveys of members and key officers who interact with members to obtain their views on the application of ethical values in practice and to identify any concerns or learning points.

- Providing a system to record gifts and hospitality and to advise on acceptable limits. The register should be subject to regular review and public reporting.
- Ensuring that an effective system for declaring and registering interests is in place.
- Ensuring effective scrutiny of standards through mechanisms such as peer review.
- Ensuring that financial constraints do not reduce management support for the promotion of high ethical standards.
- Ensuring that the annual governance statement provides clear accountability for fulfilling the duty.
- Properly and effectively applying arrangements for investigating and deciding on allegations of breach of code made against members.

Further guidance

- [Ethics in Practice: Promoting Ethical Standards in Public Life](#) (Committee on Standards in Public Life, 2014)
- [Ethical Standards for Providers of Public Services: Guidance](#) (Committee on Standards in Public Life, 2014)
- [Standards Matter: A Review of Best Practice in Promoting Good Behaviour in Public Life](#) (Committee on Standards in Public Life, 2013)

LOCAL AUDIT AND AUDIT COMMITTEES

The Local audit and Accountability Act 2014

- 6.35** The [Local Audit and Accountability Act 2014](#) requires that local authorities must appoint their own auditors from 2018 when their existing audit contracts expire. This means that:
- local authorities will need to appoint an auditor by 31 December preceding the financial year for which the accounts are to be audited
 - the length of the audit contract should be no longer than five years
 - the same auditor may be reappointed at the end of the five year period
 - the authority must publish its choice of auditor
 - the decision to appoint the auditor must be made by the full council
 - authorities may choose to let audit contracts jointly with other authorities
 - the authority must publish an annual governance statement alongside the accounts and a narrative commenting on the authority's economy, efficiency and effectiveness
 - authorities are required to appoint an 'independent auditor panel'.

Auditor responsibilities

- 6.36** The National Audit Office (NAO) has set out the [responsibilities of local auditors](#). In relation to financial statements, auditors are required to provide an opinion on whether the audited body's financial statements:

- give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question
 - have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.
- 6.37** Auditors also have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 6.38** In relation to the annual governance statement, auditors must:
- review whether it has been presented in accordance with requirements
 - report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware.
- 6.39** In doing so, auditors must bear in mind the knowledge they have acquired through auditing the annual accounts and reviewing the authority's arrangements for securing value for money.

The independent auditor panel

- 6.40** The new arrangements include the ability of authorities to appoint their own local public auditors on the advice of an auditor panel and this may be done either individually or jointly with one or more other authorities.
- 6.41** The function of the independent auditor panel is to ensure that when an authority appoints its own auditor the independence of the external auditor is maintained. The panel is therefore responsible for advising the authority on its relationship with its external auditor. The panel is required to:
- publish its advice on the authority's choice of auditor
 - advise the authority in the event of the auditor resigning or being removed
 - advise the authority on whether or not to draw up a policy regarding the provision of non-audit services (such as consultancy) by the external auditor.
- 6.42** In addition, the authority must notify the panel if a public interest report is produced by the auditor.
- 6.43** The independent auditor panel must have at least three members. A majority must be independent members, one of which must be the panel chair. 'Independence' is further defined in the [Local Audit \(Auditor Panel Independence\) Regulations 2014](#), summarised as follows:

The main areas through which independence may be impaired are where the panel member has:

- previous experience within the last five years as a member or officer with the authority or another, connected authority or an officer or employee of a connected entity
- a relationship (familial or friendship) with a member or officer of the authority or a connected authority or with an officer or employee of a connected entity
- a contractual (commercial) relationship with the authority – either as an individual or via a body in which the panel member has a ‘beneficial interest’
- a possible conflict of interest through being a prospective or current auditor of the authority or, within the previous five years, is or has been:
 - an employee of such a person
 - partner in a firm or
 - director of a body corporate that is a prospective or current auditor of the authority at the given time.

6.44 Authorities are permitted to share an auditor panel and are also able to designate an existing committee, such as the audit committee or standards committee as an auditor panel. However, if such a committee is designated as the auditor panel it must satisfy the regulations and provisions for auditor panels such as the requirements concerning independence. Therefore, if the auditor panel function is performed by an existing committee or sub-committee of the authority, the committee must ensure that its auditor panel duties are discharged separately.

6.45 Authorities will need to consider carefully the advantages and disadvantages of the options available to them in setting up an independent auditor panel. Where an independent auditor panel is established and an audit committee already exists, the authority or authorities will need to look at the areas where the functions of an independent auditor panel and audit committee will overlap and how they will be managed.

Some issues to consider

- How will the new auditor panel fit within the overall governance structure of the authority, and with the audit committee in particular?
- How will the independence of the auditor panel be assured? Should independence be wider than that specified in the regulations? For example, should it also prevent a recently retired auditor from an audit firm being a member?
- What will be an effective composition for the panel?
- What are the skills and experience that the auditor panel will require?
- How will training and induction for the new members be provided?
- How will the auditor contract be monitored?
- If the external auditor is asked to carry out additional non-audit work, how will the authority ensure that the nature of the work does not impair the independence of the external auditor?
- Where an authority contracts out its internal audit service, there is potential for conflicts of interest if the same firm was responsible for providing both internal and external audit

services which would need to be carefully managed. It is worth noting that the national audit agencies will not appoint as an external auditor a firm currently undertaking internal audit work at a council.

- Potential for conflicts of interest should be carefully considered in respect of partnership arrangements. For example, where the external auditor was also the internal auditor of a partner organisation or a key provider of consultancy services at a partner organisation.

6.46 A comprehensive [Guide to Auditor Panels](#) (2015) has been published by CIPFA/DCLG setting out:

- the options available to local authorities in England for establishing an auditor panel
- what form such a panel can take
- the operation and functions of the panel
- the main task of the panel.

Introduction to audit committees

6.47 Audit committees are a key component of an authority's governance framework. Their purpose is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

6.48 Audit committees in local authorities satisfy the wider requirements for sound financial management. In England, according to the Accounts and Audit (England) Regulations 2011, local authorities are responsible "for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk". Section 151 of the [Local Government Act 1972](#) requires every local authority to "make arrangements for the proper administration of its financial affairs".

6.49 The [Cities and Local Government Devolution Act 2016](#) requires combined authorities to have an audit committee. Careful thought will be required regarding how they will fit with existing structures.

Functions of the audit committee

6.50 [Audit Committees: Practical Guidance for Local Authorities and Police](#) (CIPFA, 2013) sets out in detail the core functions of an audit committee. Key points are summarised below.

- Overseeing the authority's local code of governance and annual governance statement:
 - reviewing the local code of governance and any changes to the arrangements in the year
 - reviewing the annual governance statement and considering whether it:
 - properly reflects the authority's risk environment together with actions required
 - demonstrates how governance supports the achievements of the authority's objectives.

- Overseeing and promoting the effective use of the authority's internal audit function.
- Considering the effectiveness of risk management arrangements and the control environment, including partnerships with other organisations.
- Monitoring arrangements for ensuring value for money and for managing exposure to the risk of fraud and corruption.
- Considering reports and recommendations from external audit and inspection agencies and their implications for governance, risk management and control.
- Ensuring that there are effective relationships between external audit, internal audit, inspection agencies and other relevant bodies.
- Reviewing the financial statements, external auditor's opinion and reports to members, and monitoring management action in response to the issues raised by external audit.

The audit committee and the auditor panel

6.51 The auditor panel and the authority's audit committee will need to have a close working relationship in respect of some of the panel's duties. The main areas where their respective duties may overlap are outlined below:

- Monitoring quality and effectiveness of external audit provision.

The work undertaken by the audit committee should feed into the panel's contract monitoring.

- Selection and rotation of the auditor.

The audit committee should be able to express an opinion.

- Non-audit work carried out by external audit.

The audit committee has a role reviewing the authority's policy on non-audit work carried out by external audit whereas the auditor panel has to advise the authority on the contents of any non-audit work policy and whether the authority should adopt such a policy.

6.52 Further information on this issue is covered in [Guide to Auditor Panels](#) (CIPFA/DCLG, 2015).

Characteristics of a good audit committee

6.53 CIPFA's guide notes that the characteristics of a good audit committee include the following:

- A membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of an authority will reflect the political balance of the council. However, it is important to achieve the right mix of apolitical expertise.
- A membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives.
- A strong, independently minded chair who displays a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are promoting apolitical open discussion, managing meetings to cover all business and encouraging a candid approach from all participants. An interest in and knowledge of financial and risk management, audit, accounting concepts and standards and the

regulatory regime are also essential. A specialism in one of these areas would be an advantage.

- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.

Benefits of an audit committee

6.54 An effective audit committee can:

- promote the principles of good governance and their application to decision making
- help to ensure an authority achieves value for money
- give additional assurance through a process of independent and objective review
- help achieve the authority's objectives by assisting in improving the adequacy and effectiveness of risk assessment, risk management and internal control
- reinforce the objectivity, importance and independence of internal and external audit and therefore the effectiveness of the audit function
- raise awareness of the need for sound control and the implementation of recommendations by internal and external audit
- assist the authority in implementing the values of ethical governance including effective arrangements for countering risks of fraud and corruption
- ensure effective arrangements exist for enabling a whistleblower to report irregularities
- promote measures to improve transparency and accountability and for effective public reporting to the authority's stakeholders and local community.

Further guidance

- [Audit Committees: Practical Guidance for Local Authorities and Police](#) (CIPFA, 2013)
- [Better Governance Forum – Audit Committee briefings](#)
- [Guide to Auditor Panels](#) (CIPFA/DCLG, 2015)
- [Local Government Governance Review 2015: All Aboard?](#) (Grant Thornton, 2015)

Comparison with Framework published in 2007

The following table compares the principles from the Framework (2007) with those included in the revised Framework (2016).

Principles from 2016	Principles from 2007
<p>A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p> <ul style="list-style-type: none"> ■ Behaving with integrity ■ Demonstrating strong commitment to ethical values ■ Respecting the rule of law 	<p>Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour</p> <ul style="list-style-type: none"> ■ Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance ■ Ensuring that organisational values are put in place and are effective
<p>B. Ensuring openness and comprehensive stakeholder engagement</p> <ul style="list-style-type: none"> ■ Openness ■ Engaging comprehensively with institutional stakeholders ■ Engaging with individual citizens and service users effectively 	<p>Engaging with local people and other stakeholders to ensure robust public accountability</p> <ul style="list-style-type: none"> ■ Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships ■ Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership, or by commissioning ■ Making the best use of human resources by taking on active and planned approach to meet responsibility to staff

In addition to the overarching requirements for acting in the public interest in principles A and B (2016 Framework), achieving good governance in the public sector also requires effective arrangements for the following:

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

- Defining outcomes
- Sustainable economic, social and environmental benefits

Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

- Exercising strategic leadership by developing and clearly communicating the authority’s purpose and vision and its intended outcomes for citizens and service users
- Ensuring that users receive a high quality of service whether directly, or in partnership or by commissioning
- Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

- Determining interventions
 - Planning interventions
 - Optimising achievement of intended outcomes
-

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

- Developing the entity's capacity
- Developing the capability of the entity's leadership and other individuals

Developing the capacity and capability of members and officers to be effective

- Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles
- Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group
- Encouraging new talent for membership of the authority so that best use can be made of individuals skills and resources in balancing continuity and renewal

Members and officers working together to achieve a common purpose with clearly defined functions and roles

- Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function
- Ensuring that a constructive working relationship exists between authority members and officers and that the responsibilities of authority members and officers are carried out to a high standard
- Ensuring relationships between the authority and the public are clear so that each knows what to expect of the other

F. Managing risks and performance through robust internal control and strong public financial management

- Managing risk
- Managing performance
- Robust internal control
- Managing data
- Strong public financial management

Taking informed decisions which are subject to effective scrutiny and managing risk

- Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny
 - Having good-quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs
 - Ensuring that an effective risk management system is in place
 - Using their legal powers to the full benefit of the citizens and communities in their area
-

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

- Implementing good practice in transparency
 - Implementing good practices in reporting
 - Assurance and effective accountability
-

Principles of good governance (summary)

This Appendix summarises key reports that have influenced the development of good governance in local government.

THE CADBURY REPORT (1992)

The Report of the Committee on the Financial Aspects of Corporate Governance (the Cadbury Report) identified three fundamental principles of corporate governance as follows:

- **Openness**

An open approach is required to ensure all interested parties are confident in the organisation itself. Being open in the disclosure of information leads to effective and timely action and lends itself to necessary scrutiny.

- **Integrity**

This is described as both straightforward dealing and completeness. It should be reflected in the honesty of an organisation's annual report and its portrayal of a balanced view. The integrity of reports depends on the integrity of those who prepare and present them which, in turn, is a reflection of the professional standards within the organisation.

- **Accountability**

This is the process whereby individuals are responsible for their actions. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure.

The Cadbury Report defined these three principles in the context of the private sector, and, more specifically, of public companies, but they are as relevant to public service bodies as they are to private sector entities.

REPORTS FROM THE COMMITTEE ON STANDARDS IN PUBLIC LIFE (1995 – PRESENT)

Aspects of corporate governance in the public services are addressed by the [Committee on Standards in Public Life](#), which was established in 1994 to examine concerns about standards of conduct by holders of public office.

Standards of conduct are regarded as one of the key dimensions of good governance. The Committee's first report, *Standards in Public Life*, published in May 1995, identified

and defined seven general principles of conduct which should underpin public life, and recommended that all public service bodies draw up codes of conduct incorporating these principles.

6.55 A revised description of the principles of public life is included in the Committee's report [Standards Matter: A Review of Best Practice in Promoting Good Behaviour in Public Life](#) (2013). They are as follows:

- **Selflessness**

Holders of public office should act solely in terms of the public interest.

- **Integrity**

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

- **Objectivity**

Holders of public office must act and take decisions impartially, fairly and on merit using the best evidence and without discrimination or bias.

- **Accountability**

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

- **Openness**

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for doing so.

- **Honesty**

Holders of public office should be truthful.

- **Leadership**

Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

GOOD GOVERNANCE STANDARD FOR PUBLIC SERVICES (2004)

In 2004, the Independent Commission on Good Governance in Public Services published a set of common principles that it wants all public sector organisations to adopt. The commission, set up by CIPFA in conjunction with the Office for Public Management, says there should be a common governance standard for public services similar to the private sector's [UK Corporate Governance Code](#) (formerly the Combined Code).

The [Good Governance Standard for Public Services](#) (2004) builds on the principles of public life by setting out six core principles that it recommends should underpin the governance arrangements of all public service bodies. These are summarised below:

- A clear definition of the body's purpose and desired outcomes.
- Well-defined functions and responsibilities.
- An appropriate corporate culture.
- Transparent decision-making.
- A strong governance team.
- Real accountability to stakeholders.

INTERNATIONAL FRAMEWORK: GOOD GOVERNANCE IN THE PUBLIC SECTOR (2014)

In July 2014 CIPFA, in association with the International Federation of Accountants (IFAC), published the [International Framework: Good Governance in the Public Sector](#). The international framework supersedes the 2004 CIPFA/OPM *Good Governance Standard for the Public Services*. It places the attainment of sustainable economic, societal and environmental outcomes as a key focus of governance structures and processes and stresses the importance of taking account of the impact of current decisions and actions on future generations.

The core principles and sub-principles from the International Framework have been interpreted for a local government context in [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016).

APPENDIX C

Glossary

Accountability

The obligation of public sector organisations to citizens and other stakeholders to account, and be answerable to, democratically chosen supervisory bodies, for their policies, decisions, and actions, particularly in relation to public finances.

Annual governance statement or report

The mechanism by which an organisation publicly reports on its governance arrangements each year.

Arrangements

Includes political, economic, social, environmental, legal, and administrative structures and processes, and other arrangements.

Assurance

An assurance engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, on the outcome of the evaluation or measurement of a subject matter against criteria. Under the IAASB's [International Framework for Assurance Engagements](#), there are two types of assurance engagements a practitioner is permitted to perform: a reasonable assurance engagement and a limited assurance engagement. For more information, see the IAASB's Glossary of Terms in the 2013 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.

Audit committee

The governance group independent from the executive charged with providing oversight of the adequacy of the risk management framework, the internal control environment, and integrity of financial reporting.

Benefits

Outcomes that are to the benefit of a public sector organisation's stakeholders that can be of an economic, social, or environmental nature.

Budget documents

Financial expressions of service plans that set the limits of expenditure authorisation for managers.

Capabilities

The professional knowledge, professional skills, and professional values, ethics, and attitudes required to demonstrate competence.

Capacity

The underlying governance and staffing structures of a public sector organisation necessary to remain fit for purpose – being able to deliver the planned services.

Capital(s)/resource(s)

Stocks of value on which all organisations depend for their success as inputs to their business model, and which are increased, decreased, or transformed through the organisation's business activities and outputs. The capitals are categorised in the [International Framework: Good Governance in the Public Sector](#) (CIPFA/IFAC, 2014) as financial, manufactured, intellectual, human, social and relationship, and natural.

Code of Conduct

Principles, values, standards, or rules of behaviour that guide the decisions, procedures and systems of an organisation in a way that contributes to the welfare of its key stakeholders and respects the rights of all constituents affected by its operations.

Commissioning

Depending on the context, either:

- the process of deciding what work or services are needed, whether they should be sought by delegation, the use or setting up of some new body, or by competition, and, if by competition, what sort of contract to use
- in care, the collective term for all the process involved in meeting an assessed need; deciding which service is needed to meet it, and specifying this service, procuring it and monitoring it.

Conformance

Compliance with laws and regulations, best practice governance codes, accountability, and the provision of assurances to stakeholders in general. The term can refer to internal factors defined by the officers, shareholders, or constitution of an organisation, as well as external forces, such as consumer groups, clients, and regulators.

Cyber security

A specialised form of ICT security specifically focused on (external) networks and internet connections (addressing threats from 'cyber space').

Effectiveness

The relationship between actual results and service performance objectives in terms of outputs or outcomes. Effectiveness describes the relationship between an organisation's actual results and its service performance objectives.

Efficiency

The relationship between inputs and outputs, or inputs and outcomes. An efficiency indicator can be used to show when a service is being provided more (or less) efficiently compared to previous reporting periods, expectations, comparable service providers, or benchmarks derived, for example, from best practices within a group of comparable service providers.

Ethical values

Standards or principles that are commonly considered to be good. Ethical values can change over time and differ between societies or cultures.

Ethics

A system of moral principles by which human actions may be judged.

Executive

Executive management and/or chief executive.

External audit

Independent, qualified person(s) who carry out a review to give assurance to external stakeholders on an organisation's financial statements, systems, and processes.

Governance

Comprises the arrangements (including political, economic, social, environmental, administrative, legal, and other arrangements) put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

Governing body

The person(s) or group with primary responsibility for overseeing an organisation's strategic direction, operations, and accountability. This is the full council in a local authority.

Independence

- a. **Independence of mind** – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity and exercise objectivity and professional scepticism.
- b. **Independence in appearance** – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit or assurance team's, integrity, objectivity or professional scepticism has been compromised.

Input(s)

Capitals/resources used to generate and deliver services to achieve intended outcomes.

Institutional stakeholders

The other organisations/bodies with which a public sector organisation needs to work to improve services and outcomes, or organisations to which it is accountable.

Integrated report

A concise communication about how an organisation's strategy, governance, performance, and prospects, in the context of its external environment, lead to the creation of value in the short, medium, and long term.

Integrated reporting

A process that results in communication by an organisation, most visibly through a periodic integrated report, about value creation over time.

Integrated services

Two or more services which are functions of different bodies, when provided seamlessly by one of them, or by a joint body.

Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any such interests and relationships.

Internal auditing

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

Internal control

The term 'internal control' can have multiple meanings, including the following:

- **A system or process**
The entirety of an organisation's system of internal control, ie an organisation's internal control system.
- **An activity or measure**
The actual measure to treat risks and to effect internal control, ie individual internal controls.
- **A state or outcome**
The outcome of the internal control system or process, ie an organisation achieving or sustaining appropriate or effective internal control.

See [Evaluating and Improving Internal Control in Organizations](#) (IFAC, 2012) for a more detailed definition.

Interventions

The means by which the public sector achieves its outcomes. These include:

- enacting legislation or regulations
- delivering goods and services
- redistributing income through mechanisms such as taxation or social security payments
- the ownership of assets or entities, such as state-owned enterprises.

Joint boards

Joint bodies set up by order to discharge specified functions of specified local authorities.

Joint committees

Joint bodies set up by agreement to discharge functions and carry out activities jointly on behalf of local authorities or their executives.

Joint venture agreements

These specify what each partner will do to further the venture, and at what stage.

Joint ventures

Enterprises in which two or more partners join, and in which they share the risks and rewards.

Leadership team

Comprises the governing body and management team.

Local authority company

A company in which a local authority has shares, rights to appoint some or all of the directors, or other legal interests.

Management

Person(s) with executive responsibility for the conduct of the public sector organisation's operations.

Management team

Group of executive staff comprising senior management charged with the execution of strategy.

Memorandum of association

The registered objectives of a company.

Outcome(s)

The impacts on society, which occur as a result of the organisation's outputs, its existence, and operations. There may be a strong, direct causal link between an organisation's actions

and its achievements with respect to outcomes, but this will not always be the case. Factors beyond the organisation's control may intervene to either hinder or facilitate the achievement of outcomes.

Outcome target/service performance objective

A description of the planned result(s) that an organisation is aiming to achieve expressed in terms of inputs, outputs, outcomes, efficiency, or effectiveness. Service performance objectives may be expressed using performance indicators of inputs, outputs, outcomes, efficiency, or effectiveness.

Output(s)

The services provided by an entity to recipients external to the organisation.

Performance

An organisation's achievements relative to its strategic objectives and its outcomes in terms of its effects on the capitals.

Performance indicators

Quantitative measures, qualitative measures, and/or qualitative discussions of the nature and extent to which an organisation is using resources, providing services, and achieving its service performance objectives. The types of performance indicators used to report service performance information relating to inputs, outputs, outcomes, efficiency, and effectiveness.

Performance management system

Mechanisms to monitor service delivery throughout all stages in the process, including planning, specification, execution, and independent post-assessment review.

Public financial management

The system by which financial resources are planned, directed, and controlled to enable and influence the efficient and effective delivery of public service goals.

Public interest

The net benefits derived for, and procedural rigor employed on behalf of all society in relation to any action, decision, or policy.

Public sector services

All the outputs of a public sector organisation, such as products, services, or regulation geared toward achieving certain outcomes.

Reporting process

The people and processes involved in the preparation, review, approval, audit (when relevant), analysis, and distribution of a public sector organisation's reports, both internal and external. All sections in the process need to be robust and closely connected to yield effective reports.

Risk

ISO Standard 31000:2009 – Risk Management defines risk as “the effect of uncertainty on objectives”, which can be positive or negative.

Risk management

ISO Standard 31000:2009 – Risk Management defines risk management as “co-ordinated activities to direct and control an organization with regard to risk”.

Rule of law

Observing legal requirements. The rule of law also implies having effective mechanisms to deal with breaches of legal and regulatory provisions.

Social enterprise

A body which:

- carries on a business for some specified social or environmental purpose
- devotes the greater part of any surpluses to achieving this purpose
- depends primarily on trading for this purpose and not on grants, covenants or donations.

Social value

Social value is concerned with social, economic and environmental wellbeing. In England and Wales, the [Public Services \(Social Value\) Act 2012](#) requires public bodies to consider how the services they commission and procure might improve the economic, social and environmental wellbeing of the area.

Staff mutual

A loose collective term for bodies formed by buy-outs in which staff have had some part.

Stakeholder

Any person, group, or entity that has an interest in a public sector organisation’s activities, resources, or output, or that is affected by that output. Stakeholders can include regulators, shareholders, debt holders, employees, customers, suppliers, advocacy groups, governments, business partners, and society as a whole.

Stakeholder engagement

Communication and consultation between a public sector organisation and the internal and external stakeholders it engages with.

Strategic planning

A process by which an organisation’s vision is translated into defined objectives and associated steps to achieve them.

Strategy

Long-term plan or policy.

Stewardship

Responsible planning, management, and accountability of the use and custody of a public sector organisation's resources.

Sustainability

The capacity of an individual entity, community, or global population to continue to survive successfully by meeting its intended economic, environmental, and social outcomes while living within its resource limits.

Tone at the top

The words and deeds of an organisation's governing body and senior management that determine its values, culture, and the behaviour and actions of individuals; also defined as 'leading by example'.

Transparency

Openness about the outcomes a public sector organisation is pursuing, the resources necessary or used, and the performance achieved.

Useful information

Information that is relevant to users and faithfully represents what it purports to represent. The usefulness of information is enhanced if it is comparable, verifiable, timely, and understandable.

Value for money

Achieving 'value for money' is often described in terms of economy, efficiency, and effectiveness.

Values

What an entity and individuals stand for; also described as standard operating principles.

Whole-system approach

Based on the argument that public financial management (PFM) will be more effective and more sustainable if there is a balance across the full range of PFM processes, buttressed by effective national, sub-national, and supra-national organisations and, in the context of international development, supported by relevant donor contributions. It defines how the key constituent parts (such as external assurance and scrutiny, financial reporting, and audit standards) contribute to the integrity of the whole system.



Registered office:

77 Mansell Street, London E1 8AN

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700

www.cipfa.org

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Code of practice on

managing the risk of fraud and corruption

Guidance notes



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CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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CHAPTER 1

Introduction

Fraud and corruption are ever present risks to all organisations, be they public, private or not-for-profit. Fraud and corruption can have a significant negative impact on organisations through disruption to their services or undermining the achievement of their objectives. Official estimates¹ have assessed the value of fraud loss in the public sector to be significant. Despite the risk, identifying adequate resource to manage the risk is a challenge for many across the public services.

To help organisations recognise and address their fraud risks, CIPFA has produced a [Code of Practice on Managing the Risk of Fraud and Corruption](#) (“the Code”) which consists of five principles:

- 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.

CIPFA has built on its previous guidance, *Managing the Risk of Fraud, Actions to Counter Fraud and Corruption (Red Book)* (2008), to establish a high level set of principles that can be applied to any public service organisation. The Code together with these guidance notes replace CIPFA’s previous guidance.

These guidelines are designed to assist organisations in the implementation of the Code. CIPFA considers it important that organisations tailor their approach to implementing the principles, reflecting different fraud risks and challenges and the governance requirements of their sector. Ultimately, however, all public service organisations share common goals of protecting public assets, acting in the public interest and making best use of their resources to achieve their intended outcomes. This is why CIPFA believes a common set of principles across the public services is a step forward in improving counter fraud practice.

These guidance notes provide the opportunity to consider a range of approaches to implementing the Code and to share examples of good practice. In addition, each principle has a sector interpretation to highlight where different circumstances, governance or accountabilities might need to be taken into account when planning the implementation of the Code. The guidance notes are written to support organisations putting in place counter fraud arrangements for the first time but will also be of benefit to practitioners seeking to review or refresh their existing arrangements.

