

**Public Document Pack  
SOUTHEND-ON-SEA BOROUGH COUNCIL**

**Audit Committee**

**Date: Wednesday, 25th April, 2018**

**Time: 6.30 pm**

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

**Contact: Colin Gamble**

**Email: [committeesection@southend.gov.uk](mailto:committeesection@southend.gov.uk)**

**AGENDA**

- 1 Apologies for Absence**
- 2 Minutes of the Meeting held on Wednesday, 17th January 2018 (Pages 1 - 4)**
- 3 Declarations of Interest**
- 4 Update on Progress with Housing Allocations**  
  
Report of the Deputy Chief Executive (People) (To Follow)
- 5 BDO Audit Plan 2018-19 (Pages 5 - 28)**  
  
Report of the Chief Executive
- 6 BDO Progress Report (Pages 29 - 36)**  
  
Report of the Chief Executive
- 7 Counter Fraud Investigation Department Quarterly Status Report (Pages 37 - 68)**  
  
Report of the Chief Executive
- 8 Internal Audit Quarterly Performance Report (Pages 69 - 114)**  
  
Report of the Chief Executive
- 9 Internal Audit Charter Strategy and Audit Plan 2018-19 (Pages 115 - 158)**  
  
Report of the Chief Executive
- 10 Information Items (Pages 159 - 204)**  
  
Information Items

**Members:**

Cllr M Davidson (Chair), Cllr H Boyd (Vice-Chair), Cllr B Ayling, Cllr A Bright, Cllr J Moyies, Cllr G Phillips, Cllr M Terry, Cllr J Ware-Lane, Cllr C Willis and K Pandya

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# **SOUTHEND-ON-SEA BOROUGH COUNCIL**

## **Meeting of Audit Committee**

**Date: Wednesday, 17th January, 2018**

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

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**Present:** Councillor M Davidson (Chair)  
Councillors H Boyd (Vice-Chair), A Bright, J Moyies, C Nevin\*,  
G Phillips, M Terry and C Willis and Mr K Pandya (Co-opted  
Member)  
\*Substitute in accordance with Council Procedure Rule 31.

**In Attendance:** J Chesterton, C Gamble, L Everard, E Allen, J Denham, C Fozzard,  
T MacGregor, M Dineen, K Lynch and A Barnes (BDO)

**Start/End Time:** 6.30 p.m. - 9.10 p.m.

### **632 Apologies for Absence**

Apologies for absence were received from Councillor Ware-Lane (Substitute: Councillor Nevin).

### **633 Declarations of Interest**

The following interests were declared at the meeting:

(a) Councillor Terry – Agenda Item No.6 (BDO: Grant Claim and Returns Certification Report) and Agenda Item No.8 (BDO: Progress Report to those charged with governance) – Non-pecuniary interest: Wife is teacher (teacher pension fund)

(b) Councillor Moyies – Agenda Item No.10 (Internal Audit, Quarterly Performance Report) – Non-pecuniary interest: Governor of Essex Partnership University NHS Foundation Trust

### **634 Minutes of the Meeting held on Wednesday 6th September 2017**

Resolved:-

That the Minutes of the Meeting held on Wednesday 6th September 2017 be received, confirmed as a correct record and signed.

In referring to the minutes, the Director of Finance and Resources gave a verbal update to the Committee concerning the future governance arrangements for the Council companies, joint ventures and trusts. He reported that the Cabinet had approved the establishment of a Shareholder Board. Each of the Council's organisations would present an annual report to this Board.

**635 Corporate Risk Register**

The Committee received a report of the Chief Executive setting out the 2017/18 Corporate Risk Register and the Quarter 3 updates.

On consideration of the report, a number of specific observations were made in relation to the risk register, including the benefit of showing risk trends more effectively over time, the inclusion of volume indicators in the register, the information sharing opportunities between the Council and health partners, and the suggested review the RAG status of the Healthy Lifestyle Service.

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

Resolved:

That the 2017/18 Corporate Risk Register and the Quarter 3 updates outlined in Appendix 1 to the submitted report, be endorsed.

**636 Treasury Management Policy for 2018/19**

The Committee received a report of the Chief Executive presenting the treasury management policy for 2018/19 comprising the following documents:

- Treasury Management Policy Statement for 2018/19;
- Treasury Management Strategy for 2018/19;
- Annual Investment Strategy for 2018/19

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

Resolved:

That the treasury management policy for 2018/19, be endorsed.

**637 BDO: Grant Claim and Returns Certification Report for the Year ended 31 March 2017**

The Committee received a report of the Chief Executive presenting the External Auditor's Grant Claim and Return Certification Report for 2016/17 to the Audit Committee.

The Committee asked a number of questions which were responded to by the BDO External Auditor and officers.

Resolved:

That the Grant Claim and Return Certification Report for 2016/17, be accepted.

**638 BDO: Annual Audit Letter, Audit for the year ended 31 March 2017**

The Committee received a report of the Chief Executive presenting the External Auditor's Annual Audit Letter for 2016/17.

The Committee asked a number of questions which were responded to by the BDO External Auditor and officers.

Resolved:

That the Annual Audit Letter for 2016/17, be approved.

**639 BDO: Progress report to those charged with governance**

The Committee received a report of the Chief Executive on the progress made in delivering the 2016/17 and 2017/18 Annual Audit Plans.

Resolved:

That the progress made in delivering the Annual Audit Plans for 2016/17 and 2017/18, be accepted.

**640 Counter Fraud & Investigation Directorate, Quarterly Performance Report**

The Committee received a report of the Chief Executive providing an update on the progress made by the Counter Fraud & Investigation Directorate (CFID) in delivering the Counter Fraud Strategy and work programme for 2017/18.

Members noted that a report would be prepared on the review of the Council's fraud policies and procedures for submission to the next meeting of the Committee.

The Committee asked a number of questions and made several comments/suggestions in relation to the format of the case summary appendix.

Resolved:

That the performance of the Counter Fraud & Investigation Directorate to date be noted.

**641 Internal Audit, Quarterly Performance Report**

The Committee received a report of the Chief Executive updating Members on the progress made in delivering the Internal Audit Strategy for 2017/18.

Members of the Committee congratulated the relevant officers on the positive outcome of the External Quality Assessment of the Internal Audit Service.

In referring to the Internal Audit review in relation to the Housing Allocations Policy and in response to the position on the implementation of the actions, the Chairman requested the Deputy Chief Executive (People) to prepare a progress report to the next meeting of the Committee.

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

Resolved:

That the progress made in delivering the 2017/18 Internal Audit Strategy be noted and the amendments to the Audit Plan be approved.

**642 Information Items**

The Committee received and noted Issue 23 of the CIPFA briefings for audit committee members in public sector bodies.

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

# Southend-on-Sea Borough Council

Agenda  
Item No.

5

**Report of the Chief Executive  
to  
Audit Committee  
on  
25th April 20187**

Report prepared by: BDO External Auditor

**BDO: Audit Plan to the Audit Committee,  
Audit for the year ending 31 March 2018**

**Executive Councillor – Councillor Moring**

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

## **1. Purpose of Report**

- 1.1 To present the External Auditor's Audit Plan for 2017/18 to the Audit Committee.

## **2. Recommendation**

- 2.1 **The Committee notes BDO's Audit Plan for 2017/18.**

## **3. Background**

- 3.1 As required by the National Audit Office's Code of Audit Practice (the Code), the external auditor must produce an audit planning document. This should set out how the auditors intend to carry out their responsibilities in light of their assessment of risk.
- 3.2 A senior representative of BDO (the appointed External Auditor to the Council) will present this report to the Audit Committee and respond to Members' questions.

## **4. Corporate Implications**

- 4.1 Contribution to Council's Aims and Priorities

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

- 4.2 Financial Implications

The prescribed requirements of what needs to be undertaken by the external auditor is defined by the National Audit Office. The plan and fees proposed reflect the application of these requirements to this Council based upon an assessment of risk which is set out in the Audit Plan for 2017/18.

The cost to the Council of external audit for 2017/18 is planned to be £164,100.

#### 4.3 Legal Implications

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

#### 4.4 People and Property Implications

None

#### 4.5 Consultation

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

#### 4.6 Equalities Impact Assessment

None

#### 4.7 Risk Assessment

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

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

#### 4.8 Value for Money

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

#### 4.9 Community Safety Implications and Environmental Impact

None

### 5. Background Papers

- The National Audit Office's Code of Audit Practice
- Public Sector Appointments Limited Work Programme and Scales of Fees 2017/18

### 6. Attachment:

- BDO's Audit Plan to the Audit Committee, Audit for the year ending 31 March 2018



# Southend-on-Sea Borough Council

AUDIT PLAN TO THE AUDIT COMMITTEE  
Audit for the year ending 31 March 2018

Date of issue: 9 April 2018

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# INTRODUCTION

## PURPOSE AND USE OF OUR REPORT

We have pleasure in presenting our Audit Planning Report to the Audit Committee. This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process.

It summarises the planned audit strategy for Southend on Sea Borough Council ('the Council') for the year ending 31 March 2018; comprising materiality, key audit risks and the planned approach to these; together with the audit timetable and the BDO team. Audit planning is a collaborative and continuous process and our audit strategy, as reflected in this report, will be reviewed and updated as our audit progresses. In particular, we will review our approach following our interim audit site visit. We will communicate any significant changes to our audit strategy, should the need for such change arise.

The planned audit strategy has been discussed with Management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

The contents of this report relate only to those matters that came to our attention during the conduct of our normal audit procedures, which are designed primarily for the purpose of expressing our opinion on the financial statements. As the purpose of the audit is for us to express an opinion on the financial statements for the year ending 31 March 2018, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones that exist. As part of our work, we consider internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work is not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of the Audit Committee. In preparing this report, we do not accept or assume responsibility for any other purpose or to any other person.

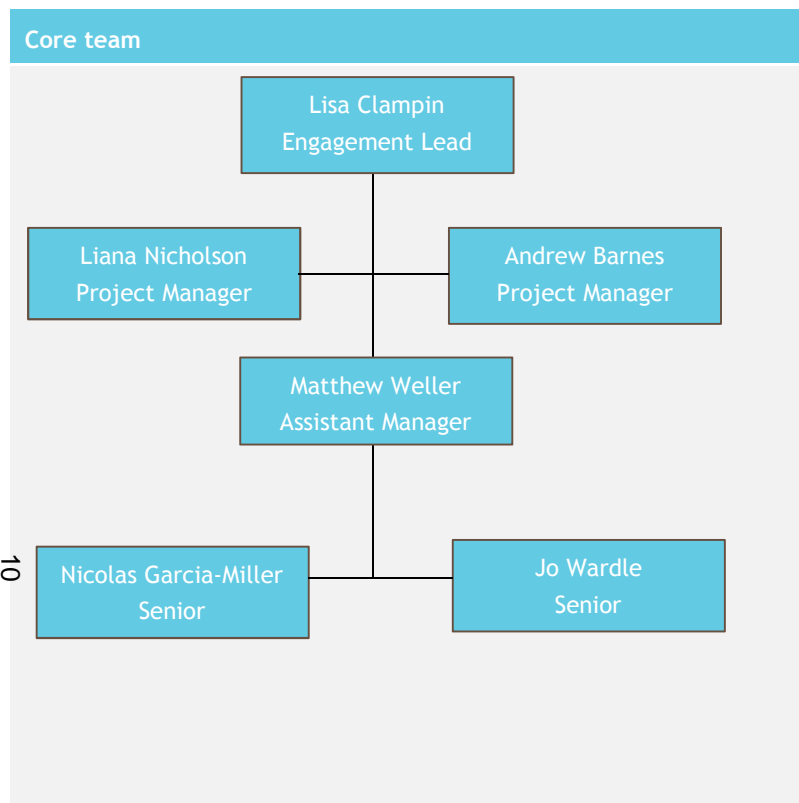
## AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing all necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department), the PCAOB (Public Company Accounting Oversight Board) who oversee the audits of US public companies) and CPAB (Canadian Public Accountability Board), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for audits of listed companies and public interest entities.

More details can be found in our latest Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk).

# YOUR BDO TEAM



Name	Contact details	Key responsibilities
<b>Lisa Clampin</b> Engagement Lead	Tel: 01473 320716 lisa.clampin@bdo.co.uk	Oversee the audit and sign the audit report
<b>Liana Nicholson</b> Project Manager	Tel: 01473 320715 liana.nicholson@bdo.co.uk	Management of the audit
<b>Andrew Barnes</b> Project Manager	Tel: 01473 320745 andrew.barnes@bdo.co.uk	Management of the audit (until April 2018 - Maternity cover)
<b>Matthew Weller</b> Assistant Manager	Tel: 01473 320804 matthew.weller@bdo.co.uk	High level supervision of the audit team
<b>Nicolas Garcia-Miller</b> Senior	Tel: 0207 893 2647 nicolas.garcia-miller@bdo.co.uk	Day to day supervision of the audit team
<b>Jo Wardle</b> Senior	Tel: 01223 266335 joanna.x.wardle@bdo.co.uk	Additional supervision support of the audit team

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

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

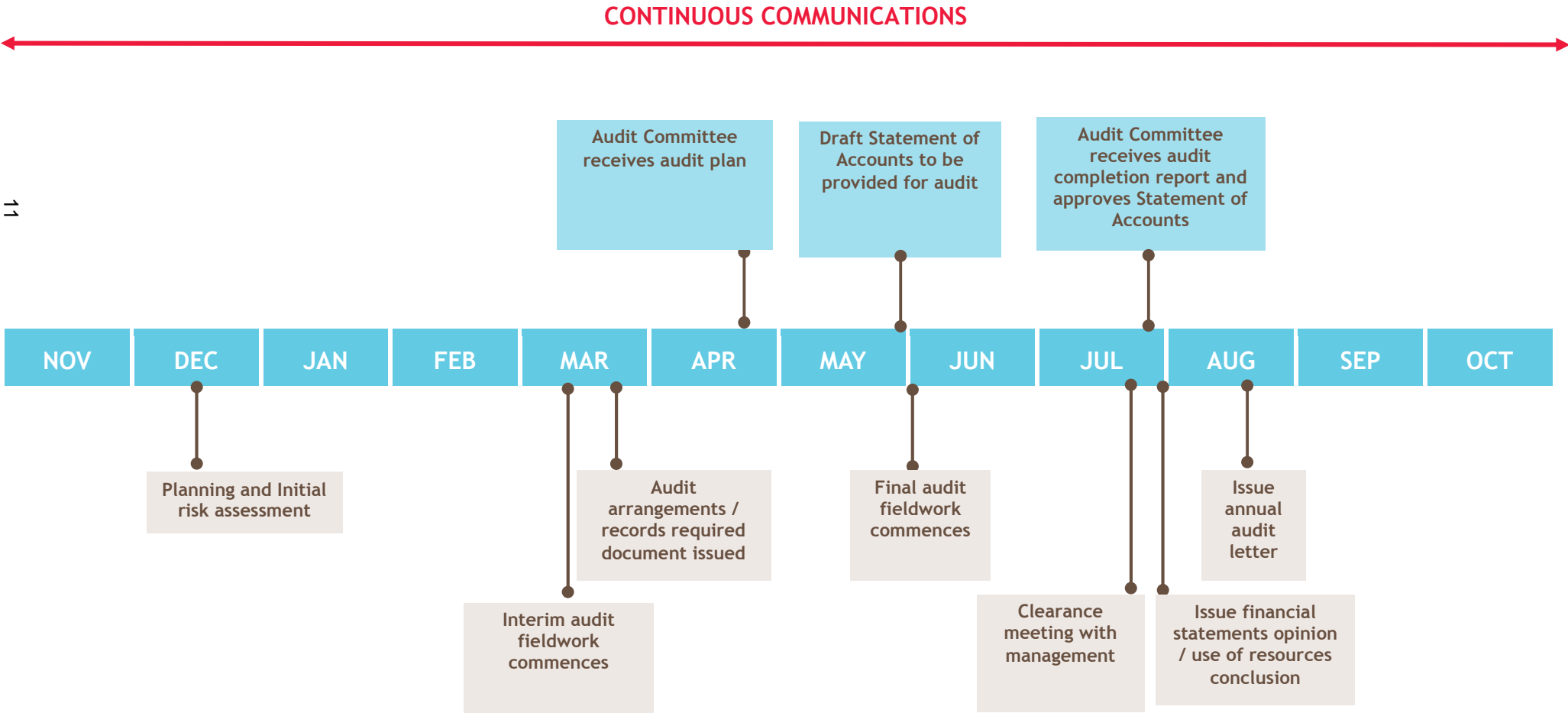
- the financial statements are free from material misstatement, whether due to fraud or error
- the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

She is responsible for the overall quality of the engagement.

# ENGAGEMENT TIMETABLE

## TIMETABLE

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



# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

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

Our objective is to form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES			
1	The financial statements give a true and fair view of the financial position of the group and Council and its expenditure and income for the period in question.	3	Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).	4	The return required to facilitate the preparation of the Whole of Government Accounts (WGA) consolidated accounts is consistent with the audited financial statements.	5	The Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## ADDITIONAL POWERS AND DUTIES

6	Where necessary: To consider the issue of a report in the public interest. To make a written recommendation to the Council.	7	Where necessary: To allow electors to raise questions about the accounts and consider objections. To apply to the court for a declaration that an item of account is contrary to law. To consider whether to issue an advisory notice or to make an application for judicial review.
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# MATERIALITY

GROUP AND COMPONENT MATERIALITY		
	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Group	£7,700,000	£192,500
Significant components:		
• Council	£7,700,000	£192,500
Please see Appendix I for detailed definitions of materiality and triviality.		
At this stage, planning materiality for the group and the Council has been based on 2% of the prior year gross expenditure. This will be revisited when the draft financial statements are received for audit.		
The clearly trivial amount is based on 2.5% of the materiality level of the group. The Council, as parent entity, has a separate clearly trivial level also using the same 2.5%.		

# OVERALL AUDIT STRATEGY

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

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

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

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

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

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

## Approach to components of the group financial statements

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

Total coverage is expected to be as shown opposite, which is based upon prior year figures. We do not expect any significant changes in the proportion of expenditure and net assets in 2017/18.

SCOPE	EXPENDITURE COVERAGE 2016/17	NET ASSETS 31/3/17	EXPENDITURE COVERAGE 2015/16	NET ASSETS 31/3/16
Full scope procedures	£378m	£393m	£422m	£437m
Trust Funds	£1m	£17m	£1m	£17m
South Essex Homes	£10m	(£9m)	£10m	(£5m)
Southend Care (expected figures for 2017/18)	£6m	(£0.4m)	N/A	N/A
<b>Total</b>	<b>£395m</b>	<b>£400.6m</b>	<b>£435m</b>	<b>£449m</b>

# OVERALL AUDIT STRATEGY

## Group matters

COMPONENT NAME	% GROUP EXPENDITURE	% GROUP NET ASSETS	COMPONENT AUDITOR	OVERVIEW OF WORK TO BE PERFORMED	OVERVIEW OF THE NATURE OF OUR PLANNED INVOLVEMENT IN THE WORK PERFORMED BY THE COMPONENT AUDITOR
<b>Full scope procedures:</b>					
Council	95.7%	98.1%	BDO UK	Code audit of the financial statement prepared under CIPFA Code of Practice on Local Authority Accounting	Undertaken by the group audit team
<b>Non-significant component procedures:</b>					
Test funds	0.3%	4.2%	N/A	PPE existence subject to specified procedures and analytical review.	Specified tests undertaken by the group audit team
South Essex Homes Limited	2.5%	(2.2%)	Scrutton Bland	Analytical review of financial statements prepared by the component entity assessed against expectations and prior year amounts.	N/A
Southend Care Limited	1.5%	(0.1%)	TBC	Analytical review of financial statements prepared by the component entity assessed against expectations	N/A

# OVERALL AUDIT STRATEGY

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

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

Our starting point is to document our understanding of the authority's business and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk to gain an understanding of the authority's activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

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

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

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

## **Audit risks and planned audit responses**

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

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

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties

- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

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

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

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

## **Internal audit**

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

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

# OVERALL AUDIT STRATEGY

## Fraud risk assessment

We have discussed with management its assessment of the risk that the financial statements may be materially misstated due to fraud and the processes for identifying and responding to the risks of fraud.

Management believe that the risk of material misstatement due to fraud in the authority's financial statements is low and that controls in operation would prevent or detect material fraud. Management informed us that there have not been any cases of material fraud to their knowledge. However, Management made us aware of an immaterial fraud that has taken place within the Housing Department that could affect our risk assessment if there are any associated significant internal control deficiencies. We discussed this with the finance, internal audit and fraud investigation teams. We will make further enquiries of the procurement team to complete our assessment of the risk of the potential for other undiscovered frauds having occurred that might have a material impact.

We are required to discuss with those charged with governance their oversight of management's processes for identifying and responding to risks of all fraud.

We expect Audit Committee Members, as those charged with governance, to let us know if there are any actual, suspected or alleged instances of fraud of which they are aware.

## New Auditing Standards from 2017/18

This is the first year of application of a revised set of International Standards on Auditing (ISAs) applicable to the UK. These include enhanced requirements in respect of the audit of disclosures, other information published with the accounts and of going concern, as well as changes to the structure and content of the audit opinion.

# KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

## AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under auditing standards, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>• Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud</li> <li>• Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.</li> </ul>	Not applicable.

## AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<b>Property, plant and equipment valuations</b> 19	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the current value or fair value (as applicable) at the balance sheet date.</p> <p>The Code requires management to carry out a full valuation of its land and buildings on a periodic basis (at least every 5 years). In the intervening years, management is required to assess whether there has been a material change in the value of its assets that should be accounted for.</p> <p>As part of the 5 year rolling re-valuation programme, all schools have been re-valued in 2017/18, alongside other assets. Upon review of the revaluation schedules for all these assets, the upwards revaluations were seen to total £32m and downwards revaluations totalled £0.6m.</p> <p>2017/18 is the second year that the Council has used the current external valuers and we identified a material error in the indexation percentages they provided for the HRA housing stock in the first year, which increases our view of the associated level of audit risk.</p> <p>We concluded that there is a significant risk of material misstatement of asset values.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Review the instructions provided to the valuer as well as the valuer's skills and expertise in order to determine if we can rely on them as a management expert</li> <li>Confirm that the basis of valuation for assets valued in year is appropriate based on their usage</li> <li>Confirm that the valuation movements are consistent with the expectations provided by independent data about the property market</li> <li>Confirm that the assets not specifically valued in the year have been properly assessed to confirm that their reported values remain materially correct</li> <li>Confirm that an instant build modern equivalent asset basis has been used for assets valued at Depreciated Replacement Cost.</li> </ul>	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<b>Pension liability assumptions</b>  20	<p>The net pension liability comprises the Council's share of the market value of assets held in the Essex County Council pension fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around other factors, such as inflation, when calculating the liability.</p> <p>There is a risk that the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Agree the disclosures to the information provided by the pension fund actuary</li> <li>• Review the competence of the management expert (actuary).</li> <li>• Obtain assurance over the controls for providing complete and accurate data to the actuary.</li> <li>• Contact the administering authority and request confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data</li> <li>• Review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</li> </ul>	<p>We will agree the disclosures to the report received from the actuary.</p> <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>
<b>Expenditure and Funding Analysis</b>	<p>During the prior year audit, we identified inconsistencies in the methodology for preparing the expenditure funding analysis note between the disclosures made in the financial statements in respect of 2016/17 and those made in respect of 2015/16.</p>	<p>We will review the methodology for preparing this note and ensure it is consistent with the final agreed methodology from 2016/17.</p>	<p>Not applicable.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Revenue and expenditure recognition	<p>Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risk can be identified as affecting the accuracy and existence of income and expenditure.</p> <p>We do not consider there to be a specific significant risk over any one income or expenditure stream recorded in the Comprehensive Income &amp; Expenditure Statement.</p> <p>Errors regarding the year-end income cut off for fees and charges were identified in each of the previous two years. The net impact on the 2016/17 accounts of these errors was an estimated overstatement of income of £217k. As this is a recurring issue, and the procedures in respect of the year-end cut off have not changed, we consider this a risk of non-trivial misstatement, specifically over the cut-off of fees and charges and therefore completeness of income at year-end.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Test an increased sample of transactions to ensure that income and expenditure has been recorded in the correct period and that all income and expenditure that should have been recorded has been recorded</li> <li>Trace an increased sample of items picked from the pre and post year-end bank statements to supporting documentation to confirm the completeness of the amounts recorded.</li> </ul>	Not applicable.
Southend Care Limited	<p>The Council has a new subsidiary company in 2017/18 (Southend Care Limited). As the transactions for this are material and have not historically been accounted for this presents a risk of non-trivial misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Agree the numbers consolidated into the financial statements to the audited financial statements for Southend Care Limited</li> <li>Confirm that the processes and procedures for consolidation are in line with our expectations.</li> </ul>	Not applicable.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Property, plant and equipment existence  22	<p>Our initial review of the fixed asset register identified a small number of assets that the Council no longer holds. This was one transit van with a net book value of nil, a number of rooms removed as part of the past remodelling of two HRA sheltered accommodation schemes with a net book value of £1.1m and three garages with a net book value of £8,049.</p> <p>We have identified similar issues in previous years and the identification of these further assets indicates that a risk of material misstatement still exists.</p> <p>The Council is running further reports to fully quantify the extent of these errors prior to closing the accounts for the year.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Review the work that the Council has undertaken to identify further assets on the fixed asset register that the Council no longer holds</li> <li>• Trace a sample of general fund, investment property and heritage assets to title deeds confirming the Council's ownership of the assets</li> <li>• Trace a sample of Housing Revenue Account assets to the housing rent system, confirming that rental income is being received on the assets and thus that they exist</li> <li>• Agree a sample of investment property assets to the lease document held for these assets</li> <li>• Physically verify a sample of general fund, heritage asset and investment property assets.</li> </ul>	Not applicable.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Sustainable finances 23	The latest Medium Term Financial Strategy to 2021/22 has identified the key influences on the Council's financial position including the changes to Government funding, with moves to 100% localisation of business rates and cessation of Revenue Support Grant. The MTFS has also taken account of expected annual inflationary and pay award pressures, impact of interest rates, the on-going effect of existing policies, pressures and growth in priority services.	<p>We will review the:</p> <ul style="list-style-type: none"> <li>Assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied.</li> <li>Delivery of the budgeted savings in 2017/18 and the plans to deliver the identified savings for 2018/19.</li> <li>Strategies to close the budget gap after 2018/19.</li> </ul>	We will review core grant data published by central government.
	The budget has been balanced for 2018/19, following the identification of a further £7.2 million savings that need to be delivered during the year. However, budget gaps have been identified in 2019/20 (£7.5 million), 2020/21 (£4.9 million) and 2021/22 (£4.5 million).		
	Delivering the required savings from 2018/19 will be a challenge and is likely to require implementation of difficult decisions around service provision and alternative delivery models. There is a significant risk that this will not be achieved, impacting on the financial sustainability of the Council in the medium term.		