1. The National Fraud Authority’s [Annual Fraud Indicator](#) (2013) estimated the fraud loss in the public sector at around £20bn.

The guidance notes contain the Code, followed by five chapters, each one dealing with one of the principles from the Code. The chapters first establish the context, providing an explanation of the importance of the Code principle. Each chapter then provides sector interpretation, including pointers to relevant sector guidance or requirements. Finally there is more detailed guidance on how to apply each principle of the Code in practice. This includes examples and suggestions of good practice approaches.

There has been a period of significant change affecting the national guidance and resources to counter fraud. CIPFA will continue to provide support for counter fraud practitioners through the Counter Fraud Centre, which will include an assessment tool based on the Code.

Code of Practice on Managing the Risk of Fraud and Corruption

CODE OF PRACTICE PRINCIPLES

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

The five key principles of the Code are to:

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

A Acknowledge responsibility

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

Specific steps should include:

- A1 The organisation's leadership team acknowledge the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users.
- A2 The organisation's leadership team acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the principles of good governance.
- A3 The governing body acknowledges its responsibility for ensuring the management of its fraud and corruption risks and will be accountable for the actions it takes through its governance reports.

- A4 The governing body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption and explores opportunities for financial savings from enhanced fraud detection and prevention.

B Identify risks

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

Specific steps should include:

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

C Develop a strategy

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

Specific steps should include:

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

Proactive

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

Responsive

- Detecting fraud through data and intelligence analysis.
- Implementing effective whistleblowing arrangements.
- Investigating fraud referrals.

- Applying sanctions, including internal, disciplinary, regulatory and criminal.
 - Seeking redress, including the recovery of assets and money where possible.
- C4 The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight.

D Provide resources

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

Specific steps should include:

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

E Take action

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

Specific steps should include:

- E1 The organisation has put in place a policy framework which supports the implementation of the counter fraud strategy. As a minimum the framework includes:
 - Counter fraud policy
 - Whistleblowing policy
 - Anti-money laundering policy
 - Anti-bribery policy
 - Anti-corruption policy
 - Gifts and hospitality policy and register
 - Pecuniary interest and conflicts of interest policies and register
 - Codes of conduct and ethics
 - Information security policy
 - Cyber security policy.
- E2 Plans and operations are aligned to the strategy and contribute to the achievement of the organisation's overall goal of maintaining resilience to fraud and corruption.
- E3 Making effective use of national or sectoral initiatives to detect fraud or prevent fraud, such as data matching or intelligence sharing.
- E4 Providing for independent assurance over fraud risk management, strategy and activities.

E5 There is a report to the governing body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy from the lead person(s) designated in the strategy. Conclusions are featured in the annual governance report.

Applying the code in practice

Where organisations are making a statement in an annual governance report about their adherence to this code, one of the following statements should be approved according to whether the organisation conforms with the code or needs to take further action. The statement should be approved by the governing body and signed by the person responsible for signing the annual governance report.

Statement 1

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

Or

Statement 2

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

Actions to be taken to manage the risk of fraud:

Action:	Responsibility:	Target date:



CHAPTER 3

Acknowledge Responsibility

CIPFA CODE OF PRACTICE PRINCIPLE A

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

CONTEXT

This section looks at the important role the governing body and senior executives have in establishing an effective response to the risks of fraud. CIPFA considers it essential for an organisation to acknowledge responsibility for protecting itself and its services from the harm caused by fraud and corruption.

The leaders of an organisation should formally accept this responsibility and publicise this to demonstrate their leadership. This helps to build confidence among staff, stakeholders and the general public that fraud risks are taken seriously and action will be taken to address them. The organisation's leaders will be members of the governing body or the organisation's executive management team, examples include cabinet members, chair of the board, accounting officer, chief executive, executive directors, vice-chancellor, principal or headteacher. Acknowledging responsibility also provides both management and counter fraud professionals with the authority to ensure that fraud and corruption risks are identified and managed correctly.

In addition to the governing body providing a high level of support to counter fraud activity, it is also recommended that there should be four levels of authority within an organisation with respect to fraud and corruption risk management:

1. Chief executive and senior management level

Leadership from the very top is essential if fraud and corruption risk management is going to be taken seriously by the whole organisation. "Top level buy-in" needs to be explicit and disseminated throughout the organisation.

2. Accountable person

This position should oversee the implementation of the counter fraud and corruption strategy and ensure that it is put into practice. It is essential that this position is able to have delegated authority for decisions. Appendix D includes a suggested list for most organisation types in the public services.

3. Counter fraud team

This may be large or small according to the size of the organisation and may be outsourced. It may also be a stand-alone team or possibly a role combined with other advisory functions, such as internal audit, particularly for preventative actions. Increasingly the counter fraud activity is being shared between organisations.

4. Independent review and compliance

This could be achieved by an internal audit review reporting to the audit committee and also by external auditors and regulators. The audit committee is likely to include responsibilities in relation to counter fraud in its terms of reference.

There is a strong relationship between good governance and counter fraud and corruption. At its most basic level most people would recognise the need for appropriate policies and procedures to prevent or investigate fraud and corruption as part of an organisation's governance arrangements. There is also a clear link to ethical standards and codes of conduct, as articulated in the Seven Principles of Public Life (the Nolan Principles). The Seven Principles were originally established by the Committee on Standards in Public Life in its first report published in 1995. The current definition of the principles can be found in [Committee on Standards in Public Life – A Review of Best Practice in Promoting Good Behaviour in Public Life \(2013\)](#).

A framework of good governance means more than having the right policies and procedures in place. Likewise an effective counter fraud and corruption approach requires more than policies and procedures to be successful. The Code aims to align its principles of good counter fraud and corruption practice with the principles of good governance. It should therefore be easier to communicate and embed the principles of the Code alongside other guidance.

Across the public services there are a number of codes of corporate governance. The most up-to-date thinking on good governance for the public sector is the new [International Framework: Good Governance in the Public Sector \(2014\)](#), developed jointly by CIPFA and the International Federation of Accountants (IFAC). This builds on [The Good Governance Standard for Public Services](#) developed in 2004 by CIPFA and the Office for Public Management (OPM), with support from the Joseph Rowntree Foundation. Sector specific codes are also important, as is the [UK Corporate Governance Code](#), issued by the Financial Reporting Council for listed companies.

It is in the new International Framework that there are the clearest links to the principles in the Code. The International Framework states:

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times.

Good governance is characterized by robust scrutiny, which places important pressures on improving public sector performance and tackling corruption.

When considering the Code against the International Framework there are two clear messages: the importance of achieving intended outcomes and acting in the public interest

and being seen to do so. It is clear from the outset that good governance cannot be achieved if the fraud and corruption risks faced by the entity are unacknowledged or inadequately addressed.

Example:

The intended outcome of providing social housing is that it provides an affordable home to a family in need. If fraud takes place, for example a unit is sub-let to someone else, then the opportunity to use that house to meet another's housing need is lost.

Appendix B contains a detailed mapping of the links between the principles in the Code and the governance principles in the International Framework.

Governance reports, such as the governance statement, are used to:

- demonstrate how the organisation has put in place robust governance arrangements and assess how well they have operated over the previous year
- set out plans for future improvement.

CIPFA's [Delivering Good Governance in Local Government: Framework \(Addendum\)](#) (2012), which provides guidance on annual governance statements in local government, clearly points to the review of counter fraud arrangements as part of this annual review. Going forward CIPFA would recommend that the Code is used as a basis for assessment and for reporting in the governance statement. CIPFA will take account of this in future reviews and updates to its guidance on governance statements.

SECTOR INTERPRETATION

The framework of good governance adopted by the organisation should support the Code, and it should be possible to make clear linkages between the two. Appendix C includes a map of the counter fraud code against leading governance codes currently in use in the public services. This resource should enable linkages to be made to an organisation's current code of governance. A review of Appendix C will highlight that counter fraud and corruption is not always clearly identified within existing governance codes. CIPFA recommends that the appropriate regulators should consider the alignment when updating or replacing the current governance codes.

Codes of conduct usually set out the responsibilities of the employee or member of the governing body to behave in accordance with ethical standards, such as the Standards in Public Life, and to exercise stewardship over public money, assets and data. Thus all public service employees and governors have a responsibility for the prevention, detection and reporting of fraud and corruption. Examples are given below:

- In the NHS, all managers aim to ensure all NHS officers are aware of fraud, bribery and corruption (economic crime) risks and NHS officers are required to report any suspicions of economic crime as soon as they become aware of them. For more information see NHS Protect's [Standards for Providers 2014/15: Fraud, Bribery and Corruption](#).

- Within charities, the Charity Commission's [Compliance Toolkit](#) states that 'staff and volunteers should know how to report their concerns within the organisation, including concerns about the conduct of trustees or senior managers'.
- Other public sector organisations have similar requirements. For example, Transport for London's *Anti-Fraud and Corruption Policy* states 'every member of staff has a responsibility to report details immediately to their employing manager if they suspect that fraud or corruption has been, is being or may be committed'. Many local authorities have similar wording in their policies.

Different sectors will have differing forms of governance and governing bodies. Thus the terms governing body, board or audit committee may have different meanings to various organisations. In general, leaders of an organisation will be members of the governing body or the organisation's executive management team. Examples include cabinet members, chair of the board, accounting officer, chief executive, executive directors, vice-chancellor, principal or headteacher.

Appendix D includes a list of public service organisations and suggested governing bodies and accountable officers. In some cases responsibility is clearly identified in existing guidance. For example, [Managing Public Money](#) (HM Treasury, 2013) identifies the accounting officer as responsible for managing the organisations' risks, including fraud risks. Those organisations that need to abide by *Managing Public Money*, including central government departments, agencies and academies, will identify their accounting officer as the accountable officer. In higher education the principal or vice-chancellor is designated accountable officer, which is a mandatory requirement. The [CIPFA Statement on the Role of the Chief Financial Officer in Local Government](#) identifies the core responsibilities of the chief financial officer and this includes implementing appropriate measures to prevent and detect fraud and corruption.

Whatever the sector, the governing body and those with counter fraud responsibilities should be clearly identified and defined.

GOOD PRACTICE GUIDANCE

CIPFA CODE OF PRACTICE PRINCIPLE A1

The organisation's leadership team acknowledge the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users.

An organisation's leadership needs to fully understand and acknowledge the threats of fraud and corruption faced, and the harm they can cause to their organisation. For example this acknowledgement could be highlighted in public documents such as policy statements, strategies and annual reports.

An effective organisation will have a counter fraud and corruption strategy and policy which is approved and supported by the organisation's leadership team and which is communicated effectively. There are many ways to ensure wide distribution of policies such as including them in induction training, regular referrals at team meetings or including in leadership briefings.

It is good practice for the responsibilities for managing the risk of fraud and corruption to be included in the organisation's scheme of delegation or terms of reference.

Example:

A local council appointed one councillor as an "Anti-fraud Tsar". This provided senior political leadership for an authority wide, integrated and co-ordinated response across all cabinet portfolios. This provided a conduit for front line services to decision makers as part of a joined-up approach to countering fraud. The first initiative under this scheme detected over £200,000 of housing benefit fraud.

CIPFA CODE OF PRACTICE PRINCIPLE A2

The organisation's leadership team acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the principles of good governance.

There are a number of ways that the organisation's leadership team can support a counter fraud culture:

- Providing visible support for counter fraud and corruption activity.
- Recognising the risk of fraud and corruption and the harm it can cause to the organisation and to those the organisation helps and/or protects.
- Including reference to counter fraud and corruption activities in the principles of good governance and standards of conduct adopted by the organisation. In order to assist this, Appendix C provides guidance on the alignment of the Code against current governance frameworks in use in the public services.
- Ensuring the organisation is responsive to new fraud and corruption risks.
- Embedding strong counter fraud controls and systems within the organisation.
- Providing visible support and resourcing for fraud awareness activity.
- Supporting counter fraud and corruption training throughout the organisation and at all levels. The adoption of the Code could be publicised as part of this training.
- Ensuring that other governance papers, strategies and policies include fraud and corruption risks wherever relevant.

CIPFA CODE OF PRACTICE PRINCIPLE A3

The governing body acknowledges its responsibility for ensuring the management of its fraud and corruption risks and will be accountable for the actions it takes through its governance reports.

Formal adoption of this Code by the organisation will be a robust commitment by the governing body to the management of its fraud and corruption risks. The governing body should ensure that there is a clear programme of work in accordance with the Code to manage the risk of fraud and corruption.

The organisation's leadership team can also provide strong and genuine support by delegating appropriate authority to counter fraud professionals. The leadership team can also acknowledge these threats by providing their support to counter fraud and corruption

measures, by providing resources appropriate to the risks and by reporting on the management of the risks to the governing body or audit committee.

This support, however, needs to be clearly laid out along with the expected outcomes in the organisation's strategies, policies and procedures. All senior managers in an organisation can be given a responsibility for fraud risk management in their particular area of the organisation and this could be included in their job description.

The governing body should also identify how accountability will be demonstrated. For example the publication of annual governance reports could include a statement about the level of adherence to the Code. The review can also report on whether this work is being effectively and efficiently implemented and how the organisation is benefiting from successful fraud and corruption risk management.

CIPFA CODE OF PRACTICE PRINCIPLE A4

The governing body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption and explores opportunities for financial savings from enhanced fraud detection and prevention.

This can be achieved by the organisation having a clear programme of work to manage fraud and corruption risks with specific goals as set out in a counter fraud and corruption strategy (see Section C of the Code and Chapter 5 of the Guidance Notes).

The programme of work will be proportionate to the size of the organisation and the risk it faces but could include:

- a formal fraud risk management process
- the production, maintenance and review of a fraud strategy
- formal fraud awareness activity and
- clear directions on actions to be taken if fraud or corruption is discovered.

The programme of work should be regularly reviewed to focus on new or increasing fraud risks identified as part of the organisation's risk management work. Where fraud prevention or detection opportunities are identified that could result in financial savings, then the benefits should be evaluated.



CHAPTER 4

Identify Risks

CIPFA CODE OF PRACTICE PRINCIPLE B

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

CONTEXT

Fraud and corruption risks should be considered as business risks and managed as part of the organisation's risk management process. [ISO 31000:2009 – Risk Management Principles and Guidelines](#) defines risk management as 'coordinated activities to direct and control an organisation with regard to risk'. The systematic process of understanding, evaluating and addressing risks maximises the chances of objectives being achieved and helps organisations ensure they are sustainable.

Effective risk management requires an informed understanding of relevant risks, an assessment of their relative priority and a rigorous approach to monitoring and controlling them. To be effective, risk management needs to be proportionate to the size and nature of an organisation.

Fraud and corruption risk management is an important part of planning for all organisations. The process of risk management is designed to reduce or eliminate the risk of fraud and corruption happening or having a detrimental impact on the business. Successful fraud and corruption risk management will help an organisation focus on three objectives to reduce the harm and effect that fraud and corruption have on an organisation and those it is there to help. These objectives are as follows:

1. Prevention and deterrence

Risk management will help you to target the organisation's resources at the right areas to prevent fraud occurring.

2. Detection

Risk management will highlight those areas prone to fraud and corruption risks and again help you target your detection resources at the right areas.

3. Response

Using a proactive risk management methodology means that if a fraud does occur, you can take corrective action, minimise losses and help prevent further frauds.

Unless an effective risk management methodology is used, an organisation will not be able to identify its areas of vulnerability and valuable resources and time may be used in the wrong areas.

External auditors are required to obtain an understanding of the entity they are auditing, including its internal controls. To meet international auditing standards external auditors will consider the extent of management's own assessment of the risk of fraud and the controls in place to prevent and detect it. Guidance on the responsibilities of external auditors is available in the [International Standard on Auditing \(UK and Ireland\) 240](#) (Financial Reporting Council).

SECTOR INTERPRETATION

An organisation's risk management approach should take into account any recommended approaches for the sector or any regulatory requirements. Public bodies that need to adhere to [Managing Public Money](#) (HM Treasury, 2013) should take account of its Annex 4.9. This states that fraud should always be considered as a risk for the department's risk register. Further links to HM Treasury publications are included in Appendix E.

The approach to risk identification must be proportionate to its size and should also take account of the activities of the organisation. There are however many fraud risks which are generally applicable. CIPFA has produced a list of generic fraud types which can be used as a starting point for organisations that have not yet undertaken a fraud risk identification exercise. This is available to download from the [CIPFA website](#).

To identify other fraud types that might be specific to a sector or organisation type, Appendix E includes resources that will facilitate this. For example, to some organisations procurement fraud will be a greater risk than to others and some fraud types may only be applicable to some organisation types.

An organisation needs to consider all risks and through this process can make an informed decision to accept a certain level of risk. For example, within charities fraud and financial crime can occur at any point within the charity's operations from income generation to the disbursements of funds. The types and levels of fraud will differ between charities so they need to be aware of the risks to which they individually may be vulnerable through a thorough risk assessment.

GOOD PRACTICE GUIDANCE

The starting point for risk identification is to adopt a clear definition of fraud and corruption. There are many definitions of fraud but the [Serious Fraud Office](#) states that:

Fraud is a type of criminal activity, defined as an abuse of position, or false representation, or prejudicing someone's rights for personal gain. Put simply, fraud is an act of deception intended for personal gain or to cause a loss to another party.

The many definitions of fraud all include reference to an act of "deception" and the [Fraud Act 2006](#) (while not providing a clear definition of the term fraud) states that, for there to be fraud, the fraudster must intend to 'make a gain for himself or another, or cause loss to another or to expose another to a risk of loss'. The 2006 Act further states that this must be conducted in a dishonest way.

Corruption also has a number of definitions. [Transparency International](#) states that corruption is ‘the abuse of entrusted power for private gain’. [The Bribery Act 2010: Quick Start Guide](#) (Ministry of Justice) defines bribery as ‘giving someone a financial or other advantage to encourage that person to perform their functions or activities improperly or to reward that person for having already done so. So this could cover seeking to influence a decision-maker by giving some kind of extra benefit to that decision maker rather than by what can legitimately be offered as part of a tender process’. [The World Bank](#) defines corruption simply as ‘the abuse of public office for private gain’. Organisations should adopt clear and concise definitions of fraud and corruption and ensure these are included in all appropriate documentation.

CIPFA CODE OF PRACTICE PRINCIPLE B1

[Fraud risks are routinely considered as part of the organisation’s risk management arrangements.](#)

Fraud risks can be integrated into the organisation’s risk management arrangements, allowing them to be owned in the same way as other risks. Risk owners should be supported by the nominated counter fraud person/team.

Fraud risk identification can be achieved in a number of ways, including the following:

- Compare your identified risks with other similar organisations.
- Conduct fraud risk workshops within departments. This approach can make best use of the detailed knowledge of the staff operating policies and processes.
- Use internal auditors, external auditors or a specialist consultant to conduct a fraud risk review.
- Use external reference material that identifies current risks experienced by a particular sector. For example, the Audit Commission’s [Protecting the Public Purse reports](#) identify the frauds experienced by local authorities in England.

Example:

A local council’s internal audit department conduct an annual fraud risk assessment which is governed by a formal risk methodology. The assessment covers all of the operations of the council to identify inherent fraud risks. An assessment is then undertaken to identify the likelihood and significance of each inherent fraud risk as well as the existing control environment to highlight any residual risks.

Audit activity is focused on those areas where residual risks have been identified and is included in the council’s counter fraud work plan. Follow-up reviews are carried out to ensure that all control weaknesses have been addressed. The counter fraud work plan may be changed in year to focus on new or emerging fraud threats identified as part of information sharing and intelligence.

Fraud and corruption risk management needs to address the following:

- Identify each fraud and corruption risk. This includes defining the risk type and its source. This could include third party risks if they are significant. For example, a fraud experienced by a key supplier could impact on their ability to deliver essential services on your behalf or result in harm to your service users.

- Identify any enablers that may not be fraud and corruption risks in their own right but can assist in the perpetration of fraud. An example may be the failure to fully implement and maintain access controls in an ICT system. This could assist a fraudster in gaining unauthorised access to a system and enable them to commit fraud. Ensure that new processes and procedures cannot be used by criminals as enablers to fraud and corruption.
- Identify the risk owner:
 - It is best if this is within the department responsible for that particular process, eg HR, procurement, finance.
 - The risk owner needs to have the knowledge and the authority to manage the risk effectively.
 - Ensure that there are no gaps in the management of the risks.
- Analyse the risk:
 - Risks can then be prioritised taking into account both likelihood and potential impact.
 - It may be possible to group risks into specific categories which may make the management of these risks easier. For example, analysis may identify links between procurement and finance risks in a specific function.
- Identify mitigations and controls:
 - Analysing mitigations and controls can identify gaps in an organisation's processes.
 - This can aid proactive detection work through data analytics and continuous auditing.
 - It is possible that mitigations for a risk may not be in the same department as the risk owner and thus internal departmental co-operation is vital.
- Have an action plan and responsible person, with specific timelines and reporting processes:
 - The risk register should identify what action is to be taken, by whom and by when.
 - The risk register can be used as a reference document by the risk owner to ensure the right action is being taken.
 - The risk register can also be used by other staff to identify the risk owner if they identify fraud and corruption issues.
- Follow up with regular risk management meetings. The risk register should be regularly reviewed, risk owners called to account and any problems with implementing the action plan identified. A collaborative approach to fraud risk management should be encouraged.

Additional guidance on conducting fraud risk assessments can be found in [Fighting Fraud Locally – A Good Practice Guide for Assessing Fraud Risks](#).

CIPFA CODE OF PRACTICE PRINCIPLE B2

The organisation identifies the risks of corruption and the importance of behaving with integrity in its governance framework.

There should be specific links between counter fraud and corruption policies and other ethical policies, such as codes of conduct and gifts and hospitality policies. These would normally be applicable to all staff as well as contractors, consultants and agency staff. Members of the governing body will also have codes covering ethical conduct and these should also include links to counter fraud and corruption policies.

It should be stressed in any policies that the management of fraud and corruption risks is the responsibility of the whole organisation and not just the counter fraud and corruption team.

CIPFA CODE OF PRACTICE PRINCIPLE B3

The organisation uses published estimates of fraud loss, and where appropriate its own measurement exercises, to aid its evaluation of fraud risk exposures.

A number of organisations publish estimates of fraud losses on a regular basis, some of which are specific to the public sector or focus on a particular fraud type. While these estimates can never be wholly accurate they do help understanding of the scale of the fraud risk and can identify trends in different types of fraud exposures. The organisation can use these estimates of fraud loss and any measurement exercises to quantify the potential losses that different fraud risks cause.

Clear identification of a fraud and corruption risk can:

- identify the financial loss should that risk not be managed correctly
- assist in the calculation of potential savings through preventative work
- provide a method of calculating the monetary equivalent of frauds identified where it is not easily apparent, for example the loss estimated for social housing fraud is based on the additional costs of using temporary accommodation.

If an organisation has clear definitions of fraud and corruption and risks have been identified, an organisation can consider adopting a method of fraud loss measurement. Loss measurement can be difficult and is not an exact science. For fraud losses, some organisations simply extrapolate known losses for a certain period and calculate what the cost would be for a particular period of time if the fraud had not been identified. For fraud prevention, it may be possible to compare your organisation's losses against other similar organisations. Whatever process or type of calculation is chosen, this needs to be approved and used consistently so that effective year on year comparisons can be made. Thus it is essential that a robust and accurate methodology is selected.

Fraud risk management can be helped and supported by use of the following:

- **Data analytics**

Data analytics provide a capability where an organisation can extract, analyse, interpret and transform its data to not only detect potential instances of fraud but also to identify specific risks. Data analytics can then also be used to implement effective fraud risk monitoring programmes.

- **Specific fraud audits**

Specific audits to identify fraud risks and examine the mitigations in place can help not only to prevent but also to detect fraudulent activity. Examples of such audits could be a

review of the segregation of duties when an organisation has undergone a reorganisation or reduced staffing levels.

- **Continuous auditing**

Continuous auditing uses automation to perform control and risk assessments on a more frequent basis. Technology plays a key role in continuous audit activities by helping to automate the identification of exceptions or anomalies, analyse patterns within the digits of key numeric fields, review trends and test controls. Continuous auditing is a valuable tool in the management of fraud risks as it can automatically highlight exceptions which could be early indicators of fraudulent activity.

- **Compliance audits**

These are audits to ensure that the organisation is following regulations and processes which include preventative controls, such as financial regulations. They can be used to assess whether the organisation is exposing itself to fraud and corruption risks by not following such regulations.

- **Targeted awareness campaigns**

Through a robust risk assessment process or following an investigation, an organisation can identify areas of concern and target those specific areas for awareness campaigns; examples could be the finance department following an account mandate fraud or the procurement department if there is to be a planned increase in spend on a major project. Through such targeted campaigns, awareness of staff will be increased and greater emphasis will be placed on fraud prevention and risk identification.

- **Counter fraud tests exercises**

As new technology and practices come into place, it is essential that they are “fraud tested” to ensure that they do not pose an additional threat and, if so, ensure mitigations are in place before implementation. Just as there is “security by design”, think how fraud can be “designed out” of organisations’ processes. This is also applicable to third party suppliers who may have access to an organisation’s systems and processes, such as payroll processing or ICT system support.

CIPFA CODE OF PRACTICE PRINCIPLE B4

The organisation evaluates the harm to its aims and objectives and service users that different fraud risks can cause.

Published reports on detected fraud may provide examples of the harm that fraud could cause. Harm can be identified in a number of ways. There could be reputational damage to the organisation or individuals, potentially resulting in a loss of confidence in the organisation among the public or stakeholders. Harm can also be identified as damage to specific service objectives. For example, if disabled parking permits are perceived to be regularly abused, it could lead to further abuse of disabled parking places, thus further undermining the effectiveness of the permit policy objectives.

There is also likely to be an adverse effect on staff morale and their commitment to good counter fraud practice. If staff see that a fraud risk is not managed correctly, this will do little to cultivate a good counter fraud ethos in an organisation.



CHAPTER 5

Develop a Strategy

CIPFA CODE OF PRACTICE PRINCIPLE C

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

INTRODUCTION

Most organisations will have strategies in place to help them achieve their business objectives. The value of a specific counter fraud strategy is that it helps the organisation to focus on the management of fraud risks and ensures the actions have the support of the leadership team.

A clearly defined strategy, approved at the highest level and focused on outcomes, is essential if the risk of fraud and corruption is to be taken seriously in an organisation. A strategic plan is a key part of establishing a counter fraud and corruption culture within an organisation. It provides the opportunity to be explicit about the organisation's approach and makes clear the support of the leadership team.

Where an organisation has set an overall goal to improve its resilience to fraud, as recommended by A4 of the Code, the strategy sets out how the organisation plans to achieve this goal. A strategy can also set specific aims and goals and these can then be measured by the organisation to see how effective its fraud and corruption risk management processes are, and whether the harm and losses caused by fraud are being reduced.

Without such a strategy, there may not be clear direction to all staff including leaders, senior management, staff and indeed the counter fraud team. Thus, a strategy can help an organisation to identify risks, prioritise resources and help to measure the effectiveness of controls.

SECTOR INTERPRETATION

The level and detail of a counter fraud and corruption strategy should be proportionate to the size and activities of an organisation and the risks it faces. There will be some generic aspects such as:

- responsibility
- aims and objectives
- action plan for awareness, prevention and investigation

- review and assessment.

Use of national or sector strategies can help the organisation to establish its own aims or prioritise its actions. For example, local government organisations in England can refer to [Fighting Fraud Locally: The Local Government Fraud Strategy](#) (National Fraud Authority, 2012), while in Scotland there is the [Scottish Government Counter Fraud Strategy](#) (2012). For charities, the Charity Commission has produced a [Summary Strategy for Dealing with Fraud, Financial Crime and Financial Abuse of the Charity Sector](#) as well as a [Compliance Toolkit](#).

In the local government and health sectors data matching has become a key part of an organisation’s counter fraud strategy. Participation in the National Fraud Initiative (NFI) has been mandatory for bodies in England under the [Audit Commission Act 1998](#), and the [Local Audit and Accountability Act 2014](#) has made provision for the continuation of the NFI going forward, with the Cabinet Office taking the lead. In Scotland the initiative is led by Audit Scotland under powers granted by the [Criminal Justice and Licensing \(Scotland\) Act 2010](#). The Wales Audit Office has powers under the [Public Audit \(Wales\) Act 2004](#) and in Northern Ireland under the [Audit and Accountability \(Northern Ireland\) Order 2003](#). The NFI already includes participation from other parts of the public services, including several government departments and housing associations, but this is on a voluntary basis.

The British Universities Finance Directors Group (BUFDG) Fraud Working Group has produced a self-assessment checklist for finance managers that can be used in a number of ways to strengthen an institution’s counter fraud measures. For education institutions, there is [Fraud Indicators – A Generic Checklist for Learning Institutions](#) (Education Funding Agency, 2013) and also the [Schools Fraud Healthcheck](#) (2014) developed by Mazars to support Fighting Fraud Locally. Both of these can be helpful in producing a counter fraud strategy in educational institutions.

GOOD PRACTICE GUIDANCE

CIPFA CODE OF PRACTICE PRINCIPLE C1

The governing body formally adopts a counter fraud and corruption strategy to address the identified risks and align with the organisation’s acknowledged responsibilities and goals.

A strategy is a plan of action designed to achieve a long-term or overall aim. It should therefore have the following key elements:

- Aims should be clearly linked to the organisation’s overall strategic objectives and show how the counter fraud strategy intends to help achieve these strategic objectives.

Example:

We aim to take a firm stance against fraud in social housing and where it is identified we will endeavour to recover the property. This will help us to ensure that social housing is used for those most in need and help to reduce waiting lists and use of temporary accommodation.

- The strategy needs to include all proactive counter fraud work including prevention and awareness, detection, investigation, the organisation’s response to fraud and the action to be taken.

- Expected objectives, again aligned to the aims of the organisation. A specific link to the organisation's framework of good governance may be helpful here.
- Timelines which include target date for objectives, frequency of reviews and revision dates.
- How the success of the strategy is to be measured and by whom.

For the strategy to be relevant and up to date it needs to be regularly reviewed, revised and used to define success or failure. A strategy need not be lengthy and must be available to all in an organisation and not open to different interpretations.

The strategy should be linked to both fraud policies and procedures as well as other strategies, policies and procedures that may be relevant, eg pre-employment screening, procurement policies etc.

A strategy should be time limited, ie cover a period of time and:

- explain where the organisation is now
- where it is hoping to be at the end of the time agreed
- how the organisation is going to get there.

To ensure that the strategy has appropriate status and authority it should be approved by the appropriate decision making body such as the leadership team.

CIPFA CODE OF PRACTICE PRINCIPLE C2

The strategy includes the organisation's use of joint working or partnership approaches to managing its risks, where appropriate.

Working with other organisations and agencies is becoming increasingly relevant in times of budgetary and resource constraints. A governing body can therefore seek ways of improving the efficiency and effectiveness of counter fraud and corruption risk management through joint working with other organisations and agencies. Joint working is also a necessary response to the risks from organised crime which can commit fraud across a range of public service organisations.

The type of joint working may differ according to the size of the organisation and the risks it faces. However, some basic principles apply as follows:

- The aims and objectives, aligned to the organisations' overall aims and objectives are agreed and recorded.
- The governing bodies agree on the joint work to be undertaken.
- The joint work is recorded and responsibilities of each organisation are noted. This could include the identification of key staff.
- A review process is agreed. Will this be the responsibility of one organisation, both individually or a joint review team established?
- Policies, procedures and protocols are agreed in advance and any legal and employee issues considered, agreed and recorded.

CIPFA CODE OF PRACTICE PRINCIPLE C3

The strategy includes both proactive and responsive approaches that are best suited to the organisation's fraud and corruption risks.

Proactive and responsive components of a good practice response to fraud risk management include the following:

Proactive

- Developing a counter fraud culture to increase resilience to fraud:
 - A clear statement of intent, such as suggested under A1 of the Code, will send the right message to the whole organisation that fraud and corruption are being taken seriously and will help embed the counter fraud culture.
 - Other methods to support the development of a counter fraud culture include regular briefings or newsletters, recognition and praise for fraud prevention, detection, investigation and recovery activities and positive publicity of outcomes.
- Preventing fraud through the implementation of appropriate and robust internal control measures:
 - Counter fraud and corruption controls should be appropriate and robust. If they are not appropriate, time and resources will be wasted and if they are not robust, then they will be ineffective and could be by-passed. Having such controls not only deters potential fraudsters but also helps to raise the awareness of staff.
- Using techniques such as data matching to validate data:
 - Organisations should consider data matching and information/intelligence sharing, such as the National Fraud Initiative. Data matching can help to validate an organisation's risk identification process by comparing its results with similar organisations. Information/intelligence sharing can help to highlight fraud and corruption threats, including enablers to fraud that the organisation may not have considered or identified. Fraud alerts, such as those from the [National Fraud Intelligence Bureau](#), the [Metropolitan Police Service – Operation Sterling](#) or the [National Anti-Fraud Network \(NAFN\)](#), are other useful sources of information.
- Deterring fraud attempts by publicising the organisation's counter fraud and corruption policy and the actions it takes against fraudsters:
 - For example, positive publicity about the successful detection or prevention of a fraud may help to deter others.

Responsive

- Detecting fraud through data and intelligence analysis:
 - If an organisation has effective prevention controls in place, it is imperative that it has an effective detection capability should these controls fail. Data analytics can help in this area and can aid in the identification of control failings.
- Implementing effective referral and confidential reporting and whistleblowing arrangements:

- Staff must feel able to report their concerns and an organisation should consider the most appropriate reporting route. There should be trusted routes open to staff to report their concerns, for example via their managers or to the counter fraud team.
- Organisations should also implement confidential reporting or whistleblowing arrangements. Effective arrangements will help there to be greater confidence in reporting concerns about fraud. Further useful advice on whistleblowing and the legal requirements of the [Public Interest Disclosure Act 1998 \(PIDA\)](#) can be found in the Public Concern at Work Whistleblowing Commission's [Report on the Effectiveness of Existing Arrangements for Workplace Whistleblowing in the UK \(2013\)](#) and their recommended [Code of Practice](#).
- Investigating fraud referrals:
 - The strategy needs to include the general aims of any investigation, the reporting process and involvement of law enforcement. The organisation needs to have clear reporting and investigation procedures and a clear and stated policy on what investigative action will be taken.

Example:

The fraud team and internal audit will report the facts revealed during their investigations to management. Where initial investigations identify evidence of criminality, the matter will be reported to the relevant law enforcement agency.

- Applying sanctions, including internal, disciplinary, regulatory and criminal. The strategy should clearly state what the organisation will do if fraud is proven. This will provide further deterrence to potential fraudsters.

Example:

Where investigations reveal evidence of fraudulent or dishonest behaviour, corrupt practice or other culpable acts, the organisation will take appropriate steps which may include disciplinary and/or legal action whether the persons are members of staff or external to the organisation.

- Seeking redress, including the recovery of assets and money where possible. Recovery can be done using either in-house or police financial investigators who have powers under the [Proceeds of Crime Act 2002](#) to conduct such activity as confiscation and seizure. Civil debt recovery may also be initiated for overpayments resulting from fraud.

Example:

Steps will also be taken to recover losses resulting from the fraud and a civil action against the perpetrator may be appropriate.

CIPFA CODE OF PRACTICE PRINCIPLE C4

The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight.

The strategy should be the base document for the measurement of success or failure for the aims defined in C1 above. This will help all staff to understand the purpose of the counter fraud strategy and counter fraud work.

The strategy needs to identify the key fraud and corruption risks and the management and accountability for these risks. This is vital to ensure that the right resources are in place and the correct action is taken to reduce the harm caused by fraud and corruption.

The audit committee should have oversight of the organisation's strategy to assess whether it meets recommended practice and governance standards and it complies with legislation.² Oversight of the counter fraud strategy will support the audit committee's understanding of governance activities during the year.

2. See Chapter 4 (s4.32) of [Audit Committees: Practical Guidance for Local Authorities and Police](#) (CIPFA, 2013).



CHAPTER 6

Provide Resources

CIPFA CODE OF PRACTICE PRINCIPLE D

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

CONTEXT

A commitment to reduce the risk of fraud and corruption is clearly demonstrated by the overall investment and the application of resources within an organisation.

The resource should include the requirements to fulfil the strategy, including:

- deterrence
- awareness and prevention work
- detection
- investigation
- follow-up action
- training of counter fraud and other staff.

Not all the resources need to be dedicated counter fraud professionals and in some organisations the resource may be provided by third party suppliers or through a joint working arrangement.

Organisations should also ensure that there is co-operation between the counter fraud team and other departments. This includes internal audit, the ICT department, HR, finance and procurement. Through such co-operation, the counter fraud team can have access to vital internal information and intelligence such as details of attacks (successful and unsuccessful) against the ICT system. This may indicate fraudsters attempting to access the organisation's records. Joint internal working between HR, procurement and the counter fraud team may highlight potential conflicts of interest.

There should also be well established relationships with external partners such as law enforcement agencies (including HMRC), professional bodies (eg CIPFA), and other government departments such as the Department for Work and Pensions (DWP).

SECTOR INTERPRETATION

Larger organisations may have a dedicated fraud team, access to ICT tools and specialists such as a financial investigator. Others have established their resources through collaborative arrangements.

Smaller organisations such as schools, charities and housing trusts often have limited in-house counter fraud capability, some rely on outsource agreements while unfortunately some have no access to counter fraud and corruption capability at all. In such cases, it is even more important that the organisation's leadership team provide the right message and the staff of these organisations are used as the first line of defence in counter fraud and corruption.

GOOD PRACTICE GUIDANCE

CIPFA CODE OF PRACTICE PRINCIPLE D1

An annual assessment of whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk.

An annual assessment should be conducted to review whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk. This should be part of the overall counter fraud and corruption strategy and be linked to the annual review of the strategy by the nominated body.

The organisation should identify who should be responsible for this assessment in their counter fraud and corruption strategy and in most cases this is likely to be the accountable person. Approval of the strategy and the associated resources will lie with the governing body, but the adequacy of the available resource to support the strategy should also be considered by the audit committee. The assessment can also be subject to independent review and assurance from internal audit, which is again likely to be reported to the audit committee.

Section 2120 A2 of the [Public Sector Internal Audit Standards \(PSIAS\)](#) states that internal audit must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk. As part of this review internal audit is likely to consider the available capacity of the organisation to identify fraud risks, prevent and detect fraud and take appropriate action.

CIPFA CODE OF PRACTICE PRINCIPLE D2

The organisation utilises an appropriate mix of experienced and skilled staff, including access to counter fraud staff with professional accreditation.

Training needs to be provided to ensure that counter fraud staff have the skills, experience and accreditation to conduct their work. This is of particular importance for the conduct of fraud investigations which might lead to criminal prosecutions. In these cases the collection of evidence must meet legal standards to be admissible in a court of law. In addition, some larger organisations may decide to conduct their own financial investigations, which would require staff to be trained and accredited as a financial investigator in order to obtain direct

access to banking and other financial records without having to rely on law enforcement agencies.

Organisations should consider implementing a personal development process to help identify skills gaps and support continuous professional development.

In times of financial restraint it is often very difficult to make a case for an increase in staff but one example where this did occur is as follows:

Example:

A council needed to make the case for expanding the counter fraud team's focus from predominantly a benefits fraud team to a corporate-wide approach to tackling fraud across the council and its departments, and needed senior management buy-in. Having established a corporate team, decisions were taken to establish partnerships with various service areas, including internal audit, with the common aim of tackling fraud.

At the same time they created a technology infrastructure, including anti-fraud software which drew on data from different parts of the organisation giving the team access to real time intelligence. It allowed the team to look across investigations that ordinarily would have been missed. The team is now able to do comparisons across departments while respecting Data Protection Act protocols – they only share data that is critical to making a case.

Guidance on establishing a corporate fraud team is available in CIPFA's [Developing Corporate Anti-Fraud Capability in the Public Services](#) (2012).

The behaviours of counter fraud staff must be beyond reproach. Their activities should be governed by a code of conduct/ethical framework. Some counter fraud staff may be governed by the ethical standards of their professional bodies, such as accounting or auditing institutes, the Institute of Counter Fraud Specialists or the Association of Certified Fraud Examiners. Organisations may wish to apply their own code on investigators which should include statements on integrity, objectivity, confidentiality and competency. This code should be produced alongside the organisation's code of ethics to ensure consistency.

Where the organisation has identified "counter fraud champions" to promote awareness and act as focal point in departments, then ongoing training may be required to ensure they are aware of new risks or other developments.

Raising the awareness of all staff is also an essential part of fraud prevention. Even large organisations have a limited number of staff dedicated to counter fraud and corruption work. Thus staff can be used as the first line of defence against fraud and corruption. Staff on the "front line" are more likely to understand if something is out of the ordinary and may indicate fraudulent activity. Organisations should recruit and train and actively encourage those who can fight fraud and corruption effectively, ie their employees.

There are several methods for training staff:

- **Formal subject specific counter fraud presentations**

While these can be customised to the audience and provide detailed input to staff, they can be time consuming for both the trainer and staff.

- **“E-learning” tools**

Such tools can reach a far larger audience in a more cost effective manner than formal presentations but are limited in what they can deliver and limited to those who have access to the necessary technology. It can also be expensive to regularly update the presentation.

- **Regular counter fraud briefings as an input to routine generic team meetings**

This can be a very effective way of getting short, sharp messages across the teams and can be tailored to the audience. For example, a talk on personnel type frauds can be given to the HR team. This type of training, however, is often limited in what can be included and many departments can be reluctant to allow the counter fraud team to use up valuable team talk time.

However, any investment in training will greatly improve the awareness of staff and increase and improve fraud prevention and deterrence. It is also important to evaluate the effectiveness of such training.

CIPFA CODE OF PRACTICE PRINCIPLE D3

The organisation grants counter fraud staff unhindered access to its employees, information and other resources as required for investigation purposes.

The job of the counter fraud professional is to put into practice the counter fraud and corruption strategy. Achieving this remit requires sufficient power and authority (for example, access to staff records, documents and meetings). The organisation needs to make clear this authority in documents such as standing financial instructions and partnership agreements.

Access to the organisation’s records and staff personnel files and other records is an action that has to be clearly regulated with sufficient oversight to ensure that it is not abused. Whenever access to sensitive records is required, such as personnel records, this should be recorded by the investigator and approved by a superior. For example, the request could be submitted to an appropriate senior HR manager to arrange for the records to be provided. An independent audit of this access can be conducted to provide assurance to the organisation’s leadership and to staff that this access is used appropriately.

If the counter fraud team is externally provided or via a joint working agreement, access to sensitive records should be agreed in advance in any agreement or contract. Consideration should be given to having a single point of contact within the organisation for any external provider who will access the records on behalf of the third party.

A counter fraud team is increasingly reliant on technical tools to assist in fraud prevention and detection. Sufficient investment may need to be made to ensure that any gaps identified in the risk management process can be monitored and identified quickly. Such tools could include continuous auditing capability to not only highlight risks but also to provide an early warning of potential fraudulent acts.

Similarly, intelligence software will be able to provide indicators of areas susceptible to fraud and corruption that may not have been highlighted during other risk assessments. This will help to target the organisation’s resources at the most vulnerable areas. Additionally, a team may require specialist investigation, case management or intelligence software. A

collaborative team should use common tools and software to ensure an accurate and clear flow of information and intelligence.

CIPFA CODE OF PRACTICE PRINCIPLE D4

The organisation has protocols in place to facilitate joint working and data and intelligence sharing to support counter fraud activity.

Joint working with other organisations and agencies is becoming more common to reduce the need for resources in single organisations. If this is the case, frameworks can be put in place with other organisations and law enforcement agencies. Relationships need to be agreed in advance and issues clarified such as responsibilities, obligations, exchange of information, liaison, communications, meetings with key personnel and media strategies. This can be achieved through framework agreements, memorandums of understanding and service level agreements.

These agreements need to concentrate on issues that support operational co-operation, such as areas of mutual interest, joint planning and co-ordinated action. They need to be viable and have helpful arrangements in place to deliver work in line with objectives and goals.

The governance arrangements must be kept up to date and relevant. There need to be regular meetings not just between counter fraud staff but with senior management and joint reviews should be undertaken.

There are many examples of good practice in the use and sharing of resources. They include memorandums of understanding between agencies, particularly with law enforcement organisations. There are good examples of local partnerships for either general counter fraud activity or to address a specific fraud issue. For example, a council may co-operate with local housing associations to address tenancy fraud risks.



CHAPTER 7

Take Action

CIPFA CODE OF PRACTICE PRINCIPLE E

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

CONTEXT

The action needed can vary from organisation to organisation and can be dependent upon size, function, activity and governance arrangements. All organisations, however, should have an action plan linked to the risk register and the overall counter fraud and corruption strategy. The action plan should be comprehensive and include:

- a fraud prevention and deterrence plan
- proactive detection (data analytics/fraud audits)
- investigation
- sanctions
- redress
- reporting.

Taking the proper and appropriate action is essential if organisations are to reduce the harm and losses caused by fraud and corruption. Such action, well publicised and adhered to, will send the right message to staff, foster a counter fraud and corruption culture and help to deter fraudsters. Furthermore, a fraud action plan can also help to reduce the impact should a fraud be discovered.

Example:

A substantial part of our fraud took place over an eight week period between two board meetings. If it had continued at the same rate for another eight weeks before the trustees detected and dealt with the breach in financial procedures, the charity would not now be here. Still, the devastation for this small charity has been immense. There remains a profound sense of shock that over twenty years' work and a national reputation came so close to being wiped out within such a short time-scale.

Source: [Charity Commission Compliance Toolkit](#).

SECTOR INTERPRETATION

The ability to take action will be dependent upon the size and nature of an organisation and the size of its counter fraud capacity. Irrespective of the size of activities of an organisation, however, the organisation needs to take appropriate action and report on that action to its governing body.

Accounts and Audit Regulations require the responsible financial officer in local authorities and police bodies in England, Wales and Northern Ireland to determine accounting control systems. These must include measures to enable the prevention and detection of inaccuracies and fraud.³

In central government, *Managing Public Money* (HM Treasury, 2013) states that ‘the organisation’s response to fraud risk should be customised to the risks it faces’. Suggested actions include:

- establishing cost-effective internal systems of control to prevent and detect fraud
- responding quickly and effectively to fraud when it arises
- establishing systems for investigations into allegations of fraud.

When frauds are identified some public service organisations are required to inform those bodies with regulatory oversight. *Managing Public Money* requires relevant organisations to retain a record of the fraud and to consider informing the National Audit Office. Academies are required to inform the Education Funding Agency of all frauds in excess of £5000 either individually or cumulatively over the year. For more information see the *Academies Financial Handbook* (Education Funding Agency, 2014).

The Homes and Communities Agency (HCA) requires registered providers to provide an annual report on net losses from fraudulent activity; see the *Regulatory Framework for Social Housing in England* (HCA, 2012).

Charities should refer to Chapter 3 of the Charity Commission’s *Compliance Toolkit*, which states that all charities must, as a minimum:

- have some form of appropriate internal and financial controls in place to ensure that all their funds are fully accounted for and are spent in a manner that is consistent with the purpose of the charity; what those controls and measures are and what is appropriate will depend on the risks and the charity
- keep proper and adequate financial records for both the receipt and use of all funds together with audit trails of decisions made. Records of both domestic and international transactions must be sufficiently detailed to verify that funds have been spent properly as intended and in a manner consistent with the purpose and objectives of the organisation
- give careful consideration to what other practical measures they may need to consider to ensure they take reasonable steps to protect the charity’s funds and the trustees meet their legal duties

3. *Accounts and Audit Regulations 2011*. See also the *Accounts and Audit Regulations (Wales) 2005* and the *Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006*. The latest Scottish regulations, the *Local Authority Accounts (Scotland) Regulations 2014*, do not include a reference to fraud.

- deal responsibly with incidents when they occur, including prompt reporting to the relevant authorities and ensuring the charity's funds are secure.

The [Local Government Transparency Code 2014](#) requires local authorities in England to publish statistics each year, including the total number of fraud cases investigated.

Within the health sector, NHS England's [Tackling Fraud, Bribery and Corruption: Policy and Corporate Procedures](#) (2013) states that activities to tackle economic crime will be carried out within three key principles for action:

1. Inform and involve.
2. Prevent and deter.
3. Hold to account.

In addition, the NHS Protect service has produced [Standards for Providers 2014/15 – Fraud, Bribery and Corruption](#), which gives information to providers of NHS services on the anti-fraud clauses in the NHS Standard Contract and explains what providers need to do to comply with them. There is a requirement for all providers (except “small providers”) to complete an “organisation crime profile” within one month of the NHS Standard Contract coming into effect.

GOOD PRACTICE GUIDANCE

CODE OF PRACTICE PRINCIPLE E1

The organisation has put in place a policy framework which supports the implementation of the counter fraud strategy.

Having such a framework and ensuring that all policies are mutually supportive and cross referenced will encourage and raise awareness of all staff to the fraud and corruption risks. Increased awareness aids prevention and detection.

As a minimum the framework should include the following:

- **Counter fraud policy**
This should be linked to the strategy and include prevention, detection, investigation and reporting processes and those responsible for each activity.
- **Whistleblowing policy**
This should include the aims of the policy, what is covered, how to raise a concern, the process, safeguards and confidentiality.
- **Anti-money laundering policy**
This may not be applicable to all organisations. The exact contents of your policy will depend on the organisation but, as advised by [HMRC⁴](#), should include:
 - details of your approach to preventing money laundering, including named individuals and their responsibilities
 - details of your procedures for identifying and verifying customers, and your customer due diligence measures and monitoring checks

4. See also [Combating Financial Crime: Further Guidance on Anti-money Laundering in Public Service Organisations](#) (CIPFA, 2015).

- a commitment to training employees so they are aware of their responsibilities
- a summary of the monitoring controls that are in place to make sure your policies and procedures are being carried out
- recognition of the importance of staff promptly reporting any suspicious activity to the nominated officer.

■ **Anti-bribery and corruption policy**

You should have an anti-bribery policy if there is a risk that someone who works for you or on your behalf might be exposed to bribery. The policy should be proportionate to the risk and include:

- your approach to reducing and controlling the risks of bribery
- rules about accepting gifts, hospitality or donations
- guidance on how to conduct your business, eg negotiating contracts
- rules on avoiding or stopping conflicts of interest.

■ **Gifts and hospitality policy and register**

This policy should include a full list of those to whom it applies, eg governing body members, full and part time staff, contractors, consultants and agency staff. It should also define what is meant by gifts and hospitality, clearly stating what is and what is not acceptable. The policy should also detail the reporting processes, the registration process and compliance checks.

■ **Pecuniary and conflict of interest policies**

It is essential that an organisation has a policy that covers any potential conflict of interest that employees may face due to their association or relationship with other organisations. The policy must clearly detail what is and what is not acceptable and the need to be fully open and transparent about one's business activities outside of the organisation. This will promote honesty and openness and also assist in any investigation into conflicts of interest and potential fraudulent behaviour.

■ **Codes of conduct and ethics**

Organisations should expect the highest standards from all staff adhering to the Seven Principles in Public Life (the "Nolan Principles") of:

1. selflessness
2. integrity
3. objectivity
4. accountability
5. openness
6. honesty
7. leadership.

Adherence to such principles will minimise the organisation's exposure to the risk of fraud committed by staff.

■ **Information security policy**

The security of information is essential to good management and public confidence. To operate effectively, organisations must maintain the confidentiality, integrity and

availability of its information; for more information see the government's [Security Policy Framework](#) (2014). This will also ensure that information is protected against unauthorised access by fraudsters.

■ **Cyber security policy**

Many frauds today are increasingly perpetrated via the internet, using digital technologies, devices and social media. Organisations should follow the government's [Cyber Security Guidance](#) (2012), which details how a clear and easily understood cyber security policy can be used by organisations to strengthen their resilience to cyber risk and tackle cyber crime. The policy, while having clearly defined reporting processes and aims, should also stress that cyber risk management is the responsibility of every employee.

These policies need to be mutually supportive and cross referenced. Specific care should be taken to ensure that they are not contradictory and are easily followed by all staff. Where possible a single department such as HR or corporate governance should be responsible for ensuring this occurs. They should be regularly reviewed to ensure they are up to date and fit for purpose. There should be regular communications to all staff especially whenever a policy is amended or replaced. All policies should be signed off and supported at the highest level within an organisation.

CIPFA CODE OF PRACTICE PRINCIPLE E2

Plans and operations are aligned to the strategy and contribute to the achievement of the organisation's overall goal of maintaining resilience to fraud and corruption.

PROACTIVE DETECTION

A proactive plan can be developed to achieve early detection of fraud and corruption. The plan needs to include any audits that may assist in this detection or specify any activity by the dedicated counter fraud team. The counter fraud team or person responsible for fraud risk management can liaise with the internal auditors at the audit planning stage to give ideas and direction concerning the fraud risk.

Specific fraud detection audits can be conducted.

Example:

An organisation conducted a real time audit of financial authority approvals during a specific period when large numbers of staff were engaged on non-routine duties and when the normal segregation of duties system may not have been fully in place.

Data analytics can also be used to detect fraud in a proactive manner.

Example:

An organisation had in place a level of self-authorisation for spends. Data analytics were used to review whether this level was being abused by looking at:

- multiple spends with particular suppliers at just below the authorised spend limit
- separate purchases being made with one supplier to bypass OJEU regulations
- excessive use of the self-authorisation by any particular members of staff.

INVESTIGATION

If a fraud or corruption case is identified, all organisations need a clear fraud response plan. Those involved need to be aware of the immediate actions to be taken, the aims of any investigation and to whom they should go to for help and advice. This will ensure that investigations are correctly managed, evidence is secured, the investigation remains confidential and losses are minimised. The initial detection of fraud and corruption is often the most critical time in an investigation and decisions must be made quickly to secure evidence, mitigate losses and ensure a legal and effective investigation.