# INDEPENDENCE

## INDEPENDENCE

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

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters that may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2018.

Our investigations have identified that one BDO employee is married to an officer of the Council. As a safeguard against this potential independence threat, the BDO employee will have no role to play in our audit or any other services provided to the Council.

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

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively.

### INDEPENDENCE - ENGAGEMENT TEAM ROTATION

#### SENIOR TEAM MEMBERS

#### NUMBER OF YEARS INVOLVED

LISA CLAMPIN - Engagement lead

4

LIANA NICHOLSON - Project manager

1

ANDREW BARNES - Project manager  
(Maternity Cover)

2

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

# FEES

## FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2018 have been set at the scale fees proposed by the PSAA. These are:

	2017/18 Proposed fee £	2016/17 Actual fee £
Code audit fee	142,816	142,816
Certification fee (Housing benefits subsidy)	21,284	21,284
<b>Total code audit and certification fees:</b>	<b>164,100</b>	<b>164,100</b>
Fees for non-audit services - audit related (see below)	14,000	14,000
Fees for non-audit services - other	0	1,200
<b>TOTAL FEES</b>	<b>178,100</b>	<b>179,300</b>

## NON AUDIT SERVICES FEES ANALYSIS

### Audit related services:

Teachers Pensions certification fee	7,000
Pooled capital receipts certification fee	3,500
Homes and Communities Agency Information Management System compliance assurance fee	3,500
<b>Total</b>	<b>14,000</b>

## Billing arrangements

We raise invoices for the Code audit fee on a quarterly basis, at £35,704 per quarter, from June 2017. Following our firm's standard terms of business, full payment will be due within 14 days of receipt of invoice. Fee invoices for other services, including the certification of the housing benefits subsidy claim, will be raised as the work is completed.

## Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Director of Finance & Resources. Where this requires a variation to the scale fee, we will seek approval from PSAA. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee. At this stage, nothing has come to our attention that would require us to seek approval to amend the scale fee.

## Fee basis

Our fee is based on the following assumptions:

- The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.
- Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.
- We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.
- Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

# APPENDIX I: MATERIALITY

## CONCEPT AND DEFINITION

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

## CALCULATION AND DETERMINATION

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

# APPENDIX I: MATERIALITY

## Continued

### REASSESSMENT OF MATERIALITY

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

### UNADJUSTED ERRORS

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

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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# Southend-on-Sea Borough Council

**Report of the Chief Executive  
to  
Audit Committee  
on  
25th April 2018**

6

Agenda  
Item No

6

Report prepared by: BDO External Auditor

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**BDO: Progress Report to Those Charged with Governance  
Executive Councillor – Councillor Moring  
*A Part 1 Public Agenda Item***

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**1. Purpose of Report**

- 1.1 To report on progress in delivering the 2017/18 Annual Audit Plan.

**2. Recommendation**

- 2.1 The Committee notes the progress made in delivering the Annual Audit Plan for 2017/18.**

**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 2017/18.

- 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 Director 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**

**April 2018**



## INTRODUCTION

### Summary of progress

This report provides the Audit Committee with an update of the progress in delivering the 2017/18 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.

Progress updates on the recommendations raised in the Final Report to the Audit Committee are reported to the Audit Committee twice a year in January and June.

## 2017/18 Annual Audit Plan – progress summary as at 13 April 2018

Area of work	Scope / Associated deadlines	Status	Outputs / Date
Planning	Risk assessment and formulation of the audit plan. Detailed audit plan to be issued outlining direction of the audit.	First phase of work completed.	<b>Planning Letter 2017/18</b> Reported to the Audit Committee in June 2017. <b>Audit Plan 2017/18</b> To be presented to the Audit Committee in April 2018.
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 June 2018.	Work currently in progress.	We report to management any deficiencies in internal control identified during the audit. Where such deficiencies are significant we also report them in our <b>Final Report to the Audit Committee</b> .
Financial Statements audit	Audit of the draft financial statements to determine whether they give a true and fair view of the Council's financial affairs and the income and expenditure for the year. Deadline for issue of audit opinion and publication of the statement of accounts is 31 July 2018.	Work currently in progress. Start date for final on-site visit agreed.	<b>Final Report to the Audit Committee</b> Target issue date July 2018. <b>Opinion on the financial statements</b> Target issue date July 2018.
Whole of government accounts audit	Audit of the consolidation pack for consistency with the audited statement of accounts. Consolidation pack opinion – deadline 31 August 2018.	Start date to be agreed.	<b>Opinion on the WGA Consolidation Pack</b> Target date August 2018.

Area of work	Scope / Associated deadlines	Status	Outputs / Date
Use of resources	<p>Approach for VFM Conclusion:</p> <p>One criteria:</p> <p>In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</p> <p>The overall criterion is supported by three sub-criteria:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul> <p>Conclusion to be given alongside the accounts opinion by the deadline of 31 July 2018.</p>	<p>Work currently in progress.</p> <p>Start date for final on-site visit agreed.</p>	<p><b>Final Report to the Audit Committee</b></p> <p>Target issue date July 2018.</p> <p><b>VFM conclusion</b></p> <p>Target issue date July 2018.</p>
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2018.	This will follow completion of the Audit.	<p><b>Annual Audit Letter</b></p> <p>Target issue date August 2018.</p>
Grants and returns	To audit and submit BEN 01 (Housing Benefit) grant claim and returns by 30 November 2018 deadline.	<p>Work currently in progress.</p> <p>Start date for final on-site visit agreed.</p>	Housing Benefit <b>grants claim and return</b> to be submitted by 30 November 2018 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 2018.</p> <p>Housing Pooled Capital Receipts: Deadline: 31 October 2018.</p>	Start date to be agreed.	<p>Teachers' Pension <b>grants claim and return</b> to be submitted by the 30 November 2018 deadline.</p> <p>Housing Pooled Capital Receipts <b>grants claim and return</b> to be submitted by the 31 October 2018 deadline.</p>
Grants Report	Summary of our certification work completed on 31 March 2018 claims, to be issued by February 2019.	To be drafted after certification work concluded.	<b>Grants Report</b> to those charged with governance to be issued by December 2018 and will be presented to the January 2019 Audit Committee.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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# Southend-on-Sea Borough Council

Agenda  
Item No.  
**7**

Report of the Chief Executive

to

**Audit Committee**

on

**25 April 2018**

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

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**Counter Fraud & Investigation Directorate: Quarterly Performance Report**

**Executive Councillor – Councillor Moring**

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

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**1. Purpose of Report**

- 1.1 To update the Audit Committee on the progress made by the Counter Fraud & Investigation Directorate (CFID) in delivering the Counter Fraud Strategy and Work Programme for 2017/18.

**2. Recommendation**

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

**3. Proactive Work Plan**

- 3.1 The CFID has a programme of proactive work conducted to ensure the council's posture against fraud is robust and effective. **Appendix 1** sets out the progress made in delivering the proactive work programme this year.
- 3.2 The work programme is a working document and if during the year changes or additions to the plan are proposed between the CFID and the Section 151 Officer; these will be brought back to the Committee.

***Fraud Risk Assessment***

- 3.3 CFID has developed a unique and detailed floor-up Fraud Risk Assessment (FRA) process in conjunction with the Cabinet Office. The assessment process is being delivered by the team, through:
- **targeted questionnaires** tailored to each service area
  - having **individual interviews** with staff across the organisation
  - holding **workshops** with groups of staff to increase the understanding of the process and quality of output.
- 3.4 Good progress has been made in delivering the FRA with interviews and workshops being held with key stakeholders across the Council.

- 3.5 The process has already brought improvements to the recognition and reporting of fraud and error where, CFID now meet monthly with services, including Human Resources, to ensure early intervention and a joined-up approach when concerns are identified.

### ***National Fraud Initiative***

- 3.6 The National Fraud Initiative (NFI) is a service run by the Cabinet Office public sector datasets are matched to find potential fraud or error. Business areas within the council then review these matches against their own records. In cases where fraud is suspected CFID conduct any subsequent investigations. **Appendix 2** details the progress of the NFI project.

## **4. Investigations**

- 4.1 **Appendix 3** outlines the flow of cases into the CFID so far since 1 April 2017. Good progress has been made in responding to these incidents of suspected fraud, with:

- 110 investigations being concluded so far in the year
- 74 sanctions being delivered in cases of proven fraud
- £555,418 of fraud has been detected
- £59,405.24 being ordered back to the council by the courts.

## **5. National Counter Fraud**

- 5.1 CFID are working with a number of national bodies to champion and raise the profile of fraud, sharing knowledge and working best practice between partner agencies. The acknowledgment of fraud by the public sector remains a common challenge with continual work being done to publicise successful outcomes. CFID continues to support other local councils and government bodies providing specialist capabilities, particularly in the emerging cyber crime and digital space.
- 5.2 CFID is an Executive Board member of NAFN.gov Data & Intelligence. NAFN is a national body funded in-part by the Home Office that develops and shares intelligence across local councils and central government. CFID developed a national paper to enhance the work of NAFN to increase its leadership role for the sector. CFID's strategy sought to increase the recognition and professionalisation by councils in the areas of Digital Forensics, Cyber-Crime, Criminal Finances and Fraud Awareness.
- 5.3 CFID continues to provide specialist support to HM Government Cabinet Office in the development of the national Counter Fraud Profession. This programme of developing the 'profession' is in recognition that:
- fraud is the most prevalent crime in the UK
  - fraud in the public sector is under-reported
  - the historical approach to deal with fraud through disciplinary activity alone is no longer acceptable
  - the capabilities in cyber and digital have not developed quick enough
  - the public sector needs to share its practice and intelligence to protect the public purse.

CFID are now co-writing the standards using its experience having direct input into the development and rollout across law enforcement and wider public sector.

5.4 CFID is an Executive Committee member of the National Tenancy Fraud Forum (TFF). TFF is the lead body for housing tenancy fraud across local councils and private registered providers nationally.

5.5 CFID is unique in that it is the only body that is a member of all of the above three functions in the counter fraud sector to ensure that CFID is at the forefront of changes and development.

## **6. MHCLG Counter Fraud Fund Project**

6.1 CFID is working with the Ministry for Housing, Communities and Local Government (MHCLG) and CIPFA to produce a detailed report on the effectiveness of the 2014-16 counter fraud fund grant project in England & Wales.

6.2 CFID's model of tackling fraud has been identified as a best practice approach recognising its development of national capabilities. These specialist function were never previously available to local councils nor the public sector as a whole particularly in the horizon scanning in cyber-crime, supply chain fraud & corruption.

## **7. Multi Agency Collaborations**

7.1 CFID's capability in cyber-crime and digital forensics was identified by policing as being an opportunity to co-locate and share capacity and resources where there are obvious, or regular, cross over in criminals targeting local councils and others generally.

7.2 In the last year CFID's work has led to the investigation of over 200 cases of online child abuse, resulting in the successful safeguarding of 45 children and over 60 convictions.

7.3 CFID is working with national police agencies to share its experiences and skill to ensure the capabilities are accessible for the whole of law enforcement.

## **8. Fraud Loss Assessment**

8.1 The Fighting Fraud & Corruption Locally strategy was published in 2016 and provided a snapshot of the crime risks faced by local councils. The strategy could only take account of information known at the time it was published and has not been updated since. To ensure that CFID had a live understanding on the threats faced by the council and its partners a significant amount of time was invested in research and analysis.

8.2 CFID's intelligence bureau used all the national intelligence and published reports and strategies to relate the fraud risks to Southend-on-Sea Borough Council. This work has provided current knowledge of the current threats and impact on frontline services, both locally and on the national spectrum.

8.3 Various data sources have been used by CFID including information from:

- Counter Fraud Centre at the University of Portsmouth
- Annual Fraud Indicator published by Crowe Clark & Whitehall

- Home Office Serious & Organised Crime Strategy
  - Home Office working group on 'Costs of Cyber Crime'
  - National Cyber Security Centre
  - National Audit Office Cross Government Annual Fraud Landscape Report
- 8.4 This research now puts the annual loss figure to local councils from fraud at £12.6bn, a significant increase from the reported £2.1bn in 2016.
- 8.5 CFID has collated all the published tools and information from the leading government sources and used the information from internal fraud risk assessment process to devise an annual fraud impact assessment and strategy. These tools and strategy are now shown at **Appendix 4** and **Appendix 5**.
- 8.6 The '4P's' strategy has been adopted to outline the areas where CFID will target its resources, similar to the national CONTEST terrorism strategy. This approach mirrors the soon to be published fraud strategy taken by policing to ensure easy interoperability and cohesion.

## 9. Corporate Implications

### 9.1 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.

### 9.2 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.

### 9.3 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.

### 9.4 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.

#### 9.5 Property Implications

Properties could be recovered through the investigation of housing tenancy fraud or assets recovered as a result of criminal activity. This action will benefit the authority by means of returning housing stock to those in need or gaining the assets of those who seek to profit from their criminal behaviour.

#### 9.6 Consultation: None

#### 9.7 Equalities Impact Assessment: None

#### 9.8 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.

#### 9.9 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.

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

### 10. Background Papers

- 2017 Annual Fraud Indicator – Crowe Clark & Whitehall

### 11. Appendices

- Appendix 1: Counter Fraud Work Plan to March 2018
- Appendix 2: 2016/17 National Fraud Initiative Exercise, Data Matches
- Appendix 3: Southend Borough Council Case Summary to 1 March 2018
- Appendix 4: Annual Fraud Impact Measurement Matrix
- Appendix 5: Economic Crime, Threat Analysis & Strategy

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## Appendix 1 - Counter Fraud & Investigation Directorate

### Counter Fraud Work Plan to March 2018

Risk area	Tasks	Planned for	Current status
Council-wide	Plan Fraud Risk Assessment (FRA) workshops in these areas: <ul style="list-style-type: none"> <li>Department for Place</li> <li>Department for People</li> <li>Department of the Chief Executive</li> </ul>	Complete	Meetings were held between the CFID and Deputy Chief Executives and Chief Finance Officer to discuss and agree the delivery of the FRA process.
Council-wide	Conduct Fraud Risk Assessment workshops in these areas: <ul style="list-style-type: none"> <li>Department for Place</li> <li>Department for People</li> <li>Department of the Chief Executive</li> </ul>	Complete	The first phase of the FRA process has been completed for: <ul style="list-style-type: none"> <li>Procurement</li> <li>South Essex Homes</li> <li>Housing</li> <li>Council Tax</li> <li>NNDR</li> <li>Registrars</li> <li>Parking.</li> </ul>
Council-wide	UK Bribery Act (UKBA) Compliance Review. A questionnaire will be distributed to all Managers to ensure UKBA compliance.	In Progress	This item is delayed due to the ICT system implementation difficulties.
Council-wide	Counter Money Laundering (CML) Compliance Review. A questionnaire will be distributed to all staff to ensure CML compliance.	In Progress	This item is delayed due to the ICT system implementation difficulties.
Council-wide	Counter-Fraud, Bribery and Corruption Policy to be updated.	In Progress	A revised policy has been drafted and is with the business areas to approve and comment.
Council-wide	Counter Money Laundering (CML) Policy to be updated.	In Progress	A revised policy taking account of the 4 <sup>th</sup> Money Laundering Directive has been drafted and is with the business areas to approve.

## Appendix 1 - Counter Fraud & Investigation Directorate

### Counter Fraud Work Plan to March 2018

Risk area	Tasks	Planned for	Current status
Council-wide	Process the results from the Fraud Risk Assessment workshops & produce report and action plan to CMT.	Complete	These results are reported at Appendix 4
National Fraud Initiative, Data Matching Exercise	Investigate high level recommended data matches until the 2017 exercise is complete.	Will report progress made on quarterly basis	Results are being processed by individual business areas, this process is being managed by the CFID/Internal Audit Business Support Team.
Proactive Fraud Drives	Conduct proactive activity to disrupt and detect fraud affecting the council.	Will report progress made on quarterly basis	Proactive work continues to be undertaken across the high-risk areas. So far this year activity has been conducted in: <ul style="list-style-type: none"> <li>• Social Care Finance</li> <li>• Parking Enforcement of Blue Badge misuse</li> <li>• Payment Card Fraud/ Money Laundering</li> </ul>

## Appendix 2: 2016/17 National Fraud Initiative Exercise, Data Matches

### Update – March 2018

Southend-on-Sea Borough Council has received a total of 11277 matches to date (15 March 2018) as part of the National Fraud Initiative (NFI) exercises in 2014/15 and 2016/17.

### Background

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

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

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

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

### Current Figures

SBC received a total of 2691 recommended matches across 30 high level reports as a result of the NFI exercises in 2014/15 and 2016/17.

- Two high level reports, comprising 7 recommended matches, have been fully processed and completed.
- One high level report, comprising 7 matches, is 71% complete.
- Therefore 27 reports, comprising 2679 high level recommended matches, are left to open and complete. This equates to 99.5% of recommended matches.

Report Number and Name	Recommended Matches	Cleared Matches	Comments	Case Proven No. & (£)	Target Completion Dates
2: Housing Benefit Claimants to Student Loans	69	0	Not opened		
13 and 14: Housing Benefit Claimants to Payroll	1	0	Not opened		
14.1: Housing Benefit Claimants to Pensions	1	0	Not opened		
20: Housing Benefit Claimants to In-Country Immigration	5	0	Not Opened		
27: Housing Benefit Claimants to Housing Benefit Claimants	1	0	Not Opened		
30: Housing Benefit Claimants to Housing Tenants	1	0	Not Opened		
31 and 32: Housing Benefit Claimants to Housing Tenants	4	0	Not opened		
34: Housing Benefit Claimants to Right to Buy	4	4	100% complete Matches not recommended but have been processed as such		
47.1 and 47.2: Housing Benefit Claimants to Taxi Drivers	5	0	Not opened		
49.1: Housing Benefit Claimants to Benefits Agency Deceased Persons	16	0	Not opened		

Report Number and Name	Recommended Matches	Cleared Matches	Comments	Case Proven No. & (£)	Target Completion Dates
102.2 and 102.3: Housing Tenants to Housing Tenants	3	3	100% complete		
103.2: Housing Tenants to Housing Tenants, same phone number	2	0	Not opened		
104: Housing Tenants to In-Country Immigration	5	0	Not opened		
156: Right to Buy to Housing Benefit Claimants	7	5	71% complete		
170: Blue Badge Parking Permit to Blue Badge Parking Permit	3	0	Not opened		
172.1: Blue Badge Parking Permit to Benefits Agency Deceased Persons	106	0	Not opened		
172.2: Concessionary Travel Passes to Benefits Agency Deceased Persons	526	0	Not opened		
230 and 231: Waiting List to Housing Tenants	171	0	Not opened		
234: Waiting List to In-Country Immigration	5	0	Not opened		
240 and 241: Waiting List to Housing Benefit Claimants	1182	0	Not opened		

Report Number and Name	Recommended Matches	Cleared Matches	Comments	Case Proven No. & (£)	Target Completion Dates
256 and 257: Waiting List to Waiting List	145	0	Not opened		
262: Waiting List to Amberhill Data	2	0	Not opened		
446: Council Tax Reduction Scheme to Council Tax Reduction Scheme	1	0	Not opened		
449 and 450: Council Tax Reduction Scheme to Housing Tenants	3	0	Not opened		
476 and 477: Council Tax Reduction Scheme to Housing Benefit Claimants	182	0	Not opened		
708: Duplicate records by amount and creditor reference	210	0	Not opened		
709: VAT overpaid	24	0	Not opened		
710: Duplicate records by creditor name, supplier invoice number and invoice amount but different creditor reference	2	0	Not opened		
711: Duplicate records by supplier invoice number and invoice amount but different creditor reference and name	2	0	Not opened		

Report Number and Name	Recommended Matches	Cleared Matches	Comments	Case Proven No. & (£)	Target Completion Dates
712: Duplicate records by postcode, invoice date and invoice amount but different creditor reference and supplier invoice number	3	0	Not opened		
<b>TOTAL</b>	<b>2691</b>	<b>12</b>			

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## Appendix 3 Counter Fraud & Investigation Directorate Southend Borough Council Case Summary to 01 March 2018

	Fraud Type							
Case Status	Revenue	Housing	Blue Badge	RTB	Social Care	Insider Threat	Joint Work	Total

Case Load/Referrals 01 April 2017 – 01 March 2018:								
Received	28	27	55	6	3	3	26	148
Investigation created	4	7	37	0	2	1	1	52
No further action	16	4	9	2	1	1	16	49
Under Development	8	16	9	4	0	1	9	47

Outcomes Achieved **These Figures represent the status of investigations conducted by the Directorate that commenced during 2017/18 but also those received in previous years but concluded in between 1 April 2017 – 1 March 2018								
Prosecution	3	0	0	0	0	2	0	5
Property Recovered	N/A	10	N/A	N/A	N/A	N/A	N/A	10
Housing Application Stopped	N/A	2	N/A	N/A	N/A	N/A	N/A	2
RTB Stopped	N/A	N/A	N/A	0	N/A	N/A	N/A	0
Blue Badge Positive Action	N/A	N/A	44	N/A	N/A	N/A	N/A	44
Referred to HR	N/A	N/A	N/A	N/A	N/A	3	N/A	3
No Further Action	5	6	17	0	3	2	2	35

Referrals received and investigations created			
	2015/16	2016/17	2017/18
Reports Received	278	349	148
Investigation created	213	113	52

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## Southend-on-Sea Borough Council

### Annual Fraud Impact Measurement Matrix

	Procurement Fraud	Cyber Crime	Housing Tenancy Fraud	Money Laundering	Council Worker Fraud & Corruption
Annual Council Spend	£118,281,000	N/A	£24,544,000	£122,000,000	£65,385,000
Annual Potential Impact Percentage	4.76%	N/A	4.04%	0.89%	1.07%
Annual Potential Impact	£5,630,176	£1,600,000	£991,578	£1,085,800	£699,620
Under Investigation	£515,000	£0	£785,200	£0	£0
Proven	£50,000	£0	£108,367	£156,226	£8,500
Social Care Fraud		Grants Fraud	Insurance Fraud	Blue Badge Fraud	Revenues Fraud
Annual Council Spend	£78,132,000	£266,333	£1,919,081	£10,584,200	£89,976,000
Annual Potential Impact Percentage	4.70%	3.02%	3.99%	3.86%	1.22%
Annual Potential Impact	£3,672,204	£8,043	£76,571	£408,550	£1,097,707
Under Investigation	£0	£0	£200,000	£18,700	£33,613
Proven	£81,600	£291	£0	£90,700	£59,734
Total Potential Loss Impact	£15,270,249		Total Proven in 2017/18 £555,418		
Total Amount Under-Investigation	£1,552,513				


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Not Protectively Marked - Public




# **Economic Crime Threat Analysis & Strategy**


**Counter Fraud & Investigation  
Directorate**




Potential Procurement Fraud  
£5.6m




Potential Social Care Fraud  
£3.6m




Potential Cyber Crime  
£1.6m




Potential Revenue Fraud  
£1m




Potential Money Laundering  
£1m



Potential Housing Fraud  
£991k




Potential Worker Fraud  
£669k




Potential Transport Fraud  
£180k

# Counter Fraud




Potential Insurance Fraud  
£76k



Potential Grants Fraud  
£8k

The *Threats* **£15m**  
Could cost the council *annually*

Tel: 03000 999 111  
Email: [counterfraud@southend.gov.uk](mailto:counterfraud@southend.gov.uk)



# Our Strategy

Prevent

- Stop individuals becoming involved in fraud or providing support for economic crime activity

Protect

- Create the conditions in which crime prevention against fraud, particularly cyber enabled, mirrors the best aspects of physical crime prevention

Prepare


- Use intelligence to change perceptions and create effective actions against the threats across the council and in its supply-chain



Pursue



- Investigate individuals and groups engaged in fraud disrupting their activities, taking away their finances



Tel: 03000 999 111



Email: [counterfraud@southend.gov.uk](mailto:counterfraud@southend.gov.uk)







 <p>Potential Procurement Fraud £5.6m</p>	<b>Procurement Fraud</b> Our Risk Profile	
	<ul style="list-style-type: none"><li>• <b>The council spends £118m a year on supplies and services</b></li><li>• <b>Fraud in this area, includes:</b><ul style="list-style-type: none"><li>• Legitimate suppliers adding unauthorised costs to invoices</li><li>• Legitimate suppliers conspiring with staff to add costs to invoices</li><li>• Fraudulent suppliers/staff submitting completely false invoices</li><li>• Fraudulent diversion of payments to suppliers to another bank account</li><li>• Suppliers intentionally providing poor quality goods or services</li><li>• Criminals diverting legitimate payments for suppliers to their own accounts</li></ul></li></ul>	
<b>Counter Fraud</b>	<b>Tel:</b> 03000 999 111 <b>Email:</b> <a href="mailto:counterfraud@southend.gov.uk">counterfraud@southend.gov.uk</a>	



 <p>Potential Social Care Fraud £3.6m</p>	<h2>Social Care Fraud</h2> <h3>Our Risks</h3>
	<ul style="list-style-type: none"><li>• <b>The council spends £78m a year on social care</b></li><li>• <b>Fraud in this area occurs when:</b><ul style="list-style-type: none"><li>• A person falsely presents their social care needs</li><li>• A person intentionally withholds their true financial status</li><li>• A person does not use care monies for what it was paid for</li><li>• A carer abuses their position by not delivering the care they are paid for</li><li>• A carer steals from a person or submits false claims for work</li><li>• An adult or child is financially abused by a person, stealing or depriving them of their/ or family assets</li></ul></li></ul>
<h2>Counter Fraud</h2>	<p><b>Tel:</b> 03000 999 111 <b>Email:</b> <a href="mailto:counterfraud@southend.gov.uk">counterfraud@southend.gov.uk</a></p> 

 <p>Potential Cyber Crime £1.6m</p>	<h2>Cyber Crime Our Risks</h2>
	<ul style="list-style-type: none"><li>• <b>Southend has over 2,000 users of its systems</b></li><li>• <b>The cyber crime risks include:</b><ul style="list-style-type: none"><li>• Unlawful access to data we hold including people's earnings, children &amp; adults protection and care, property and supplier information</li><li>• Intentional disruption of council services</li><li>• Asset mis-appropriation – both tangible and intangible assets</li><li>• Extortion – i.e. RansomWare</li><li>• Money Laundering &amp; Fraud through the council's network infrastructure</li></ul></li></ul>
<h2>Counter Fraud</h2>	<p><b>Tel:</b> 03000 999 111 <b>Email:</b> <a href="mailto:counterfraud@southend.gov.uk">counterfraud@southend.gov.uk</a></p> 

 <p>Potential Revenue Fraud £1m</p>	<h2>Revenues Fraud</h2> <h3>Our Risks</h3>
	<ul style="list-style-type: none"><li>• <b>Southend receives £122m a year from payers</b></li><li>• <b>Our risks here include:</b><ul style="list-style-type: none"><li>• Fraudulent claims for exemptions or discounts on Council Tax or Non-Domestic (business) rates</li><li>• Debtors dishonestly avoiding payments, e.g. companies trading fraudulently to accrue debts with no intention of paying them back</li><li>• A person dishonestly representing their circumstances to avoid paying the council</li></ul></li></ul>
<h2>Counter Fraud</h2>	<p><b>Tel:</b> 03000 999 111 <b>Email:</b> <a href="mailto:counterfraud@southend.gov.uk">counterfraud@southend.gov.uk</a></p> 



 <p>Potential Money Laundering £1m</p>	<h2>Money Laundering Our Risks</h2>
	<ul style="list-style-type: none"><li>• <b>The council receives £122m a year from payers</b></li><li>• <b>The risks here include:</b><ul style="list-style-type: none"><li>• Criminals paying for legitimate debts on behalf of another individual, with illegal proceeds.</li><li>• These risk would be present in our property and supply-chain transactions, the use of stolen credit or debit cards to pay council tax and business rates or even social rents and Right-to-Buy</li></ul></li></ul>
<h2>Counter Fraud</h2>	<p><b>Tel:</b> 03000 999 111 <b>Email:</b> <a href="mailto:counterfraud@southend.gov.uk">counterfraud@southend.gov.uk</a></p> 

 <p>Potential Housing Fraud £991k</p>	<h2>Housing Fraud Our Risks</h2>
	<ul style="list-style-type: none"><li>• <b>Southend-on-Sea has 7,000 social housing properties</b></li><li>• <b>The council spends £25m a year in housing</b></li><li>• <b>Fraud risks in this area, include:</b><ul style="list-style-type: none"><li>• Housing applicants being dishonest about their circumstances</li><li>• Tenants unlawfully subletting their property</li><li>• People fraudulently claiming 'succession' of a tenancy</li><li>• False Right-to-Buy applications</li><li>• Key-selling, where a tenant 'sells' their tenancy to another</li></ul></li></ul>
<h2>Counter Fraud</h2>	<p><b>Tel:</b> 03000 999 111 <b>Email:</b> <a href="mailto:counterfraud@southend.gov.uk">counterfraud@southend.gov.uk</a></p> 

 <b>Potential Worker Fraud £699k</b>	<b>Worker Fraud &amp; Corruption</b> <b>Our Risks</b>	
	<ul style="list-style-type: none"><li>• <b>Southend spends £65m annually on its work-force</b></li><li>• <b>Fraud and corruption by workers include:</b><ul style="list-style-type: none"><li>• False (inflated) claims for overtime / flexi-time / allowances</li><li>• Remote workers falsely starting late / finishing 'early'</li><li>• Taking days off without claiming it officially</li><li>• Claiming to have delivered work when they haven't (plagiarism)</li><li>• Falsely claiming to be absent sick</li><li>• Working in secondary employment whilst absent sick</li><li>• Corrupting recruitment and other council processes</li></ul></li></ul>	
<b>Counter Fraud</b>	<b>Tel:</b> 03000 999 111 <b>Email:</b> <a href="mailto:counterfraud@southend.gov.uk">counterfraud@southend.gov.uk</a>	

 <p>Potential Transport Fraud £408k</p>	<h2>Transport Fraud</h2> <h3>Our Risks</h3>	
	<ul style="list-style-type: none"><li>• <b>Southend has over 6,000 blue badges issued</b></li><li>• <b>Fraud in this area includes:</b><ul style="list-style-type: none"><li>• A third party using a badge without the badge holder present</li><li>• The falsification of an expired badge to re-use it</li><li>• The use of a stolen/counterfeit blue badge</li><li>• The unlawful use of institutional badges by care staff</li><li>• Providing false information to obtain a parking permit</li><li>• Re-selling visitors parking permits for personal gain</li></ul></li></ul>	<h2>Counter Fraud</h2> <p><b>Tel:</b> 03000 999 111 <b>Email:</b> <a href="mailto:counterfraud@southend.gov.uk">counterfraud@southend.gov.uk</a></p> 

 <p>Potential Insurance Fraud £76k</p>	<h2>Insurance Fraud</h2> <h3>Our Risks</h3>
	<ul style="list-style-type: none"><li>• <b>Southend spends £1.9m a year on insurance</b></li><li>• <b>The risks here include:</b><ul style="list-style-type: none"><li>• Contrived accidents, where people claim an accident has happened suffering property damage or injuries when it hasn't</li><li>• Phantom passenger claims where people claim to have been in a vehicle involved in an accident with a council vehicle, when they haven't</li><li>• False claims for property damaged as a result of council activity, such as through potholes</li></ul></li></ul>
<h2>Counter Fraud</h2>	<p><b>Tel:</b> 03000 999 111 <b>Email:</b> <a href="mailto:counterfraud@southend.gov.uk">counterfraud@southend.gov.uk</a></p> 

 <p>Potential Grants Fraud £8k</p>	<h2>Grants Fraud</h2> <h3>Our Risks</h3>
	<ul style="list-style-type: none"><li>• <b>Southend awards around £230k a year in grants</b></li><li>• <b>Fraud in this area includes:</b><ul style="list-style-type: none"><li>• A person lying or exaggerating about their circumstances in order to get a grant</li><li>• An organisation submitting false information to obtain a grant</li><li>• The use of a grant for a purpose it was not intended for</li><li>• Failure to repay surplus monies awarded in grants</li></ul></li></ul>
<h2>Counter Fraud</h2>	<p><b>Tel:</b> 03000 999 111 <b>Email:</b> <a href="mailto:counterfraud@southend.gov.uk">counterfraud@southend.gov.uk</a></p> 

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# Southend-on-Sea Borough Council

Agenda  
Item No.

8

Report of the Chief Executive

to

**Audit Committee**

on

**25th April 2018**

Report prepared by: Linda Everard, Head of Internal Audit

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**Internal Audit Services, Quarterly Performance Report**

**Executive Councillor – Councillor Moring**

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

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**1. Purpose of Report**

- 1.1 To update the Audit Committee on the progress made in delivering the Internal Audit Strategy for 2017/18.

**2. Recommendations**

**2.1 The Audit Committee:**

- **notes the progress made in delivering the 2017/18 Internal Audit Strategy**
- **approves the amendments to the Audit Plan.**

**3. Internal Audit Plan Status**

- 3.1 **Appendix 1** sets out the current status of the audit work planned for the year as at 13th April 2018.

3.2 The amendments made to the Audit Plan this quarter involve:

- moving the following reviews to the 2018/19 Audit Plan:
  - Recycling, Waste and Street Cleansing Services Contract Management to take account of a change in working practices
  - P Cards Revisited as this work has only just started.
- deleting the work planned on Housing Benefit: Risk Assessment of New Claims, as this is no longer needed as a separate audit
- including time taken to provide additional advice and support with regard to the:
  - Pre-payment Cards, contract letting process
  - Airport Business Park procurement.

**4. Audit Opinions and Themes**

- 4.1 **Appendices 2a to 2d** summarise the results of the audit work completed since 5th January 2018. No minimal audit opinions have been issued.

## 5. Performance Targets

### 5.1 As at 13th April 2018:

- the in-house team has had 35 days of sickness absence since April 2017 that equates to 5.2 days per FTE (and impacts on productivity). It has increased sharply due to the combined effect of:
  - a change in calculation methodology, i.e. the Business Support Team is now included in the figures as they currently carry out work that contributes directly to the delivery of the team's Strategy and Audit Plan
  - one member of staff having had an 18 day absence in February and March 2018 due to being injured in a car accident.
- in terms of the 64 jobs in the plan:
  - 50 audits have been completed
  - two audit report is being discussed with clients
  - three reports are with the Audit Manager for review
  - fieldwork has been completed and or draft reports are being produced for two audits
  - seven audits are in progress.

### 5.2 **Appendix 3** reflects the results of six surveys undertaken since April 2017. Overall the feedback obtained remains very positive. The key overall message is that stakeholders find the Council's Internal Audit service to be professional, approachable, flexible and of tangible benefit to their services as well as the Council as a whole.

### 5.3 **Appendix 4** sets out the actions arising from the:

- Head of Internal Audit's assessment of compliance with the Public Sector Internal Audit Standards as reported in the Annual Report presented to the Audit Committee in June 2017
- independent external review of compliance completed by the Institute of Internal Auditors in October 2017.

### 5.4 Reasonable progress is being made to address these issues. The action plan will continue to be reported to the Audit Committee until all the outstanding actions are complete.

## 6. Resourcing

### 6.1 A new Senior Auditor joined the team in February 2018 and a current member of the internal audit team has recently been promoted into the other Senior Auditor post. Therefore, the team now has three of its four Audit Manager / Senior Auditor posts filled. That leaves the combined team with five vacancies out of nine posts (not counting the Head of Internal Audit). However, filling these posts will make a significant difference to the team's ability to manage contractors as well as take on and train new staff going forward.

## 7. Collaborative Working Agreement

### 7.1 The Council has had two separate Agreements with Castle Point Borough Council for many years to:

- provide two days a week of a Head of Internal Audit's time
  - pool internal audit staff to provide a combined service to both councils.
- 7.2 These have recently been refreshed. A Collaborative Working Agreement has now been signed between the two councils:
- with supporting service specifications covering these services as well as the Business Support Team
  - that will operate until the 30th September 2021.
- 7.3 As part of this process, it has been necessary to restructure the current Head of Internal Audit's role. As a result, the current post holder will be leaving the Council in May 2018 and a joint recruitment exercise is underway.
- 8. Corporate Implications**
- 8.1 Contribution to Council's Aims and Priorities
- Audit work contributes to the delivery of all corporate Aims and Priorities.
- 8.2 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.
- 8.3 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.
- 8.4 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.
- 8.5 Consultation
- The audit risk assessment and the Audit Plan are periodically discussed with the Chief Executive, Deputy Chief Executives and Directors before being reported to Corporate Management Team and the Audit Committee.
- All terms of reference and draft reports are discussed with the relevant Deputy Chief Executives and Directors before being finalised.
- 8.6 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.
- 8.7 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:
- potential 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 a 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
- need to maintain relationships with clients / partners until the service has been rebuilt.

#### 8.8 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.

#### 8.9 Community Safety Implications and Environmental Impact

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

### 9. 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
- Audit Files

### 10. Appendices

Appendix 1 Internal Audit Plan 2017/18 as at 13th April 2018

Appendix 2 Assurance and Summaries

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

Appendix 3 Stakeholder Surveys, Compliance with Professional Standards

Appendix 4 Compliance with UK Public Sector Internal Audit Standards  
Action Plan as at 29th March 2018

## Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 13th April 2018 (changes in <b>bold</b> )
<b>Managing the Business</b>			
<b>Aim: Excellent</b>			
All	<b>Corporate Complaints Stage 1 and 2</b> To assess whether Stage 1 and 2 complaints are effectively managed in line with a clear policy framework.	No	Draft report being produced.
PL / PE	<b>Departmental Project Governance Arrangements</b> To assess how robust the Department of Place internal management assurance arrangements are for effectively monitoring the progress and successful delivery of its projects.	No	<b>Report issued April 2018.</b>
CE	<b>Emergency Planning</b> To assess whether Southend-on-Sea Borough Council has robust arrangements in place for responding to a civil emergency, in line the requirements of the Civil Contingencies Act 2004 and other relevant good practice / updates.	No	<b>Report being finalised with client.</b>
CE	<b>Information Governance, General Data Protection Regulation</b> To assess how well the Council is progressing with its preparations for implementing the new requirements of the General Data Protection Regulations, which come into force in May 2018.	No	<b>Interim management report provided to officers for information.</b>
PL	<b>IT Risk Assessment</b> To undertake a baseline assessment of IT risks against a standard good practice framework and use this to develop the IT element of the Audit Plan going forward.	No	<b>Report issued February 2018.</b>
<b>Implementing Action Plans</b>			
CE	<ul style="list-style-type: none"> <li><b>Business Continuity</b></li> </ul>	No	<b>Report issued March 2018.</b>

## Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 13th April 2018 (changes in <b>bold</b> )
<b>Managing Service Delivery Risks</b>			
<b>Aim: Safe</b>			
PE	<b>Management Response to Quality Assurance Audits</b> To assess whether senior management's revised arrangements for ensuring prompt action is taken to address the improvements required where a children's social care file is assessed as 'inadequate' or 'inadequate critical', are operating effectively to minimise the risk to Children.	No	<b>Work in progress.</b> <b>Completing this work has been delayed because of the recent Ofsted inspection.</b>
PE	<b>Child Residential Placements</b> To assess whether the panels established to oversee and challenge proposed child residential care placements, are operating effectively and making appropriate placement decisions.	Yes	<b>Report issued April 2018.</b>
PE	<b>Learning Services, Education Related Performance Indicators</b> To assess whether performance indicators (PIs), for a sample of education-related activities, are: <ul style="list-style-type: none"> <li>designed to provide appropriate evidence that service objectives are being delivered</li> <li>properly produced and used effectively.</li> </ul>	Yes	<b>Report issued January 2018.</b>
PE	<b>Ofsted Improvement Plan</b> To assess whether the Council has established appropriate arrangements to address a selection of the recommendations raised in the July 2016 Ofsted report and confirm these are now embedded into the day to day working practices.	No	<b>Draft report with Audit Manager for review.</b>

## Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 13th April 2018 (changes in <i>bold</i> )
PE / PL	<b>Social Care IT Case Management System, Project Implementation (Liquid Logic)</b> To provide a framework to enable an assessment to be made of the readiness of the new Social Care IT Case Management System for Children's and Adults services to 'Go Live'. To independently challenge and report on the Project Team's assessment against the success criteria within the framework, prior to any decision being made by the Project Board to 'Go Live'.	No	Children's Services 'Go Live' Lessons Learned <b>Report issued March 2018.</b> <b>Action plan implementation position statement. Briefing memo issued April 2018.</b> <b>Adults Services 'Go Live' approach being set up to start in April 2018 as part of the 2018/19 Audit Plan.</b>
PE	<b>Social Care Payments to Individuals and Providers</b> To assess whether the control framework being designed into the new Liquidlogic case management system and the ContrOCC finance module, is robust enough to ensure that accurate and timely social care payments are made to individuals and providers.	Yes	<b>Draft report with Audit Manager for review.</b>
<b>Implementing Action Plans</b>			
PE	<ul style="list-style-type: none"> <li><b>Financial Monitoring of Direct Payments</b></li> </ul>	Yes	Report issued January 2018.
PE	<ul style="list-style-type: none"> <li><b>Mental Health Direct Payments</b></li> </ul>	Yes	Report issued October 2017.
PL	<ul style="list-style-type: none"> <li><b>Licensing</b></li> </ul>	Yes	Report issued January 2018.
PE	<ul style="list-style-type: none"> <li><b>Social Care IT Case Management System Contract Procurement</b></li> </ul>	Yes	Report issued January 2018.

## Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 13th April 2018 (changes in <b>bold</b> )
<b>Aim: Clean</b>			
PL	<b>Recycling, Waste and Street Cleansing Services Contract Management</b> To assess whether the Recycling, Waste and Street Cleansing Services contract is being effectively managed.	Yes	<b>Terms of reference being agreed.</b>  <b>Work to be completed Q3 2018/19 to allow the recently agreed variation to the contract to be embedded into day to day operational practices.</b>
PL	<b>Southend Energy Partnership (Ovo)</b> To assess the adequacy of the arrangements for monitoring delivery of the expected benefits for both the Council and local residents from the partnership arrangements entered into with Ovo Energy Limited to create the Southend Energy brand.	Yes	Report issued January 2018.
<b>Aim: Healthy</b>			
PE	<b>Adult Care Transformation Project Risk Assessment</b> To map and assess the risks relating to and assurances in place to ensure the changes being made to service delivery arrangements are effectively implemented.	No	Initial risk assessment produced and has been used to inform the 2018/19 planning process.
PE	<b>Integrated Commissioning Risk Assessment</b> To map and assess the risks relating to and assurances in place to ensure the manner in which this operates effectively and tangibly contributes to the delivery of corporate objectives.	No	Initial risk assessment produced and has been used to inform the 2018/19 planning process.
<b>Aim: Prosperous</b>			
PL	<b>Airport Business Park Project Assurance</b> To provide support and independent challenge to management in the development of benefits management controls, designed to help ensure the project can demonstrate achievement of its expected benefits,	Yes	Work in progress.

## Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 13th April 2018 (changes in <b>bold</b> )
PE	<b>Better Queensway</b> To assess whether effective project processes have been established for delivering the Better Queensway Project within the intended timeframes, so it achieves the expected benefits.	Yes	Report issued January 2018.
PL	<b>Car Park Management Contract (Lot 1) Contract Management</b> To assess whether there are robust arrangements in place to ensure that the car park compliance (Lot 1) contract is delivering the planned outcomes and / or benefits in compliance with the specified performance and quality standards, at the correct cost / price.	Yes	<b>Work in progress.</b>
PL	<b>Car Park Management Contract (Lot 2) Contract Management</b> To assess whether the Car Park Management arrangements (cash collection) as part of the Parking Management contract are being effectively managed.	Yes	<b>Work in progress.</b>
PE	<b>Corporate Procurement Team, Procure to Pay (P2P)</b> To assess the effectiveness of the arrangements for monitoring non- contract Procure to Pay (P2P) spend, focusing particularly on those areas that do not comply with the order, goods receipt and invoice process.	No	Current status report issued to management August 2017.
PL	<b>Highways Contract Management</b> To assess whether the highways block of contracts are being effectively managed.	Yes	<b>Work in progress.</b>
CE	<b>Leases and Licences</b> To assess whether the Council effectively manages its leases and licences as well as receiving all income due from them.	Yes	<b>Report issued April 2018.</b>
<b>Implementing Action Plans</b>			
PL	<ul style="list-style-type: none"> <li><b>Airport Business Park Project Assurance</b></li> </ul>	Yes	Report issued January 2018.
PE	<ul style="list-style-type: none"> <li><b>Corporate Procurement Team, Procure to Pay (P2P)</b></li> </ul>	Yes	<b>Report issued April 2018.</b>
PE	<ul style="list-style-type: none"> <li><b>Housing Allocations</b></li> </ul>	Yes	Report issued January 2018.
PE	<ul style="list-style-type: none"> <li><b>“P” Cards</b></li> </ul>	Yes	<b>To be carried forward to 2018/19 Audit Plan.</b>

## Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 13th April 2018 (changes in <b>bold</b> )
CE	<ul style="list-style-type: none"> <li><b>Right to Buy</b></li> </ul>	Yes	Report issued December 2017
<b>Aim: Excellent</b>			
CE	<b>Housing Benefit: Risk Assessment of New Claims</b> To work proactively with officers to provide assurance that the proposed new automated risk profiling arrangements to determine the level of verification checks required to confirm entitlement, will be fit for purpose.	Yes	<b>With the role out of Universal Credit for all new claims, this will just be incorporated in housing benefits systems work when looking at the assessment process.</b>
<b>Implementing Action Plans</b>			
PE	<ul style="list-style-type: none"> <li><b>Section 75 Partnership Agreement, Integrated Equipment Service</b></li> </ul>	Yes	Report Issued October 2017.
PL	<ul style="list-style-type: none"> <li><b>Works Contract Letting, St Helen's Roman Catholic School</b></li> </ul>	Yes	Report issued January 2018.
<b>Aim: All</b>			
PL	<b>IT Change Management</b> To assess the adequacy and effectiveness of the Council's formal processes that ensure any changes to the IT environment (e.g. through applications or infrastructure) are introduced in a controlled and coordinated manner to minimise the risk of disruption to Council services.	No	The findings from this initial review are being followed up in April 2018.
PL	<b>Agresso System Access Controls</b> To assess whether there are adequate arrangements in place for ensuring that at any point in time, individual staff members' access to the functions within the Agresso system is in accordance with the needs of their job role.	Yes	<b>Report issued April 2018.</b>
CE	<b>Payroll, Self-Serve Mode</b> To assess whether the new arrangements for processing and approving expense, mileage and overtime allowance claims are working effectively.	Yes	<b>Draft report with Audit Manager to review.</b>

## Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 13th April 2018 (changes in <b>bold</b> )
PL	<b>Smart City Project</b> To: <ul style="list-style-type: none"> <li>establish the remit and content of the SMART City Project</li> <li>determine Internal Audit's approach to providing appropriate assurance over the lifecycle of the project.</li> </ul>	Yes	Initial risk assessment produced and has been used to inform the 2018/19 planning process.
<i>Implementing Action Plans</i>			
PL	<ul style="list-style-type: none"> <li><b>IT Infrastructure and Asset Management</b></li> </ul>	No	<b>Draft report being produced.</b>
CE	<ul style="list-style-type: none"> <li><b>Welfare Reform</b></li> </ul>	No	Report issued December 2017.
<b>Key Financial Systems</b>			
<b>Aim: All Aims</b>			
CE	<b>Financial systems work to support the production of the Council's Financial Statements</b> To confirm that key controls in each of the key financial systems: <ul style="list-style-type: none"> <li>are designed to prevent or detect material financial errors, and</li> <li>have been in place during 2017/18 and therefore, can be relied when producing the Council's Statement of Accounts.</li> </ul>	Yes	<b>Report issued April 2018.</b>
CE	<b>Payroll Revisited</b> To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	Yes	Report issued November 2017.
CE	<b>Other Key Financial Systems</b> Approach to this work is still to be confirmed. To use computer-assisted audit techniques (CAATs) to automate audit testing and allow for a deeper analysis of large data sets.	Yes	Risk assessments produced and has been used to inform the 2018/19 planning process.

## Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 13th April 2018 (changes in <b>bold</b> )
<b>Grant Claims</b>			
	To certify, in all significant respects, that the conditions attached to the grant have been complied with.		
PE	<ul style="list-style-type: none"> <li><b>Disabled Facilities Capital Grant Determination</b></li> </ul>	Yes	Completed.
PL	<ul style="list-style-type: none"> <li><b>Highways Maintenance Challenge Fund</b></li> </ul>	Yes	Completed.
PL	<ul style="list-style-type: none"> <li><b>Local Transport Capital Block Funding</b></li> </ul>	Yes	Completed.
PL	<ul style="list-style-type: none"> <li><b>Local Growth Fund</b></li> </ul>	Yes	Completed.
PL	<ul style="list-style-type: none"> <li><b>Pothole Action Fund</b></li> </ul>	Yes	Completed.
CE	<ul style="list-style-type: none"> <li><b>Mentoring Fund</b></li> </ul>	No	Completed.
PE	<b>Troubled Families Programme, Payments by Results Scheme Grant</b> To challenge Troubled Families Payment By Result (PBR) Grant returns are in line with the Department for Communities and Local Government requirements.	Yes	Reported on May, July, Sept, Oct 2017 and <b>March 2018</b> submissions.
<b>Advice and Support</b>			
To provide independent review, support and challenge to assist with the delivery of the groups' objectives and work programme.			
	<b>Attendance at Groups</b> To provide supportive, critical challenge as required		
	<ul style="list-style-type: none"> <li>External Grant Funding Group</li> </ul>		Attend as required.
	<ul style="list-style-type: none"> <li>Good Governance Group</li> </ul>		The Head of Internal Audit attends.
PE	<b>Early Years Funding – Nursery Settings in Schools</b> To assess the effectiveness of the arrangements currently in place and being developed within the funded childcare provision to ensure: <ul style="list-style-type: none"> <li>the accuracy of the funding being approved by the Group Manager, Early Years</li> <li>providers are fulfilling their duties in line with the provider agreements.</li> </ul>	Yes	<b>Completed.</b> <b>Support and challenge provided whilst validation systems being considered.</b>

## Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 13th April 2018 (changes in <b>bold</b> )
PL	<b>The Hive Business Incubation Centre</b> To assess the robustness of arrangements for setting up and monitoring the delivery of the City Deal outputs detailed in the Service Level Agreement with the provider (Enterprise 4 Good) in relation to “The Hive” Business Incubation Centre.	Yes	Internal management report being finalised with client.
All	<b>Potential Corporate Project Governance Approach</b> To assess whether the Property, Regeneration and Strategic Projects team capital projects, project management approach (the PR&SPT's project management approach) could be effectively utilised as the corporate standard when managing a project.	No	<b>Report issued February 2018.</b>
CE	<b>RIPA</b> To work with the Counter Fraud & Investigation Directorate to provide the Director of Legal & Democratic Services with support to set up a process for auditing the use of social media sites and the internet for investigative or official business, across all departments, in line with the requirements of the Council's RIPA Policy.	No	<b>Work completed and feedback provided to officers for consideration.</b>
PL	<b>Safety of Gas Boilers in the Council Estate</b> To assess whether robust processes have and are being followed by Southend on Sea Borough Council (the Council) when examining issues raised by a complainant regarding potential non-compliance with Gas Safety (Installation and Use) Regulations.	Yes	Work completed and feedback provided.
PL	<b>Safety of Gas Boilers in the Council Estate Action Planning</b> To provide support and challenge to the department to ensure a robust action plan is developed to improve the process for managing the Councils gas contract.	Yes	Work completed. Support and challenge provided whilst action plan was being developed.
PE	<b>Pre-payment Cards: Letting of Contract</b> To assess whether effective arrangements are being developed to manage the issue of as well as approve and monitor expenditure on, pre-payment cards given to clients: <ul style="list-style-type: none"> <li>• in receipt of direct payments</li> <li>• where the Council acts as the official receiver for Court Protection purposes.</li> </ul>	Yes	<b>Completed.</b> <b>Support and challenge provided whilst policy for using prepayment cards drawn up.</b>

## Appendix 1: Internal Audit Plan 2017/18

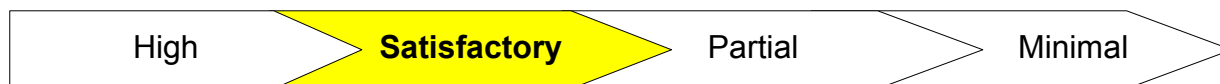
Dept	Council activity and focus of audit work	Fraud risk	Status as at 13th April 2018 (changes in <b>bold</b> )
PL	<b>Airport Business Park Procurement</b> To provide ongoing support and challenge to the project to ensure procurement activity is compliant with the Councils Contract Procedure Rules and Public Procurement Regulations.	Yes	<b>Work completed and feedback provided.</b>
<b>Schools Audit Programme</b>			
<b>Aim: Prosperous</b>			
PE	<b>Schools Audit Programme</b> To assess whether individual schools have adequate and effective governance, information and asset management as well as financial management and reporting arrangements in place.		
	<ul style="list-style-type: none"> <li>Earls Hall Primary School</li> </ul>	Yes	Report issued November 2017.
	<ul style="list-style-type: none"> <li>Leigh North Street Primary School</li> </ul>	Yes	Report issued December 2017.
<b>Managing Delivery of the Audit Plan</b>			
	Audit Planning, Resourcing		
	Managing Contractor Work		
	Reporting to Management Team and Audit Committee		
	Preparing for statutory, independent external assessment against UK Public Sector Internal Audit Standards		

### *Implementing action plans.*

The objective of this work is to check that actions agreed have been effectively implemented and are now embedded into the day-to-day operation of the service.

## Appendix 2a: Assurance and Summaries

### Assurance



### Place Departmental Project Governance Arrangements

#### Objective

To assess how robust the Department of Place (DoP) internal management assurance arrangements are for effectively monitoring the progress and successful delivery of its projects.

#### Summary

There are two service areas in the Department of Place (DoP) whose core role involves project management, i.e.:

- Property and Estate Management team, who deliver the capital programme
- Regeneration and Business Development, who are involved in schemes like Queensway and the Airport Business Park.

The only documented project management guidance within the DoP is that used by the Property, Regeneration and Strategic Projects team (PR&SP team) for delivering capital works projects. It includes a Project Plan document, which sets out the requirement:

- to establish a project board for each capital scheme, which meets monthly
- for:
  - both the project team members and project board's roles and responsibilities to be documented
  - the project board to receive monthly project highlight reports covering delivery progress and spend against budget information.

This is in line with recognised good practice project management. Programme Boards may also be established for larger schemes.

A Departmental Management Team (DMT) Capital Project Board (the DMT Board) has been established to monitor the progress and successful delivery of capital projects. Action is now required to:

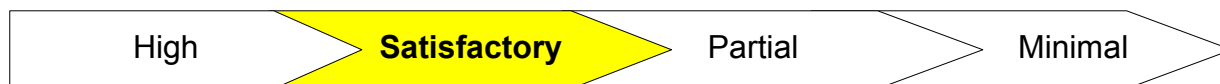
- formalise the terms of reference that sets out its role and remit, responsibilities and accountabilities (including required attendees) as well as information / reporting requirements
- clarify its role in relation to individual programme and project boards, particularly with regard to what it is expecting to see and when.

It is also important that management ensure the quality of the project data / information produced for all board meetings is robust and fit for purpose.

Number of actions agreed: 3

## Appendix 2a: Assurance and Summaries

### Assurance



### Child Residential Placements

#### Objective

To assess whether the panels established to oversee and challenge proposed child residential care placements, are operating effectively to ensure that appropriate placement decisions are made.

#### Summary

The role, purpose and inter-relationship of the Placement Panel and Acute and Complex Placement Panel, responsible for making child care residential placement decisions is clearly defined and aligned to the wider service and Council objectives. Review of the 2017/18 service plan has identified that it is still in draft and not yet formally reviewed and approved by management.

The panels comprised of those with the relevant expertise and qualifications to make decisions in relation to the appropriate type of care required. These arrangements are going to be strengthened by formally documenting the process for:

- inducting new members onto the panels
- determining when meetings or decisions on a case should be postponed.

Assessment criteria, policy and procedures to be applied to proposed residential care placements are documented, maintained and appropriately pre-approved to ensure cases are assessed consistently. A quality assurance check is to be introduced prior to panel meetings of case papers to ensure they are always in line with the framework and sufficiently detailed to enable an appropriate decision to be made.

Generally, relevant social care staff who are proposing placements attend the panels to present the case so that effective challenge of referrals made. Going forward, Administrative staff will check to identify cases where neither the social worker nor team manager can attend, so a decision can be taken as to whether to defer the case to the next panel meeting.

The rationale for decision making along with appropriate supporting documentation to support decisions made is retained and is in line with the approved framework. There will be standard item at the start of each panel agenda, which requires the accuracy and completeness of the previous meetings minutes to be approved.

Placement decisions made outside the panel meetings are robust and consistent.

Number of actions agreed: 5

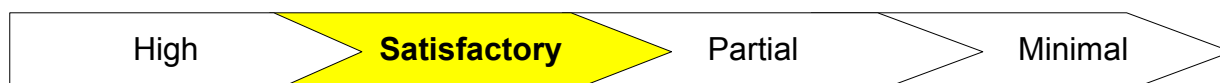
### Learning Services, Education Related Performance Indicators

#### Objective

To assess whether Performance Indicators (PIs), for a sample of education-related activities, are:

## Appendix 2a: Assurance and Summaries

### Assurance



- designed to provide appropriate evidence that service objectives are being delivered
- properly produced and used effectively.

### Summary

#### Indicators reviewed

- Percentage of three and four year old children benefitting from funded early education in good or outstanding settings.
- Percentage of children in good or outstanding schools (Monthly Snapshot).
- Percentage of new Education Health and Care (EHC) plans issued within 20 weeks including exception cases (Cumulative YTD).
- Percentage of total attendance in Primary schools, Secondary schools and Special schools.

#### Ownership and Use of Performance Indicators (PIs)

All the PIs reviewed flow from the current Learning Services Service Plan or from central government requirements. The Performance Indicators Framework clearly defines what each PI is required for and how it is to be calculated.

All the PIs are owned by a relevant and appropriate officer, who has day-to-day involvement in the service to which the PI relates. The PI owners have a clear understanding of what they tell them and how they can be used to monitor the service offered.

#### Core Data for Performance Indicators

Most of the core data used by the Data, Performance and Information (DPI) Team to produce these PIs is input either by schools, where they choose to provide it (for pupil attendance) or by the Special Educational Needs Team (for Education Health and Care (EHC) plans).

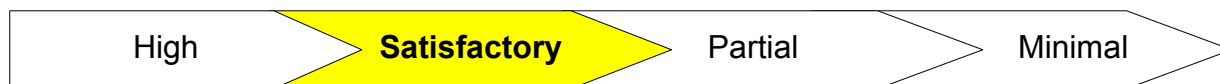
The EHC data is subject to internal departmental checks before its release. The DPI Team undertakes reasonableness and consistency checks on the data received. There needs to be better evidencing of the data validation work undertaken by both teams.

#### Special Educational Needs Returns (SEN2)

An SEN2 form is submitted annually to the Department for Education (DfE) regarding Special Educational Needs information. The process for producing and validating the data supporting the 2017 return was not robust enough. As a result, a number of errors were identified by the DfE in the information provided.

## Appendix 2a: Assurance and Summaries

### Assurance



The Director of Learning Services has instructed the DPI Team to work with the service to ensure the data provided in 2018 is accurate and complete. A decision will then be made about where this function should sit in the longer term, taking into account the more general work being done to improve data quality within the social care case management IT system (LiquidLogic).

### Systems Access

All the data used by and reports produced by the DPI Team are held on the team's network drive folder. Given the nature of this information, user access to this folder needs to be reviewed. Those who no longer need access to this information need to be removed.

Number of actions agreed: 6

### Leases and Licences

#### Objective

To assess whether the Council effectively manages its leases and licences as well as receiving all income due from them.

#### Summary

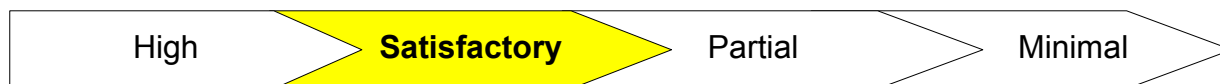
The Corporate Property and Asset Management (CP&AM) team use the I-Dox management system to record and monitor leases, licences and related events (for example, a rent review). The data from lease events is updated on completion and then reconciled periodically as well as at the end of each financial year. However, the data quality could be improved further. This is important as all the key, standing information from the leases and licences is contained within the system and used to inform future reviews and lease events. There are processes in place to ensure that this data quality is continually being improved and there is a dedicated Data Manager.

The process for instructing Legal Services on new leases is robust and operating effectively. When an Instruction Pack is sent to them, they prepare the draft lease and send it back to the CP&AM team. Meetings are held regularly to monitor case progress. The Legal Services team notify other services of lease and licence completions. The communication channels are documented in the procedure manual. Roles are clearly outlined in documented guidance and staff can clearly articulate their responsibilities. Once a new lease is completed, Legal Services send a completion memo:

- containing a brief on the lease, rent value, rental deposit, and previous lease or tenancy agreement
- to the CP&AM team, the Income team, Accountancy, Finance and where relevant the Business Rates and other teams.

## Appendix 2a: Assurance and Summaries

### Assurance



There are appropriate processes in place to monitor adherence to the terms of leases and licences issued by the Council. These involve monthly meetings between the CP&AM team and Legal Services to review any open issues including lease proposals in process and on-going disputes on recovery of rent. Although the meetings are not formally minuted, actions are recorded and followed up each month.

There are robust monitoring arrangements in place to ensure leases and licences are renewed or reviewed in a timely manner. Renewal and annual review dates are recorded in the I-Dox management system. Automated reminders are received by a CP&AM team member who is responsible for undertaking the review, one month before this date. There is a need for Council Surveyors to improve the documentation of the approach used to perform valuations use to support new rents calculated when a rent review is undertaken. The relevant authorities are put in place prior to completions through delegated authority or Standing Orders. These are checked by the Legal Services team prior to sealing.

The collection of income from leases and licences is robust and well designed. Payment schedules are uploaded into the general ledger once leases are issued. Invoices are automatically generated within Agresso, when payment dates are reached. Monthly reports are produced by the Income Manager and shared with the CP&AM team who are responsible for any leases where income receipts are overdue. Instructions flow from CP&AM and Legal Services to the Income Team in relation to debt recovery as appropriate. The Aged Debt reports could be improved by including details of specific actions that need to be taken to recover the outstanding debt and the action owners.

The escalation of outstanding debt for leases and licences is well documented and operating effectively. Where there has been a default in payment, CP&AM and Legal Services determine whether any terms and conditions of lease need to be invoked. They will then take the appropriate action to ensure the Council is able to collect the income owed.

Number of actions agreed: 3

### Financial systems work to support the production of the Council's Statement of Accounts

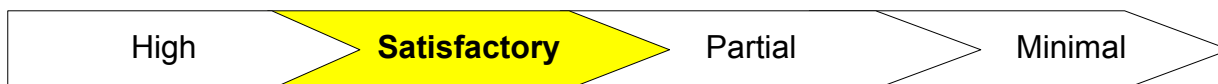
#### Objective

To confirm that the following key objectives and associated controls in each of the systems outlined below:

- are designed to prevent or detect material financial errors, and
- have been in place during 2017/18 and therefore, can be relied when producing the Council's Statement of Accounts.

## Appendix 2a: Assurance and Summaries

### Assurance



### Scope and Control Opinions

The key controls audited are detailed in the table below. The assurance assessment (\*) reflects:

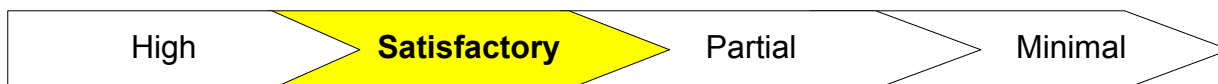
- the strength of the control design
- how well the control has operated in practice OR
- the assurance obtained from substantive testing, if the control could not be relied upon.

### Summary

Key controls audited	Assurance (* refer above)
<b>Accounts Payable</b>	
• Reconciliations between the Accounts Payable and the General Ledger systems are complete, accurate and timely.	High
• Purchases are correctly approved via the Agresso system, in line with the Council's Scheme of Delegation.	High
<b>Accounts Receivable</b>	
• Reconciliations between the Accounts Receivable and the General Ledger systems are complete, accurate and timely.	Satisfactory
• All instructions from originating service areas for debtors to be raised are: <ul style="list-style-type: none"> <li>• accurately and completely turned into an up to date, official Council invoice, on a timely basis</li> <li>• recorded on the Accounts Receivable system.</li> </ul>	Partial
<b>Business Rates</b>	
• Reconciliations between the Business Rates and the General Ledger systems are complete, accurate and timely.	High
• Reconciliations of property numbers and rateable values between the Business Rates system and the government's Valuation Office are complete, accurate and timely.	High
<b>Council Tax</b>	
• Reconciliations between the Council Tax and General Ledger systems are complete, accurate and timely.	High

## Appendix 2a: Assurance and Summaries

### Assurance



Key controls audited	Assurance (* refer above)
<ul style="list-style-type: none"> <li>Reconciliations of property numbers and rateable values between the Council Tax system and the government's Valuation Office are complete, accurate and timely.</li> </ul>	High
<ul style="list-style-type: none"> <li>Data identifying single person discount fraud is used to correct Council Tax accounts on a timely basis.</li> </ul>	High
<b>Council Tax Benefit</b>	
<ul style="list-style-type: none"> <li>Reconciliations between the Council Tax Benefit and General Ledger systems are complete, accurate and timely.</li> </ul>	High
<b>General Ledger</b>	
<ul style="list-style-type: none"> <li>Reconciliations between the General Ledger and the bank account/s are complete, accurate and timely.</li> </ul>	High
<ul style="list-style-type: none"> <li>Journals are accurate, authorised and supported by appropriate evidence to confirm their validity.</li> </ul>	High
<b>Housing Benefit</b>	
<ul style="list-style-type: none"> <li>Reconciliations between the Housing Benefit and General Ledger systems are complete, accurate and timely.</li> </ul>	High
<b>Payroll</b>	
<ul style="list-style-type: none"> <li>Reconciliations between the Payroll and General Ledger systems are complete, accurate and timely.</li> </ul>	High

### Accounts Receivable

#### Reconciliations

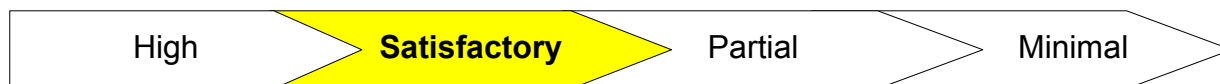
The Agresso system runs an AG06 report each month which automatically produces the reconciliation between the Accounts Receivable Ledger and the General Ledger. This is then checked by the Accounts Receivable Manager to ensure it is complete and accurate. There was evidence this reconciliation was being undertaken regularly and there were no differences between the ledgers.

The Revenues Manager should then:

- independently check that there are no issues with the reconciliation

## Appendix 2a: Assurance and Summaries

### Assurance



- confirm via e-mail to the Accounts Receivable Manager that this work has been done.

There is no evidence that the independent review is being completed. The Accounts Receivable Manager only received confirmation e-mails covering the April and May 2017 reconciliations.

### Instructions from Originating Service Areas

A report comprising of invoice requests for debtors is run on the CIVICA system. Internal Audit was advised that 10% of cases detailed on the report are supposed to be checked by the Accounts Receivable Manager, as per the established control environment.

The details of the invoice request and the invoice are checked to ensure that the coding and value is correct. For each case checked, the report is annotated with his initials and the date to indicate that the check has been undertaken. However, these checks have only been completed for April 2017 and May 2017 of the 2017/18 financial year. This was due to other priorities with workload.

Therefore, as reported last year, a view should be taken as to whether to tolerate this risk, amend the level or frequency of checking to be done or address the resourcing issues. Particularly given the Accounts Receivable Manager has indicated that there are usually very few errors and these are not material in value.

Number of actions agreed: 2

## Appendix 2b: Audit Opinion and Summaries

### Assurance



### Agresso System Access Control

#### Objective

To assess whether there are adequate arrangements in place for ensuring that at any point in time, individual staff members' access to the functions within the Agresso system is in accordance with the needs of their job role.

#### Summary

The Council's three overarching IT security policies are of good quality, highlighted to staff when joining the Council and available on the intranet for reference. They should all be reviewed, potentially consolidated and reapproved by the Director of Legal and Democratic Services, who is now the Senior Information Risk Owner. ICT also has an ICT Standard Service Level Agreement (SLA), which details action timeframes for four priorities of request, which does not appear to be widely known. This may explain the higher than expected levels of requests made on or after the dates they should have come into effect.

Line managers are accountable for submitting initial Agresso access, changed access and access revocations requests. As this comes from 'management', the ICT Agresso team take this as the 'authority to action'. However, it is not unusual for requests to be sent by other, sometimes more junior staff members.

A current staff profile can be selected to be copied or a default level of access will be applied. Some evidence was found of inappropriate or incorrect access profiles being applied. In the short term, some management review is needed within ICT to ensure such requests are consistently and accurately processed.

The main concern is that the level of access being granted to staff (i.e. access templates being used) is not clearly linked to employees' job roles. This is an issue which is outside of ICT's direct control and dates back to when Agresso was first implemented. Addressing this in a timely manner would be a significant task. A potential approach would be to tackle this iteratively, focussing on the highest risk areas first. A level of risk would need to be accepted until this work is completed. The process to be adopted for granting, changing and revoking Agresso system access also needs to be documented in some form.

Some ICT staff members and all HR staff have elevated levels of access to Agresso both to carry out administrative tasks and troubleshoot problems. The on-going validity of this needs to be confirmed. In general, this level of access needs to be minimised to situations where it is absolutely required, logged and justified.

Apart from for a small number of ICT staff, access to Agresso is linked to network logins which have appropriate automated enforcement of password length, complexity and expiry. These same standards need to be automatically enforced within the Agresso application.

## Appendix 2b: Audit Opinion and Summaries

### Assurance



The Agresso Review Group (ARG) is responsible for the development and on-going use of Agresso. It is correctly constituted, has clear Terms of Reference and appropriate membership. ARG meetings are formally managed, with agendas and minutes produced. It should also be involved in approving the 'design' of roles that define the various levels of access to Agresso as well as the employees that are allocated to each. A one off exercise started in October 2016, to confirm all Agresso users have the correct access profile was not completed. It needs to be repeated but taking a different approach, involving operational managers. Once it has been confirmed that all staff access profiles are correct:

- service managers should be asked to confirm every six months, that this remains the case for all the staff that they manage
- relevant staff should be asked to confirm annually, that the design of the templates giving access to their areas remain correct.

The ARG should receive summary reports where significant exceptions in access granted are identified.

Number of actions agreed: 20

## Appendix 2c: Audits Revisited

### Purpose of these audits

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

### Business Continuity Revisited

#### Original Objective

To assess whether the Council has effective arrangements in place to enable services (particularly critical ones) to continue to be provided in the event of a disaster occurring.

#### Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	No longer applicable
1	0	4	1	1

#### Summary

A key issue reported previously was that at a corporate level:

- very limited staff resource was available to facilitate the on-going maintenance of the Business Continuity Plans (BCPs) and Incident Management Strategies (IMS)
- operational responsibility for Emergency Planning (EP) and its associated IMS, was handled separately, meaning there was no clear linkage between both plans.

Since then:

- an additional resource was bought in for a year to particularly focus on:
  - getting services to produce six monthly updated Business Impact Assessments (BIAs) that identify staffing and key systems
  - producing group level BCPs that clarify key response and assets required
  - getting service level commitment through Director level approval of group level BCP's and monitoring of service response through service plans.
- responsibility for co-ordinating the organisational business continuity function is being transferred to the Emergency Planning Officer so the synergy between the two functions can be exploited
- permanent additional staff resources are being allocated to this work.

Once the new team has been established, the Council will be able to maintain more robust business continuity and emergency planning arrangements.

The work programme for the team should then include:

- developing a tiered training programme for staff at different level of responder responsibility and monitoring take up

## Appendix 2c: Audits Revisited

- holding Directors to account for ensuring that all services have BIA's and department BCPs using the corporate approach, that link to the Corporate Business Continuity Plan
- developing a corporate testing schedule to ensure service level plans, and hence, the corporate approach, operate effectively in given scenarios
- risk assessing outstanding actions arising from Operation Meltdown and if they are still relevant, creating an action plan to address them
- producing a:
  - schedule for testing both the BCP and IMS at a corporate level
  - methodology for reviewing test outcomes, learning lessons, implementing actions arising from this and amending the documents accordingly.

### Procure to Pay (P2P) Assurance Revisited

#### Original Objective

To assess the effectiveness of the arrangements for monitoring non-contract Procure to Pay (P2P) spend, focusing particularly on those areas that do not comply with the order, goods receipt and invoice process.

#### Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Closed
19	3	2	1	5

#### Summary

Good progress had been made in addressing the actions agreed in the original report. The implementation of actions was proactively managed as well as delivered in a timely way. There is also evidence that the revised arrangements are embedded into current working practices.

As a result:

- improved manual monitoring processes are in place over Accounts Payable Sundry and Exempt and Payment Without Purchase Order (PWPO) transactions, leading to improved compliance with the P2P process in these areas
- there is better quarterly reporting around P2P compliance, where the quality and transparency of information has significantly improved since the initial audit which:
  - enables direct oversight of the P2P process by the Senior Leadership Team for the first time
  - supports more in-depth challenge by those charged with governance than was previously possible.