The aims of any investigation should be clearly defined in the counter fraud and corruption strategy and these aims adhered to during the investigation. If a third party investigative organisation is being used, it should adhere to these aims and follow the organisation's laid down procedures.

Investigations should ensure that they comply with current legislation (criminal and employment) and procedures. As such, legal advice should be sought in the early stages of an investigation.

An organisation needs to be aware of any regulatory reporting requirements for its sector or the need to inform other external parties of fraud and fraud losses, for example external auditors or the organisation's insurer.

If an organisation has a policy of reporting frauds to law enforcement agencies, there needs to be clear criteria and reporting methodology in place. For example, when does this happen, who is responsible and what method of reporting will be used?

Following the conclusion of the investigation the report should not only detail the investigation and conclusion but should also cover:

- identification of any weaknesses in any defences used by the organisation
- improvement opportunities both in risk management, fraud prevention, detection and investigation
- identification of strengths and best practice procedures
- a review of responsibilities and risk ownership
- a review of the resource plan including technical resources and training requirements.

Investigation reports have the most impact if they are circulated to the organisation's leadership team as well as the risk owners.

CIPFA CODE OF PRACTICE PRINCIPLE E3

Making effective use of national or sectoral initiatives to detect fraud or prevent fraud, such as data matching or intelligence sharing.

The prime example of this is the National Fraud Initiative. This exercise has shown that data matching and the sharing of information and intelligence can help to identify fraud. Regional or joint initiatives may also be possible.

CIPFA CODE OF PRACTICE PRINCIPLE E4

Providing for independent assurance over fraud risk management, strategy and activities.

As stated in Section A4 of the Code, the organisation needs to have a clear programme of work to manage fraud and corruption risks with specific goals as set out in a counter fraud and corruption strategy. The governing body can assess whether this plan of work is achieving its aims by implementing an independent review of compliance, goals and resources.

This independent review can be conducted by internal auditors and will support internal audit conformance with Section 2120 A2 of the [Public Sector Internal Audit Standards](#). Additionally as stated in Section C4 above, the audit committee should have an independent oversight of the organisation's strategy to assess whether it meets recommended practice and governance standards and it complies with legislation.

REPORTING**CIPFA CODE OF PRACTICE PRINCIPLE E5**

There is a report to the governing body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy from the lead person(s) designated in the strategy. Conclusions are featured in the annual governance report.

There also needs to be a robust reporting, compliance and governance process, including the following:

- The independent view of compliance, goals and resources (see E4 of the Code).
- A report to the governing body at least annually on:
 - performance against the counter fraud strategy from the lead person(s) designated in the strategy
 - the impact and cost effectiveness of its counter fraud activities; loss measurement should not solely be in terms of monetary loss but also reputation, effects on staff and morale and costs of investigations
- Conclusions should feature in the annual governance report.

ANNUAL STATEMENTS

The Code states that where organisations are making a statement in an annual governance report about their adherence to this Code, they should assess their level of conformance with the Code. Following this the most appropriate statement should be approved by the governing body and signed by the person responsible for signing the annual governance report.

STATEMENT 1

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

Or

STATEMENT 2

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

Actions to be taken to manage the risk of fraud:

Action:	Responsibility:	Target date:

APPENDIX A

Glossary

Annual Fraud Indicator (AFI)	A compendium of fraud loss indicators which strives to provide a best estimate of the scale of the problem and raise awareness.
Annual governance report	The mechanism by which an organisation publicly reports on its governance arrangements each year.
Audit committee	The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.
Bribery Act 2010	Provides for a consolidated scheme of bribery offences to cover bribery both in the UK and abroad.
Charity Commission	The independent government department which registers and regulates charities in England and Wales.
Chief financial officer (CFO)	The organisation's most senior executive role charged with leading and directing financial strategy and operations.
Cyber security	The protection of systems, networks and data in cyber space. This is a critical issue for all businesses.
Economic Crime Command	Part of the National Crime Agency (NCA) whose role is to fight economic crime by undermining criminals and educating those most at risk of attack by sharing intelligence and knowledge with partners, disrupting criminal activity and seizing assets.
Fighting Fraud Locally (FFL)	A strategic approach developed by local government for local government, addressing the need for greater prevention and smarter enforcement.
Fraud Act 2006	An Act of Parliament creating a general offence of fraud with a maximum custodial sentence of ten years; replacing all previous deception offences as detailed under the Theft Acts 1968-1996.
Governance	Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved, includes political, economic, social, environmental, administrative, legal, and other arrangements.

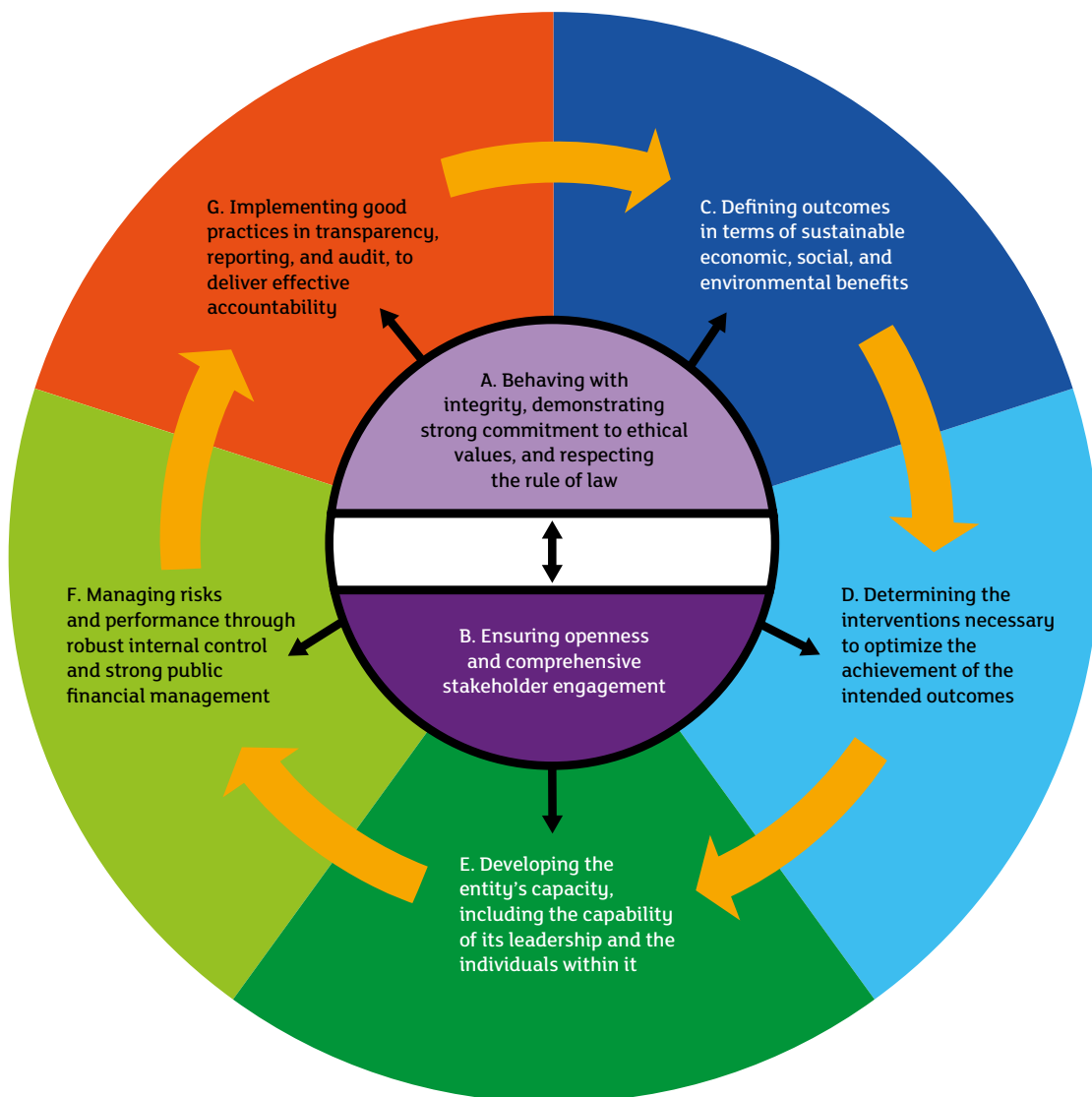
Governing body	The person(s) or group with primary responsibility for overseeing an entity’s strategic direction, operations, and accountability.
Information security	The practice of defending information from unauthorised access, use, disclosure, disruption, modification, perusal, inspection, recording or destruction.
Intelligence	Information that has been collected, analysed and evaluated.
Internal audit	An assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation’s objectives.
International Federation of Accountants (IFAC)	The global organisation for the accountancy profession.
Leadership team	Comprises the governing body and management team.
Management team	The group of executive staff comprising the senior management charged with the execution of strategy.
Managers	The staff responsible for the achievement of the organisation’s purpose through services/ businesses and delivery to its clients/customers.
National Crime Agency (NCA)	A UK law enforcement agency with national and international reach and the mandate and powers to work in partnership with other law enforcement organisations to address serious and organised crime.
National Fraud Initiative (NFI)	An exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud.
Protecting the Public Purse (PPP)	Annual reports which give details on amounts of detected fraud, warn of fraud risks and promote best practice in local government.
Public Interest Disclosure Act 1998	An Act of Parliament that protects whistleblowers from detrimental treatment by their employer.
Public service organisation	One or more legal bodies managed as a coherent operational entity with the primary objective of providing goods or services that deliver social benefits for civic society, are not privately owned, and receive public and/or charitable funding.
Risk management	The systematic process of understanding, evaluating and addressing risks to maximise the chances of objectives being achieved and ensuring organisations are sustainable.

Seven Principles of Public Life	Seven principles established by the Committee on Standards in public Life, which are: selflessness, integrity, objectivity, accountability, openness, honesty and leadership. Used as the basis for many ethical governance frameworks.
Single Fraud Investigation Service (SFIS)	An organisation operating under a single policy and one set of operational procedures for investigating all welfare, benefit and tax credit fraud.
The Code	CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.
Whistleblowing	When a worker reports suspected wrongdoing at work. Officially this is called “making a disclosure in the public interest”.

The Relationship of the Code of Practice to the International Framework

Seven principles underpin good governance in the International Framework. These are outlined in the following diagram:

Achieving the Intended Outcomes While Acting in the Public Interest at all Times



While there are linkages that can be made between the Code and each of the principles, two in particular stand out:

Acting in the public interest requires:

- A. *Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.*
- F. *Managing risks and performance through robust internal control and strong public financial management.*

Comparison of the Code against the International Framework: Good Governance in the Public Sector

Code Principle	International Framework (IFAC/CIPFA)
<p>Acknowledge responsibility</p> <p>The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.</p>	<p>Acting in the public interest requires:</p> <p>A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.</p>
<p>Identify risks</p> <p>Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.</p>	<p>F. Managing risks and performance through robust internal control and strong public financial management:</p> <ul style="list-style-type: none"> – regularly reviewing key strategic, operational, financial, reputational, and fraud risks and then devising responses consistent with achieving the entity’s objectives and intended outcomes. (p.27)
<p>Develop a strategy</p> <p>An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.</p>	<p>D. Determining the interventions necessary to optimize the achievement of the intended outcomes.</p> <p>F. Managing risks and performance through robust internal control and strong public financial management.</p> <ul style="list-style-type: none"> – regularly reviewing key strategic, operational, financial, reputational, and fraud risks and then devising responses consistent with achieving the entity’s objectives and intended outcomes. (p.27) – role of the audit committee – helping the entity to embed the values of ethical governance, including effective arrangements for countering fraud and corruption. (p.30)
<p>Provide resources</p> <p>The organisation should make arrangements for appropriate resources to support the counter fraud strategy.</p>	<p>E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it.</p>

Code Principle	International Framework (IFAC/CIPFA)
<p>Take action</p> <p>The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud.</p>	<p>F. Managing risks and performance through robust internal control and strong public financial management:</p> <ul style="list-style-type: none"> – safeguarding the entity’s resources against loss, fraud, misuse, and damage. (p.29) – internal audit reviews can cover a wide range of topics, including those relating to the achievement of value for money and the prevention and detection of fraud and corruption. (p.29) <p>G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.</p>

Mapping of the Code to Governance Frameworks in use in the Public Services

A number of governance frameworks operate across the public services. There is a greater synergy of the Code with some more than others. The following table shows the mapping of the principles in the Code to the most relevant parts of each sectoral code. Understanding the linkage to the governance framework will help those implementing the Code to link it to the organisation's objectives.

Code Principle	Delivering Good Governance in Local Government CIPFA/SOLACE 2007 ⁵	Corporate Governance in Central Government Departments: Code of Good Practice 2011	Excellence in Governance National Housing Federation 2010
<p>Acknowledge responsibility</p> <p>The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.</p>	<p>Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour:</p> <ul style="list-style-type: none"> ■ ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance ■ ensuring that organisational values are put into practice and are effective. 	<p>3.8 The Accounting Officer should establish and document a clear allocation of responsibilities amongst officials in the department, but he or she retains overall personal responsibility and accountability to parliament for propriety and regularity.</p> <p>4.10 Board members should act in the public interest in keeping with the Nolan Principles of Public Life.</p>	<p>A. The board must be effective in leading and controlling the organisation and acting in its best interest. Board members must ensure that the interests of the organisation are placed before any personal interests.</p> <p>L. Organisations must maintain the highest standards of probity and conduct.</p>
<p>Identify risks</p> <p>Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.</p>	<p>Taking informed and transparent decisions which are subject to effective scrutiny and managing risk:</p> <ul style="list-style-type: none"> ■ ensuring that an effective risk management system is in place. 	<p>6.1 The board should ensure that there are effective arrangements for governance, risk management and internal control for the whole departmental family.</p>	<p>B2. The core responsibilities of the board include:</p> <ul style="list-style-type: none"> ■ establishing and overseeing a risk management framework in order to safeguard the assets of the organisation.
<p>Develop a strategy</p> <p>An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.</p>			

5. The Framework is to be revised in 2015.

Provide resources	<p>Developing the capacity and capability of members and officers to be effective:</p> <ul style="list-style-type: none"> ■ making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles. 	
Take action	<p>The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud.</p>	<p>6.1 The board should ensure that there are effective arrangements for governance, risk management and internal control for the whole departmental family.</p> <p>K. The board must establish a formal and transparent arrangement for considering how the organisation ensures financial viability, maintains a sound system of internal controls, manages risk and maintains an appropriate relationship with external auditors.</p> <p>K1. Every organisation must have effective internal controls.</p>
Requirements to consider adequacy of counter fraud and anti-corruption arrangements as part of annual governance reports	<p>Addendum 2012:</p> <p>Key elements of an authority's governance should include arrangements for:</p> <ul style="list-style-type: none"> ensuring effective counter fraud and anti-corruption arrangements are developed and maintained. 	
Code E5		

<p>Code Principle</p>	<p>The NHS Foundation Trust Code of Governance Monitor 2014</p>	<p>Clinical Commissioning Groups, NHS England recommend following the principles of the Good Governance Standard for the Public Services</p>	<p>Governance Code of Practice and General Principles, Committee of University Chairs 2009 (CUC)⁶ Memorandum of assurance and accountability Higher Education Funding Council 2014 (HEFCE)</p>
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Acknowledge responsibility

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

A.1.8 The board of directors should establish the constitution and standards of conduct for the NHS foundation trust and its staff in accordance with NHS values and accepted standards of behaviour in public life, which includes the principles of selflessness, integrity, objectivity, accountability, openness, honesty and leadership (The Nolan Principles).

A5b The council of governors is responsible for representing the interests of NHS foundation trust members and the public and staff in the governance of the NHS foundation trust. Governors must act in the best interests of the NHS foundation trust and should adhere to its values and code of conduct.

3. Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour.

The governing body should take the lead in establishing and promoting values for the organisation and its staff. These values should be over and above legal requirements (for example, anti-discrimination, equal opportunities and freedom of information legislation) and should build on the Nolan principles. They should reflect public expectations about the conduct and behaviour of individuals and groups who control public services.

Role of the Governing Body

1.2 Individual members and governing bodies themselves should at all times conduct themselves in accordance with accepted standards of behaviour in public life which embrace selflessness, integrity, objectivity, accountability, openness, honesty and leadership. (CUC)

6. Currently under review.

<p>Identify risks</p> <p>Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.</p>	<p>C.2.a The board of directors is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management systems.</p>	<p>4. Good governance means taking informed, transparent decisions and managing risk.</p> <p>A risk management system should consider the full range of the organisation's activities and responsibilities, and continuously check that various good management disciplines are in place, including:</p> <ul style="list-style-type: none"> ■ laws and regulations are complied with ■ financial resources are managed efficiently and effectively and are safeguarded. 	<p>2.35 Higher Education Institutions are expected to identify and actively manage risks, having particular regard at governing body level to risks which could threaten the existence of the institution. (CUC)</p>
<p>Develop a strategy</p> <p>An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.</p>			
<p>Provide resources</p> <p>The organisation should make arrangements for appropriate resources to support the counter fraud strategy.</p>			

<p>Take action</p> <p>The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud.</p>	<p>C.2.b The board of directors should maintain a sound system of internal control to safeguard patient safety, public and private investment, the NHS foundation trust's assets, and service quality.</p> <p>C.2.b The board should report on internal control through the Annual Governance Statement (formerly the Statement on Internal Control) in the annual report.</p>	<p>Principle 6: Governing bodies have robust and effective processes for decision-making, as outlined in their constitution, that support and maintain transparency and accountability at every level. Complying with laws against bribery, including implementing clear guidance on gifts and hospitality.</p>	<p>29 In accordance with the HEI's own statutes and constitution, there should be effective arrangements for providing assurance to the governing body that the HEI:</p> <ul style="list-style-type: none"> a. Has a robust and comprehensive system of risk management, control and corporate governance. This should include the prevention and detection of corruption, fraud, bribery and irregularities. (HEFCE) <p>Corporate Governance Statement Appendix A2</p> <p>Consider responsibilities in respect of: maintaining proper accounting records, compliance with institution's charter or statutes, compliance with the SORP (Statement of Recommended Practice) and Funding Council Financial Memorandum, safeguarding assets and prevention and detection of fraud. (CUC)</p>
<p>Requirements to consider adequacy of counter fraud and anti-corruption arrangements as part of annual governance reports</p> <p>Code E5</p>	<p>354</p>		

Public Service Organisations – Governing Bodies and Accountable Officer

Organisation Type	Governing Body	Mandated or Suggested Accountable Officer
Central Government⁷		
Devolved Administrations:		
■ Scottish Government	Strategic board	Principal accounting officer
■ Welsh Government	Board	Accounting officer
■ Northern Ireland Assembly	Department board	Accounting officer
Government Departments:		
■ Ministerial Government Departments	Department board	Accounting officer
■ Non Ministerial Government Departments		
Government Agencies and Public Bodies (including Non Departmental Public Bodies ⁸ :	Agency board ⁹	Chief executive officer
High Profile Groups	Strategic board	Accounting officer
Public Corporations	Board	
	Departmental board	

7. www.gov.uk/government/organisations

8. NDPBs are further analysed into Advisory, Executive, Tribunal and Other and are subject to review and rationalisation under the Cabinet Office Public Bodies Act review. www.gov.uk/government/publications/public-bodies-2014 Categories of Public Bodies: A Guide for Departments https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80075/Categories_of_public_bodies_Dec12.pdf

9. www.gov.uk/government/uploads/system/uploads/attachment_data/file/80076/exec_agencies_guidance_oct06_0.pdf para 14

Local Government		
Local authorities	Council	Chief finance officer
Police	Police and crime commissioner	Chief finance officer
	Chief constable	Chief finance officer
Fire	Fire authority	Chief finance officer
Health		
NHS England	Board	Chief finance officer
NHS foundation trusts	Board	Chief finance officer
NHS trusts	Board	Chief finance officer
Ambulance trusts	Board	Chief finance officer
Clinical commissioning groups	CCG governing body	Chief finance officer
Special health authorities	Board	Chief finance officer
Community interest companies	Board	Chief finance officer
Education		
Higher education	University council or board of governors	Vice-chancellor or principal
Further education colleges	Board or corporation	Principal
Schools, including academies	Governing body	Headteacher
Not for Profit and Charitable Bodies		
Charities	Board council	Chief finance officer, chief operating officer
Housing associations	Board	Chief finance officer

APPENDIX E

Further Guidance and Useful Resources

RESOURCES FROM CIPFA

CIPFA Counter Fraud Centre

The [CIPFA Counter Fraud Centre \(CCFC\)](#) brings together collaboration, strong leadership and 125 years of expertise in public finance and governance to support organisations. The CCFC provides a “one stop shop” for fighting fraud, including tools, training and the ideas to shape the future of counter fraud.

CIPFA is working with the Home Office and the National Crime Agency on the government’s response to anti-corruption, procurement fraud and threats, and will be providing tools and resources in this area.

CIPFA Better Governance Forum

The [CIPFA Better Governance Forum](#) is a network for governance practitioners covering governance, internal audit, risk management, counter fraud and audit committees.

International Framework: Good Governance in the Public Sector (CIPFA/IFAC)

The aim of the [International Framework](#) is to encourage better service delivery and improved accountability by establishing a benchmark for aspects of good governance in the public sector.

CIPFA’s TISonline Risk Management and Counter Fraud Information Stream

The [TISonline Risk Management and Counter Fraud information stream](#) outlines the major issues to consider when developing an integrated risk management framework. It also identifies the main areas where local authorities face significant losses due to fraudulent activity and provides guidance to help create an effective counter fraud culture.

OTHER RESOURCES

Fighting Fraud Locally

[Fighting Fraud Locally: The Local Government Strategy \(NFA, 2012\)](#) is a strategic approach developed by local government for local government and addresses the need for greater

prevention and smarter enforcement. Further Fighting Fraud Locally resources can be found on the [CIPFA Counter Fraud Centre](#).

Audit Commission

Protecting the Public Purse

The [Protecting the Public Purse reports](#) describe what has happened in the field of fraud detection and prevention and identify fraud risks. They also describe the action taken by some councils to tackle fraud and provide links to tools to help councils improve their counter fraud defences.

National Fraud Initiative

Since 1996 the Audit Commission has run the [National Fraud Initiative](#) (NFI), an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. This includes police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.

Cabinet Office

[Tackling Fraud and Error in Government: A Report of the Fraud, Error and Debt Taskforce](#) (2012) sets out an ambitious but focused delivery programme that seeks to reduce levels of fraud and error across government.

Department for Communities and Local Government

[Government Response to Social Housing Fraud – Presentation](#).

Financial Reporting Council

[International Standard on Auditing \(UK and Ireland\) 240](#) establishes standards and provides guidance on the auditor's responsibility to consider fraud in an audit of financial statements.

HM Treasury

[Managing Public Money](#) (2013) offers guidance on how to handle public funds.

London Public Sector Counter Fraud Partnership

The [London Public Sector Counter Fraud Partnership](#) (LPSCFP) has been in existence since 2000. It was formed in response to the [Crime and Disorder Act 1998](#) and is a partnership between the Metropolitan Police and the other counter fraud public sector agencies and teams in London. Its aim is to combat fraud by working in partnership across London.

British Universities Finance Directors Group

Managing Fraud and Risks in Construction Projects is available to members of the British Universities Finance Directors Group (BUFDG). See their [website](#) for more information.

NHS England

[Tackling Fraud, Bribery and Corruption: Policy and Corporate Procedures \(2013\)](#) aims to explain how NHS England intends to tackle economic crime, provides guidance to officers and ensures officers are able recognise economic crime and understand the correct reporting requirements.

NHS Protect

[Standards for Providers 2014/15 – Fraud, Bribery and Corruption](#) aims to provide information on the anti-fraud and security management clauses in the 2014/15 NHS Standard Contract, and explain what providers need to do to comply with them.

National Audit Office

The National Audit Office's [fraud website](#) contains a number of reports covering areas such as whistleblowing, tax credits error and fraud and good practice in tackling external fraud.

National Crime Agency

The [National Strategic Assessment of Serious and Organised Crime 2014](#) provides a single, comprehensive picture of serious and organised crime affecting the UK and is a key document in the reporting and priority setting cycle.

Metropolitan Police Service

The [Little Book of Big Scams](#) is a general guide to many of the scams currently operating in the UK.



Registered office:

3 Robert Street, London WC2N 6RL

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700

www.cipfa.org

CIPFA registered with the Charity Commissioners of England and Wales No 231060

From 1 January 2015:

77 Mansell Street, London E1 8AN

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700

www.cipfa.org

Fighting Fraud & Corruption

LOCALLY

The local government counter fraud and corruption strategy

2016 - 2019



Supported by:



**CIPFA COUNTER
FRAUD CENTRE**

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Fighting Fraud and Corruption Locally is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape. Its production and subsequent implementation is overseen by an independent board, which includes representation from key stakeholders. The board commissioned the drafting and publication of the strategy from the CIPFA Counter Fraud Centre.

This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.



With support from:



Foreword by Cllr Claire Kober

Since the last Fighting Fraud Locally Strategy was published in 2011, the landscape has changed considerably for local government. Councils have dealt with unprecedented reductions in funding – up to 40% of central funding over the life of the previous Parliament and further real term reductions announced in the November 2015 Spending Review.

Rather than taking the approach of managing decline, councils have innovated, collaborated and prioritised in order to protect vital services.

Innovation is as important in fighting fraud as any area of council activity to keep ahead of fraudsters and prevent resources being taken away from delivering services to those who need them.

The transfer of welfare benefits fraud investigation staff to the DWP's Single Fraud Investigation Service means that councils need to reconsider how they counter other areas of fraud. The new Fighting Fraud and Corruption Locally Strategy is timely and should be of great help to councils in developing new approaches.

There are many examples of success but it is worth focussing on the Audit Commission's annual report in October 2014 that reported a 400% increase in right to buy fraud in London; a fact which we in Haringey anticipated over two years ago when the maximum discount available to purchase a home under the right to buy scheme was increased to £100k.

Our Fraud Team in Haringey has been working pro-actively with services across the council since 2013 to investigate potential right to buy fraud. Joining up housing, benefits and fraud teams effectively has meant that we have prevented over 120 cases of right to buy fraud, saving £12m in discounts and retaining the property for use as much needed social housing.

Where we have identified tenancy and benefit fraud alongside the right to buy fraud, we recover the property to help provide homes for those people and families in most need; and we are prosecuting the most serious cases. Secondly, our Benefits Team has been working to make it more difficult for fraud and error to occur in the first place.

Claimants are now asked to periodically resubmit current evidence of their circumstances, especially

their income, and long running claims are now reviewed in depth more often, particularly in high risk areas – those where circumstances might be expected to have changed.

We are also making it easier for claimants to tell us of changes in circumstances and reminding them that they need to tell us, and we are looking at sharing data with other agencies. Every pound siphoned off by a fraudster is a pound that cannot be spent on services where they are needed. Councils need to be vigilant.