## Appendix 2c: Audits Revisited

- more detailed guidance is in place for staff involved in administering the P2P process, including gatekeepers.

Further work is now being undertaken to:

- improve the:
  - contents of guidance for staff and suppliers in some areas and communicate this appropriately
  - quality and range of Agresso reporting to support targeted sanctions and increase compliance with the P2P process
  - granularity of quarterly reporting to senior stakeholders.
- train Corporate Procurement staff in how to report on cheque requisitions in Agresso.

The main reason why no further action is to be taken in some areas is that it was not possible to configure Agresso to automate some processes. Some configuration requirements are also linked to the upgrade of Agresso. Therefore, they will not be investigated, scheduled or implemented until the upgrade is complete (forecast for upgrade is July 2018).

In the majority of these areas, appropriate manual controls were found to be operating. However, officers did not think that it was cost effective to implement manual controls to ensure that low value retrospective purchase orders could be easily identified and addressed with requisitioners, where appropriate. Instead, they will accept the risk associated with this control design weakness.

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## Appendix 2d: Other Audits and Grant Claims

### Emergency Planning Redesign

#### Objective

To assess whether the Council has robust arrangements in place for responding to a civil emergency, in line with the requirements of the Civil Contingencies Act 2004 (CCA) and other relevant good practice / updates.

#### Current status

The purpose of this audit was to inform an exercise already underway to re-engineer emergency planning processes.

The Council already has a lot of intelligence about potential civil emergencies, which is obtained via the Essex Resilience Forum. This is already used to inform contingency planning. These arrangements would be enhanced by:

- producing a Southend emergency planning risk register that includes local risks
- establishing a Resilience Working Group that includes all key functions involved in Emergency Planning and Business Continuity within the Council to facilitate joint working
- producing a rolling Emergency Planning Action Plan that includes:
  - all actions required to be taken arising from Essex Resilience Forum, including mitigating actions on its risk register
  - proactive work such as scheduled tests of the emergency plan, skills training, rest centre reviews and training exercise
- agreeing with Corporate Management team what information they want to receive to provide them with an appropriate level of assurance that emergency planning risks are being properly mitigated and how often it should be provided.

The Council has various plans in place to respond to civil emergencies. A few opportunities to further enhance these are being actioned.

The Council has access to emergency plans which have been produced by the Essex Resilience Forum, which includes all key partners. Once the consolidated risk register has been produced, it may be useful to confirm that any local risks are covered and that the Essex emergency plans don't need to be tailored for local circumstances.

It has been agreed that it would be helpful to adopt more formalised arrangements for testing emergency plans and ensuring key staff receive appropriate training on an on-going basis for both planning and responding to an emergency.

A review of on-call services by officers is in progress to identify any gaps relating to emergency planning. Appropriate will be taken to address any issues identified.

There is some work to do to ensure that the resources required to deal with an emergency response are still sufficient; that they will be able to access relevant emergency planning documents easily; and will be available when required. Some job profiles also need updating to properly reflect the officer's role in emergency planning.

## **Appendix 2d: Other Audits and Grant Claims**

A multimedia communications strategy will be developed for use in event of a civil emergency, taking into consideration the demographics of the borough's population. A review will also be undertaken of the information on the Council's web site to ensure:

- the civil emergency relation information is fit for purpose
- there is adequate advice and assistance to business and voluntary organisations about business continuity management.

### **Preparation for the introduction of the General Data Protection Regulations**

#### **Objective**

To assess whether the General Data Protection Regulations (GDPR) health check action plan is being implemented properly and in a timely manner.

#### **Status as at February 2018**

As at February 2018, when this work was completed, the overall conclusion was that the Council was progressing well with this work, in a structured manner.

The Council had taken a proactive approach to GDPR compliance through the:

- introduction of a dedicated programme of work
- appointment of a Project Manager who has significant experience in Data Privacy and Protection
- development of an implementation plan which, when completed, will put the Council in a strong position for compliance with the GDPR legislation.

The programme had made a good start in approaching and meeting the GDPR legislation. It was in the early stages of delivery and the majority of tasks still needed to be completed. However, overall, it was one of the stronger programmes of work seen at this time, in respect of:

- the Project Plan, which was:
  - comprehensive and covered all the main areas expected in depth
  - well documented, kept up to date and showed the key areas will be covered before May, with some capacity for delays
  - unusual in that it showed how much work was expected to be completed in time for GDPR day.
- cohesion of the Project Plan between Project Management team and the Directorates carrying out the work (i.e. it was possible to evidence that they were all working to the same plan).

As at April 2018, officers have informed Internal Audit that the key areas of work that are now being focused on include:

- the Information Asset Register (IAR), as the Council's key reference point as to what systems are hosting personal sensitive data, where those systems are hosted, what specific types of data is on them and who is the data/system owner

## **Appendix 2d: Other Audits and Grant Claims**

- the deletion capability of systems, to ensure up to date retention schedules and appropriate deletion functionality (which is being picked up through the IAR discussions)
- detailed training of key personnel across the organisation, including Elected Members
- delivery of a robust communication plan that looks to provide generic messaging to all staff that informs and embeds data protection good practice
- demystifying the changes to consent!

### **Social Care IT Case Management System Children's Implementation Lessons Learnt**

#### **Objective**

To strengthen the approach adopted to managing delivery of the Liquidlogic Adults System (LAS) project by learning from the implementation of the Liquidlogic Children's System (LCS) and the associated go live experience.

#### **Current status**

In August 2016, Internal Audit undertook a health check of the implementation of the Liquidlogic Children's Services (LCS) project. The initial LCS project demonstrated some methodology, through the previous experience of contracted Project Managers. However, a good practice delivery approach, which the entire project could adopt, was not in place. This put a number of project processes at risk. As an aside, Internal Audit had already identified the need for the Council to decide how best to produce a good practice framework to support project management that could be used corporately.

Therefore, the approach taken was to assist the Project Board to make an informed go live decision for Children's Services. This was achieved by agreeing four success factors, which were used to develop a 'Go Live Readiness Assessment Framework':

- by which the project were able to assess themselves
- against which Internal Audit could undertake an independent validation exercise.

When making the final decision to go live, the Chair of the Project Board took into account:

- the final Internal Audit validation of the Council's 'Go Live Readiness Assessment' with the evidence available at that time
- further documented evidence that was provided up to and including the day of the Project Board meeting
- verbal assurances provided by officers and contractors at the Project Board meeting.

In order to strengthen the arrangements for managing the Liquidlogic Adults Services (LAS), action is being taken to:

- develop a detailed project plan which includes all required tasks to deliver the current phase of the project and high level tasks for the next phase

## Appendix 2d: Other Audits and Grant Claims

- monitor and update plans at least monthly and report progress against key milestone to the Project Board
- introduce Project Board highlight reports to cover all key project control areas e.g. time, cost, quality, scope changes, risks and issues and benefits
- where possible, fully define and agree planned project benefits supported by baseline information, targets, agreed methods of measurement and assigned owners responsible for realisation
- ensure there is regular review and monitoring of progress against realisation of planned benefits
- ensure that appropriate evidence of all forms of testing is retained to enable a random selection of tests to be audited for completeness

use the go-live readiness framework developed and determine an approach which provides the Project Board with sufficient confidence, backed up by solid evidence, to make informed decisions

- ensure the Project Sponsor and Board are coached, where required and that information is presented in such a way that it is easy for a non-technical person to understand
- ensure that sufficient and appropriately skilled resources are in place and ring fenced to support delivery of the LAS project.

### **Liquidlogic Adults System, Implementing Lessons Learned from Children's Project Update**

#### **Objective**

To assess whether the actions agreed in the Children's Implementation Lessons Learnt report above are being actively taken into account in preparing for the Liquidlogic Adults System (LAS) Go Live in May 2018.

#### **Status as at March 2018**

Overall good progress had been made in addressing the lessons learnt from the Liquidlogic Children's System (LCS) implementation in preparing for the LAS 'Go-Live'. The majority of Internal Audit's recommendations had been moved forward and, as a result, most of the underpinning project documentation appeared to be in place.

As at 20th March:

- the current Project Plan was fit for purpose and contained all of the areas expected as per project management good practice
- Project Board Highlight Reports were being produced covering most of the expected project management elements. Cost was being reported upon separately. Benefits tracking will be included going forward, once the benefits realisation plan is baselined and approved by the Project Board. Action is required to build 'quality' as the other areas to be included in the Highlight Reports

## **Appendix 2d: Other Audits and Grant Claims**

- the Benefits Realisation Plan needed amending to include quantified targets that will help the benefits owners and governing boards be certain that a benefit had been successfully delivered
- plans on the benefits monitoring process will need to be drafted immediately ahead of go-live, so that any delays or slippages can be identified as soon as possible after go-live
- there was evidence of extensive testing, including comprehensive test scripts and the results of the User Acceptance Testing (UAT). These were performed in accordance with a testing plan which was detailed and in-line with good practice
- the Project Board's agenda was routinely sent out to all attendees ahead of each monthly meeting and covered all the key areas expected
- there is evidence that the Project Management team has been strengthened and is staffed by people with the appropriate skills and experience required.

### **Social Care Payments to Individuals and Providers, Children's Services**

#### **Objective**

To provide on-going support and challenge to the control framework being designed into the new Liquid Logic case management system and the ContrOCC finance module, which ensures the accuracy and timeliness of payments due to support children.

#### **Current Status**

The challenge and support provided particularly focused on known weaknesses in arrangements identified in previous audits. As the work progressed, its coverage broadened out into other related areas.

Therefore, during this work, advice and support has been given with regard to the design of processes:

- to minimise the risk of 'one off' duplicate payments being made across systems when the system went live
- to ensure ContrOCC system access granted to users responsible for approving payments, was in line with the Council's Scheme of Delegation
- for monitoring approval of payments where system enforced limits were not possible
- for ensuring manual adjustments were only made when appropriate, and that their use was independently monitored to confirm this
- for ensuring batch interface files between the ContrOCC finance module and the Council's key financial system Agresso had limited risk of manual intervention. In addition, there was timely reconciliations between the systems to confirm the accuracy of payments made
- for authorising payments to new foster carers, and the arrangements for setting up foster carers as new 'new suppliers' within the Agresso and ContrOCC systems

## **Appendix 2d: Other Audits and Grant Claims**

- suspending permanent foster care fees when temporary placements arrangements are operating and monitoring those on-going payments to reduce the risk of overpayments occurring.

The 2018/19 Audit Plan includes a further piece of work to establish whether the business processes, actions and controls agreed have been adopted, are embedded into day to day operating practices and working effectively.

### **Potential Corporate Project Governance Approach**

#### **Objective**

To assess whether the Property, Regeneration and Strategic Projects Team (PR&SPT) capital projects, project management approach (the PR&SPT's project management approach) could be effectively utilised as the corporate standard when managing a project.

#### **Current status**

A theme arising from this year's audit work is the need for there to be better development and management of projects. Factors contributing to this are that the Council does not currently have any corporate:

- methodology or guidance on how to produce a business case or manage any kind of project
- expertise in this area that is available to support services, who in some instances, may not undertake this type of activity very often.

The only documented approach identified is that used by Property, Regeneration and Strategic Projects team, which is specifically designed for delivering capital projects. This approach would need to be developed further if it was going to form the basis of a corporate approach, to be applied to the development and management of all other types of project.

Therefore, management need to:

- decide what good practice model they want adopted as the corporate approach when producing a business case and managing a project
- allocate responsibility for producing and maintaining the corporate guidance to a named officer
- set a timescale for developing the guidance and rolling it out across the organisation
- develop some mechanism to get assurance from senior management, that the process is being applied by services, to all projects throughout the year.

Whatever good practice project management model is adopted, it should include:

- governance and reporting structures, which provide, clear roles and responsibilities, appropriate oversight and challenge to ensure decisions are taken by the required parties based on complete, accurate and timely information
- risk and issue management processes which ensure project risks and issues are identified and analysed in a timely fashion to allow for mitigation by management to avoid impacting on project aims

## **Appendix 2d: Other Audits and Grant Claims**

- plans that contain all required tasks and activities to complete the project, which are regularly updated or reviewed as well as processes to identify and manage project dependencies and ensure the critical path for delivery is understood
- benefits identification and management controls which allow the project to define and ultimately demonstrate the realisation of intended benefits and justify investment decisions
- controls to ensure project scopes are clearly defined allowing management to effectively budget, resource and plan project activities as well as controls which ensure changes to scope are robustly assessed and do not impact on the projects viability
- stakeholder identification, analysis and engagement controls to minimise resistance and ensure stakeholders understand what is required of them to maximise the projects benefits
- controls which determine and agree the standard of quality required for project outputs and processes to ensure outputs meet the required standard
- financial monitoring controls that ensure project budgets are sufficient to cover all project aims and activities which are tracked throughout the project lifecycle to ensure that the project remains viable
- resource management controls which allow the project to determine and secure the required capacity and capability to deliver project activities
- mechanisms for capturing lessons learnt for the benefit of future projects, to avoid repeating issues or incurring avoidable overspends or delays.

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

#### **Purpose of funding**

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

#### **Background**

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

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

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

**Opinion: Unqualified.**

## **Appendix 2d: Other Audits and Grant Claims**

### **Airport Business Park Procurement**

#### **Objective**

To provide, as required, on-going support and challenge to ensure the Council's arrangements for use of the Local Growth Fund (LGF), can demonstrate compliance with grant conditions detailed in the Service Level Agreement (SLA) with Essex County Council<sup>1</sup>. The grant conditions primarily focus on ensuring:

- expenditure is spent in accordance with all legal requirements
- compliance with government reporting requirements.

#### **Support and Challenge January to March 2018**

The focus for the last quarter has been working with Project Board and Corporate Procurement team colleagues together with representatives from the Council's Development Partner Henry Boot Developments (HBDL), to agree practical and proportionate arrangements which, going forward ensures the Council can demonstrate:

- value for money for the procurement decisions made
- compliance with Public Procurement Regulations.

Regular feedback on the work undertaken has been given to the Project Manager and members of the Project Board, as appropriate.

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<sup>1</sup> The LGF is awarded by the South East Local Enterprise Partnership (SE LEP). Essex County Council is the Accountable Body to government for the SELEP's Growth Deal with government.

## Appendix 3: Stakeholder Surveys, Compliance with Professional Standards

<b>1. Setting up and planning the audit (PSIAS 1200 / 2200)</b>		
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?	83%
<b>2. Performing the audit (PSIAS 2300)</b>		
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?	93%
<b>3. Communicating results (PSIAS 2400) and Improving governance, risk management and control processes (PSIAS 2100)</b>		
3.1	Did we keep you informed of the progress of the audit and issues arising from the work in timely manner?	93%
3.2	Did we effectively explain to you where we felt action was required to improve your arrangements and why?	97%
3.3	Was the report fair and reflective of the work done by audit and the issues found as discussed with you?	96%
<b>4. Independence and Objectivity (PSIAS 1100)</b>		
4.1	Did we provide relevant evidence to back up our findings if required?	93%
4.2	At the end of the audit, did you understand the rationale for the overall opinion given?	100%
<b>5. Managing the Internal Audit Activity (PSIAS 2000)</b>		
6.1	Do you think internal audit adds value to the Council?	97%

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## Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan as at 29th March 2018

Action required	Current status	Date
<b>Attribute Standards</b>		
<b>1000 Purpose, Authority and Responsibility</b>		
More completely reference the Code of Ethics and unrestricted access elements' in the Audit Charter for all three clients, at the next update.	This has been included in the Charter presented to the April 2018 Audit Committee.	Implemented
<b>1100 Independence and Objectivity</b>		
<b>1110 Organisational Independence</b>		
Re-establish the one-to-one meetings between the HoIA and the Audit Committee. 107	This will be built into the 2018/19 meeting cycle for both internal and external auditors.  It will consist of a 15 minute session before the September (for internal audit) and March (for external audit) meetings.	Implemented
Re-consider the Audit Committee's role in the appointment, remuneration and removal of the HoIA.	This is a joint appointment with Southend Borough Council under a Collaborative Working Agreement. Both councils agree that this post should not be a member appointment.  This role will be undertaken by the Director of Finance & Resources at Southend-on-Sea Borough Council and the Head of Resources at Castle Point Borough Council as set out in the new Collaborative Working Agreement.	Implemented
<b>1111 Direct Interaction with the Board</b>		
Re-establish annual Audit Committee performance assessments in line with good practice.	New good practice guidance is due out in March 2018. Once this has been published, an assessment of compliance with it will be produced. This will be considered as part of a wider review of the Council's governance and assurance framework.	HoIA, 31 Dec 2018

## Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan as at 29th March 2018

Action required	Current status	Date
<b>1200 Proficiency and Due Professional Care</b>		
<b>1230 Continuing Professional Development</b>		
Continue with the recruitment programme for professional audit staff during 2017/18.	<p>No further recruitment was undertaken in 2017/18.</p> <p>The current intention is to recruit:</p> <ul style="list-style-type: none"> <li>internally to the vacant Audit Manager role in April 2018</li> <li>a new graduate to go through the professional development scheme, to start in the summer.</li> </ul>	HoIA, May 2018
Create and then recruit to the Business Support function that will support both the Internal Audit and Counter Fraud & Investigation Directorate.	The Council now has a team of three who are in the process of taking over the relevant functions from the two teams. This will be reviewed later in the year to determine whether to restructure in order to provide greater flexibility and resilience.	HoIA, Dec 2018
<b>1300 Quality Assurance and Improvement Programme</b>		
Re-introduce cold file reviews when more fully staffed and include a sample of contractor files.	This has now been built into the Audit Strategy presented to Audit Committee in April 2018 and will be implemented as soon as is practical.	To be determined
<b>1311 Internal Assessments</b>		
Reinstate a full set off performance indicators once the team is more fully resourced with in-house staff.	This has now been built into the Audit Strategy presented to Audit Committee in April 2018 and will be implemented as soon as is practical.	To be determined
Reinstate periodic independent review of the self assessment every other year.	This has now been built into the Audit Strategy presented to Audit Committee in April 2018. The next review is due in April 2020.	Implemented

## Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan as at 29th March 2018

Action required	Current status	Date
<b>1312 External Assessments</b>		
Determine the approach to be adopted to undertaking the external assessment.  Present a report to Southend-on-Sea Borough Council's Audit Committee on the proposals for the external review.	This was completed by the Institute of Internal Auditors and reported to the Audit Committee in January 2018.	Implemented
<b>Performance Standards</b>		
<b>2000 Managing the Internal Audit Activity</b>		
<b>2010 Planning</b>		
Update the guidance that sets out how risk in each category within the audit risk assessment, is assessed.	This has been completed as part of the 2018/19 Audit Planning process.	Implemented
Simplify the overall scoring criteria for the audit risk assessment, so that it highlights whether it is a potential audit risk or not (rather than scoring 1 to 4).	This has been completed as part of the 2018/19 Audit Planning process.	Implemented
Summarise the activities considered significant enough to warrant periodic, independent challenge by internal audit.	The internal audit risk assessment has been updated and scored as part of the 2018/19 planning process. Only those activities that score highly on the risk assessment have been considered for inclusion in the Audit Plan.	Implemented
Present the list periodically to senior management and the Audit Committee as part of the audit planning process.	This will form part of the papers presented to support the 2019/20 Audit Plan.	HoIA, Mar 2019
Consider how to split out time allocated to a review on: <ul style="list-style-type: none"> <li>pure audit work</li> <li>advice and support.</li> </ul>	This is still work in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.	AMs, 31 Dec 2018

## Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan as at 29th March 2018

Action required	Current status	Date
Update the opinion summary contained within the Audit Manual. Produce a version that can be shared with services to explain how judgements are made on the opinion to be given on each audit.	The Audit Manual now contains opinion summaries for both new audits and when audit reports are revisited.	Implemented
<b>2030 Resource Management</b>		
When resources allow, arrange more regular meetings with individual Group Managers as required, to help progress work in the Audit Plan.	This is still work in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.	AMs, 30 <sup>th</sup> June 2018
<b>2040 Policies and Procedures</b>		
Refresh the Audit Manual and supporting forms to reflect: <ul style="list-style-type: none"> <li>• updates in the Standards</li> <li>• current working practices</li> <li>• any issues arising from the independent external assessment.</li> </ul>	This is still work in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.	AMs, 31 Dec 2018
<b>2050 Co-ordination and Reliance</b>		
At all clients, further develop the "other assurance" element of the audit risk assessments particularly with regard to corporate business management processes, as part of the 2018/19 audit planning round.	This work has commenced as part of the Audit Planning process. This will be developed throughout the year as audit work is completed.	AMs, 31 Dec 2018
<b>2070 External Service Provider and Organisational Responsibility for Internal Audit</b>		
Fundamentally review the budget needed to effectively manage jobs being completed by contractors as part of the 2018/19 Audit Planning process.	For the 2018/19 Audit Plan, the budget for each individual audit that is to be contracted out will allow for the additional time required to adequately support contractors.  (Also see Standard 2030 about Resource Management).	Implemented

## Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan as at 29th March 2018

Action required	Current status	Date
<b>2100 Nature of Work</b>		
<b>2110 Governance</b>		
Assess whether an ethical governance audit should be included in 2018/19 Audit Plan.	The Head of Internal Audit and the Head of Housing and Communities at Castle Point Borough Council are going to undertake a piece of work during 2018/19 to set out the Council's ethical governance framework.	AMs, Risk assess for 2019/20
	It was decided not to include such a review until this document is in place.	
⇒	Co-ordinate this with any work done by the Counter Fraud & Investigation Directorate to assess the adequacy of the Council's counter fraud, corruption and bribery governance framework (e.g. via Fighting Fraud & Corruption Locally framework or equivalent good practice).	HoIA, 31 Dec 2018
<b>2200 Engagement Planning</b>		
<b>2210 Engagement Objectives</b>		
Make sure that the audit approach makes the links to performance management as part of the planning process.	This is still work in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018. <i>(Also see Standard 2040 about Policies and Procedures)</i>	AMs, 31 Dec 2018
<b>2300 Performing the Engagement</b>		
<b>2330 Documenting Information</b>		
Set up a project to check all files and destroy whatever is necessary to comply with the Retention Policy.	The Business Support Team is currently working on this project.	BSM, May 2018

## Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan as at 29th March 2018

Action required	Current status	Date
<b>2400 Communicating Results</b>		
<b>2410 Criteria for Communicating</b>		
<p>Include an instruction in the operational protocol that meetings should always be held to:</p> <ul style="list-style-type: none"> <li>• feedback findings at the conclusion of fieldwork</li> <li>• discuss the draft report.</li> </ul>	<p>Operational protocol documents for in house staff (Audit Management Checklist) and the “Ways of Working” document with contractors are clear about discussing draft reports with clients.</p> <p>Both documents need to be amended to clarify expectations that:</p> <ul style="list-style-type: none"> <li>• findings will be fed back during the audit, so there are no surprises</li> <li>• all auditors will have a final feedback meeting on conclusion of the fieldwork.</li> </ul>	AMs, Jun 2018
<p>Reassess the reporting templates as part of updating the Audit Manual, to see how underlying issues with the Council's governance arrangements could be highlighted.</p>	<p>This is still work in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.</p>	AMs, 31 Dec 2018
<b>2420 Quality of Communications</b>		
<p>Build in triggers into the Audit Manual that remind staff to keep clients informed of when reports can be expected and if they are delays in producing them.</p>	<p>Work outstanding is to:</p> <ul style="list-style-type: none"> <li>• amend the Planning, Fieldwork and Reporting sections of the Audit Management Checklist for in house staff</li> <li>• added this to the “Ways of Working” document with contractors.</li> </ul> <p><i>(Also see Standard 2030 About Resource Management regarding monitoring delivery of work which also contributes to this action).</i></p>	AMs, Jun 2018

## Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan as at 29th March 2018

Action required	Current status	Date
Reinstate target for issuing draft reports once the team is more fully resourced.	This has now been built into the Audit Strategy presented to Audit Committee in April 2018 and will be implemented as soon as is practical.	To be determined
Complete the project on upgrading / refreshing how we use APACE, our time recording / performance management data base.	The Business Support Team is currently working on this project.	BSM, Apr 2018
Use APACE effectively to timetable the delivery of audits and monitor progress against both budgets and timelines.	The Business Support Team is currently working on this project.	BSM, Apr 2018
Finalise the draft audit opinion guidance for new audits.	This has been done and included in the Audit Manual.	Implemented
Produce new guidance on opinions for follow up audits.	This has been done and included in the Audit Manual.	Implemented
<p>Include a requirement in the Audit Manual about:</p> <ul style="list-style-type: none"> <li>issuing the guidance to and discussing it with clients within the draft terms of reference</li> <li>attaching it as an appendix to the report.</li> </ul>	This is still work in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.	AMs, 31 Dec 2018
<b>2431 Engagement Disclosure of Non- Conformance</b>		
Consider updating the Audit Manual with a small section covering this particular situation and referencing PS2431.	This is still work in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.	AMs, 31 Dec 2018
<b>2500 Monitoring Progress</b>		
Introduce the process for management to provide the Audit Committee with this assurance for reports with high and satisfactory audit opinions.	The Business Support Team is currently working on this project with company officers.	BSM, May 2018
Finalise the arrangements for reporting to Audit Committee on management sign off of action plans for audit reports with high or satisfactory opinions.	The Business Support Team is currently working on this project with company officers.	BSM, May 2018

#### Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan as at 29th March 2018

Action required	Current status	Date
Design the content and format of a report to go to Audit Committee, for each client that shows the progress made by services in addressing agreed actions, for each live audit report.	The Business Support Team is currently working on this project with company officers.	BSM, May 2018

Key:

- HoIA, Head of Internal Audit
- AM, Audit Manager
- BSM, Business Support Manager

# Southend-on-Sea Borough Council

Agenda  
Item No.

9

Report of the Chief Executive

to

**Audit Committee**

on

**25th April 2018**

Report prepared by: Linda Everard, Head of Internal Audit

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**Internal Audit Charter, Strategy and Audit Plan for 2018/19**

**Executive Councillor – Councillor Moring**

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

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**1. Purpose of Report**

- 1.1 To present to the Audit Committee, the Internal Audit Charter with the supporting Strategy and Audit Plan for 2018/19.

**2. Recommendation**

- 2.1 The Audit Committee approves the Charter, Strategy and Audit Plan for 2018/19.**

**3. Background**

- 3.1 The Accounts and Audit Regulations 2015 (Regulations) make it a requirement for internal audit to take into account public sector internal auditing standards or guidance in delivering the service.
- 3.2 The UK Public Sector Internal Audit Standards (the Standards) require the service to produce a:
- Charter
  - a risk based plan that:
    - takes into account the:
      - requirement to produce an annual internal audit opinion
      - Council's assurance framework.
    - incorporates or is linked to a strategic or high level statement of how:
      - the service will be delivered and developed in accordance with the Charter
    - it links to the Council's Aims and Priorities.

**4. Charter, Strategy and Audit Plan**

- 4.1 In order to comply with the Standards, the approach proposed for delivering the service, is set out in the:
- Charter, that defines the purpose, authority and responsibility of the service

- Strategy, that outlines how the service will be delivered in line with the Charter and includes the:
    - Internal Audit Plan for 2018/19
    - statement showing how audit work completed during the year will provide assurance regarding the mitigation of the Council's strategic risks
    - How We Will Work With You Statement.
- 4.2 The following paragraphs explain key amendments to the documents which were last presented to the Audit Committee in March 2017. These are also highlighted in **bold** within the documents themselves for ease of reference.
- 5. Charter (Appendix 1)**
- 5.1 The minor amendments made to the Charter this year relate to:
- clarifying that the service needs to have unrestricted access to records, personnel and physical properties relevant to performing audits
  - making a clearer statement about the need to conform to the Code of Ethics with the Standards
  - deleting the arrangements that had been put in place to maintain independence whilst the Head of Internal Audit was responsible for the Council's Counter Fraud & Investigation team, as this will no longer be the case going forward.
- 6. Strategy (Appendix 2)**
- 6.1 The Strategy sets out:
- the ethical framework audit staff are expected to comply with
  - the basis for the audit opinion and the audit approach to be adopted
  - the approach to assessing risk and assurance as part of the audit planning process
  - the Audit Plan, resource assessment and performance indicators
  - how the service will work with key staff, members and groups within the Council
  - how the team will operate on a day to day basis
  - how it will assess its compliance with relevant professional standards and report upon this.
- 6.2 A few very minor amendments have been made to the Strategy this year. These are cosmetic and don't change the manner in which the audit service provided is delivered under the Collaborative Working Agreement. The Strategy also sets out the team's **performance indicators** for the year.
- 6.3 As outlined in the Strategy, activities are only considered for inclusion in the Audit Plan if:
- they are assessed as being significant enough to require periodic independent review
  - this independent assurance is not being provided elsewhere (e.g. Ofsted).

- 6.4 The coverage provided within the proposed **Audit Plan** for 2018/19 (**Appendix 2a**) is based upon the audit approach outlined in the Strategy which complies with the requirements of the Standards. It has been discussed with the Corporate Management Team.
- 6.5 The Audit Plan looks to provide some assurance regarding the delivery of all Corporate Aims and as many Corporate Risks as possible. Other factors that would influence what is in this year's Audit Plan would include, for example:
- when activities were last reviewed and the results of that work
  - whether there are any significant changes involving an activity e.g. new IT software, loss of key staff etc.
  - the level of spend and corporate profile of the activity
  - emerging risks highlighted by senior management or other sources.
- 6.6 The total audit days figure excludes South Essex Homes, which has a separate Audit Plan and is funded separately and includes a small contingency.
- 6.7 The Audit Plan will be reviewed late summer to assess whether there are any changes to the risk profile and therefore, the work planned for later in the year. As is usual practice, any proposed future amendments to the Audit Plan will be reported to the Audit Committee for approval.
- 6.8 **Appendix 2b** identifies where **audit reviews** provide some assurance regarding the management of the **Council's corporate risks**.
- 6.9 The **How We Will Work With You Statement (Appendix 2c)** has been:
- simplified by taking out the working arrangements adopted when more regularly auditing schools
  - updated to reflect the more proactive inclusion of some Group Managers in the risk assessment and audit planning process
  - amended to reflect slightly different working arrangements for discussing and finalising reports within the Chief Executive's department.

## **7. Corporate Implications**

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

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

### **7.2 Financial Implications**

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

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

### **7.3 Legal Implications**

The Accounts and Audit Regulations 2015, Section 5 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance.

The Standards require:

- the Audit Committee to approve (**but not direct**) the annual internal Audit Plan and this report discharges that duty

- the Audit Committee to then receive regular updates on its delivery, as provided by the quarterly performance report
- the Head of Internal Audit to provide an annual audit opinion on the Council's risk management, control and governance arrangements and report on this to the Audit Committee, which is delivered to its July meeting.

#### 7.4 People and Property Implications

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

Resourcing issues relating to the team are covered in the Strategy.

#### 7.5 Consultation

This is set out in the Strategy.

#### 7.6 Equalities Impact Assessment

Not applicable to these documents.

#### 7.7 Risk Assessment

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

The key team risks are:

- its inability to recruit or retain staff
- that external suppliers won't deliver contracted in work within the required deadlines to the expected quality standards
- that it becomes increasingly difficult to:
  - engage staff in service departments within the audit process
  - obtain information at all or in a timely way, so that a full review can be completed
  - discuss and agree opinions and action plans as the resources to implement them become more stretched.

Additional time has been built into the Audit Plan for managing external contractors.

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

#### 7.8 Value for Money

Internal Audit undertook a service review in 2013/14 which demonstrated that the cost of the service was competitive. This was reconfirmed as part of the external service review completed in September 2016.

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

#### 7.9 Community Safety Implications and Environmental Impact

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

## **8. Background Papers**

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

## **9. Appendices**

- Appendix 1: Internal Audit Charter
- Appendix 2: Internal Audit Strategy
  - Appendix 2a: Internal Audit Plan for 2018/19
  - Appendix 2b Audits assurance linked to the Council's corporate risks
  - Appendix 2c: How We Will Work With You Statement

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## Internal Audit Charter

Subject to annual review by Head of Internal Audit  
Reported to the Audit Committee: March 2018

## Appendix 1: Internal Audit Charter

### Introduction

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

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

### Service Objective

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

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

In doing this, Internal Audit aims to:

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

### Responsibilities

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

In a local authority, internal audit:

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

It is a management responsibility to:

- establish and maintain appropriate governance arrangements and internal control systems

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

## Appendix 1: Internal Audit Charter

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

### Statutory Role

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

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

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

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

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

**This is reinforced by the Standards (1000 Purpose, Authority and Responsibility) which require that Internal Audit be provided with access to records, personnel and physical properties relevant to the performance of engagements.**

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

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

### Independence and Accountability

**Internal Auditors must conform to the Standards, Code of Ethics as well as those relating to any professional body they are members of. The Code of Ethics includes two essential components i.e.:**

- **Principles that are relevant to the profession and practices of internal auditing**
- **Rules of Conduct that describe behaviour norms expected of internal auditors.**

**These are defined in more detail in the Strategy but in cover Integrity, Objectivity, Confidentiality and Competency.**

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations.

Internal auditors have no operational responsibilities.

Internal Audit determines its priorities in consultation with 'Those Charged with Governance'. The Head of Internal Audit has direct access to and freedom to report in her own name and without fear of favour to, all officers and Members and particularly 'Those Charged with Governance' including the Chief Executive and Chair of the Audit Committee.

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

This independence is further safeguarded by ensuring that the Head of Internal Audit's annual appraisal / performance review is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of Audit Committee contribute to this performance review. The Head of Internal Audit must confirm to the Audit Committee, at least annually, on the organisational independence of the service.

Internal Audit may also provide advisory and related client service activities, the nature and scope of which are agreed with the client. They are intended to add value and improve an organisation's risk management, control and governance processes, examples of which include counselling, advice, facilitation and training. In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit.

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

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

### **Internal Audit Scope**

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

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

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

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

### **Reporting Lines and Relationships**

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

## Appendix 1: Internal Audit Charter

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

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

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

The Head of Internal Audit also:

- has regular briefings individually with the Chief Executive and Deputy Chief Executives of People and Place and the Director of Finance & Resources
- reports at least quarterly on audit matters to the Corporate Management Team which includes the Head of Paid Service, Section 151 Officer and Monitoring Officer
- attends the Council's Good Governance Group which includes the Section 151 Officer and Monitoring Officer and reports to the Head of Paid Service.

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

**No information or reports concerning audit work undertaken on behalf of the Council will be released to anyone not working for the Council, without its permission.**

### Internal Audit Standards

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

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

- demonstrates integrity
- demonstrates competence and due professional care
- is objective and free from undue influence (independent)
- aligns with the strategies, objectives and risks of the organisation
- is appropriately positioned and adequately resourced

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

- demonstrates quality and continuous improvement
- communicates effectively
- provides risk-based assurance
- is insightful, proactive and future-focused
- promotes organisational improvement.

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

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

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

### **Internal Audit Resources**

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

The Head of Internal Audit is responsible for appointing the staff of the Internal Audit Service and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills.

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

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

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

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

### **Fraud and Corruption**

Managing the risk of fraud and corruption is the responsibility of management not Internal Audit. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption to occur.

The joint Counter Fraud & Investigation Directorate (the Directorate), a public authorities collaboration hosted by Thurrock Council and Southend-on-Sea Borough Council, will investigate allegations of fraud and corruption in line with the Council's Anti Fraud and Corruption Strategy. The Internal Audit Service will work collaboratively with the Directorate where necessary, to ensure system or process weaknesses identified during investigations are addressed.

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

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## **Internal Audit Strategy**

Subject to annual review by Head of Internal Audit  
Reported to the Audit Committee March 2018

## Appendix 2: Internal Audit Strategy

### Introduction

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

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

### Code of Ethics

All internal auditors working for the Council will comply with:

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

The four key principles they will adopt are as follows:

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

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

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

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

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

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

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

### **Audit Approach**

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

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

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

### **Governance**

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

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

In doing this, Internal Audit will:

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

### **Risk Management**

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

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

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

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

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

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

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

### **Control**

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

### **Types of Assurance Provided**

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

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

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

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

## Appendix 2: Internal Audit Strategy

### Limitations

Internal Audit will not:

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

### Risk Assessment

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

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

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

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

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

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

- financial risk
- outward facing risks (including reputational risk)
- operational risks **(including those relating to partnerships)**

## Appendix 2: Internal Audit Strategy

- legal and political risks
- people and property risks (including health & safety and safeguarding)
- inherent risk (including that of fraud).

The audit risk assessment will be discussed at least annually with the Chief Executive, Deputy Chief Executives (People and Place) and Directors. An annual assessment will be made with the Director of Finance & Resources as to whether any assurance is required regarding key financial systems to support the production of the Statement of Accounts.

Internal Audit will decide which action plans to revisit on a risk basis. Where it is determined that further work is required to ensure agreed actions have been properly implemented, this will involve re-testing to ensure:

- this is the case
- the strengthened control arrangements are firmly established in the day to day running of the service.

### Assurance Framework

Before producing the Audit Plan, an assessment will be made of the evidence already available regarding the:

- operation of individual services
- management of corporate, strategic or operational risks
- effectiveness of the Council's governance arrangements.

This evidence will be recorded as part of the audit risk assessment documentation. As part of planning the audit, the value of this evidence will be evaluated by assessing:

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

### Coordinating the Three Lines of Defence

First Line of Defence	Second Line of Defence	Third Line of Defence
Risk Owners / Managers	Risk Control and Compliance	Risk Assurance
Operational management	Corporate management type functions	Internal Audit
Delivers the service	Limited independence	Greater independence
Reports through the normal line management structure	Reports primarily to management	Reports to the Audit Committee

## Appendix 2: Internal Audit Strategy

### Audit Plan

As at March 2018, the combined service still has five vacancies out of nine auditor posts. Therefore, the service will remain heavily reliant on external contractors during the year, which will reduce the number of days that can be delivered from each Council's internal audit budget.

In the interim, a staff resource needs assessment will be maintained for the in-house resource to calculate the capacity of this element of the service. A view will then be taken about external resources required to:

- cover vacancies
- deliver audits that require specialist skills.

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

- mainly focus on:
  - risk based reviews that assess how well core services are being delivered
  - revisiting previous audits to ensure that agreed action plans have been properly implemented, so the controls are fully embedded in the day to day operations of the service or process.
- include time for:
  - some work on:
    - the Council's arrangements for managing its business
    - key financial systems and grant claims
    - providing advice and support.
  - audit planning, managing audit plan delivery which includes managing contractors; and reporting.

Going forward, the remaining schools will only be audited at the Council's request, should there be concerns about their performance.

Therefore the Audit Plan, attached at **Appendix 2a**, reflects the results of the risk assessment and the information gathered about the Council's assurance framework. It shows how the work will provide evidence that risks relating to the delivery of the corporate Aims and Objectives are being managed effectively. Contractor work will be front loaded with a view to it being substantially complete by 31 December. **Appendix B2** maps audit work against corporate risks.

A contingency budget has been built into the Audit Plan. Requests received to use this budget will be risk assessed before being approved. Once this budget has been used fully, any risks that arise during the year will be considered against the risk profile of the work already planned and the audit risk assessment before:

- a review is deleted and replaced by a new audit
- additional audit resource is purchased if necessary, in exceptional circumstances.

## Appendix 2: Internal Audit Strategy

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

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

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

### Resources

Southend-on-Sea Borough Council and Castle Point Borough Council have signed a **Collaborative Working Agreement that includes three service specifications that cover:**

- **the Head of Internal Audit post**
- **pooling resources to provide an internal audit service to both councils and others**
- **contributing to the cost of providing the service with professional business support.**

**The core team is then supplemented as required, by resources obtained via framework contracts with external suppliers.**

**The longer term strategy is still to increase the number of in-house staff. However, although the intention is to contract out less work, it is still** to continue with this mixed economy approach to resourcing the service. This is as long as costs remain competitive, productivity is high and quality standards are met, as measured by delivery of the agreed performance indicators.

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

Up to date job profiles will be maintained reflecting modern professional requirements. They were last revised and job evaluated (by Southend-on-Sea Borough Council) in November 2016.

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

### Training and Development

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

## Appendix 2: Internal Audit Strategy

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

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

### Service Performance Indicators

When the service is more fully resourced and settled, the suite of indicators that will be used to measure performance will cover economy, staff productivity, efficiency and effectiveness and consist of:

- delivering 100% of the Audit Plan by the 30 April
- issuing draft reports to the service within 15 days of the final meeting to discuss the findings from the fieldwork
- delivering 75% of total available staff days on delivering the Audit Plan
- losing less than five days per full time equivalent due to sickness absence
- operating in the manner set out in the Standards at team and individual audit level as evidenced by:
  - the annual internal **review completed by the Head of Internal Audit**
  - five yearly **independent**, external performance assessments.
- completing a representative sample of stakeholder surveys that assess compliance with element of the Standards:
  - reporting the results regularly to the Audit Committee, with actions to be taken to improve performance, where required
  - reflecting the results in the annual performance assessment reported upon in the Head of Internal Audit Annual Report.
- discharging the duties set out in the CIPFA Statement on the Head of Internal Audit role, wherever possible
- demonstrating periodically that the cost of the service is competitive.

For 2018/19, performance targets will consist of:

- delivering 100% of the Audit Plan by the **July** Audit Committee
- those relating to sickness and stakeholder surveys.

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

### Service Risk Register

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

## Appendix 2: Internal Audit Strategy

### Delivering Audit Assignments

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

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

Audit files will be retained in accordance with the Council's file retention and disposal policy **and comply with the General Data Protection Regulation requirements.**

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

### How We Will Work With You

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

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

Terms of Reference and Draft Reports will be discussed and agreed to be factually correct with Group Managers and Directors before being finalised with the Deputy Chief Executives (People and Place).

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

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

Audit reports will generally be designed to:

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

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

The Head of Internal Audit Annual Report will include:

- an annual opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes
- a summary of work completed

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

- a statement of conformance with the Standards and the results of the Quality Assurance and Improvement Programme
- a comparison of actual work completed compared to what was planned as well as performance against its targets
- issues relevant to the preparation of the Annual Governance Statement
- progress in dealing with issues arising from any external performance assessment.

### **Audit Committee**

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

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

### **External Audit**

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

### **Partners**

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

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

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

- ongoing supervision and review of individual assignments
- stakeholder surveys
- regular monitoring of service delivery via agreed performance targets
- an annual self assessment of compliance with the Standards
- a periodic assessment of compliance with the CIPFA statement on the Role of the Head of Internal Audit in Local Government, if completed.

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

## Appendix 2: Internal Audit Strategy

The combined Internal Audit Service is required to have an external assessment of its compliance with the Standards, at least every five years by a qualified, independent assessor from outside the organisation. **This was undertaken by the Institute of Internal Auditors in October 2017.**

**When this assessment is next due**, the Head of Internal Audit must (as per the Standards section 1312) discuss and agree with the Audit Committee the:

- form of external assessment (e.g. full external assessment or self assessment with independent validation)
- qualification and independence of the external assessor including any potential conflict of interest risks
- **person who will act as the internal sponsor for this process.**

The results of this assessment will be shared with both councils and South Essex Homes.

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

### Appendices

- **Appendix 2a: Internal Audit Plan for 2018/19**
- **Appendix 2b: Audits assurance linked to corporate risks**
- **Appendix 2c: How We Will Work With You Statement**

## Appendix 2a: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity	Fraud risk	Focus of the Audit
<b>Managing the Business</b>			
<b>All Aims</b>			
CE (JR)	Information Governance, General Data Protection Regulation	No	To assess the robustness of the Council's arrangements for complying with the new General Data Protection Regulations to ensure this has been done in line with recognised good practice guidance / statutory requirements. <i>Planned for Oct to Dec</i>
CE (JC)	Shareholder Board	No	To assess the robustness of the new governance arrangements established to oversee the financial and operational performance of the Council's wholly owned companies that are being used as an alternative method to deliver outcomes for residents. <i>Planned for Oct to Dec</i>
CE	Southend 2050	No	To assess the risks regarding the delivery of this and then agree the focus of any work with management.
<b>Managing Service Delivery Risks</b>			
<b>Safe</b>			
PE (JO'L)	Assessment and Intervention of Families <i>(Interim Management Review)</i>	No	To assess whether there are suitable processes in place to make sure families are assessed promptly and that appropriate action is taken to keep children safe, where necessary. <i>Planned for Jul to Sept</i>
PE (BM)	Children Centres Contract Management	No	To assess whether the contract is being effectively managed to ensure the planned outcomes for children and families are being delivered in compliance with the specified performance and/or quality standards, at the correct price. <i>Planned for Oct to Dec</i>
PL/PE	Safeguarding Arrangements – service to be determined	No	To assess whether appropriate arrangements are in place to identify and effectively manage safeguarding risks when delivering the service. <i>Planned for Oct to Dec</i>

## Appendix 2a: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity	Fraud risk	Focus of the Audit
PE / PL (SH)	Social Care IT Case Management System, Project Implementation "Go Live" Readiness Assessment for Adults (Liquid Logic)	No	To independently challenge and report on the Project Team's assessment against the success criteria within the "Go Live" Readiness framework, prior to any decision being made by the Project Board to 'Go Live'. <i>Planned for Apr to Jun</i>
PE (SH)	Social Care, Hospital Discharge Process	No	To assess whether there is a robust process in place to ensure people are discharged from hospital into social care when they are ready, reducing the risk of re-admission. <i>Planned for Jul to Sept</i>
PE (JO'L)	Social Care Payments to Individuals and Providers (Children's)	Yes	To assess whether the control framework in the new Liquidlogic case management system and the ContrOCC finance module are robust enough to ensure that accurate and timely social care payments are made. <i>Planned for Oct to Dec</i>
PE (SH)	Vibrance Contract Management	Yes	To assess whether the contract is being effectively managed to ensure the planned services to support people to manage their direct payments is delivered, other specified performance and / or quality standards are met and the correct fee is paid to the contractor. <i>Planned for Oct to Dec</i>
PE (BM)	Virtual School	No	To assess whether there are robust processes in place for the Virtual School to ensure that "Looked After Children" achieve the outcomes in their Personal Education Plans. <i>Planned for Jul to Sept</i>
<b>Clean</b>			
PL (CR)	Recycling, Waste and Street Cleansing Services Contract Management	Yes	To assess whether the contract is being effectively managed to ensure the planned outcomes and/or benefits for residents are delivered in compliance with the specified performance and quality standards, at the correct price. <i>Planned for Oct to Dec</i>

## Appendix 2a: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity	Fraud risk	Focus of the Audit
Healthy			
PE (JL)	Commissioned Services Contract Letting	Yes	To assess whether the needs and outcomes required were properly assessed, appropriately translated into the contract and contract procedure rules were properly applied. <i>Planned for Jul to Sept</i>
PE (JL)	Commissioned Services Contract Management	Yes	To assess whether the contract is being effectively managed to ensure the planned outcomes and/or benefits for residents are delivered in compliance with the specified performance and quality standards, at the correct price. <i>Planned for Oct to Dec</i>
Prosperous			
PL (EC)	Better Queensway	Yes	To assess whether the needs and outcomes required are properly assessed, appropriately translated into the contract and Contract Procedure Rules are properly applied. <i>Planned for Apr to Jun</i>
PL (PG)	South Essex Active Travel Project	Yes	To assess whether there are robust accounting, monitoring and transparency arrangements in place to ensure the outcomes set out in the original bid for funding will be met. <i>Planned for Apr to Jun</i>
Implementing Action Plans			
PL (EC)	<ul style="list-style-type: none"><li>Airport Business Park</li></ul>	Yes	To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service. <i>Planned for Apr to Jun</i>
PL (EC)	<ul style="list-style-type: none"><li>Better Queensway</li></ul>	Yes	
Excellent			
PL (CR)	Building Control	Yes	To assess whether there are suitable processes in place to ensure a consistent, effective and commercial building control service is delivered in accordance with statutory building regulations. <i>Planned for Jul to Sept</i>

## Appendix 2a: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity	Fraud risk	Focus of the Audit
PL (NC)	Cyber Security	Yes	To assess whether the Council's cyber security framework is operating effectively to direct, monitor, evaluate and report on cyber security management within the business.  <i>Planned for Oct to Dec</i>
PE (JO'L)	Data Quality of Children's Service's Key Performance Indicators	No	To assess whether there are adequate and effective arrangements in place to produce accurate, complete and timely performance indicators for senior management.  <i>Planned for Jul to Sept</i>
PL (NC)	IT Change Management	No	To assess the adequacy and effectiveness of the Council's formal processes that ensure any changes to the IT environment (e.g. through applications or infrastructure) are introduced in a controlled and coordinated manner to minimise the risk of disruption to Council services.  <i>Planned for Apr to Jun</i>
Implementing Action Plans			
PL (NC)	<ul style="list-style-type: none"><li>Agresso System Access Control</li></ul> <i>Planned for Oct to Dec</i>	Yes	To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.
PE / CE (JL / JC )	<ul style="list-style-type: none"><li>Procurement Cards</li></ul> <i>Planned for Apr to Jun</i>	Yes	
Key Financial Systems			
All Aims			
CE (JC)	Financial systems work to support the production of the Council's Financial Statements	Yes	To confirm that selected key objectives and associated controls within financial systems: <ul style="list-style-type: none"><li>are designed to prevent or detect material financial errors</li><li>have been in place during 2018/19 and therefore, can be relied when producing the Council's Statement of Accounts.</li></ul> <i>Planned for Oct to Dec</i>

## Appendix 2a: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity	Fraud risk	Focus of the Audit
CE (JR)	Payroll	Yes	To assess the robustness of arrangements which ensure staff are paid the right amount at the right time in line with Council policies and legislative requirements. <i>Planned for Oct to Dec</i>
<b>Grant Claims</b>			
PE	Disabled Facilities Grant	Yes	To certify, in all significant respects, that the conditions attached to the grant have been complied with. <i>Planned for Jul to Sept</i>
PL	Highways Maintenance Challenge Fund	Yes	
PL	Local Transport Plan Block Funding	Yes	
PL	Pothole Action Fund	Yes	
PE	Troubled Families Intervention	Yes	To challenge Troubled Families Payment By Result (PBR) Grant returns to ensure they are in line with the Department for Communities and Local Government requirements. <i>Work will be undertaken throughout the year</i>
<b>Advice and Support</b>			
<b>All Aims</b>			
	Good Governance Group		To attend and provide independent support and challenge to the work of the Group.
JR/JC	Corporate Establishment	Yes	To provide support and challenge to the cross departmental working group established to identify how to create and maintain a complete and accurate personnel establishment list within Agresso. <i>Planned for Jul to Dec as required</i>

## Appendix 2a: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity	Fraud risk	Focus of the Audit
<b>Prosperous</b>			
PL (EC)	Airport Business Park	Yes	<p>To provide, as required, on-going support and challenge to ensure the council's arrangements for use of the Local Growth Fund (LGF), can demonstrate compliance with grant conditions detailed in the Service Level Agreement (SLA) with Essex County Council<sup>1</sup>. Grant conditions primarily focus on ensuring:</p> <ul style="list-style-type: none"> <li>• expenditure is spent in accordance with all legal requirements</li> <li>• compliance with government reporting requirements</li> </ul> <p><i>Work will be undertaken throughout the year as required</i></p>
<b>Excellent</b>			
PE (BM)	Early Years Funding – Nursery School Settings	Yes	<p>To provide ongoing support and challenge of the arrangements currently in place and being developed within the funded childcare provision to ensure:</p> <ul style="list-style-type: none"> <li>• the accuracy of the funding being approved by the Group Manager, Early Years</li> <li>• providers are fulfilling their duties in line with agreements.</li> </ul> <p><i>Planned for Apr to Jun</i></p>
PE (SH)	Adults Pre - payment cards	Yes	<p>To assess whether effective arrangements are being developed to manage the issue of as well as approve and monitor expenditure on, pre-payment cards given to clients:</p> <ul style="list-style-type: none"> <li>• in receipt of direct payments</li> <li>• where the Council acts as the official receiver for Court Protection purposes.</li> </ul> <p><i>Planned for Apr to Jun</i></p>
PL (SD)	Safety Of Gas Boilers	Yes	<p>To assess whether robust processes have and are being followed by the Council when examining issues raised by a complainant regarding potential non-compliance with Gas Safety (Installation and Use) Regulations.</p> <p><i>Planned for Apr to Jun</i></p>

<sup>1</sup> The LGF is awarded by the South East Local Enterprise Partnership (SE LEP). Essex County Council is the Accountable Body to government for the SELEP's Growth Deal with government.