Councils do have a good record in countering fraud and the strategy contains numerous case studies and examples of successes. Councils also have an excellent record in collaboration with the LGA's improvement team recording more than 350 successful examples of councils working together to save money and improve services, and collaboration to counter and prevent fraud is a theme running through the strategy.

I am happy to endorse this strategy on behalf of the LGA and welcome it as an opportunity for councils to review and further improve their counter fraud work.



Claire Kober

Chair Resources Portfolio Local Government Association and Leader Haringey Borough Council

Foreword by Marcus Jones MP

Fraudsters cost the local tax payer many millions of pounds each year. Indeed the estimated loss of £2.1bn quoted in this Strategy is felt to be an underestimate of the total cost to local government.

This is of concern as much to central government as it is to councils. The Strategy rightly places an emphasis on council leaders, chief executives and finance directors to provide the local leadership to take action to protect the public purse.

At a time when every penny should be invested in delivering high quality services to local people, tackling fraud head on should be a priority.

The recent figures from the Office of National Statistics show that an increasing amount of fraud is being reported to the police, Cifas and Financial Fraud Action UK.

The risks are clear, councils must ensure they are active in looking for and identifying fraud and embedding a counter fraud culture at the heart of their organisation.

Currently there is a disparity of effort in tackling this kind of criminal activity across the sector, this is a concern. Some invest in dedicated counter fraud activity and some do not, and the Strategy is right to point out that councils should take an 'invest to save' approach.

I know this is not easy, there have been some successes but more councils need to go further. The Government has helped councils, and last year provided an injection of £16m through the Counter Fraud Fund to support a wide range of council led projects across the country.

The challenge is now for local government to build on this investment, share the learning, and raise the bar. A clear message needs to be sent to fraudsters that councils won't put up with fraud of any sort. As the Strategy says – it is about having robust systems in place to prevent fraud occurring in the first place.

To look in the right areas, by taking a risk based approach to identify fraud, and where fraud is found to publicise it widely and use it as deterrent. And councils will be judged by their residents on their results.

I fully believe the onus lies rightly at the top of the organisation to set the tone and culture that councils are serious and won't tolerate fraud, that all parts of the organisation have a job to build fraud resilience into their systems, to actively look for, and where they find it prosecute fraudsters.

I hope and expect this strategy to be the spring board for councils to go further than before.



Marcus Jones MP

Parliamentary Under Secretary of State
(Minister for Local Government)

Executive Summary

Fighting Fraud and Corruption Locally is the new counter fraud and corruption strategy for local government. It provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities. By using this strategy local authorities will develop and maintain a culture in which fraud and corruption are understood to be unacceptable, understand their fraud risk and prevent fraud more effectively, use technology to improve their response, share information and resources more effectively to prevent and detect fraud loss, bring fraudsters account more quickly and efficiently, and improve the recovery of losses.

This strategy is aimed at council leaders, chief executives, finance directors, and all those charged with governance in local authorities. It is produced as part of the Fighting Fraud and Corruption Locally initiative, a partnership between local authorities and key stakeholders, and succeeds the previous strategy, written in 2011.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. Every £1 that a local authority loses to fraud is £1 that it cannot spend on supporting the community. Fraud and corruption are a drain on local authority resources and can lead to reputational damage.

Fraudsters are constantly revising and sharpening their techniques and local authorities need to do the same. There is a clear need for a tougher stance. This includes tackling cross boundary and organised fraud and corruption attempts, as well as addressing new risks.

In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

This will offer opportunities to support the National Crime Agency in the fight against organised crime and work with the CIPFA Counter Fraud Centre, which has agreed to take on the hosting of Fighting Fraud and Corruption Locally, and other leaders in this field. Local authorities reported that they were still encountering barriers to tackling fraud effectively, including incentives, information sharing and powers.

The strategy also addresses the issue of new anti-corruption measures for local authorities and integrates the relevant elements of the government's Anti-Corruption Plan.

In response to these challenges, local authorities will need to continue to follow the principles developed in Fighting Fraud Locally 2011 (FFL):

- **Acknowledge:** acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.
- **Prevent:** preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.
- **Pursue:** punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.

Local authorities have achieved success by following this approach; however, they now need to respond to an increased threat.

This strategy sets out ways in which local authorities can further develop and enhance their counter fraud response by ensuring that it is comprehensive and effective and by focusing on the key changes that will make the most difference.

Local authorities can ensure that their counter fraud response is comprehensive and effective by considering their performance against each of the six themes that emerged from the research:

- Culture
- Capability
- Capacity
- Competence
- Communication
- Collaboration

“At a time when resources are becoming ever more scarce, all of us involved in delivering local public services are looking at ways of doing more with less. Acknowledging the risk of fraud and committing resources to tackle it, taking steps to prevent fraud and pursuing offenders must be part of the answer. What we have learnt as a consequence of our continuing work is that success in this field depends not just on what you do but how you do it. Having an embedded anti-fraud approach across an organisation is critical to success and by focusing this strategy on the cross cutting themes of culture, capability, capacity, competence, communication, and collaboration will in my view help ensure that an anti-fraud approach becomes integral to the way we work.

Charlie Adan

Chief Executive Babergh and Mid Suffolk



The Companion to this document contains a section on each of these themes, with information on fraud risks, good practice and case studies to assist local authorities in strengthening their response and ensuring that it is fit for purpose.

This strategy also identifies the areas of focus that will make the most difference to local authorities' counter fraud efforts. These are:

- Leadership
- Assessing and understanding the scope of fraud and corruption risks
- Making the business case
- Using resources more effectively
- Collaborating to improve
- Using technology to tackle fraud
- Tackling corruption

Many local authorities have demonstrated that they can tackle fraud innovatively and can collaborate effectively to meet the challenges. Indeed, many have identified that a reduction in fraud can be a source of sizeable savings.

For example:

- Birmingham City Council, working with other agencies, secured a confiscation order against 2 organised fraudsters of £380,000
- The London Borough of Lewisham, working with Lewisham Homes, recouped £74,000 from one internal fraudster
- The Royal Borough of Kensington and Chelsea, by using data matching techniques to prevent fraud, made savings of £376,000 in the first year, and £250,000 for the following two years.

This strategy has been designed for local authorities by local authorities and other stakeholders. It provides a firm and practical basis to help them to take the next steps in the continuing fight against fraud and corruption.

The strategy:

- Calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
- Illustrates the financial benefits that can accrue from fighting fraud more effectively
- Calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
- Updates and builds upon *Fighting Fraud Locally 2011* in the light of developments such as *The Serious and Organised Crime Strategy* and the first *UK Anti-Corruption Plan*
- Sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

It is now for elected members, chief executives, finance directors, and all those charged with governance to ensure this strategy is adopted and implemented in their local authorities.

Introduction

This strategy document is aimed primarily at elected members, chief executives, finance directors, and those charged with governance in local authorities. A companion document aimed at counter fraud practitioners in local authorities has been produced, which lays out detailed actions for them. The strategy sets out the approach local authorities should take and the main areas of focus over the next three years in order to transform counter fraud and corruption performance, and contains major recommendations for local authorities and other stakeholders.

The strategy is based upon research carried out by the CIPFA Counter Fraud Centre.

This consisted of:

- Workshops conducted in York, Birmingham and London with over 90 attendees
- Twelve individual interviews with key stakeholders from the counter fraud landscape including local authority representative groups, the National Anti-Fraud Network, the Home Office and the Audit Commission
- Specific focussed interviews with subject matter experts
- Three regional workshops attended by around 70 practitioners focussed on particular fraud types and barriers
- A workshop focussing on anti-corruption risks
- A survey placed on the website of the Local Authority Investigators Group on fraud risks and barriers
- Desktop research of publications and counter fraud literature, including new legislation. These documents are listed in The Companion.

By following this strategy local government will be better able to protect itself from fraud and corruption and will provide a more effective fraud response.



Our vision is that by 2019:

- There is a culture in which fraud and corruption are unacceptable and everyone plays a part in eradicating them
- By better understanding of risk and using technology local authorities will shut the door to fraudsters who try to access their systems or services
- Local authorities will have invested in sustainable systems to tackle fraud and corruption and will see the results of recovery
- Local authorities will be sharing information more effectively and by using advanced data technology will prevent and detect losses
- Fraudsters will be brought to account quickly and efficiently and losses will be recovered.

Since the first local government counter fraud strategy, *Fighting Fraud Locally*, was published in 2011, local authorities have made significant progress in tackling fraud by acknowledging and understanding the risks they face and by collaborating, making more use of technology and information sharing to prevent fraud.

In addition, local authorities have made good use of legislation to recover assets and to take action against fraudsters. There are many examples in this document and the companion that demonstrate the efforts and achievements of local authorities despite reductions in resources and a changing enforcement landscape.

Local authorities should be commended for their part in the fight against fraud and other agencies should learn from their good practice. However, the scale of losses demonstrate that more needs to be done. The landscape continues to change and local authorities will need to respond within the context of budget reductions. There is a need to do more with less.

This document is divided into three sections:

Section 1: The Fraud Challenge

Sets out the nature and the scale of fraud losses, the changes to the national and public sector fraud landscape that require a response from local authorities, and the key issues raised by stakeholders.

Section 2: The Strategic Response

Describes the response that is required from local authorities to address the challenges it is facing, identifying the activities necessary in order to achieve the strategic vision.

Section 3: Delivery Plan

Sets out the recommendations and the framework for delivery.

The Companion

This additional document is aimed at counter fraud practitioners in local authorities and taken together with this strategy sets out a comprehensive blueprint for counter fraud and corruption activities that will deliver the vision.

It identifies the most pressing and serious fraud risks and sets out ways of tackling them, as well as identifying the key organisations that local authorities should work with and the roles they play.



Birmingham City Council has invested in creating an anti-fraud culture for some years and a number of examples of its good practice are contained within this document.

At Birmingham City Council, we are committed to protecting the public funds that we are entrusted with. In these times of austerity, the minimisation of losses to fraud and corruption is even more important in ensuring that resources are used for their intended purpose of providing essential services to the citizens of Birmingham.

Through our values, policies and procedures, the council has sought to develop an anti-fraud culture and maintain high ethical standards in its administration of public funds. Anyone who commits, or attempts to commit, fraudulent or corrupt acts against the council, will be held to account in a decisive manner.

The work of our Counter Fraud Team in identifying fraud is invaluable in ensuring that our scarce resources are protected. The development of a sophisticated data analysis capability enables the team not only to detect fraud, but helps our frontline services to prevent it as well. This helps to make sure that the council's services are provided to only those in genuine need and that our valuable resources are directed to where they are needed most".

Mark Rogers

Chief Executive, Birmingham City Council

Section 1: The Fraud Challenge

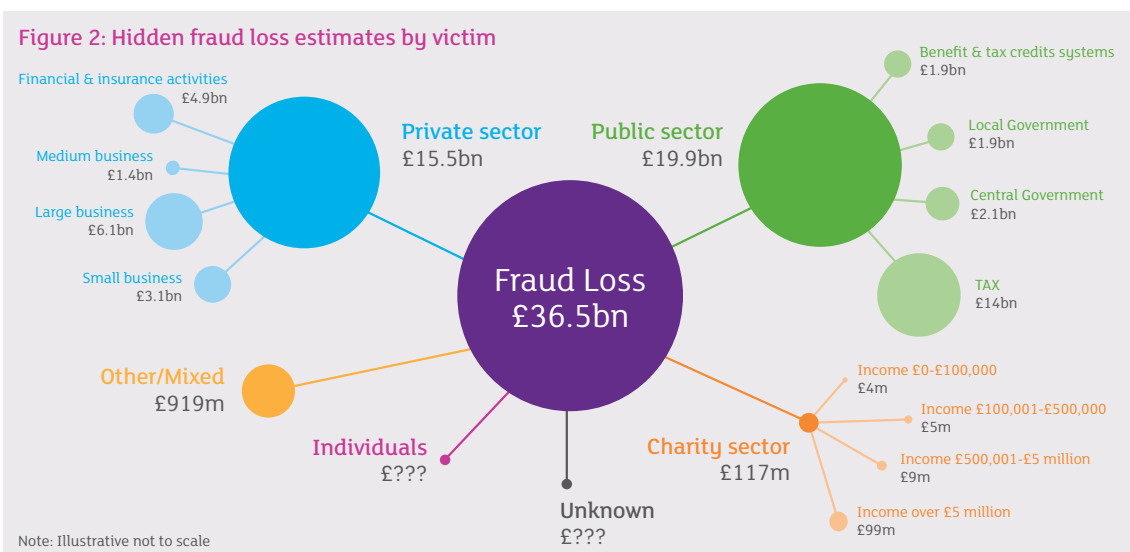
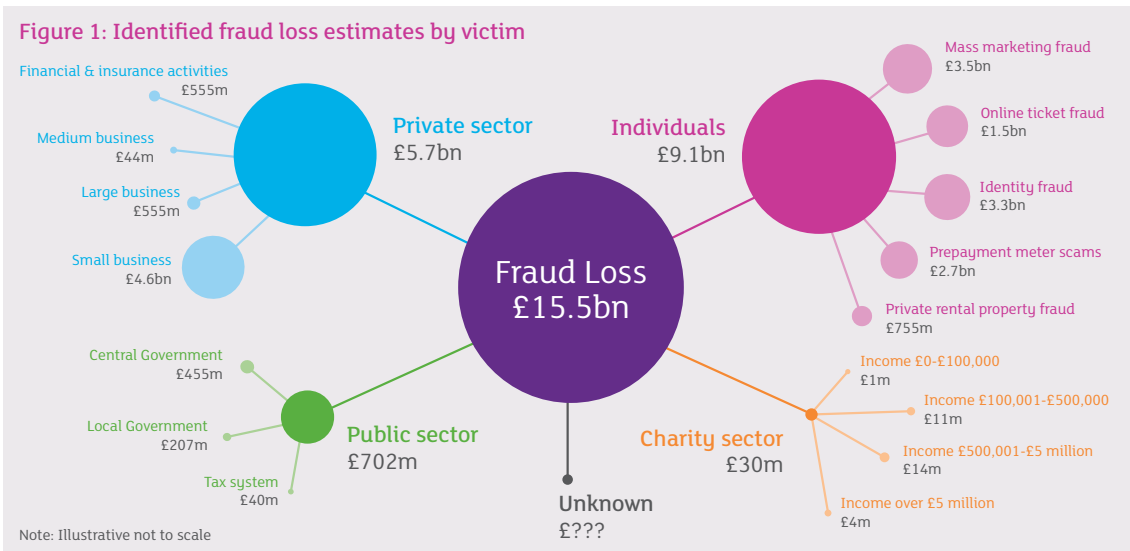
In compiling the evidence that underpins this strategy it became clear that there are three main areas of concern that necessitate a coordinated response from local authorities:

- The scale of fraud losses
- Changes to the national and public sector counter fraud landscape
- Issues raised directly by stakeholders.

The Scale of Fraud Losses

It is accepted that fraud affects the UK across all sectors and causes significant harm. The last, most reliable and comprehensive set of figures was published by the National Fraud Authority in 2013, and indicates that fraud may be costing the UK £52bn a year.

Within these figures the estimated loss to local authorities totalled £2.1bn. The estimated losses for local authorities in 2013 are broken down in the following by identified fraud losses and hidden fraud losses:



Annual Fraud Indicator 2013

Estimated Local Government Fraud Loss 2013

Fraud Type	Estimated Loss	Fraud Type	Estimated Loss
Housing tenancy fraud	£845m	Blue Badge Scheme misuse	£46m
Procurement fraud	£876m	Grant fraud	£35m
Payroll Fraud	£154m	Pension fraud	£7.1m
Council Tax fraud	£133m		

Annual Fraud Indicator 2013

These figures do not take into account the indirect costs of responding to and dealing with fraud and exclude some potentially significant areas of fraud loss.

The Audit Commission's Protecting the Public Purse 2014 identified detected fraud to the value of £188m following a comprehensive survey of local authorities: this was fraud after the event and did not include potential losses.

Local authorities detected 3% fewer cases of fraud than in the previous exercise but the value increased by 6%, which implies larger fraud cases.

It is clear, even allowing for inaccuracies in the measurement of fraud risk and the absence of recent data, that like other sectors of the economy local government is under attack from fraudsters and the scale of losses to local authorities is significant. There are opportunities for local authorities to take action to reduce their losses, and these are discussed in Section 2 of this document.

Changes to the National and Public Sector Counter Fraud Landscape

Since Fighting Fraud Locally was published in 2011, there have been significant changes in the landscape nationally, including areas covering organised fraud and anti-corruption.

The National Response to Serious and Organised Crime

The National Crime Agency was created in October 2013, and in May 2014 published the National Strategic Assessment of Serious and Organised Crime. Organised crime costs the United Kingdom £24bn each year and includes drug trafficking, human trafficking, organised illegal immigration,

high value crimes, counterfeiting, organised acquisitive crime and cybercrime.

Serious and organised criminals operate across police force boundaries and in complex ways, and the police require sophisticated capabilities to detect and disrupt their activity. The Government invested in the development of the Regional Organised Crime Unit (ROCU) network to ensure that forces have access to the capabilities they need to tackle these threats. Regional Organised Crime Units provide high end specialist capability, including regional fraud teams, to local forces tackling the threat from serious and organised crime in their region.

Action Fraud is the national reporting point for fraud and also cyber crime. As of April 2014, both Action Fraud and the NFIB are run by the City of London Police, which is the UK's lead force for fraud. This change was made by the Government to ensure that one body was responsible for the whole process of recording and analysing reports of all types of fraud.

Organised crime affects local authorities as well as other organisations. The Government launched a new Serious and Organised Crime Strategy in October 2013. Its aim is to substantially reduce the level of serious and organised crime affecting the UK and its interests. All frauds, including those committed within the context of local government should be reported to Action Fraud, either by calling: **0300 123 2040** or by visiting: www.actionfraud.police.uk/report_fraud.

The National Crime Agency (NCA) leads work against serious and organised crime, coordinating the law enforcement response, ensuring that action against criminals and organised criminal groups is prioritised according to the threat they present.

Police forces will continue to conduct most law enforcement work on serious and organised crime. They should be supported by local organised crime partnerships boards, including local authorities and

agencies to ensure all available information and powers are used against this threat.

Local government is not immune from organised fraud. Recent years have seen a number of fraud cases where perpetrators have been part of a larger criminal network. Organised frauds often cross local authority boundaries and investigations tend to be complex, requiring the deployment of specialist resources, such as computer forensics or surveillance capability. Such resources are expensive and expertise needs to be used constantly to maintain effectiveness.

Although organised crime may not immediately seem to be a direct threat to local authorities, many organisations have already been subjected to fraud, money laundering, identity crime, intellectual property crime and theft of assets. Local authorities may be targeted by organised crime, whether to obtain council resources or to fund other activities. Local authorities need to consider how they can protect their employees, communities, businesses and themselves from the threat of organised crime.

Anti-Corruption

On 18 December 2014 the Home Office published the first UK Anti-Corruption Plan. The aim of the plan is to bring about a co-ordinated and collaborative approach, setting out clear actions and priorities. The plan covers both UK and international activities, and includes local government.

“

Most public officials have probably never been offered a bribe and would feel pretty confident that they could spot the offer. If they don't necessarily think of themselves as totally incorruptible, they often think they can avoid getting entangled in situations where their conduct may be called into question.

However, thinking you don't need help or guidance in knowing what is legal or illegal, or even what is right or wrong, in every circumstance is a risk – a risk that could and should be avoided by getting the most of what help and guidance is available.”

Prof Alan Doig – Visiting Professor,
Centre for Public Services Management,
Liverpool Business School, Liverpool John Moores University

The response to corruption follows the UK's four components of the Serious and Organised Crime Strategy:

- **Pursue:** prosecuting and disrupting people engaged in serious and organised criminality
- **Prevent:** preventing people from engaging in serious and organised crime
- **Protect:** increasing protection against serious and organised crime
- **Prepare:** reducing the impact of this criminality where it takes place.

The plan sets out the immediate priorities for the government, which are to build a better picture of the threat from corruption, increase protection and strengthen the law enforcement response.

Local authorities are included in a number of areas within the plan as well as within a specific section. There are areas to which they should pay close attention and ensure that they have suitable arrangements in place and that they are up to date on current arrangements. It will require a change in culture and competence.

Local government is targeted by those who wish to corrupt local processes, such as housing or planning, for their own gain; and organised crime groups are known to target local officials to consolidate their status in communities.

UK Anti-Corruption Plan, December 2014

The NCA's Economic Crime Command also has a responsibility in respect of anti-bribery and anti-corruption. It is working with the CIPFA Counter Fraud Centre to raise awareness in this area and recommends a policy of zero tolerance to bribery and corruption, which should be endorsed by the chief executive, sound whistleblowing procedures and awareness training. The NCA also recommends reflecting the commitment in all relevant policies.

The Public Sector Fraud Response

The Cabinet Office published Tackling Fraud and Error in Government: a Report of the Fraud, Error and Debt Taskforce in 2012. That report set out an ambitious but focused delivery programme that sought to reduce levels of fraud and error across government.

In his foreword, The Rt. Hon. Francis Maude wrote: “We must continue to work together to support the national fraud strategy Fighting Fraud Together, and demonstrate the significant financial benefits that can be made in reducing the harm of fraud and error in the public sector.”

The Fraud, Error and Debt Taskforce was established under the 2010 to 2015 Conservative and Liberal Democrat coalition government, and was the strategic decision-making body for all fraud and error, debt and grant efficiency initiatives across government.

It met 6 times a year and included ministers, senior officials from relevant government departments, and experts from the private sector and the wider public sector. As a result of its work, this government is putting in place a fraud, error, debt and grants function and is reviewing associated groups.

As a result of the Taskforce’s work, central government is driving ahead with a broad agenda of activity on fraud, error, debt and grants. This include the roll out of the Debt Market Integrator, a new way of collecting public sector debt and developing capability across central government in countering fraud through the development of government standards for counter fraud work. It also includes projects to enhance the use of data analytics across government and increasing the efficiency and effectiveness of government grant

The National Fraud Initiative (NFI), an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud, is now under the control of the Cabinet Office. The NFI team continues to carry out data matching work with local authorities.

Fighting Fraud Locally 2011

Fighting Fraud Locally, published in 2011, was the first counter fraud strategy for local authorities. It set out the challenges facing local authorities and the response required, noting the good work already carried out and proposing action to overcome the barriers to further progress.

The initiative was supported and hosted by the National Fraud Authority (NFA), which led engagement with local authorities through an independent board on which stakeholders such as the Local Government Association, the Department

for Communities and Local Government, and counter fraud experts working in local authorities were represented.

As a result of Fighting Fraud Locally, local authorities and central government undertook many activities. The DCLG set up working groups to look at the areas raised by local government as barriers. Local authorities took part in around 34 pilots set by the NFA, an annual conference was set up, and an awards regime was established which eventually grew to include the whole public sector.

The NFA undertook an extensive engagement campaign with a national roadshow and events to publicise the work and garner support. It engaged CIPFA to provide a survey on FFL actions which began in 2012, and commissioned free tools and guides under the banner of FFL.

Following the abolition of the NFA in March 2014, most of its work was transferred into the National Crime Agency. Overseeing the delivery of the action plan associated with Fighting Fraud Locally remained the responsibility of the independent board. In October 2014, the Chartered Institute of Public Finance and Accountancy (CIPFA), which was already providing pro bono support by hosting the Fighting Fraud Locally web pages and providing several guides and tools, was asked by the independent board to take over the secretariat and begin research for the next iteration of the strategy.

The CIPFA Counter Fraud Centre now hosts Fighting Fraud and Corruption Locally, manages the secretariat and holds the Fighting Fraud and Corruption Locally Good Practice Bank.

Police Resources

Local authorities collaborate with the Police where appropriate. The law enforcement response to fraud is led by the City of London Police, which is the national lead force for fraud. The City of London Police runs Action Fraud, the national reporting service for fraud and cyber-crime.

It is not only local authorities that are affected by changes in the landscape and a reduction in resources due to the need to curb public expenditure: other enforcement agencies are also facing reductions. It is the view of local authorities that police will have reduced resources to support local authorities on tackling local authority led fraud.

Local authorities will therefore need to consider how they can achieve the results necessary by reconfiguring their approach to enforcement

Whistle-blowing Arrangements

The best fraud fighters are the staff and clients of local authorities. To ensure that they are supported to do the right thing a comprehensive, management-led, anti-fraud and corruption culture needs to be maintained, including clear whistle-blowing arrangements.

These arrangements should ensure that staff and the public have access to a fraud and corruption whistle-blowing helpline, and should be kept under review.

The terms should conform to the British Standards Institute 2008 Whistle-blowing Arrangements Code of Practice as updated within the Code of Practice published in 2013 by the Whistle-blowing Commission set up by Public Concern at Work.

The Department for Business, Innovation and Skills, also recently published Whistle-blowing Guidance and a Code of Practice (March 2015) this helps employer's understand the law relating to whistle-blowing and provides practical advice for putting in place a robust whistle-blowing policy .

The NAO is available as a prescribed body to take calls from whistle-blowers and the NAO has good practice on its website.

“

Whistleblowing arrangements help to provide employees of public bodies, and users of public services with confidence that wrongdoing or the misuse of public funds can be investigated by an independent and impartial party. This is all the more important where services are subject to considerable change and innovative ways of delivering those services are adopted.

The Head of the National Audit Office is a prescribed person for central government, and from 1 April will also be a prescribed person for local government – we take our responsibilities to provide an impartial and objective service extremely seriously, and draw on the lessons learned from our wider work, to support those who make reports to us.”

Sue Higgins

Executive Leader, National Audit Office

The Transparency Code

DCLG published The Transparency Code on 31 October 2014. The aim is to strengthen transparency within local government. It also affords the opportunity for residents to see how money is spent. The section in respect of local authorities is also referred to in the UK Anti-Corruption Plan as an aid to making anti-corruption issues more transparent.

The Code sets out requirements for local authorities to report on their counter fraud work:

The Code legally requires local authorities to publish annually details of their counter fraud work, including information about the number of occasions they use powers to obtain information from specified bodies to help investigate cases of fraud, the number of staff investigating fraud cases and the number of fraud cases they have investigated.

Specifically, local authorities must publish the following information about their counter fraud work:

- number of occasions they use powers under The Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers
- total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud
- total number (absolute and full time equivalent) of professionally accredited counter fraud specialists
- total amount spent by the authority on the investigation and prosecution of fraud, and
- total number of fraud cases investigated.

The Code also recommends that local authorities publish details about the number of cases where fraud and irregularity has been identified and the monetary value for both categories that has been detected and recovered.

The above is an extract from the UK Anti Corruption Plan

Issues Raised Directly By Stakeholders

In addition to considering relevant policy and academic research, the foundations for this strategy were researched through a series of workshops, surveys, and face to face individual meetings.

There were many instances of good practice, collaborative working and examples of innovative use of data provided by participants.