## Appendix 2a: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity	Fraud risk	Focus of the Audit
<b>Safe</b>			
PE (JO'L)	Early Help Maturity Model	No	To support the Council in bringing partner organisations together to work collaboratively in achieving the agreed outcomes for families and young people. <i>Work will be undertaken throughout the year as required</i>
PE (SH)	Social Care Payments to Individuals and Providers (Adult's)	Yes	To provide support and challenge whilst the control framework is being designed into the new Liquidlogic case management system and the ContrOCC finance module, to help ensure accurate and timely social care payments are made to individuals and providers. <i>Planned for Apr to Jun</i>
<b>Managing Service Delivery</b>			
<p>Delivering the internal audit service involves:</p> <ul style="list-style-type: none"> <li>• audit planning and resourcing</li> <li>• managing Audit Plan delivery which includes overseeing contractor work</li> <li>• reporting to Corporate Management Team and Audit Committee.</li> </ul>			
<p>Implementing the outstanding actions arising from the Head of Internal Audit's Annual Report of June 2017 and the External Quality Assessment undertaken by the Institute of Internal Auditors issued October 2017.</p>			

## Appendix 2a: Internal Audit Plan 2018/19

Risk Watch List	
All	Ethical Governance
CE	Business Continuity Revisited
CE	Debt Management
CE	Emergency Planning Revisited
CE	Rechargeable Works
PE	Empty Homes Fund
PE	Family Mosaic Contract Management
PE	Financial Monitoring of Direct Payments Revisited
PE	Housing Allocations Revisited
PE	Quality Assurance in Adult Services
PE	Quality Assurance in Early Help and Family Support
PE	Residential Care Placements
PE	S75 Equipment Services Revisited
PL	Better Queensway
PL	Community Safety Partnership Revisited
PL	Departmental Project Assurance Arrangements Revisited
PL	Development Control, Planning Application Consultation Process
PL	Environmental Health
PL	IT Disaster Recovery
PL	Licensing Revisited
PL	Parking Management
PL	Smart City Governance Arrangements
PL	The Forum Revisited
PL	The Hive Revisited

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

## Appendix 2a: Internal Audit Plan 2018/19

<b>Audit Activities</b>	<b>Resource allocation</b>
Managing the Business	7%
Managing Service Delivery Risks	57%
Key Financial Systems	5%
Grant Claims	6%
Advice and Support	8%
Contingency	5%
Managing Delivery of the Audit Plan	12%
<b>Total</b>	<b>100%</b>
<b>Total Council Audit Plan Days</b>	<b>607</b>

The days required to revisit and retest action plans from previous reports are included under each heading.

The Total Council Audit Plan Days reflects the higher cost of buying in external contractors to cover internal vacancies.

<b>Analysis Over Departments</b>		
All	Cross Cutting	4%
CE	Chief Executive	13%
PE	People	39%
PL	Place	27%
All	Contingency	5%
All	Managing Delivery of the Audit Plan	12%
	<b>Total</b>	<b>100%</b>

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## Appendix 2b: Audits assurance linked to the Council's corporate risks

	Corporate Risks as at January 2018	Audit work providing assurance in 2018/19
1	<p><b>Budget for 2018-21</b></p> <p>Risk that the scale of predicted funding reductions for 2018-21 budgets will result in significant adverse impact on Council services.</p>	<ul style="list-style-type: none"> <li>• Southend 2050</li> <li>• Children Centres Contract Management</li> <li>• Social Care Payments to Individuals and Providers (Children's and Adults)</li> <li>• Vibrance Contract Management</li> <li>• Recycling, Waste and Street Cleansing Services</li> <li>• Commissioned services Contract Letting</li> <li>• Commissioned Services Contract Management</li> <li>• Payroll</li> <li>• Various grant claims</li> <li>• Early Years Finding - Nursery School Settings</li> <li>• Adults Pre-payment Cards</li> </ul> <p>(Note: a number of audits consider financial management and therefore contribute to the assurance provided that money is being spent properly)</p>
2	<p><b>Recruiting and Retaining Staff</b></p> <p>Risk that failure to retain or recruit staff with the required skills and experience will result in an inability to deliver key projects or services to meet expectations of residents, members, businesses and partners.</p>	<ul style="list-style-type: none"> <li>• No work planned</li> </ul>

## Appendix 2b: Audits assurance linked to the Council's corporate risks

	Corporate Risks as at January 2018	Audit work providing assurance in 2018/19
3	<b>Key External Challenges</b> Risk that the impact of, or a failure to take advantage of, a new Government agenda, changes to senior personnel and the lead up to Brexit may hamper the ability of the Council to achieve key priorities.	<ul style="list-style-type: none"> <li>No work planned but Community Safety Partnership revisited is on the Risk Watch List for 2018/19</li> </ul>
4	<b>Housing Policy</b> Risk that changes to government housing policy (such as selling off high value council properties) and increasing levels of housing need (notably homelessness) results in further significant pressure on Council budgets.	<ul style="list-style-type: none"> <li>No work planned but Allocations revisited is on the Risk Watch List for 2018/19</li> </ul>
5	<b>Local Infrastructure</b> Risk that failure to maintain levels of access to regeneration funding opportunities will significantly restrict future infrastructure improvements in the borough.	<ul style="list-style-type: none"> <li>Better Queensway ongoing support and challenge of the procurement phase of the project</li> <li>Better Queensway revisited</li> <li>Airport Business Park revisited</li> <li>Airport Business Park Advice and Support – ongoing support and challenge to ensure Council remain compliant with Essex County Council's Accountability Framework for SELEP funding</li> <li>South Essex Active Travel Project</li> </ul>
6	<b>Alternative Service Delivery Models</b> Risk that failure to effectively manage (staffing, relationships, contracts) the transition to alternative service delivery models results in the organisation not meeting its statutory responsibilities to residents/customers.	<ul style="list-style-type: none"> <li>Shareholder Board</li> </ul>

## Appendix 2b: Audits assurance linked to the Council's corporate risks

	Corporate Risks as at January 2018	Audit work providing assurance in 2018/19
7	<b>Health and Social Care Integration</b> Risk that failure to integrate health and social care effectively (inc Pioneer, Better Care Fund (BCF) and Care Act) will harm the ability of the health and care system to operate at optimal levels, adversely affecting service provision and Council finances.	<ul style="list-style-type: none"> <li>Commissioned services Contract Letting</li> <li>Commissioned Services Contract Management</li> <li>Social Care Hospital Discharge Process</li> </ul>
153	<b>Contract Management</b> Risk that failure to embed effective contract management, combined with contract price inflation, across the authority will result in a loss of value for money, saving opportunities and/or quality of service provision.	<ul style="list-style-type: none"> <li>Children Centres Contract Management</li> <li>Commissioned services Contract Letting</li> <li>Commissioned Services Contract Management</li> <li>Recycling, Waste and Street Cleansing Services</li> <li>Vibrance Contract Management</li> </ul>
9	<b>Secondary School Places</b> Risk that failure to provide the required number of school places at secondary schools for 2018 and 2019 will lead to significant reputational and legal damage for the council.	<ul style="list-style-type: none"> <li>No work Planned</li> </ul>
10	<b>Flooding / Cliff Slip</b> Risk that surface water flooding, breach of sea defences and/or seafront cliff movement, will result in damage to property and infrastructure as well as significant disruption.	<ul style="list-style-type: none"> <li>No work Planned</li> </ul>

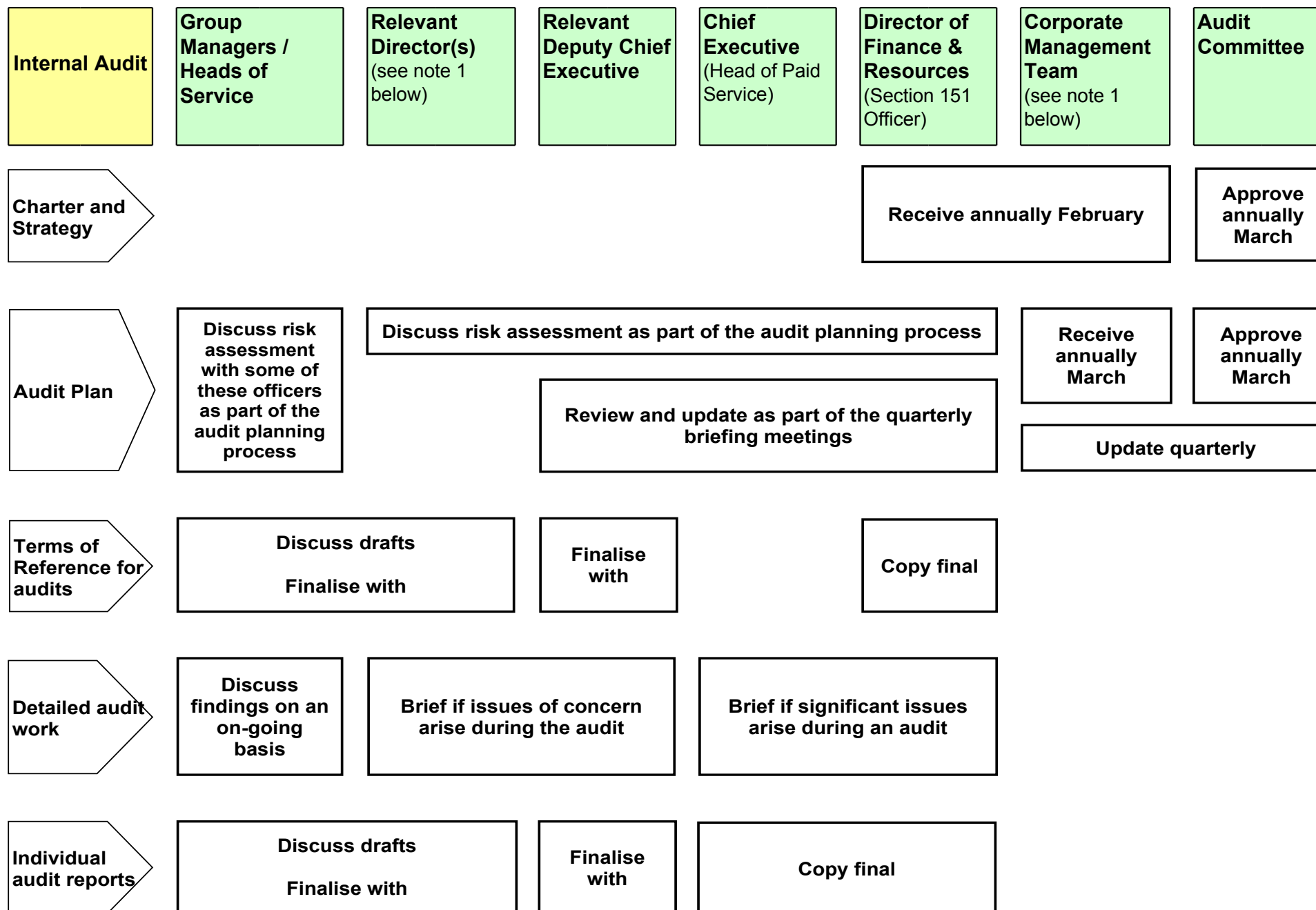
## Appendix 2b: Audits assurance linked to the Council's corporate risks

	Corporate Risks as at January 2018	Audit work providing assurance in 2018/19
11	<b>Information Management</b> Risk that a failure to ensure the Council has a coherent and comprehensive approach to Information Management, and is sufficiently prepared for the General Data Protection Regulation (GDPR), will result in significant financial and reputational damage to the Council.	<ul style="list-style-type: none"> <li>• Agresso System Access Controls</li> <li>• Cyber Security</li> <li>• Information Governance, General Data Protection Regulations</li> </ul>
12	<b>Ofsted Joint Inspection</b> Risk that the actions and expected outcomes from the Children's Services Improvement Plan are not achieved within expected timescales, resulting in a failure to achieve a rating of 'Good' in future Ofsted inspection.	<ul style="list-style-type: none"> <li>• Assessment and Intervention of Families</li> </ul>
13	<b>Waste Management</b> Risk of contractor failing to meet contractual requirements to effectively manage waste contractual arrangements results in additional financial liability for the Council and loss of service quality.	<ul style="list-style-type: none"> <li>• Recycling, Waste and Street Cleansing Services Contract Management</li> </ul>
14	<b>Health Lifestyles</b> Risk that continued pressure on the health system including Public Health funding results in a failure to adequately address lifestyle behaviours and reduce health inequalities.	<ul style="list-style-type: none"> <li>• No work planned</li> </ul>

## Appendix 2b: Audits assurance linked to the Council's corporate risks

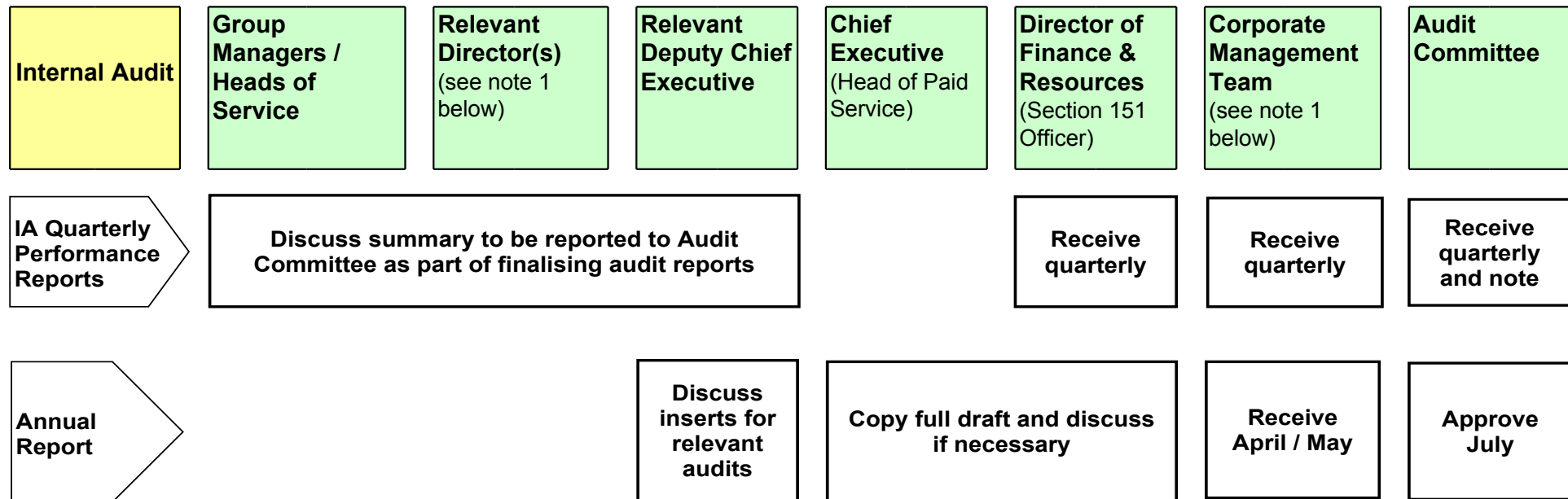
	Corporate Risks as at January 2018	Audit work providing assurance in 2018/19
15	<b>Major Developments</b> Risk that failure of partners to progress major infrastructure developments (e.g. Seaways, Airport Business Park and Queensway) will result in significant financial and reputational damage to the Council.	<ul style="list-style-type: none"> <li>• Better Queensway ongoing support and challenge of the procurement phase of the project</li> <li>• Better Queensway revisited</li> <li>• Airport Business Park revisited</li> <li>• Airport Business Park Advice and Support – ongoing support and challenge to ensure the Council remains compliant with Essex County Council's Accountability Framework for SELEP funding.</li> </ul>

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## How We Will Work With You Statement

Appendix 2c



Note 1 These groups include the Council's Monitoring Officer

**CIPFA Better Governance Forum**

## Audit Committee Update

Helping Audit Committees to Be Effective

**Issue 24**

**The Audit Committee Role in Risk Management**

**Regular Briefing on Current Issues**

**February 2018**

## Introduction

Dear audit committee member,

This is the 24<sup>th</sup> issue of Audit Committee Update and our main focus this time is on the contribution the audit committee can make to supporting good risk management practice.

Risk forms a key part of an audit committee's terms of reference. It is an agenda item in its own right with committees typically reviewing risk registers or receiving an annual assessment of the risk management arrangements. Risk also underpins much of the work of internal audit, with a risk-based plan and annual assurances on the management of risk. Evaluation of future risks also supports the development of an action plan for the annual governance statement.

The remainder of this issue focuses on keeping you up to date with new developments with our regular briefing and links to relevant 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.

Audit Committee Update is covered by CIPFA's copyright and so should not be published on the internet without CIPFA's permission. This includes the public agendas of audit committees.

## 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](mailto: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](http://www.cipfa.org/Register).

## Support for audit committees

Links to all CIPFA resources, guidance and training details can be accessed by a dedicated page on the [CIPFA website](#).

## 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.

Principal Content	Link
Issues from 2010 and 2011– the content in these issues has been replaced by more recent issues	
Issues from 2012	
Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	<a href="#">Issue 7</a>
Commissioning, Procurement and Contracting Risks	<a href="#">Issue 8</a>
Reviewing Assurance over Value for Money	<a href="#">Issue 9</a>
Issues from 2013	
Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	<a href="#">Issue 10</a>
Local Audit and Accountability Bill, the Implications for Audit Committees Update of CIPFA's Guidance on Audit Committees	<a href="#">Issue 11</a>
Reviewing Internal Audit Quality, New CIPFA Publication, Audit Committees Practical Guidance for Local Authorities and Police, Regular Briefing on Current Issues	<a href="#">Issue 12</a>
Issues from 2014	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	<a href="#">Issue 13</a>
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	<a href="#">Issue 14</a>
CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, The Audit Committee Role in Countering Fraud, Regular Briefing on Current Developments	<a href="#">Issue 15</a>

<b>Issues from 2015</b>	
What Makes a Good Audit Committee Chair? Governance Developments in 2015	<a href="#">Issue 16</a>
The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments	<a href="#">Issue 17</a>
Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors, Regular Briefing on Current Issues	<a href="#">Issue 18</a>
<b>Issues from 2016</b>	
Good Governance in Local Government – 2016 Framework, Appointing Local Auditors, Regular Briefing on Current Issues	<a href="#">Issue 19</a>
CIPFA Survey on Audit Committees 2016, Regular Briefing on Current Issues	<a href="#">Issue 20</a>
The Audit Committee and Internal Audit Quality, Briefing on Topical Issues	<a href="#">Issue 21</a>
<b>Issues from 2017</b>	
Developing an Effective Annual Governance Statement, Regular Briefing on Current Developments, Audit Committee Training	<a href="#">Issue 22</a>
2017 edition of the Public Sector Internal Audit Standards, Understanding the Risks and Opportunities from Brexit, Recent Developments and Resources	<a href="#">Issue 23</a>

## Workshops and Training for Audit Committee Members in 2018 from CIPFA

### Introduction to Police Audit Committees

This event is particularly suitable for new members of Police joint audit committees. 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.

3 May London

### Introduction to the Knowledge and Skills of Local Authority Audit Committees

This event features key areas that are core to the work of the committee: risk management, governance and assurance.

20 September London

### Developments day for police audit committees

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

19 September 2018, York

20 September 2018, London

## **Development day for local authority audit committees**

The 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.

5 December 2018 London, further dates and locations in January and February 2019.

CIPFA events information and dates are available on the website: [www.cipfa.org/Events](http://www.cipfa.org/Events).

## **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 our [in-house training team](#) for more information or call 020 7543 5600.

# The Audit Committee Role in Risk Management

This article will outline the key role an audit committee should play in supporting and reviewing risk management in its organisation. The article will outline first of all what risk management is all about and then consider the audit committee role. It will end with some key questions that audit committees might like to consider.

## What is risk management and why is it important to the organisation?

The British Standard ISO 31000:2009 defines risk management as 'coordinated activities to direct and control an organisation with regard to risk'. Risk is simply defined as the 'effect of uncertainty on objectives'.

Effective risk management has a number of benefits to an organisation and is now seen as a key tool across public and private sectors. Management of risk enables an organisation to:

- increase the likelihood of achieving objectives
- improve governance and accountability
- support better decision making
- comply with legal and regulatory requirements
- improve operational effectiveness and efficiency.

These benefits demonstrate that risk management isn't just about dealing with problems better; it is also an aid to improvement. As well as identifying risks an organisation is encouraged to identify opportunities.

## How does risk management link to internal control and governance?

The importance of risk management in supporting good governance is clearly set out in the principles of the [International Framework: Good Governance in the Public Sector](#) and [Delivering Good Governance in Local Government: Framework](#). One of the seven principles is 'Managing risks and performance through robust internal control and strong public financial management'. The frameworks both emphasise the importance of risk management for the successful delivery of services and achieving outcomes.

The internal controls of an organisation should be influenced by the risks. An effective control will manage an identified risk, perhaps by reducing the likelihood of the risk happening, or minimising the impact if it did. When controls are reviewed their success in managing those risks should be considered. Sometimes controls are put in place to manage risks but continue to operate even though the risk has changed or other controls now address the risk. This can lead to inefficiency or ineffective control.

## What is the typical role for the audit committee?

The precise roles and responsibilities towards risk management will vary according to the terms of reference. [CIPFA's Position Statement on Audit Committees in Local Authorities and Police](#) identifies the following core functions:

- ensuring there is assurance over the governance of risk and top level ownership and accountability
- keeping up to date with the organisation's risk profile and the effectiveness of risk management actions
- monitoring the effectiveness of risk management arrangements and supporting the development of good risk management practice.

The ways that an audit committee fulfils these functions are likely to include:

- oversight of the risk management function and its effectiveness. For example, the committee could consider whether there is top level support for risk management from the leadership team and the committee could review assessments of risk management or the results of benchmarking.
- reviewing risk management annual plans, annual reports and the assessment of risk maturity of the organisation
- commenting on changes to the risk management policies of the organisation
- understanding the key risks facing the organisation, by reviewing risk registers or receiving briefings on key risk areas.

As well as supporting effective risk management, knowledge of the organisation's key risks helps the committee discharge its other responsibilities such as reviewing the internal audit plan or reviewing the annual governance statement.

### **How can the audit committee support and encourage the effectiveness of risk management?**

This is a valuable role for the committee. Good understanding among audit committee members of what risk management can and should be doing will help to raise the profile of risk management across the organisation. By monitoring the performance of risk management and any obstacles to improvement, the audit committee can help to ensure the adoption of good practice across the organisation.

When the audit committee reviews the organisation's key risks it may want to seek assurance that the actions being undertaken are having an effect. If there are concerns about critical risks then questions from the audit committee can help to ensure that the appropriate action is taken.

Understanding the organisation's key risks and the overall risk profile can help the audit committee take a more co-ordinated approach to its assurance statements. This can help those working in risk management too. For example, the committee can consider what assurance it receives about the major risk areas.

Some audit committees undertake regular 'deep dives' examining a major service or risk area in detail. With the responsible service director they review the objectives, risks, challenges and opportunities for that service. The committee then considers the available assurances on that area. Such an approach helps to build a mature understanding of the risk and control issues in an operational area, enabling the committee to consider internal audit reports and risk registers with more knowledge.