Local authorities reported issues in the following areas:

Counter Fraud Capacity

Many local authority practitioners reported that the capacity to tackle fraud and corruption was likely to be reduced, or had already been reduced, as a result of austerity-related local authority funding reductions.

In many cases practitioners also reported that the skilled investigation resource transferred to the Department for Work and Pensions Single Fraud Investigation Service (SFIS) had not been replaced, and some stated that after the SFIS transfer their authority would have no fraud team.

Skills

Local authorities reported that their staff did not always have the skills or training to tackle fraud and corruption. Some local authorities stated that they would recruit new staff or transfer staff into fraud-related work post SFIS, but raised the concern that they did not have budgets to train their staff to tackle new areas.

Culture

Some local authority practitioners reported that senior managers were finding it difficult to dedicate sufficient time to demonstrate their support for counter fraud activities due to the focus being on other priorities such as meeting budget savings targets and maintaining key services to residents.

This was considered to have a negative effect upon performance, and was associated with counter fraud work having a low profile and the benefits of counter fraud work not being fully appreciated.

Collaboration

Local authority practitioners demonstrated an appetite for working more formally across local authority boundaries and with other agencies, departments, and the private sector; but reported a range of difficulties in securing progress.

Some examples of this were: counter fraud work not being consistently prioritised; lack of financial incentives to make the business case; a lack of understanding of data protection rules; and lack of funding.

They also reported an appetite for innovative use of data and wider data sharing, but had encountered barriers to this or made very slow progress.

Local authorities further reported that they found it hard to obtain police involvement in their cases and that they did not receive feedback on cases from crime reporting hotlines.

“In times of austerity, collaboration is key. It is of increasing importance to consolidate the approach to fighting fraud and corruption across public services to better inform strategies and to gain a more comprehensive picture of the fraud landscape. We have created CIPFA’s Counter Fraud Centre to lead on creating a coordinated approach, as well as offering thought leadership and to fill the gaps led by others.”

Fraud is a pointless drain on resources emphasised by the need for local authorities to save every penny, but we are committed to helping authorities work together to tackle fraudulent activity, protecting the public pound.

Rob Whiteman, CEO CIPFA

Types of Fraud

Local authorities reported a wide range of fraud types. The main areas of fraud that were reported in Fighting Fraud Locally 2011 continue to feature as significant risks. However, there are also new fraud types emerging and some of these are more prevalent in particular parts of the country. It is clear that a one size fits all approach is not appropriate: local authorities will need to tailor their approach to their particular fraud risks.

Known Fraud Risks Remaining Significant

Tenancy – Fraudulent applications for housing or successions of tenancy, and subletting of the property.

Procurement – Tendering issues, split contracts, double invoicing.

Payroll – False employees, overtime claims, expenses.

Council tax – Discounts and exemptions, council tax support.

Blue Badge – Use of counterfeit/altered badges, use when disabled person is not in the vehicle, use of a deceased person's Blue Badge, badges issued to institutions being misused by employees.

Grants – Work not carried out, funds diverted, ineligibility not declared.

Pensions – Deceased pensioner, overpayments, entitlement overstated.

Schools – Procurement fraud, payroll fraud, internal fraud.

Personal budgets – Overstatement of needs through false declaration, multiple claims across authorities, third party abuse, posthumous continuation of claim.

Internal fraud – Diverting council monies to a personal account; accepting bribes; stealing cash; misallocating social housing for personal gain; working elsewhere while claiming to be off sick; false overtime claims; selling council property for personal gain; wrongfully claiming benefit while working.

Identity fraud – False identity / fictitious persons applying for services / payments.

Emerging / Increasing Fraud Risks

Business rates – Fraudulent applications for exemptions and reliefs, unlisted properties.

Right to buy – Fraudulent applications under the right to buy/acquire.

Money laundering – Exposure to suspect transactions.

Insurance Fraud – False claims including slips and trips.

Disabled Facility Grants – Fraudulent applications for adaptations to homes aimed at the disabled.

Concessionary travel schemes – Use of concession by ineligible person, including Freedom Passes.

No recourse to public funds – Fraudulent claim of eligibility.

New Responsibilities – Areas that have transferred to local authority responsibility e.g. Public Health grants, contracts.

Commissioning of services – Including joint commissioning, third sector partnerships – conflicts of interest, collusion.

Local Enterprise Partnerships – Voluntary partnerships between local authorities and businesses. Procurement fraud, grant fraud.

Immigration – Including sham marriages. False entitlement to services and payments.

Cyber dependent crime and cyber enabled fraud – Enables a range of fraud types resulting in diversion of funds, creation of false applications for services and payments.

Though uncommon, incidents of electoral fraud in the UK undermine wider public confidence in the electoral process and trust in the outcome of elections. Fraudulent electoral registration may also be linked to other types of financial or benefit fraud.

Electoral Registration Officers (EROs) and Returning Officers (ROs) are uniquely placed to identify incidents and patterns of activity that might indicate electoral fraud. In line with Electoral Commission guidance they should ensure mechanisms are in place to assess the risks and monitor indicators of possible electoral fraud.

It is essential that local authorities work in partnership with the police on any issues around registration and the planning for elections and share information relevant to identifying and preventing electoral fraud.

The ERO/RO should be in touch with the relevant police force's Single Point of Contact (SPOC) for electoral matters and agree the division of responsibilities and the approach for the ERO/RO to refer allegations of electoral fraud to the police where appropriate.

The police are responsible for investigating allegations of electoral fraud and should keep the ERO/RO informed of the progress of cases.

The Electoral Commission has identified 17 local authority areas in the UK which have a higher risk of allegations of electoral fraud, where it recommended a sustained approach to tackle the risks. It is essential that the EROs and ROs for those areas maintain their focus on electoral fraud prevention.

The Government is completing the roll-out of individual electoral registration across Great Britain, which will help reduce the scope for fraud.

The individual nature of the new registration system, in combination with increased assurance of the identity of applicants, means that the register now has greater value as a tool for local authorities and the police to aid in the prevention and detection of crime, including other forms of fraud.

Powers

In *Fighting Fraud Locally 2011*, local authorities reported that they did not have sufficient powers to tackle non benefit fraud and cited examples of this across their counter fraud activities. In the area of social housing fraud, the Department for Communities and Local Government dedicated resource to improving this situation and, in October 2013, The Prevention of Social Housing Fraud Act was introduced which enabled local authorities to acquire information by using new powers.

However, local authorities are still reporting that they do not have sufficient powers to tackle non benefit fraud. For example, local authorities reported having difficulty obtaining evidence from suppliers in procurement fraud investigations.

Further action is required to ensure that local authorities are able to deal with fraud effectively in all areas of their business.

Good Practice Case study – Manchester City Council

Manchester was awarded DCLG tenancy fraud funding to work in partnership with Registered Social Landlords in the area including:

- Review their tenancy fraud processes and procedures
- Produce a tenancy fraud publicity toolkit containing template leaflets and posters
- Develop capacity through delivery of training packages to enable partners to: identify tenancy fraud; gather evidence in compliance with CPIA 1996;
- Provide PACE awareness training enabling social housing staff to work alongside the council counter fraud specialists.

Kate Sullivan, Tenancy Enforcement and Support Manager at Adactus Housing said:

“The Fraud Investigations team has assisted Adactus with complex investigations and has worked with us to create the environment of a true partnership. The investigations they have carried out have been in cases where, prior to the project, we had drawn a blank and had been unable to gather meaningful evidence to proceed with a case.

The team has welcomed an Adactus member of staff to shadow its officers, which has been a valuable learning opportunity for my team member and given an understanding on both sides of the constraints both teams face.”

Barriers to Information Sharing

In *Fighting Fraud Locally 2011*, local authorities expressed frustration that they had difficulty obtaining information from government agencies and departments as well as from internal colleagues. They also provided examples of instances where they were not permitted to share data, even to tackle fraud.

A number of local authorities that subsequently set up hubs to collaborate and share information in line with recommendations in *Fighting Fraud Locally 2011* experienced difficulties over exchanging data and, even where they did not have difficulty,

processes were lengthy. Without exception, at every workshop during research, this issue was raised; across different types of fraud and across different agencies.

Incentives

During the development of Fighting Fraud Locally 2011, DCLG took on board issues raised about housing tenancy fraud and an incentive fund was created. Two tranches of funding were made available in 2009 and 2011 and the last tranche in 2015. This funding has enabled local authorities to set up bespoke counter fraud teams and to undertake data matching and other innovative measures.

Local authorities report that once this stream of funding expires, however, they will not be able to sustain activity in this area. The reason for this is that stopping a housing tenancy fraud rarely provides a cashable saving (tenants sub-letting their property are almost always very good rent payers) and it is difficult to identify sufficient financial benefit to support the business case to undertake counter fraud activity.

In December 2014, DCLG made available a one-off Counter Fraud Fund of £16m to support local authorities in tackling fraud in the period during which the SFIS is due to be implemented.

“

Councils need central government to set in place the right legal and financial frameworks so that they can tackle fraud and corruption effectively. This strategy offers the opportunity for central government to work with councils in protecting the public purse by providing appropriate powers, removing barriers to information sharing across government, and by providing the right financial incentives for councils to tackle fraud and removing disincentives. Councils should not be expected to fight fraud with one hand tied behind their back.”

Ian O'Donnell

Executive Director of Corporate Resources,
London Borough of Ealing

This fund received bids totalling around £36m, which included innovative ideas and proposed joint working across local authorities, central government and with private sector providers.

Many of the outcomes of this work will be seen during the period of this strategy. The interest and appetite for this initiative on the part of local authorities has not only resulted in many good proposals and mechanisms being put forward, but signals their strong commitment and goodwill to continue to tackle fraud.

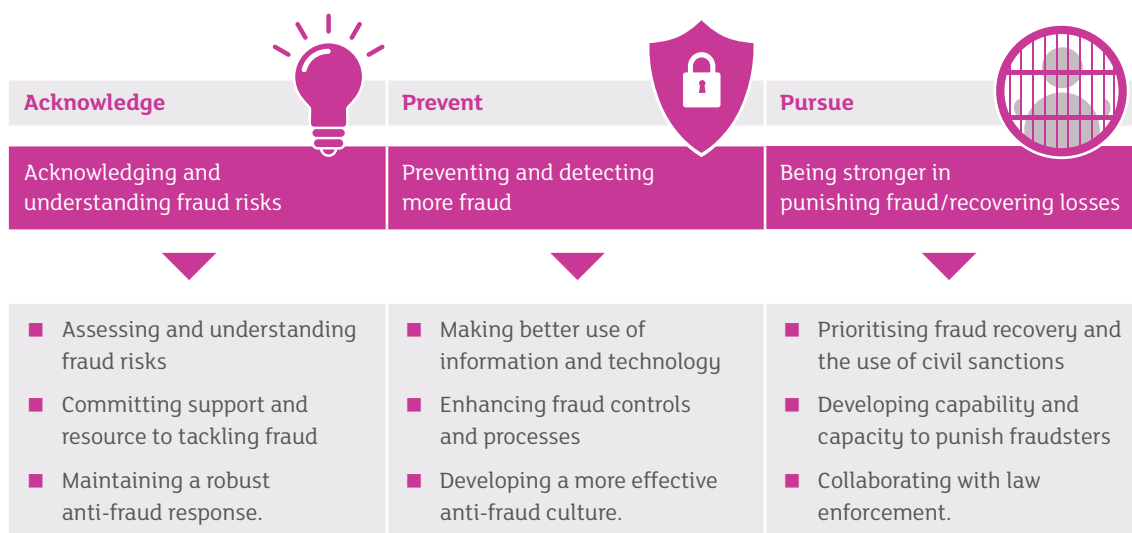
Local authorities are still reporting that, apart from these one-off funds, it remains difficult to access funding to tackle fraud. The business case is often not clear cut, which makes it difficult for local authorities to fund initiatives on an invest-to-save basis, and in some instances the business case is frustrated by existing local government funding mechanisms.



Section 2: The Strategic Response

The principles of the strategic response to fighting fraud in local authorities remain unchanged from Fighting Fraud Locally 2011. These are set out in the first section below.

The Principles - Acknowledge, Prevent and Pursue



Fighting Fraud Locally official NFA Board Slides

The changing context in which local government services are delivered, the increasing risk of fraud by motivated offenders, reduced local authority resources and associated changes to existing local control frameworks together create a pressing need for a new approach to tackling fraud perpetrated against local government.

Fighting Fraud and Corruption Locally recognises these challenges and the need for a cost effective way to reduce fraud. This strategy calls for a greater emphasis on prevention and the recovery of stolen money and highlights the need to create new arrangements to ensure that local authorities retain a resilient response to fraud based on the sharing of services and specialist resources.

Strong leadership will be required in order to achieve this, with greater use of technology and a stronger emphasis on collaboration. The starting point of the strategic response is to acknowledge the threat of fraud and the opportunities for protecting the public purse that exist. This acknowledgement must start at the top and lead to action.

While this document outlines the main areas of fraud risk across local government, each authority's risk profile will be different.

This strategy recommends that the starting point for each local authority is to perform its own risk assessment and fraud resilience check.

The second element of the strategy focuses on prevention. With investigative and police resources facing budget pressures, a counter fraud and anti-corruption strategy can no longer depend on enforcement activity.

Prevention is often the most efficient way to make savings and so what is called for is a radical realignment of counter fraud resources with greater investment in techniques, technology and approaches that will prevent fraud and corruption.

Stopping fraud and corruption from happening in the first place must be our aim. However, those who keep on trying may still succeed. A robust enforcement response is therefore needed to pursue fraudsters and deter others.

Fraud is an acquisitive crime and the best way to deter offenders is to ensure that they are caught and do not profit from their illegal acts.

This strategy argues for a fundamental shift in culture to emphasise civil recovery and the more rigorous pursuit of losses.

Turning Strategy into Action

The Themes – Six Cs

The Companion to this strategy document sets out more information on how local authorities can ensure that their counter fraud response is comprehensive and effective.

Local authorities should consider their performance against each of the six themes that emerged from the research conducted.

These are:

- **Culture** – creating a culture in which beating fraud and corruption is part of daily business
- **Capability** – ensuring that the range of counter fraud measures deployed is appropriate to the range of fraud risks
- **Capacity** – deploying the right level of resources to deal with the level of fraud risk
- **Competence** – having the right skills and standards
- **Communication** – raising awareness, deterring fraudsters, sharing information, celebrating successes
- **Collaboration** – working together across internal and external boundaries: with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.

The Companion contains a section on each of these, with information on good practice and case studies to assist local authorities in strengthening their response and ensuring that it is fit for purpose.

Fraud knows no boundaries – London Borough of Lewisham

A former housing officer who fraudulently hijacked the tenancy of a dead Lewisham tenant was ordered by the court to pay £74,000 after Lewisham Council was granted a compensation order. At an earlier court hearing, the housing officer had received a 21-month prison sentence while her husband had received a 12-month suspended prison sentence and was ordered to conduct 100 hours of unpaid community work.

Following the death of the original tenant in 2005, the tenancy officer had manipulated the council's records to take control of the property in Catford which she then sublet at a profit. The fraud was uncovered in 2009 after Lewisham Homes, the council's arm's length management organisation (ALMO) conducted a visit to the property as part of a tenancy-checking verification program and found that the original tenant was no longer resident.

Further checks by the council's fraud team revealed that a different person from the tenant was listed as liable for Council Tax at the property.

The housing officer and her husband had also provided false information to secure a tenancy in another borough fraudulently, which they also sublet to another tenant for a higher rent.

It is estimated that the actions of the rogue housing officer resulted in a combined loss of approximately £150,000 to the public purse.

Areas of Focus

There are seven areas where a shift in activity will result in long term, sustainable improvement:

1. Leadership

Showing leadership: elected members, chief executives, finance directors and all those charged with governance should demonstrate explicit commitment to fighting fraud and corruption, and provide the necessary leadership.

Counter fraud practitioners cannot operate effectively unless those at the top in local authorities champion counter fraud and corruption work and visibly promote the message that fraud and corruption will not be tolerated.

Culture: those at the top in local authorities should maintain a robust counter fraud and corruption culture with clear values and standards. Culture fundamentally affects all elements of counter fraud and corruption activity: prevention, detection, deterrence, investigation, sanctions and redress.

A key element is having sound whistle-blowing arrangements; communicating how to report fraud and corruption and creating an environment in which reports can be made without the fear of recrimination.

Collaboration and co-ordination: those at the top in local authorities should actively seek to co-ordinate their efforts in the fight against fraud and corruption. Local authorities should seek to break down barriers to collaboration and sharing with other local authorities, central government and other organisations.

Communication: having a robust communication policy, actively publicising initiatives and celebrating successes is integral to having an effective counter fraud culture as a visible demonstration of commitment and values.

2. Assessing and understanding the scope of fraud and corruption risks

Assessing risks: In order to continue to function effectively in a changing landscape post SFIS implementation, and to take account of the recommendations in the UK Anti-Corruption Plan, local authorities will need to make an assessment of their risks.

This will require an honest appraisal of risks and the resources required to tackle them and whether that can be done locally, with the support of the national agencies, or with neighbouring authorities.

Measuring potential and actual losses: local authorities should measure potential and actual losses on a regular basis in order to understand the scope of the challenge, assess the response required, and measure performance.

The impact of crime is not only financial: losses suffered from fraud can have a direct, adverse impact on those people who are in most need of support, and in some cases the reputational damage caused to a local authority can be serious and lasting.

Horizon scanning: in the fast-changing local authority landscape, local authorities should scan the horizon constantly for emerging risks. The Companion to this document details new and changing fraud areas that local authorities reported in the research for this strategy.

However, it is important that local authorities approach this task individually, as some risks are particular to individual local authorities (e.g. districts and counties face different risks), and some fraud risks differ geographically.

3. Making the business case

Investing in counter fraud activity: local authorities should pursue opportunities to invest in counter fraud and corruption activity in order to generate savings by preventing and recovering losses. Local authorities do not, as a rule explicitly budget for fraud losses (the exception to this is housing benefit, where subsidy losses are budgeted for). However, estimates of local authority losses demonstrate that there is a significant problem, and therefore a significant opportunity for local authorities.

Local authorities should seek to assess their potential losses and measure actual losses in order to make the business case for investing in prevention and detection. In many cases there is an existing business case based upon the experience of other local authorities. For example, the prevention and detection of fraud perpetrated in income areas such as council tax is now widespread and offers higher tax revenue which can be recovered through existing, efficient collection systems.

However, each local authority will need to make its own case as fraud risks will vary significantly depending on location, scope, and scale of activities.

Fighting fraud and corruption is not only a financial issue: fraud and corruption in local authorities are unacceptable crimes that attack funds meant for public services or public assets.

The result is that those in genuine need are deprived of vital services. Fraud and corruption are often linked with other criminal offences such as money laundering and drug dealing. Local authorities have a duty to protect the public purse and ensure that every penny of their funding is spent on providing local services. More often than not, in doing so they are achieving wider benefits for the community.

Preventing losses: local authorities should set in place controls that will prevent fraudsters from accessing services and employment. It is nearly always more cost-effective to prevent fraud than to suffer the losses or investigate after the event.

The technology to establish identity, check documents, and cross-check records is becoming cheaper and more widely used. Controls should apply to potential employees as well as service users – e.g. if someone lies about their employment history to obtain a job they are dishonest and it may not be appropriate to entrust them with public funds, and in any case they may not have the training or qualifications to perform the job to the required standard.

Recovering financial losses: prompt and efficient recovery of losses is an essential component in the fight against fraud and corruption. In some cases local authorities can make use of their own income collection systems to recover losses – e.g. council tax, business rates, and housing benefits. In others, local authorities will need to make use of civil and criminal courts.

The Proceeds of Crime Act 2002 remains a powerful tool for local authorities; however, local authorities should strike the right balance, making the business case for prosecutions but not setting unachievable financial targets. Local authorities should continue to work with the courts to improve the speed of processing and develop case law supporting the successful application of recovery powers.

4. Using resources more effectively

Using the right resources: local authorities should make use of the right number of properly skilled counter fraud and corruption staff, adopt best practice standards, make use of tools and technology, and generate economies of scale through collaboration.

In a changing environment where resources are

limited, where fraud types are constantly changing and where staff may be moving roles, it will be vital to ensure that these resources are kept up to date and that the response remains proportional to the threat.

Professional competence: post SFIS, it will be ever more important to have a common set of standards for those working in counter fraud and for them to have proper training and an understanding of the whole picture within counter fraud.

Fighting Fraud Locally 2011 recommended professionally accredited training. A vital element of any effective counter fraud strategy is the ability of the organisation to call upon competent, professionally accredited counter fraud specialists trained to the highest possible professional standards to investigate suspected fraud.

Local authorities need to be confident that evidence has been lawfully obtained and professionally presented, regardless of whether the anticipated outcome of an investigation is a disciplinary hearing, civil action or criminal proceedings.

5. Collaborating to improve

Sharing resources: in the context of budget reductions and post SFIS many local authorities are faced with reduced counter fraud and corruption resources. Sharing resources and information can help mitigate the risks by ensuring that the response remains proportional and is properly skilled and equipped.

Working together: fraudsters do not respect boundaries of any type – they attack neighbouring local authorities, other agencies and commit other frauds. By working across boundaries local authorities will be better placed to detect the range of fraudulent activity carried out by individuals and gangs.

Local authorities already work with other agencies; the creation of multiple intelligence, data and investigative hubs opens up further opportunities to link up with other local counter fraud agencies – e.g. NHS Local Counter Fraud Specialists.

There are often links between frauds against local authorities and benefit frauds, immigration offences and shadow economy tax evasion, and there are already many examples of good practice and joint working where local authorities work in collaboration

with local police, HMRC, DWP or other agencies. Some local authorities even have police officers seconded and physically located in the authority, while others have access to officers from other enforcement agencies, for example UK Visas and Immigration or Immigration Enforcement and as a result, are more able to detect and investigate fraud.

Local authorities should collaborate with law enforcement partners to understand and mitigate the risks of organised and serious frauds, raise awareness of the tactics used by organised criminals and where possible share fraud data to help prevent future frauds. And where possible share fraud data to help prevent future frauds. Where police investigative support into fraud is required, the fraud must be recorded with Action Fraud.

6. Using technology to tackle fraud

Birmingham City Council Case Study – The value of data

Birmingham City Council makes extensive use of its data warehouse to identify fraud through data matching and data mining. By expanding the data warehouse to hold not only the Council's data, but that of neighbouring authorities and partner organisations, the Council has greatly enhanced its data analysis capability. The facility has now been embedded into frontline housing services to enable users to validate information provided on application forms at the point of receipt.

This provides greater assurance that housing tenancies are being awarded only to those in genuine need and that homes are only sold to those who are genuinely entitled to buy them. Furthermore, it has helped to identify former tenancy arrears of tenants who have been re-housed elsewhere, thereby helping in the collection of those debts.

Data sharing: for many years local authorities have funded and participated in the National Fraud Initiative (NFI); a periodic data matching exercise that identifies potential fraud cases for local authorities to investigate. Local authorities are now pursuing further opportunities to use their data to prevent and detect fraud, taking advantage of

changes in technology and in the appetite of other organisations to collaborate.

These include advanced data analytics, the availability of third party data, and channel shift within local authorities towards online customer contact. Data hubs offer a huge opportunity to work with and inform the wider counter fraud landscape, feeding into the work of the NCA and the Home Office and connecting into the wider architecture of other hubs.

Prevention: local authorities are using new technology to prevent fraud. The availability of relevant data when an application is made for local authority services can prevent fraudsters from obtaining access. Identity can be verified quickly and efficiently.

Technology is being used to check the validity of official documents, such as passports, with the originating government department, and is also being used to generate intelligence alerts, warning local authorities of fraud risks so that a proportional response can be set in place. Local authorities should continue to invest in technology that assists in preventing fraud and corruption.

Sharing good practice: local authorities should make use of good practice to achieve the best results. Within this strategy are examples of a number of local authorities that have begun to do this. The Companion to this strategy contains a checklist for local authorities, a detailed description of fraud types, and examples of good practice with information on where to find more.

As part of Fighting Fraud Locally 2011, the National Fraud Authority undertook research on good practice, legislation and procedure and produced a number of guides. The original research showed the need for a one stop shop for local authorities for good practice, and the guides, which cover recovery, case building and risks, were placed in the CIPFA Good Practice Bank. A number of local authorities have used these documents and they should now be updated where necessary and publicised anew.

The evidence collected for this new strategy shows that the one stop approach has worked and should be continued. A one stop shop for the whole of the public sector is now provided through the CIPFA Counter Fraud Centre website, where the Fighting Fraud and Corruption Locally page can

be accessed free of charge. The London Counter Fraud Partnership has existed since 1998. It is a partnership of all the enforcement agencies involved in tackling fraud in London including local authorities, NHS, Housing Associations and the Metropolitan Police.

This partnership has produced numerous pieces of good practice and fraud prevention documents which are available free within the CIPFA Counter Fraud Centre website. The Metropolitan Police runs a webpage that covers trends in fraud including mandate and vishing/phishing scams and measures to prevent fraud including advice and where to get support. A number of other organisations also offer good practice information which can be accessed by local authorities.

Case Study – Dudley Metropolitan Borough Council Code of Practice

Dudley MBC has Codes of Conduct for employees and members which set out the high standards expected of them. These are also intended to relay certain messages to all suppliers as there is a growing expectation that all service providers in local government should adhere to the same principles of being open and transparent when dealing with colleagues, residents and partners.

In developing their Suppliers' Code of Practice they aimed to reinforce good working practices and to stamp out fraud, bribery, corruption and unacceptable business practices. Staff who buy in goods and services on behalf of the authority and all suppliers are required to work to the guidelines in the Code of Practice. All active suppliers have received an email announcing the launch of the Code and showing where the Code is available on the council website. The Code includes useful contacts if people want to report problems to the council and reinforces the availability of a Fraud Hotline operated by Audit Services. Audit Services also intends to approach key suppliers to obtain feedback and ask for written assurance that they comply with the Code.

Dudley MBC's leaflet Beating Fraud is Everyone's Business, which sets out guidelines for employees, managers and members, is available on the CIPFA website.

7. Tackling Corruption

The UK Anti-Corruption Plan requires a response from local authorities. Areas in the plan that local authorities should pay attention to are:

- Working more closely with the NCA and other law enforcement agencies
- Instituting a public awareness campaign
- Putting in place confidential reporting arrangements for whistleblowers and responding effectively to reports of corruption
- Preparing corruption risk assessments across all areas of business
- Procurement and the European Public Procurement Directives in respect of the exclusion of suppliers.

Areas in the plan that are specific to local authorities are:

- The CIPFA Counter Fraud Centre, which will promote measures and provide tools and services to the public sector in this area. The CIPFA Counter Fraud Centre is offering e-learning on anti-corruption and whistle-blowing and health checks on anti-corruption measures
- Funding which has been made available by DCLG to support local authorities' efforts to tackle fraud
- The Transparency Code
- Working more closely with the Home Office in respect of local partnerships and the way in which these interact
- The research, development and publication of Fighting Fraud and Corruption Locally.

Section 3: Delivery Plan

Recommendations

General recommendations

1. A working group from local authorities should examine and devise a standard and common methodology for measuring fraud and corruption within local authorities. Once it has been agreed, local authorities should use the standard and common measure of estimated levels of fraud and corruption.
2. A working group from local authorities should be established to look at the area of powers, incentives and information barriers to:
 - Examine areas where barriers exist
 - Gather evidence
 - Look at achieving quick wins
 - Place examples of good practice in the Fighting Fraud and Corruption Locally Good Practice Bank.
3. A working group from local authorities should be established to look at the area of fraud and corruption enablers with a view to preventing more fraud and corruption.
4. There should be an annual report for Fighting Fraud and Corruption Locally which will provide more detail of progress and developments in areas like procurement.
5. DCLG should work with local authorities and the CIPFA Counter Fraud Centre (which host Fighting Fraud and Corruption Locally) to acknowledge good practice and should share useful case studies to ensure that there is an appreciation by central government of achievements at local level.
6. DCLG should give consideration to the provision of future incentives to help local authorities to tackle housing fraud.
7. In relation to procurement fraud, a working group should be established, including subject matter experts and relevant interested parties as well as local authority counter fraud staff, to:
 - Investigate and collate good practice in this area and place this in the Fighting Fraud and Corruption Locally Good Practice Bank

- Create a procurement fraud map and define the stages at which procurement fraud can happen in a local authority: highlighting low, medium and high potential risks, to inform risk awareness training for the future. This should include grant fraud where it crosses over.
- Support the implementation of the UK Anti-Corruption Plan by including corruption in procurement in the procurement fraud map
- Work with the London Counter Fraud Partnership to tailor the guidance they have created to the specific needs of local authorities
- Include in the Powers and Penalties Guide a list of powers and potential sanctions relevant to procurement fraud
- Work with the local authorities that are running pilots in order to learn lessons and communicate them to others
- Explore the possibility of cartels and mechanisms to detect them.

Recommendations for local authorities

8. There should be a structured programme on fraud and corruption awareness for elected members and senior managers.
9. Local authorities should undertake up-to-date fraud and corruption awareness programmes and use the free resources developed by local authorities that are available in the Fighting Fraud and Corruption Locally Good Practice Bank.
10. Local authorities should collaborate where it is appropriate to do so and should place examples of useful outcomes in the Fighting Fraud and Corruption Locally Good Practice Bank and use this as a conduit to exchange information with each other.
11. Local authorities should profile their fraud and corruption risks using the section on risks from the Fighting Fraud and Corruption Locally Companion document as a starting point.
12. Local authorities should ensure that they have the right resources in place by having made an assessment of the risks on fraud and corruption which should be reported to the Audit Committee or similar.

-
- 13.** Senior officers within local authorities should ensure that officers working in the counter fraud team should be provided with appropriate accredited training.
- 14.** Senior officers within local authorities should ensure that officers who work in areas where they might encounter fraud and corruption have appropriate training.
- 15.** Local authorities should continue to work together on counter fraud hubs or, should investigate the benefits of joining hubs, and should share information where possible to help each other increase resilience to fraud and corruption and establish best practice.
- 16.** Local authorities should participate in data technology pilots to improve their efforts to detect and prevent fraud and corruption.
- 17.** Local authorities should publicise and celebrate successes. Press stories should be collated on the Fighting Fraud and Corruption Locally Good Practice Bank and, where possible, publicity should be endorsed and promoted by DCLG.
- 18.** Local authorities should make an assessment using the Fighting Fraud and Corruption Locally Companion Checklist, increasing awareness of the UK's Anti-Corruption Plan, make themselves aware of NCA advice, ensure that staff are trained on anti-bribery and corruption, and report this to their Audit Committee together with actions to meet the criteria set out in the Plan.
- 19.** Local authorities should use the free CIPFA Code of Practice on Managing the Risk of Fraud and Corruption to ensure a common standard.
- 20.** Local authorities should make sure that they have in place robust reporting procedures including whistle-blowing and that these include assessment through the BSI or Public Concern at Work and that staff are trained in this area.
- 21.** Local authorities that do not have their own housing stock should consider working with their housing partners, in return for nomination rights, to prevent and detect social housing fraud.
- 22.** Where appropriate local authorities should consider participating in the Tenancy Fraud Forum.

- 23.** Local authorities should work with partners on relevant procurement projects and pilots and disseminate information as appropriate.
- 24.** Local authorities should look at insider fraud and consider using the Internal Fraud Database at CIFAS following the London Borough of Ealing pilot.
- 25.** Local authorities should horizon scan and explore new areas, e.g. cyber and identity issues and explore new methods to detect fraud, e.g. behavioural insights.
- 26.** Local authorities should use the Fighting Fraud and Corruption Locally Companion Checklist to ensure that they have the right counter fraud and anti-corruption measures in place and should report the results of this to their Audit Committee and the External Auditor.

Framework for Delivery

To support the delivery of this strategy appropriate governance arrangements should be set in place to oversee the implementation of recommendations and the maintenance of the Fighting Fraud and Corruption Locally resources for local authorities.

A board will be established to ensure activity takes place and to provide senior stakeholder support.

The day to day management and hosting of the Fighting Fraud and Corruption Locally web page, survey, and secretariat sits with the CIPFA Counter Fraud Centre and is provided on a pro bono basis. This arrangement is working effectively.

Deliverables

The FFCL Board will need to ensure that progress in implementing the recommendations in this strategy is monitored and that an annual report is provided and published setting out what has been achieved and what remains to be done, so that local authorities and other stakeholders have clear visibility of how the strategy has improved outcomes.

Thank you

The Fighting Fraud and Corruption Locally Board is:

- Ian O'Donnell (Chair) – London Borough of Ealing
- Bevis Ingram – LGA
- Andrew Hyatt – Royal Borough of Kensington and Chelsea
- Simon Lane – Former London Borough of Brent
- Mike Clarkson – Mazars
- John Baker – Moore Stephens
- Rachael Tiffen – CIPFA Counter Fraud Centre
- Ben Stoneman – DCLG
- Nick Pellegrini – DCLG

The development of this strategy was overseen by a task and finish group commissioned by the board, whose members were:

- Charlie Adan – Chief Executive, Barbergh and Mid Suffolk District Council
- Ian O'Donnell (Chair) – Executive Director of Corporate Resources, London Borough of Ealing
- Bevis Ingram – Senior Adviser, Finance, LGA
- Ben Stoneman – DCLG
- Nick Pellegrini – DCLG
- Rachael Tiffen – Head of Faculty, CIPFA Counter Fraud Centre and Governance Faculty
- 3 Local Authority representatives
 - John Rosenbloom, former Manchester City Council
 - Stuart Limb, Leicester City Council
 - Kevin Campbell-Scott, Southwark Council
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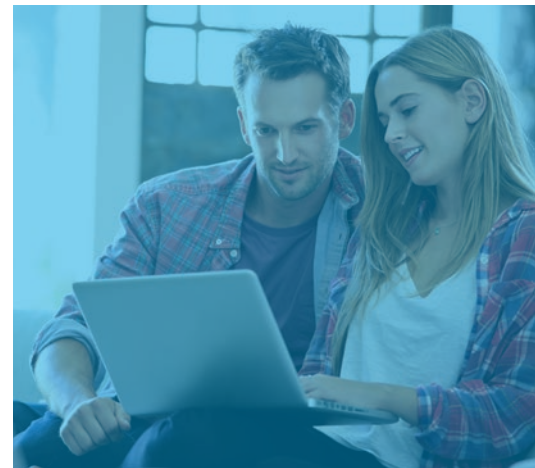
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**

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Annual Fraud Indicator 2016





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Introduction


Experian, PKF Littlejohn and the University of Portsmouth's Centre for Counter Fraud Studies have created a partnership to help consistently gauge, analyse and quantify the true scale of fraud in the UK.

The work is underpinned by a group of cross-sector fraud experts who regularly meet under a broad umbrella known as the United Kingdom Fraud Costs Measurement Committee (UKFCMC). Jim Gee, Head of Forensic and Counter Fraud Services at PKF Littlejohn, chairs the UKFCMC. Nick Mothershaw, Director of Fraud and Identity Solutions for Experian, is its vice-chair. Professor Mark Button, Director of the Centre for Counter Fraud Studies at University of Portsmouth, is the UKFCMC's secretary.

It includes members from the UK's public, private and charitable sectors - but crucially all have a specific expertise in fraud - and it's their discussions, input and supporting research, that have helped make this report possible.

The research team was led by Professor Mark Button and included David Shepherd, Dean Blackburn and Dr Martin Tunley.

The methodology used has been developed in line with the ground-breaking work of the now defunct National Fraud Authority put together to help lay down a benchmark by which year-on-year sector-specific fraud analysis can be made from here on.



“ Unsurprisingly, the results make for sobering reading and highlight the prevalence fraud has on our lives. ”

**Annual UK
fraud losses**
could be

£193 billion

**Private Sector
fraud losses
estimated**
to be

£144 billion
per year

Public Sector fraud estimated at

£37.5 billion
per year

Charities and charitable trusts are believed to be losing up to

£1.9 billion



every year to fraud



Fraud committed directly against individuals is estimated at around

£10 billion

a year

Expert views



No one knows the true cost of fraud in the UK, but it's taking place on an industrial scale and is without question one of the biggest crimes afflicting UK plc today. It is unrelenting and indiscriminate with many organisations estimated to be losing around five per cent of their annual revenue to fraud.

The state infrastructure has a modest impact on fraud and means it's largely down to industry, business and commerce to take steps to protect themselves. Inside, the prevalence, frequency and features of key losses are outlined.

The strengths and weaknesses of different sectors in tackling fraud, error and loss are also highlighted. But it's also clear there are huge variances in the size of losses and the quality of counter fraud strategies across the sectors.

By highlighting Britain's vulnerabilities to fraud, it is hoped our resilience to the crime can be tackled from the grass-roots up.

Professor Mark Button
Director of the Centre for Counter Fraud Studies
University of Portsmouth.

Professor Mark Button is Director of the Centre for Counter Fraud Studies at the Institute of Criminal Justice Studies, University of Portsmouth. He has written extensively on counter fraud and private policing issues, publishing numerous articles, chapters and completing seven books with more in the pipeline.

Some of his most significant research projects include leading the research on behalf of the National Fraud Authority and ACPO on fraud victims, the Department for International Development on fraud measurement, Acromas (AA and Saga) on 'Cash-for-Crash fraud', the Midlands Fraud Forum, law firm Eversheds and forensic accountancy firm PKF, on 'Sanctioning Fraudsters'.

Mark has also acted as a consultant for the United Nations Offices on Drugs and Crime on Civilian Private Security Services and for the United Nations Development Programme on Improving the Civilian Oversight of Security in Turkey.

He currently holds the position of Head of Secretariat of the Counter Fraud Professional Accreditation Board. Before joining the University of Portsmouth he was a Research Assistant to the Rt Hon Bruce George MP, specialising in policing, security and home affairs issues. Mark completed his undergraduate studies at the University of Exeter, his Masters at the University of Warwick and his Doctorate at the London School of Economics.

Unless you know the nature and scale of fraud, how can you implement an effective solution?

On behalf of the UK Fraud Costs Measurement Committee I am pleased to present our 2016 estimate of the cost of fraud to UK Plc. This is important because it is the cost of fraud that undermines the financial health and stability of private companies, that stops public sector organisations providing the quality of public services for which we pay our taxes and which denies charities the full value of the donations which we make.

After many years of research we now know that fraud isn't just a series of low volume, high value incidents which, if you are lucky, you can avoid, and which, if you are not, you react to after losses have been discovered. We now know that it is a mostly high volume, low value phenomenon which is present in any organisation of any size as an ongoing business cost, and which is best pre-empted by raising levels of fraud resilience (a measure of protection against fraud).

The publication of this report makes the true nature and scale of the problem much clearer, something which will develop further with future annual reports, and as measurement of the nature and scale of the problem is undertaken more and more widely. It is obvious that the more you know about a problem, the better you can design an effective solution. In that way, this report makes an important contribution to the success of counter fraud work.

Jim Gee
Partner and Head of Forensic & Counter Fraud Services
PKF Littlejohn LLP



Jim Gee is Partner and Head of Forensic and Counter Fraud Services at PKF Littlejohn. He is also Visiting Professor at the University of Portsmouth and Chair of the Centre for Counter Fraud Studies, Europe's leading centre for research into fraud and related issues.

During more than 25 years as a counter fraud specialist, he has advised Ministers, Parliamentary Select Committees and the Attorney-General, as well as national and multi-national companies and some of the most prominent charities. To date he has worked with clients from 38 countries.

He specialises in helping organisations reduce the cost and incidence of fraud through strengthening the resilience to fraud of relevant processes and systems.

Jim is widely published and recent publications include The Financial Cost of Fraud, a global study published last year and The Resilience to Fraud of UK Plc, a report on how different UK economic sectors protect themselves against fraud, to be repeated this year.

He has also co-authored a book, with Professor Mark Button from the University of Portsmouth, called 'Countering Fraud for Competitive Advantage' which was published globally in 2013. This explains how cutting the cost of fraud can boost profitability. His second book, 'The Handbook for Accredited Counter Fraud Specialists', was published in early 2015.'



The UK fraud picture is punctuated by some mind-boggling numbers, clearly as a result of sustained, organised and deliberate attacks on consumers, commerce, industry and government alike.

We're all at risk and we all share a common responsibility for vigilance because the fraudsters will continue to be inventive, adaptable and willing to exploit any perceived weaknesses in any back-office operation.

The good news is that the figures lay down a benchmark and indicate where the vulnerabilities may lie.

Clearly, increasing effort and investment in seamless digital offerings that can continue to offer the same level of due diligence and consumer protection, with real-time alerts to identify high-risk and fraud activity, will be critical. In the meantime, the growth of the Internet of Things will also make the development of improved fraud prevention systems hugely important.

Unfortunately Fraudsters remain innovative - Consumers need to continue to be vigilant in the protection of their own Identity.

The shift to consumer-centric digital identities, where a consumer re-uses a single, strongly verified digital identity to access many different online services, will help combat ID theft. However, it will also undoubtedly introduce new types of fraud attack that we must be prepared to defend against.

Nick Mothershaw
Director of Fraud and Identity Solutions, Experian.

Nick is responsible for the strategic development of Experian's fraud and identity solutions.

The Identity Solutions portfolio includes electronic ID validation and ID verification through challenge questions or document verification. Experian now offers a full Identity as a Service solution, including ID proofing and strong credential management, and is one of the consumer identity providers within the GOV.UK/Verify scheme. Fraud solutions in the portfolio include Device Fraud (FraudNet) and Application Fraud (Detect and Hunter).

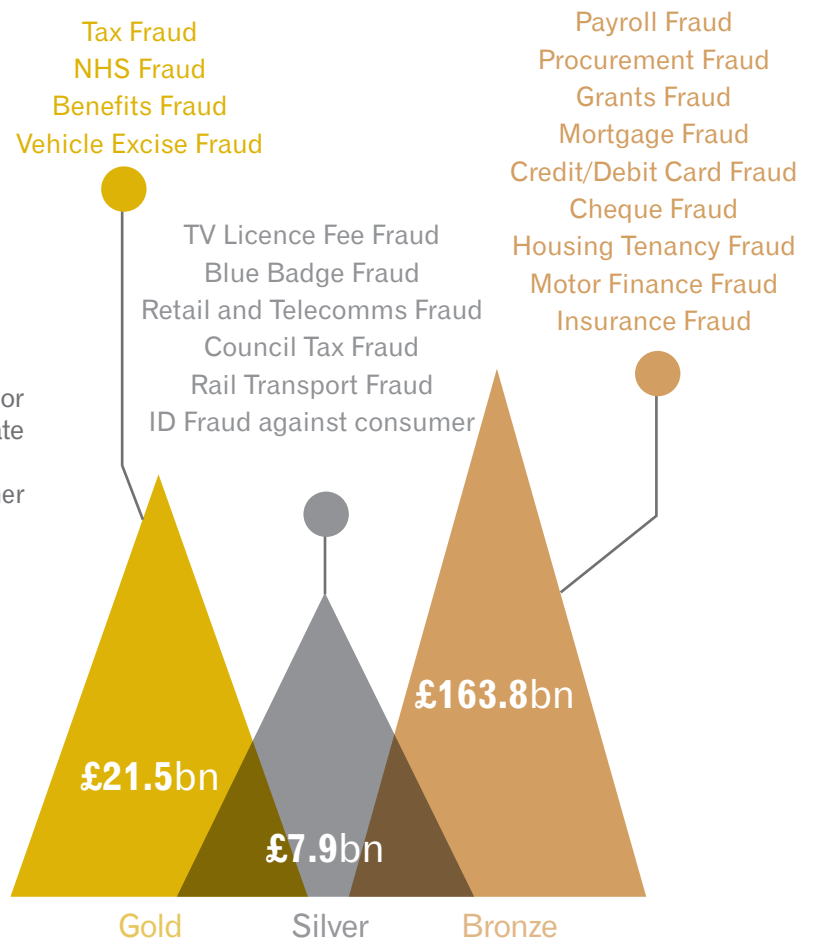
Key to the role is to ensure clients gain maximum value from our solutions by offering highly skilled consultancy services, expert analytics, trend analysis and insight around our fraud products, fitting our solutions to clients' specific needs.

Nick has been with Experian for more than 12 years. Previously, he was a director of a company providing global solutions within the broader criminal justice arena. Here he developed the Scottish Intelligence Database - the only cross-force intelligence sharing and matching solution in the UK.

Nick is also Vice-Chair of the UK chapter of the Open Identity Exchange (OIX), a member organisation whose mission is to define open policies and standards that will allow a marketplace of interoperable Digital Identities to be created in the UK.

Overview and analysis

The report's methodology was overseen and reviewed by an independent panel of fraud experts drawn from a broad cross-section of private and public sectors before being categorised gold, silver or bronze. For each fraud category, the most appropriate estimates were applied - particularly in instances when available data was not as credible as the higher quality and up-to-date gold standard data. A detailed summary can be found in the Appendix.



UK fraud by sector



Classification and confidence

Category	Definition
Gold	Gold standard analysis is met when a statistically valid sample of expenditure / income has been examined, with a clear and legally-anchored concept of fraud applied. Estimates produced offer a 90% minimum level of statistical confidence with an accuracy level of + or - 2.5%, or better. Results have also been independently validated. Also included in the Gold standard were statistically valid assessments of levels of victimisation of individuals, conducted by reputable organisations.
Silver	The Silver standard is met when detected cost levels of fraud have been identified and underpinned by a credible estimate of undetected fraud to offer a credible total fraud cost.
Bronze	The Bronze standard is met when an attempt at identifying the cost of fraud has been made, but there may be limited confidence in its credibility.

Where a confidence category is followed with a # symbol, data has been updated to the most recent costs based on the Bank of England Inflation Calculator.

Private sector fraud

It is estimated private sector fraud could cost the UK economy up to £143.6 billion. But further analysis suggests that may be a conservative figure, given the general sentiment among our biggest businesses against releasing commercially sensitive, or potentially damaging, financial fraud data.

Right now no comprehensive data exists in the public domain in the UK. As a result, the gold standard level of risk may be artificially low and is likely to stay under wraps for the foreseeable future. It's well known that in-depth fraud studies have been commissioned in some sectors but they have rarely been publicised. It's fair to say, private sector fraud estimates are less robust than for the public sector – but many agree the actual picture is gloomier than the one currently being painted – particularly given the scale of potential losses.

The value of private sector expenditure and income generated from sales is huge. During 2014, the private sector – even without including banking and finance – spent nearly £2.7 trillion on procurement (ONS, 2014a), while generating £3.5 trillion in sales (BIS, 2014). By comparison, GDP for the same period was £1.7 trillion (ONS, 2015a). In the past fraud losses have been directly linked to GDP, but it's a blunt measure simply based on a proportion of the value added to the economy - rather than as a proportion of actual expenditure or income.

Financial sector estimates also exclude investment activities, which generate revenue but are not strictly customer facing sales activities. But any related frauds, which are generally perpetrated by employees, can be prone to spectacular losses. There are also no precise estimates for losses to delinquent corporations, rogue governments or state-sponsored cyber crime.

Procurement Fraud

A significant proportion of the costs of fraud in this report have been attributed to procurement fraud. The procurement of goods and services often accounts for a significant slice of an organisation's expenditure and is open to a wide range of potential risks of fraud. This is because there are usually multiple individuals involved in a process who often do not work closely together, i.e. the person who wants something purchased does not always work directly with the people who initiate orders and with those responsible for paying. There are often multiple opportunities for fraud in procurement and some of the most common are listed below:

- Legitimate suppliers adding unauthorised additional cost to an invoice
- Legitimate suppliers colluding with staff to add additional costs to an invoice
- Fraudulent suppliers/staff submitting false invoices for payment
- Fraudulent suppliers/staff diverting legitimate payments to legitimate suppliers to themselves
- Under-provision of goods and services in terms of quality or quantity

Procurement fraud is estimated to be £127 billion – or 4.78% - of the £2.7 trillion of total expenditure

Counting the cost of procurement and payroll fraud

Clearly, procurement expenditure of nearly £2.7 trillion and sales income of £3.5 trillion in the non-financial private sector means that even a low rate of fraud will result in very sizeable losses.

Procurement estimates include expenditure on everything from goods, materials and services, to spending on large-scale capital projects. They also include expenses. But the total value of procurement expenditure data excludes the financial sector and, as a result, its coverage only really relates to around two-thirds of the UK economy (ONS, 2014a).

Total value of payroll expenditure includes income tax, employees' national insurance and employers' national insurance.

It has been calculated by assuming an average salary of £25,012 per year (ONS, 2014d) and - for ease of calculation given the available data – accepted that the 13.8% contribution rate for employers' national insurance is the same for all staff across all business categories. Other forms of business taxation, such as corporation tax, are outside the scope of our analysis.

In order to maintain consistency, a procurement expenditure fraud loss rate of 4.78% and a payroll fraud loss rate of 1.7%, applied elsewhere to public sector expenditure, have been adopted to gauge the losses.

Procurement fraud is estimated to be £127 billion – or 4.78% - of the £2.7 trillion of total expenditure. Total losses from payroll expenditure are estimated to be £12 billion – or 1.7% - from an expenditure of £690 billion. The aggregate loss is nearly £139 billion.

Case Studies

In February 2015 two men were convicted after they had been found to have submitted 90 false invoices to their company amounting to £700,000 for 'system maintenance work' for which no such work was delivered (City of London Police, 2015).

In 2012 three men were convicted for their part in a major bribery case involving the award of contracts from a major supermarket for potatoes. The men had taken bribes to award the contracts and amounted to over £9 million in losses.

Procurement and payroll fraud by company size

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Expenditure (£million)	Fraud (£million)	Fraud %
Small enterprises	36,393	Procurement fraud	Bronze#	UK	2013	643,390	30,776	4.78%
		Payroll fraud	Bronze	UK	2013/14	330,414	5,617	1.70%
Medium enterprises	20,902	Procurement fraud	Bronze#	UK	2013	407,077	19,472	4.78%
		Payroll fraud	Bronze	UK	2013/14	84,080	1,430	1.70%
Large enterprises	81,762	Procurement fraud	Bronze#	UK	2013	1,611,396	77,081	4.78%
		Payroll fraud	Bronze	UK	2013/14	275,373	4,681	1.70%
Total							139,057	

Plugging in to cyber-fraud

During the past 12 months, the UK saw a significant jump in phishing attacks as cyber criminals increasingly targeted consumers and company staff with online scams.

Figures from government-backed cyber security body GetSafeOnline, found that phishing attacks rose by more than a fifth (21%) last year and were estimated to cost Britain more than £280 million.¹

The organisation has also partnered with the National Fraud Intelligence Bureau, along with a number of leading UK banks and anti-crime bodies, to launch a new campaign warning of the dangers of online and social engineering scams, fake phone calls and emails. It comes as the number of phishing scams reported between November 2014 and October 2015 topped 95,500, according to figures from Action Fraud.

But additional research from Get Safe Online indicates that more than one in four (26%) of those who fell foul of online crime were typically scammed by a combination of either social engineering emails or phone calls.



The number of phishing scams reported between November 2014 and October 2015 topped 95,500



Phishing attacks rose by more than a fifth (21%) last year and were estimated to cost Britain more than £280 million.

Unsurprisingly, email phishing proved the most commonplace scam, accounting for more than three out of four (77%) of all reported incidents, followed by phone calls, which accounted for around one in ten (12%) incidents.

Nearly one in three (29%) reported phishing emails were also found to contain a potentially malicious link which, when clicked, could directly deliver malware to the users' computer, or request their personal details.

The favoured angles and guises for phishing scams hinge on an unsolicited email impersonating a legitimate company or organisation.

Financial sector sales fraud

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Sales/ transactions (£million)	Fraud (£million)	Fraud %
Financial sector sales	3,175	Insurance fraud	Bronze#	UK	2013/14	220,000	1,323	0.60%
		Mortgage fraud	Bronze#	UK	2013/14	205,922	1,310	0.64%
		Plastic card fraud	Bronze#	UK	2014	608,648	450	0.07%
		Online banking fraud	Bronze#	UK	2014	na	41	na
		Cheque fraud	Bronze#	UK	2014	511,267	28	0.01%
		Telephone banking fraud	Bronze#	UK	2014	na	12	na
		Motor finance fraud	Bronze#	UK	2013/14	32,400	11	0.03%
		Total					3,175	

Insurance industry identifies record-high of £3.6 million of fraud every day

Insurance industry body the Association of British Insurers (ABI), revealed 350 insurance frauds valued at £3.6 million were being uncovered every day last year.² It equated to more than £1.3 billion per year, marking a three per cent year-on-year rise on 2013, with the value of frauds detected now at an all-time high. The ABI's figures also revealed:

- Insurers detected 130,000 fraudulent claims during the same period.
- Between 2009 and 2014 the overall value of frauds detected had risen by more than half (57%).
- Dishonest motor insurance frauds were most common and of highest value with 67,000 detected, up by 12 per cent on 2013 and costed at £835 million.
- The number of liability insurance frauds detected jumped by three-quarters (75%) to 19,800, with a value of £330 million, marking a rise of a fifth (20%) on 2013.

But the detection rate also highlights insurers' determination and greater focus on bogus liability claims, so-called 'slip and trip' scams and industrial deafness complaints. The fall in the number of bogus domestic and commercial property insurance claims, reflects determined moves by the industry to tackle criminality. In 2014, the number of detected property frauds was 24,533, down nearly a third (29%) year-on-year, with the detected value of £108 million also down by more than a fifth (21%).

Mortgage fraud

Given there are 11.1 million mortgages in the UK, underpinned by borrowing worth more than £1.3 trillion, home loans continue to be an attractive target for fraudsters.³

But calculating a reliable estimate of mortgage fraud has been challenging for the mortgage lending community. During the past five years, experts from most of the UK's main lenders, representing 98% of the mortgage market, were canvassed to gauge their opinion on mortgage fraud losses. The consensus estimate of fraud losses to the industry was around £1 billion.⁴

Analysis by Experian and National Hunter, an anti-fraud data-sharing system used by members of the financial services industry, showed the proportion of detected mortgage fraud cases was around 84 cases per 10,000 applications, although the broad trend has been steadily falling.⁵

Last year, the vast majority of mortgage fraud being attempted by applicants included lying about hidden or adverse credit, non-disclosure of critical financial information, or misrepresenting employment status.

²You could not make it up, but they did - ABI - <https://www.abi.org.uk/News/News-releases/2015/07/You-could-not-make-up-Savings-honest-customers-insurers-expose-3-6-million-worth-insurance-frauds>

³House purchase lending up 18% year-on-year - CML - <https://www.cml.org.uk/news/press-releases/november-press-release/>

⁴Annual Fraud Indicator - NFA - https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206552/nfa-annual-fraud-indicator-2013.pdf

There are pockets of reliable data relating to retail fraud, telecoms fraud and fare evasion. The British Retail Consortium estimates current total sales fraud losses at £223 million per year (BRC, 2015). It is a comparably low 0.06% of the total sales for the sector (ONS, 2014e). Retail fraud losses in the USA are currently estimated at US\$60 billion (£42 billion) a year and represent around 1.3% of sales.⁶

Non-financial sector sales fraud

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Sales (£million)	Fraud (£million)	Fraud %
Non-financial sector sales	1,363	Retail	Silver	UK	2014	371,956	223	0.06%
		Telecoms fraud	Silver#	UK	2013	38,600	926	2.40%
		Rail transport fare evasion	Silver#	UK	2013	8,200	214	2.61%
Total							1,363	

The telecoms fraud loss rate of 2.4% has been directly adopted from the National Fraud Authority's analysis in 2013, before being applied to the £38.6 billion of industry sales recorded in 2014 (Ofcom, 2014).

Similarly, the rail transport fraud figure is made up predominantly by fare dodgers and has been inflated by two per cent since the NFA's 2013 report.

⁵Fraud Report 2015 - Experian - http://www.experian.co.uk/identity-and-fraud/fraud-statistics/?utm_source=direct&utm_medium=bottominclude&result=success

⁶US Retail Fraud Survey - <http://www.retailfraud.com/us-retailers-losing-60-billion-year-to-fraud/>

Sources: NFA (2013); ONS (2014e); Ofcom (2014); Office of Rail Regulation (2015)

Public sector fraud

Public sector fraud accounted for £37.5 billion, or 5.5% of the £694 billion spent by central and local government in 2013/14 - excluding debt interest (HM Treasury, 2014). Crucially, public sector fraud in the UK in the areas of central taxation and benefits is subject to some of the most accurate and critical fraud loss measurement. Below, we have analysed the estimates further into discrete income and expenditure categories.

Central Government tax fraud

The estimate of tax losses to fraud is derived from robust data amounting to £15.4 billion or 3% of the £510 billion collected in tax revenue.

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Sales (£million)	Fraud (£million)	Fraud %
Central Government	15,435	Tax fraud	Gold	UK	2012/13	504,000	15,400	3.06%
		Vehicle excise fraud	Gold	UK	2013/14	5,800	35	0.60%
Total							15,435	



Public sector fraud accounted for £37.5 billion, or 5.5% of the £694 billion spent by central and local government in 2013/14



The Government's own estimate of TV licence evasion losses was put at £205 million

TV licence fee income

Central government generates around £20 billion a year from the sale of goods and services, licences, fee income and the sales of assets (HM Treasury, 2014).

TV licence fee and NHS prescription charges are put under the spotlight below, given they have the potential to be at risk as a result of consumers not paying, or by falsely claiming exemption from prescription charges.

The Government's own estimate of TV licence evasion losses was put at £205 million (TV Licensing, undated).

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income (£million)	Fraud (£million)	Fraud %
Central Government other income	205	Television licence fee evasion	Silver	UK	2014	3,726	205	5.50%

NHS England fraud

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income/ expenditure (£million)	Fraud (£million)	Fraud %
NHS England	2,472	Dental charge fraud	Gold#	E	2013/14	1,132	43	3.80%
		Optical charge fraud	Gold#	E	2013/14	766	23	3.00%
		Prescription charge fraud	Gold#	E	2013/14	7,676	237	3.09%
		Dental contractor fraud	Bronze#	E	2013/14	3,010	121	4.02%
		Pharmaceutical contractor fraud	Bronze#	E	2013/14	2,094	83	3.96%
		Optical contractor fraud	Bronze#	E	2013/14	518	13	2.51%
		General practice contractor fraud	Bronze#	E	2013/14	7,632	349	4.57%
		Other procurement fraud	Bronze	E	2013/14	21,900	1,048	4.78%
		Payroll fraud	Bronze	E	2013/14	32,660	555	1.70%
Total							2,472	

The total spent on the NHS in England in 2013/14 was £109.7 billion (Gee and Button, 2015b). Areas examined covered £67.7 billion of expenditure - procurement, payroll, dental, pharmaceutical, optical and GP fraud – as well as £9.57 billion of income from dental, optical and prescription charges.

Losses relating to expenditure total £2.169 billion. Losses relating to income total £303 million.

NHS gold standard measurements of patient charges fraud were applied to the latest data to estimate total fraud losses at £303 million (Gee and Button, 2015b).

The figures for the medical contractor frauds are adopted from the study by Gee and Button (2015b).

The total loss from £21.9 billion of procurement expenditure is estimated to be £1.05 billion, while the total loss to payroll fraud is estimated to be £0.56 billion.

Local government fraud (excluding benefits)

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income/expenditure (£million)	Fraud (£million)	Fraud %
Local government (excluding benefits)	7,319	Blue Badge Scheme misuse	Silver#	E	2013-14	1,547	48	3.10%
		Housing tenancy fraud	Bronze#	E	2013-14	na	1,755	na
		Procurement fraud	Bronze	UK	2013/14	86,354	4,131	4.78%
		Payroll fraud	Bronze	UK	2013/14	65,171	1,108	1.70%
		Grant fraud	Bronze	UK	2013/14	5,063	198	3.91%
		Pension fraud	Bronze	UK	2013/14	2,023	79	3.91%
Total							7,319	

Local and regional government expenditure in 2013/14 was £160 billion (HM Treasury, 2014). Total estimated fraud losses amounted to £7.3 billion. Much of the data available concerning fraud in local government was bronze quality data with some silver quality data.

In line with procurement and payroll fraud for central government and the NHS, the same analysis was applied producing fraud losses of £4.1 billion and £1.1 billion respectively.

For housing tenancy fraud, the same methodology used by the NFA to assess losses was used. It is now at £1.76 billion.

Blue Badge fraud – the fraudulent misuse of disabled parking permits – was also based on NFA analysis and currently estimated to be £48 million (NFA, 2013).

Fraud involving grant expenditure was estimated to accrue annual losses of £198 million.

Similarly, analysis of fully funded local government pensions, resulted in estimated losses of £79 million.

Benefits and tax credits fraud

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income/expenditure (£million)	Fraud (£million)	Fraud %
Benefit and tax credits	2,370	Housing benefit fraud	Gold	E,S,W	2013/14	24,200	430	1.78%
		Income support	Gold	E,S,W	2013/14	3,700	100	2.70%
		Jobseekers allowance	Gold	E,S,W	2013/14	4,400	110	2.50%
		Employment and support allowance	Gold	E,S,W	2013/14	10,500	130	1.24%
		Pension credit	Gold	E,S,W	2013/14	7,200	150	2.08%
		Incapacity benefit	Gold#	E,S,W	2010-14	1,200	4	0.33%
		Disability living allowance	Gold#	E,S,W	2005-14	13,800	70	0.51%
		Carer's allowance	Gold#	E,S,W	1997-14	2,100	80	3.81%
		State pension	Gold#	E,S,W	2005-14	83,100	na	na
		Council tax reduction fraud	Silver#	E,S,W	2012/13	4,900	60	1.22%
		Tax credit fraud	Gold#	UK	2013-14	29,394	1,146	3.90%
Other	Bronze	E,S,W	2013/14	13,800	90	0.65%		
Total							2,370	

The most accurate and extensive data collected by Government on fraud losses relates to benefits fraud. It is nearly all regarded as gold standard data. Estimated losses currently stand at £2.4 billion to the Government.

Central government expenditure fraud

Central government spends around £269 billion (excluding NHS England) a year, even when benefits, local authority financing and debt interest are excluded (HM Treasury, 2014). The types of fraud associated with that level of expenditure have been further analysed and categorised into distinct areas of expenditure.

They include procurement, payroll, grant fraud, pension fraud, along with National Savings and Investment fraud. For each, best estimates were derived in calculating the fraud losses. It was estimated that the total value of fraud was £10 billion, or 3% of the Government's total £337 billion annual spend.

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Expenditure (£million)	Fraud (£million)	Fraud %
Central Government (excluding benefits)	10,020	Procurement fraud	Bronze	UK	2013/14	112,189	5,363	4.78%
		Payroll fraud	Bronze	UK	2013/14	66,537	1,131	1.70%
		Grant fraud	Bronze	UK	2013/14	68,659	2,685	3.91%
		Student finance fraud	Bronze#	E,W,NI	2013-14	10,473	409	3.91%
		Pension fraud	Bronze	UK	2013/14	9,296	363	3.90%
		National Savings and Investments fraud	Bronze	UK	2013/14	2,010	69	3.43%
		Total					10,020	

Central government spends around £269 billion a year, even when benefits, local authority financing and debt interest are excluded

Central government spends nearly £112 billion (HM Treasury, 2014) on procurement. As a result, there are clearly many opportunities for frauds to take place, including false invoices, additional items on invoices, goods and services ordered for private gain, under-provision of goods or overcharging.

In the past, several unpublished loss measurements have been made relating to procurement expenditure. Findings have ranged from 7.8% to nearly 19%. But our panel of fraud experts reviewed the figures and opted for prudence, estimating losses at 4.78%, resulting in a total of £5.4 billion of losses in this area.

Unsurprisingly, payroll is also a significant area of expenditure in central government, amounting to nearly £67 billion a year (HM Treasury, 2014).

Fraud analysts reviewed the data in line with benchmarks used elsewhere in other public sector fraud measurements and opted for consistency by applying a loss rate of 1.7 per cent (Gee and Button, 2015a). It yields an estimated annual fraud loss of £1.1 billion.

Similar analysis of fraud involving grant expenditure delivered an estimate of £2.7 billion of annual losses.

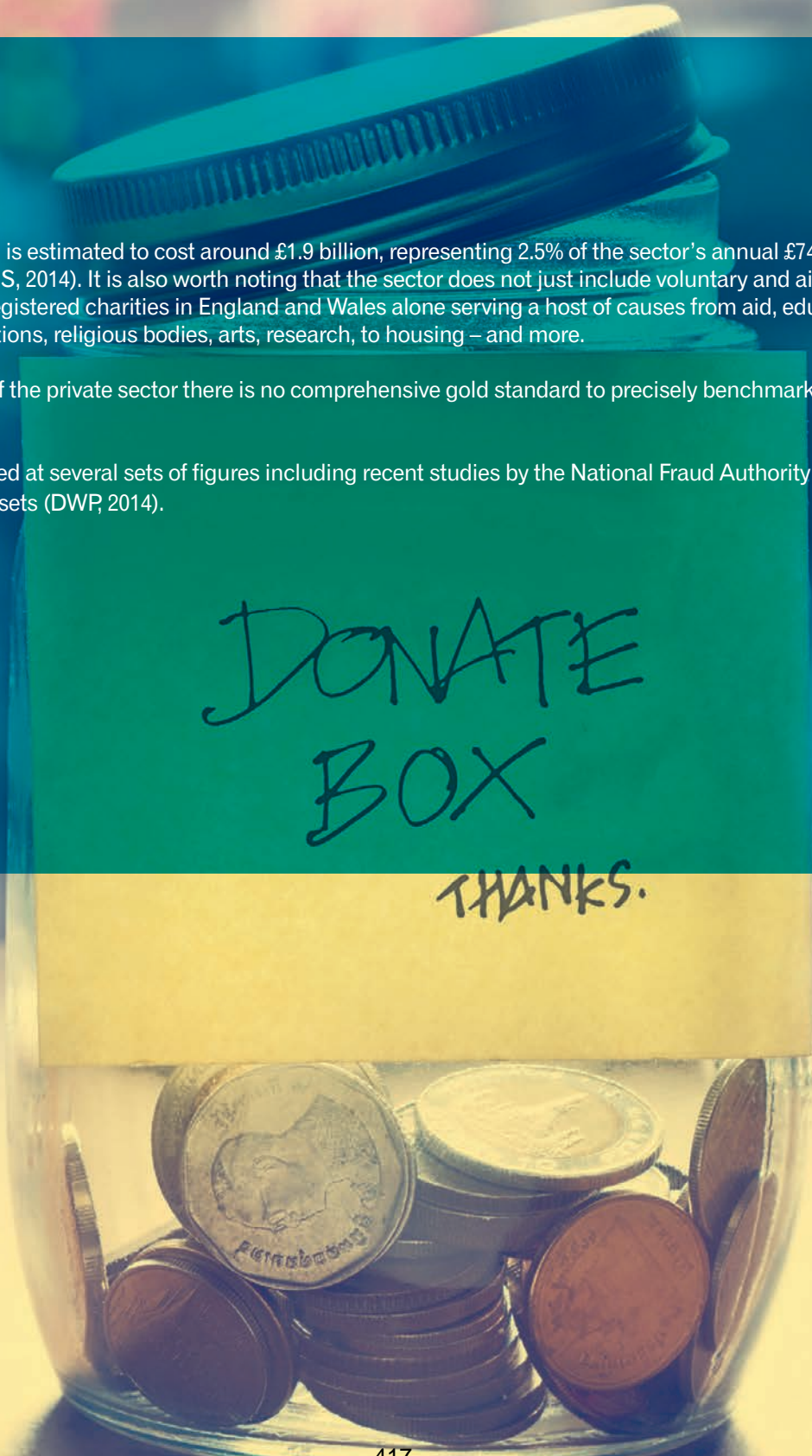
Student finance fraud was also analysed and adjusted in line with average welfare and health expenditure resulting in an estimated annual loss of £409 million.

In analysing fraud within fully funded pensions paid by the Government to former civil servants, the welfare and health benchmark was also deemed to be the most appropriate measure, producing an annual estimated loss of £363 million.

National Savings and Investments were also put in the spotlight resulting in an estimated annual loss of £69 million

Charities

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Expenditure/income (£million)	Fraud (£million)	Fraud %
Registered Charities in UK	1,858	Expenditure:						
		Procurement fraud	Bronze	UK	2013/14	16,224	776	4.78%
		Payroll fraud	Bronze	UK	2013/14	52,143	886	1.70%
		Grant fraud	Bronze	UK	2013/14	5,000	196	3.92%
						Total	1,858	



Charity sector fraud is estimated to cost around £1.9 billion, representing 2.5% of the sector's annual £74 billion income and expenditure (BIS, 2014). It is also worth noting that the sector does not just include voluntary and aid organisations. There are 164,348 registered charities in England and Wales alone serving a host of causes from aid, education, welfare, professional institutions, religious bodies, arts, research, to housing – and more.

But as with much of the private sector there is no comprehensive gold standard to precisely benchmark the available data against.

Fraud analysts looked at several sets of figures including recent studies by the National Fraud Authority (2013) and adjusted DWP datasets (DWP, 2014).

Fraud against individuals

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Expenditure (£million)	Fraud (£million)	Fraud %
UK Adult Population	9,730	Mass marketing fraud	Gold#	UK	2006-13	831,532	3,562	0.43%
		Identity fraud	Silver#	UK	2013-14		5,396	0.65%
		Private rental property fraud	Silver#	UK	2010-13	37,317	769	2.06%
		Prepayment meter scams	Silver#	UK	2013-14	na	3	na
Total							9,730	

Fraud against UK citizens is estimated at £9.7 billion per year, which is a relatively modest 1.2 per cent of the £831 billion annual family expenditure. A host of datasets were carefully considered in a bid to help ensure accuracy and avoid any double-counting.

The last time mass marketing fraud was reviewed was by the OFT in 2006. The study revealed a likely fraud rate of 6.5 per cent. Despite its relative age, fraud analysts uprated the numbers to allow for inflation and changes in population. As a result, it is now estimated there are currently 3.25 million victims every year with annual combined losses of around £3.6 billion. But given the rise in identity theft and prevalence of cyber-crime as covered in earlier sections, it is fair to say figures are an under-estimate.

The England and Wales crime survey is being revised to better accommodate these types of crime and is likely to produce a more accurate picture of fraud in this area in the future (ONS, 2015b).

Identity fraud has been growing steadily over the past 10 years as a problem. Again, fraud analysts scrutinised a host of data sets to yield an estimated loss of £5.4 billion per year.

Both the private rental property fraud rate and the prepayment meter scam rates shown in the table above were analysed from the previous NFA (2013) report and adjusted in line with current trends to bring them up to date.

Fraudsters are fast, inventive, adaptable and willing to quickly exploit new opportunities

Conclusion

There's no question fraud in Britain is taking place on an industrial scale. We've highlighted how it could be costing the UK economy up to £193 billion a year. But given a significant slice of that is in procurement, where analysis has been underpinned by incomplete data and best estimates, more work clearly needs to be done to continue measuring the scale of the problem.

Despite a broadly conservative and prudent approach being adopted in this report, it is likely annual fraud estimates are being under-evaluated.

But irrespective of any specific challenges thrown up, the project has enabled a benchmark to be laid down against which further fraud analysis can be measured.

It's also a dynamic crime. Fraudsters are fast, inventive, adaptable and willing to quickly exploit new opportunities. From here on, as the available data improves and expertise is further expanded, the report will be able to highlight how and where you and your customers may be at risk, along with the best way to ensure they can be safeguarded.

In the meantime, the speed and shape of global innovation, along with the growth of the Internet of Things, make on-going investment in the development of improved fraud detection systems ever more important.

For live and up-to-date hints, tips, news and information on emerging fraud trends, or to simply join the debate online, please visit the live Twitter feed.

 **#CostofFraud**

Appendix and references

The complete cost of fraud table

Sector	Fraud loss by victim sector (£million)	Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income (£million)	Fraud (£million)	Fraud %
Private Sector	143,595	Expenditure small enterprises	36,393	Procurement fraud	Bronze#	UK	2013	643,390	30,776	4.78%
				Payroll fraud	Bronze	UK	2013/14	330,414	5,617	1.70%
		Expenditure medium enterprises	20,902	Procurement fraud	Bronze#	UK	2013	407,077	19,472	4.78%
				Payroll fraud	Bronze	UK	2013/14	84,080	1,430	1.70%
		Expenditure large enterprises	81,762	Procurement fraud	Bronze#	UK	2013	1,611,396	77,081	4.78%
				Payroll fraud	Bronze	UK	2013/14	275,373	4,681	1.70%
		Financial sector sales	3,175	Insurance fraud	Bronze#	UK	2013/14	220,000	1,323	0.60%
				Mortgage fraud	Bronze#	UK	2010-14	205,922	1,310	0.64%
				Plastic card fraud	Bronze#	UK	2014	608,648	450	0.07%
				Online banking fraud	Bronze#	UK	2014	na	41	na
				Cheque fraud	Bronze#	UK	2014	511,267	28	0.01%
				Telephone banking fraud	Bronze#	UK	2014	na	12	na
				Motor finance fraud	Bronze#	UK	2013/14	32,400	11	0.02%
		Non-financial sector sales	1,363	Retail	Silver	UK	2014	371,956	223	0.06%
Telecoms fraud	Silver#			UK	2013	38,600	926	2.40%		
Rail transport fare evasion	Silver#			UK	2013	8,200	214	2.61%		
Public Sector	37,821	Central Government	15,435	Tax fraud	Gold	UK	2012/13	504,000	15,400	3.06%
				Vehicle excise fraud	Gold	UK	2013/14	5,800	35	0.60%
		Central Government other income	205	Television licence fee evasion	Silver	UK	2014	3,726	205	5.50%
		NHS England	2,472	Dental charge fraud	Gold#	E	2013/14	1,132	43	3.80%
				Optical charge fraud	Gold#	E	2013/14	766	23	3.00%
				Prescription charge fraud	Gold#	E	2013/14	7,676	237	3.09%
				Dental contractor fraud	Bronze#	E	2013/14	3,010	121	4.02%
				Pharmaceutical contractor fraud	Bronze#	E	2013/14	2,094	83	3.96%
				Optical contractor fraud	Bronze#	E	2013/14	518	13	2.51%
				General practice contractor fraud	Bronze#	E	2013/14	7,632	349	4.57%
				Other procurement fraud	Bronze	E	2013/14	21,900	1,048	4.78%
Payroll fraud	Bronze	E	2013/14	32,660	555	1.70%				

Sector	Fraud loss by victim sector (£million)	Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income (£million)	Fraud (£million)	Fraud %	
Public Sector		Local government (excluding benefits)	7,319	Blue Badge Scheme misuse	Silver#	E	2013-14	1,547	48	3.10%	
				Housing tenancy fraud	Bronze#	E	2013-14	na	1,755	na	
				Procurement fraud	Bronze	UK	2013/14	86,354	4,131	4.78%	
				Payroll fraud	Bronze	UK	2013/14	65,171	1,108	1.70%	
				Grant fraud	Bronze	UK	2013/14	5,063	198	3.91%	
				Pension fraud	Bronze	UK	2013/14	2,023	79	3.91%	
		Benefit and tax credits	2,370		Housing benefit fraud	Gold	E,S,W	2013/14	24,200	430	1.78%
					Income support	Gold	E,S,W	2013/14	3,700	100	2.70%
					Jobseekers allowance	Gold	E,S,W	2013/14	4,400	110	2.50%
					Employment and support allowance	Gold	E,S,W	2013/14	10,500	130	1.24%
					Pension credit	Gold	E,S,W	2013/14	7,200	150	2.08%
					Incapacity benefit	Gold#	E,S,W	2010-14	1,200	4	0.33%
					Disability living allowance	Gold#	E,S,W	2005-14	13,800	70	0.51%
					Carer's allowance	Gold#	E,S,W	1997-14	2,100	80	3.81%
					State pension	Gold#	E,S,W	2005 -14	83,100	na	na
					Council tax reduction fraud	Silver#	E,S,W	2012/13	4,900	60	1.22%
					Tax credits fraud	Gold#	UK	2013-14	29,394	1,146	3.90%
					Other	Bronze	E,S,W	2013/14	13,800	90	0.65%
		Central government (excluding benefits)	10,020		Procurement fraud	Bronze	UK	2013/14	112,189	5,363	4.78%
					Payroll fraud	Bronze	UK	2013/14	66,537	1,131	1.70%
Grant fraud	Bronze				UK	2013/14	68,659	2,685	3.91%		
Student finance fraud	Bronze#				E,W,NI	2013-14	10,473	409	3.91%		
Pension fraud	Bronze				UK	2013/14	9,296	363	3.90%		
National Savings and Investments fraud	Bronze				UK	2013/14	2,010	69	3.43%		
Charity Sector	1,858	Registered charities	1,858	Procurement fraud	Bronze	UK	2013/14	16,224	776	4.78%	
				Payroll fraud	Bronze	UK	2013/14	52,143	886	1.70%	
				Grant fraud	Bronze	UK	2013/14	5,000	196	3.92%	
Adult individuals	9,730	UK Adult Population	9,730	Mass marketing fraud	Gold#	UK	2006-13	831,532	3,562	0.43%	
				Identity fraud	Silver#	UK	2013-14		5,396	0.65%	
				Private rental property fraud	Silver#	UK	2010/13	37,317	769	2.06%	
				Prepayment meter scams	Silver#	UK	2013-14	na	3	na	
Total									193,004		

Calculating procurement fraud

Procurement fraud represents a massive proportion of the UK's annual total fraud losses at £127 billion, from a total annual spend of £2,662 billion. The figures were reached by using the lowest fraud and error rate (FER) of 4.78% derived from several confidential loss measurement exercises. The error element was removed by applying the mean fraud / error adjustment factor (AF) of 61.3% to produce a subsequent fraud loss rate (FLR) of 4.78%.

Fraud losses were then calculated by applying the FLR to Government revenue and capital procurement expenditure as reported in PESA (HM Treasury, 2014) and the Annual Business Survey records (ONS, 2014a) for all sectors bar the financial sector. There is no precise data for the financial sector. It also excludes dental contractor fraud. There is also no official procurement expenditure data for the charity sector. But the charity sector's purchasing levels can be estimated by subtracting its £52,143 million payroll costs and £5,000 million of grants from the £73,367 million total turnover figure (BIS, 2014; ONS, 2014e). Procurement fraud estimates are based on the methodology below.

Private sector

Expenditure = £2,661,863 million

X

Fraud loss rate = 4.78%

The cost of fraud = £127,237 million

Charity sector

Expenditure = £16,224 million

X

Fraud loss rate = 4.78%

The cost of fraud = £776 million

Central government

Expenditure = £112,189 million

X

Fraud loss rate = 4.78%

The cost of fraud = £5,363 million
(excluding dental contractor fraud)

Local government

Expenditure = £86,354 million

X

Fraud loss rate = 4.78%

The cost of fraud = £4,128 million

Calculating payroll fraud

Payroll fraud is estimated to cost the UK more than £15 billion every year.

It was calculated using a 1.7% fraud only loss rate, which was derived from confidential public sector analysis. It is the largest such exercise ever undertaken.

Central and local government payroll expenditure is recorded in PESA (HM Treasury, 2014). There is no centrally provided figure for payroll expenditure for the private and charity sectors. But on the basis of using the best available information, the figures were derived by multiplying the average annual salary cost by the number of staff employed in each sector (ONS, 2014a; BIS, 2014). In 2014 the average salary cost across both the public and private sectors was £27,343. It includes £25,012 gross salary plus £2,331 employers national insurance.

The calculation of the cost of fraud in this area was based on this formula.

Central Government

(excluding NHS England)

Expenditure = £66,537 million

X

Fraud loss rate = 1.7%

The cost of fraud = £1,131 million

NHS England

Expenditure = £32,660 million

X

Fraud loss rate = 1.7%

The cost of fraud = £555 million

Local Government

Expenditure = £65,171 million

X

Fraud loss rate = 1.7%

The cost of fraud = £1,108 million

Private sector

Expenditure = £27,343 x 25,230,000

= £689,864 million

X

Fraud loss rate = 1.7%

The cost of fraud = £11,728 million

Charity sector

Expenditure = £27,343 x 1,907,000

= £52,143 million

X

Fraud loss rate = 1.7%

The cost of fraud = £886 million

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Registered office address:
The Sir John Peace Building
Experian Way
NG2 Business Park
Nottingham
NG80 1ZZ
United Kingdom
www.experian.co.uk



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PKF Littlejohn LLP, 1 Westferry Circus, Canary Wharf, London E14 4HD
Tel: +44 (0)20 7516 2200 Fax: +44 (0)20 7516 2400
www.pkf-littlejohn.com

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