### **Assurance on risk management**

To fulfil its terms of reference and to support the annual governance statement, the audit committee should seek assurances on the adequacy and effectiveness of risk management. The audit committee might receive some assurances from the risk management function directly such as the examples below:

- self-assessment using a risk maturity model
- participation in risk management benchmarking
- in-house survey or feedback.

The audit committee should also receive independent assurance. Internal audit is required to deliver an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. As a result, internal audit will carry out assurance work on risk management to support the head of internal audit's opinion. The audit committee should seek to understand the audit engagements planned for the year and subsequently review the conclusions and recommendations arising from the audit.

## **Risk management beyond the organisational boundaries**

Increasingly public bodies work collaboratively with other organisations and may also develop a range of governance structures for the delivery of services, for example shared services and trading companies. Even a short-term informal partnership might mean changes to the usual decision-making and risk management processes. It is an important role for the audit committee to maintain oversight of the governance and risk management arrangements that are put in place for the development and implementation of such arrangements.

Strategic risk management provides the audit committee with the opportunity to influence and support good governance in the organisation. Robust support from the audit committee for the risk management process is an important factor in ensuring that the organisation is able to identify, manage and account for its risks.

### **Key Questions to ask:**

1. How consistently is the risk management policy applied across the organisation? What is being done to address any weak areas?
2. Has the risk maturity of our organisation been assessed? In what areas have we improved in the last year and what still needs to be done?
3. What are the major risks facing the organisation?
4. How effectively are risks being managed in a particular area? For example, a major project, change programme or key strategic service.
5. How do we get our assurance about the management of risks and how does this link to the annual governance statement?

Diana Melville

Governance Advisor

CIPFA Better Governance Forum

## Recent Developments You May Need to Know About

### Regulations and consultations

#### Treasury Management Code of Practice and the Prudential Code

Those audit committees that have taken on the responsibility for the scrutiny of treasury management should be aware of the new codes issued by CIPFA in December 2017. While the treasury management code is applicable to all public sector organisations, local authorities in England, Scotland and Wales are required to 'have regard' to the codes.

#### [Treasury Management in the Public Services](#)

The objectives of the Prudential Code are to provide a framework to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable.

#### [The Prudential Code for Capital Finance in Local Authorities](#)

### Ethical standards in local government

The Committee on Standards in Public Life has issued a consultation on whether the current ethical standards arrangements are conducive to high standards of conduct in local government. The consultation invites submissions from local authorities, members, officials and members of the public. The closing date is 18 May 2018. [Local government ethical standards](#)

### Reports, recommendations and guidance

#### CIPFA Position Statement on Audit Committees in Local Authorities and Police

CIPFA has updated its position statement and supporting guidance for audit committees. The new edition will be published soon and will align with the guidance the Home Office is planning to provide on audit committee arrangements when a police and crime commissioner takes on the responsibilities of a fire and rescue authority. As a result the publication is being delayed until the Home Office issues its own statutory guidance. Full details of the publication are available from [CIPFA publications](#).

#### CIPFA briefing on 2016 annual governance statements

CIPFA reviewed statements published in 2017 which were the first to be made under the 2016 edition of *Delivering Good Governance in Local Government: Framework*. The briefing identifies the features of an effective statement and shares examples.

Further details of what the audit committee should look for in an annual governance statement are available in [Issue 22](#) of Audit Committee Update. [CIPFA Briefing](#)

#### Report on the Results of Auditors' Work 2016/17

Public Sector Audit Appointments (PSAA) has published reports summarising the outcome of external audits in the health and local government sectors in England for 2016/17. The reports cover the timeliness and quality of financial reporting and auditors' local value for money work. Key findings include the following:

- auditors at 92% of councils and 100% of police bodies were able to issue the opinion on the accounts by 30 September 2017
- there were no qualified opinions on the accounts issued to date to principal bodies
- 7% received a qualified conclusion on value for money
- a handful of accounts had still not been signed off as at December 2017.

Key findings in relation to health include:

- 99% of NHS trusts and 100% of clinical commissioning groups (CCGs) had their audit opinion issued by the deadline
- no trust or CCG received a qualified opinion on the accounts
- 19% of trusts and 4% of CCGs received an adverse opinion on value for money.

[Report on the Results of Auditors' Work 2016/17: Local Government and Health Bodies](#)

### **Local Government Financial Reporting 2016-17**

The Wales Audit Office issued unqualified audit opinions on 39 out of 41 financial statements by 30 September 2017, with two remaining unresolved. Overall quality of financial statements has improved but there remains scope for improvement. [Local Government Financial Reporting 2016-17](#)

### **Local Government in Scotland: Financial Overview 2016/17**

The report from the Accounts Commission finds that Scottish councils are showing increasing signs of financial stress. All councils received an unqualified audit opinion on their 2016/17 accounts but auditors found that in several councils financial management could be improved. [Audit Scotland](#)

### **CIPFA Fraud and Corruption Tracker**

In 2017 CIPFA undertook a survey of levels of fraud and corruption detected across local authorities. The results of the survey provide a valuable insight into current levels of detected fraud and corruption and can be downloaded from the CIPFA Counter Fraud Centre. [2017 Report](#)

### **Effectiveness of Local Authority Overview and Scrutiny Committees**

A report from the Communities and Local Government select committee has been published following their inquiry into scrutiny arrangements. The report does not address audit committees but some of the challenges facing scrutiny committees in the report may also apply to audit committees. When reviewing the adequacy of governance for the annual governance statement the report may highlight areas for improvement. [Select committee report](#)

### **Local Public Accounts Committees**

The Centre for Public Scrutiny has issued a [discussion document](#) outlining the role that local public accounts committees could play in enhancing local accountability for value for money. The Centre is seeking responses by 23 March.



Published by:

**CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY**

77 Mansell Street, London E1 8AN

020 7543 5600 \ [www.cipfa.org](http://www.cipfa.org)

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CIPFA Better Governance Forum

## Audit Committee Update

– helping audit committees to be effective

Developing an Effective Annual Governance Statement

March 2018

Dear Audit Committee Member,

I hope you find the first Local Audit Quality Forum a useful and worthwhile day. CIPFA believes that audit committees have a valuable role to play in supporting good governance, strong public financial management and effective internal audit and external audit, so we are very pleased to support this initiative.

I hope this briefing will be a useful resource to supplement the day. It looks at the steps an authority can take to develop an effective annual governance statement and the contribution the audit committee can make to that.

The briefing is available to download free from our website: [www.cipfa.org/services/support-for-audit-committees](http://www.cipfa.org/services/support-for-audit-committees).

Our Position Statement on Audit Committees will also be available to download from the CIPFA website shortly.

Best wishes

Rob Whiteman  
Chief Executive  
CIPFA

# Developing an Effective Annual Governance Statement

CIPFA and Solace introduced a new governance framework, *Developing Good Governance in Local Government: Framework*, in April 2016, with seven new governance principles. By adopting the new Framework local authorities should be ensuring that their governance arrangements in practice are in accordance with the principles. The annual governance statement (AGS) is a mandatory requirement for local government bodies set out in statutory regulations<sup>1</sup>. In essence, it is an accountability statement from each local government body to stakeholders on how well it has delivered on governance over the course of the previous year. The benchmarks that are used to make that statement are the principles in the Framework.

## What does the guidance say?

The guidance for the AGS is included along with the Framework and it builds on the previous requirements<sup>2</sup>. In addition to the organisation acknowledging its responsibility for ensuring governance is effective, the AGS should:

- focus on outcomes and value for money
- evaluate against the local code and principles
- be in an open and readable style
- include an opinion on whether arrangements are fit for purpose
- include identification of significant governance issues and an action plan to address them
- explain action taken in the year to address the significant governance issues identified in the previous year's statement
- be signed by the chief executive and leading member in a council. The police and crime commissioner (PCC) and chief constable should sign theirs.

CIPFA has not established any 'set text' for authorities to use in acknowledging their responsibility for the governance framework. Many authorities have tended to use the original text from the 2007 guidance, but CIPFA has not included this in the latest guidance in order to encourage more flexibility.

## Who is the audience?

The AGS is prepared to account to your stakeholders and they are wide and varied. They include:

- local citizens
- local businesses
- partners
- Ministry of Housing, Communities and Local Government (MHCLG)
- external auditors, inspectorates and regulators.

In addition, it should also be a statement that is of value internally – to other members of the governing body and to staff.

## What makes a meaningful statement?

The most important way to make the statement meaningful is to ensure that it is an open and honest reflection of your governance and your current challenges. It has been known for the AGS to contain 'window dressing statements' to gloss over areas of poor performance or to fudge the effectiveness of interventions. Where that is the case, the AGS adds little value and

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<sup>1</sup> In England the [Accounts and Audit Regulations 2015](#)

<sup>2</sup> [Delivering Good Governance in Local Government: Framework \(Addendum\)](#) CIPFA 2012

doesn't build confidence in the leadership of the organisation. One of the key aspects of the AGS is the identification of areas for improvement and the associated action plan. Where these are done well the AGS becomes a meaningful tool for improving governance.

The AGS should also provide a clear evaluation against the principles of good governance and an opinion of whether the arrangements are fit for purpose or not. If the opinion is vague or not included then again the AGS does not send a clear message about accountability.

### **What can be done to make the statement more effective?**

Effectiveness of an AGS will be improved if it more successfully communicates the key messages. There are a number of approaches that some authorities have taken to make their AGS more effective:

- keeping it short and focused – where an organisation has an up-to-date local code that sets out their arrangements, then the AGS can make reference to that rather than repeat the detail
- using diagrams to explain key elements
- using colour or pictures to engage the reader.

Regardless of how well the AGS is written, it will not be effective if it is not regarded as important by those charged with governance and the leadership team.

### **What shouldn't we do?**

There are a number of pitfalls in preparing an AGS. These are some of the common ones:

- not ensuring that a range of perspectives support the AGS
- making it too long and wordy
- including too much description rather than evaluation
- omitting the opinion on whether the arrangements are fit for purpose or not
- not being explicit about the actions that will be taken to address the governance issues identified
- not accounting for action taken to address previous weaknesses.

### **How can the audit committee help?**

The audit committee can play a very valuable role in the development of the AGS and in the finished look of the statement. The committee should understand the process that has been undertaken to review governance and so should be able to see how the conclusions in the AGS have been arrived at. There should be no real surprises for the committee.

The committee can provide a valuable reality check for the draft document as well. Is it well written and clearly presented? Is the action plan adequate and realistic?

The committee can send an important message about the value and importance of the AGS, which will support those providing assurance to support its conclusions. Once the AGS has been approved, the committee can review progress in implementing the actions, so helping to ensure that the AGS is meaningful and is an effective tool for improvement in governance.

### **A note on timing**

For the 2017/18 AGS in England the deadline for approval and publication of the statement will be brought forward to 31 July instead of 30 September. This is a requirement of the [Accounts and Audit Regulations 2015](#). As a result, committees may find that the AGS is appearing on their agendas earlier than in previous years.

Published by:

**CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY**

77 Mansell Street, London E1 8AN

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# Annual Fraud Indicator 2017

Identifying the cost of fraud to the UK economy



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# Introduction

In 2016, the UK Fraud Costs Measurement Committee (UKFCMC) published its first Annual Fraud Indicator (AFI). The 2016 AFI built on work undertaken by the National Fraud Authority (NFA), which had established the concept and experimented with a variety of methodologies. The NFA published four reports, the last of which was in 2013.

The NFA was abolished in 2014 leaving a gap in the measurement of the cost of fraud to the UK, a gap the partners in this project were keen to fill. The partners wanted to build upon the work of the NFA by offering the same detailed estimates of the cost of fraud to the UK, while also using a more developed and consistent methodology to allow dependable comparisons over time.

This 2017 report is the second undertaken by the UK Fraud Costs Measurement Committee and involved Crowe Clark Whitehill, Experian and the Centre for Counter Fraud Studies, University of Portsmouth. The same methodology was used in both 2016 and 2017, and is underpinned by a group of cross-sector fraud

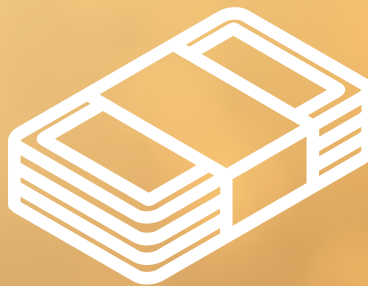
specialists who meet under a broad umbrella known as the UKFCMC. The Committee is chaired by Jim Gee (Crowe Clark Whitehill), with Nick Mothershaw (Experian) as Vice Chair and includes members from the UK's public, private and charitable sectors. All have specific expertise in fraud and it's their discussions, input and supporting research, that have helped make this report possible.

The research team for this year's AFI was led by Professor Mark Button and included David Shepherd and Dean Blackburn (the Centre for Counter Fraud Studies). The methodology used has been developed in line with the ground-breaking work of the now defunct NFA.

“The Annual Fraud Indicator (AFI) has been developed to help create a benchmark by which year-on-year sector specific fraud analysis can be made.”

# AFI 2017 headline figures

The 2017 AFI highlights the colossal cost of fraud to the UK economy.



Annual UK  
fraud losses  
are indicated to cost  
**£190 billion**

Private sector  
fraud losses  
are estimated to be  
**£140 billion**

Public sector fraud losses are  
estimated to be  
**£40.4 billion**

**Charities and charitable  
Trusts** are believed to be losing  
**£2.3 billion**

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Frauds committed directly  
against **individuals** are  
estimated at around  
**£6.8 billion**

# Expert views



The 2017 Annual Fraud Indicator highlights the colossal cost of fraud to the UK economy. At £190 billion it would represent more than the UK government spends on health and defence combined or all welfare payments excluding pensions (HM Government, 2016). It would equate to around £10,000 per family in the UK. In the public sector alone, with fraud losses of £40 billion, this is equivalent to what we pay in national debt interest or spend on defence.

This report shows that there are clear differences in the strengths and risks of fraud in the different sectors of the UK economy. The thin resources of the state dedicated to fighting fraud means for most organisations and individuals the best they can do is protect themselves. Investing in the appropriate strategies to increase their resilience to fraud is the most effective way to reduce the risk of fraud.

It is hoped that this report will stimulate more action by government and law enforcement departments and agencies. Equally, it provides clarity and scope of the UK fraud problem, which can help organisations and individuals in their attempts to tackle the problem of fraud.

## **Professor Mark Button**

Director of the Centre for Counter Fraud Studies, University of Portsmouth

## **Mark's experience**

Mark Button is Director of the Centre for Counter Fraud Studies at the Institute of Criminal Justice Studies, University of Portsmouth. Mark has written extensively on counter fraud, cyber-fraud and private policing issues. He has published many articles, chapters and completed eight books. His latest book (co-authored with Dr Cassandra Cross) is titled *Cyber Frauds, Scams and their Victims* has just been published by Routledge.

Some of Mark's most significant research projects include leading the research on behalf of the National Fraud Authority and Association of Chief Police Officers (ACPO) on fraud victims; the Department for International Development on fraud measurement, Acromas (AA and Saga) on 'Cash-for-Crash fraudsters', the Midlands Fraud Forum, Eversheds and PKF on 'Sanctioning Fraudsters', and the Government's Annual Cyber Breaches Survey.

Mark has also acted as a consultant for the United Nations Offices on Drugs and Crime to develop international standards for Civilian Private Security Services and has worked with the United Nations Development Programme/European Union on enhancing civilian oversight of the Turkish private security industry.

Mark holds the position of Head of Secretariat of the Counter Fraud Professional Accreditation Board. He is also a former Director of the Security Institute. 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 an organisation understands the nature and cost of the fraud affecting it, how can it apply the right, proportionately resourced solution? How can it track progress in reducing the prevalence and cost of fraud? How can it understand the value derived from its investment in countering fraud?

These are important questions for individual organisations – whether they are companies, public sector organisations or charities – but also, equally

importantly, they are questions for UK Plc. Unless our country is clear about the cost of fraud, how can it prioritise its response with a range of other problems also clamouring for resources?

Research shows that detected or reported examples of fraud do not represent the total cost of fraud, because much remains undetected. It is also not good enough to survey opinion about the extent of fraud because perceptions of the extent of fraud will change according to the level of publicity which it receives.

The UKFCMC provides a public service to the UK in producing these very detailed estimates. The Centre for Counter Fraud Studies has worked very hard to complete the underpinning research. I recommend the information in this report to anyone who is interested in the real extent of a problem which has been shown to cost the UK a staggering £190 billion each year.

### **Jim Gee**

Head of Forensic and Counter Fraud Services, Crowe Clark Whitehill

## **Jim's experience**

Jim Gee is a Partner and Head of Forensic and Counter Fraud Services at Crowe Clark Whitehill LLP. He is 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), and Chair of the UK Fraud Costs Measurement Committee (a cross-sector body) which, each year, develops and publishes the UK Annual Fraud Indicator.

During more than 25 years as a counter fraud specialist, Jim has advised Ministers, Parliamentary Select Committees and the Attorney-General, as well as national and multi-national companies, major public sector organisations and some of the most prominent charities. To date he has worked with clients from 39 countries. He specialises in helping organisations to reduce the cost and incidence of fraud through strengthening the resilience to fraud of relevant processes and systems.



This year's report highlights how the continued growth of procurement fraud remains a problem for many businesses. Most often it is the employees who are instrumental in procurement fraud and therefore vigilance and appropriately vetting staff should be a high priority for all businesses. Making sure you employ the right people and that your existing staff members, particularly those in positions of responsibility, are not under duress will help you avoid potentially costly losses.

Also interesting is that the report shows that Pension fraud is growing in the public sector, and while there are no published figures for the private sector,

it's understood that fraudsters are targeting the Pensions Release (where pension holders, aged over 55, are allowed to withdraw up to 100% of their pension benefits as a cash lump sum, income or a combination of both). It's worth noting that while the volume of fraud is low, the value of fraud losses is high, suggesting fraudsters are focussing their attention on the biggest value areas.

Consumers need to be careful of investment opportunities that are potentially too good to be true. Pension companies need to ensure their ID verification tools are both best in class and cost effective to execute as the pensions release is predicted to continue to grow.

In the finance sector, plastic card and online banking fraud continues to increase. A new regulation in 2018, in the form of Payment Services Directive 2 (PSD2), will enforce more robust ID and fraud controls on online payments to address this. Essentially it will make it much harder for a fraudster to use a victim's payment card online unless they also get control of their online banking details too. The regulation should result in a significant decline in plastic card fraud, giving an increase in detected and prevented frauds as a result.

### **Nick Mothershaw**

Director of Fraud and Identity Solutions, Experian

## **Nick's experience**

Nick is responsible for the strategic development of Experian's fraud and identity solutions for both the public and private sectors. The Identity Solutions portfolio includes traditional ID verification, challenge questions and document verification. Experian now also offer a full Identity as a Service solution, including ID proofing and strong credential management, and is an identity provider within the GOV.UK/Verify scheme. Fraud solutions in the portfolio include both real time Device and Application Fraud. Ease of integration and change is key in today's fast moving ID and fraud battleground: Experian's CrossCore platform allows Experian and third party solutions to be joined together to achieve a consolidated decision with one-stop referral review. In addition, Experian provides a number of public sector specific products to assist in council tax fraud, benefit fraud and social housing fraud.

Key to the role is to ensure clients gain maximum value from Experian solutions by offering highly skilled consultancy services, expert analytics, trend analysis and insight around ever evolving fraud attack vectors.

Nick has been with Experian for over 15 years. Previously Nick was a director of a company providing global solutions within the broader Criminal Justice arena. Here he architected the Scottish Intelligence Database: the only cross force intelligence sharing and matching solution in the UK. He also exported best of breed UK crime management systems to Australia and the US. Nick has worked for IBM in the healthcare and utilities sector, and began his career as a mainframe systems analyst with a large UK brewer and pub company. He has a degree in Computer Science.



# Methodology 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. A wide range of sources were reviewed to identify the cost of fraud figures.

Each estimate is categorised as either gold, silver or bronze depending on the confidence of the estimate.

This categorisation is referenced throughout the report for clarity in understanding the data that relates to each calculation.

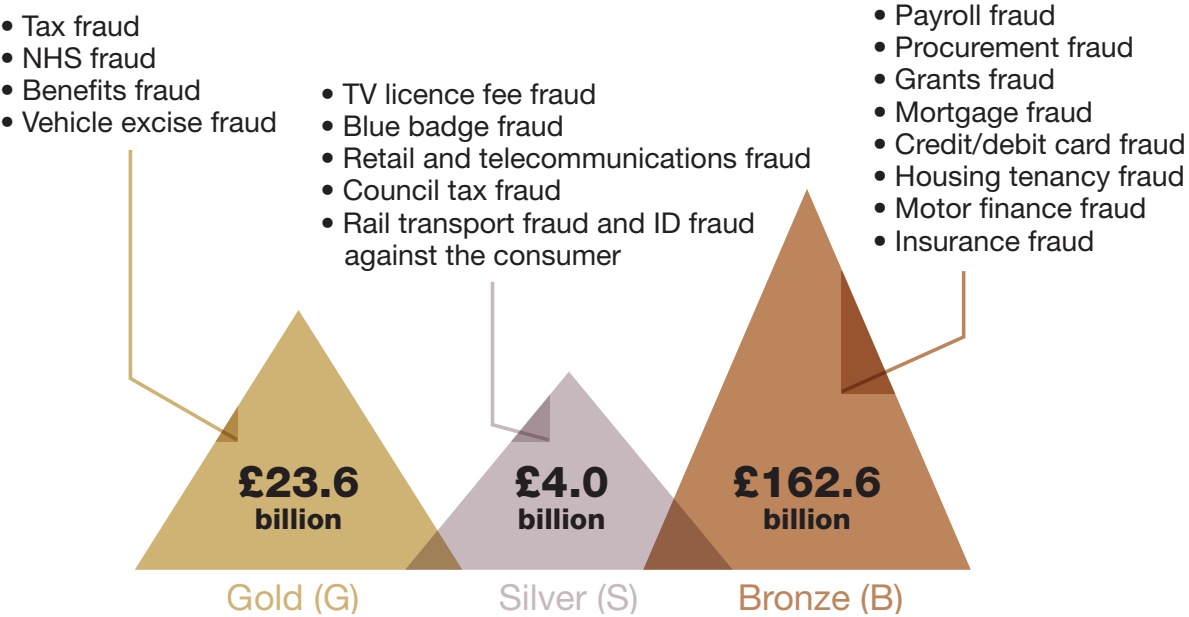
When specific fraud cost estimates were unavailable, the most appropriate percentage fraud loss rate was applied depending on the expenditure category. The appendices provides a detailed summary of how fraud costs were categorised.

## Classification of confidence

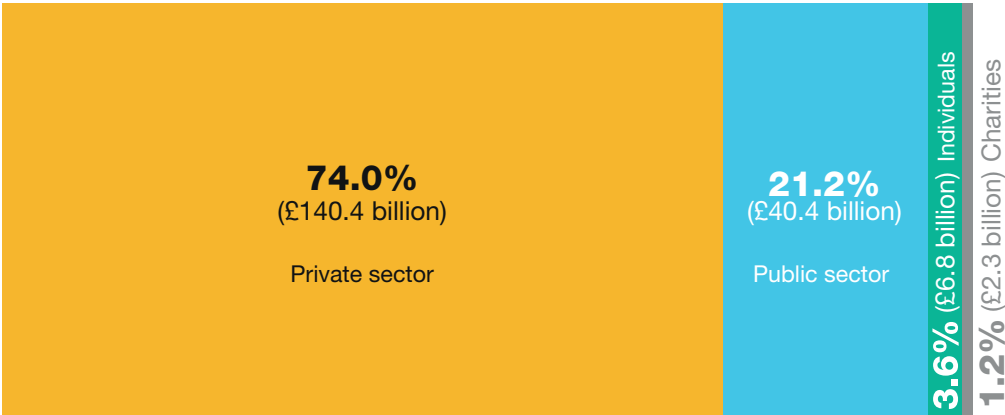
Category	Definition
<b>Gold (G)</b>	Gold standard analysis is met when a statistically valid sample of expenditure/income has been examined, with a clear and legally-anchored concept of fraud applied. Estimates produced offer a 90% minimum level of statistical confidence, with an accuracy level of + or – 2.5%, or better. Results have also been independently validated. Included in the Gold standard were statistically valid assessments of the levels of victimisation of individuals, conducted by reputable organisations.
<b>Silver (S)</b>	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.
<b>Bronze (B)</b>	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.

UK fraud by estimate confidence

The AFI results can be presented in terms of the confidence of the estimates used.



UK fraud estimate by sector





# Private sector fraud

It is estimated that private sector fraud could cost the UK economy just over £140 billion in 2017, compared to £143.6 billion in 2016.

The reason for the change is largely related to a significant reduction in general procurement expenditure by large companies. This reduced by £158 billion compared to the previous report and as a consequence, the value of fraud has also reduced (The Office of National Statistics [ONS], 2016a).

However, the private sector is still the economic sector losing the largest amount to fraud. It may also be a conservative figure, given the general sentiment among our biggest businesses against releasing commercially sensitive, or potentially damaging, financial fraud data.

The value of private sector expenditure and income generated from sales is huge. During 2015 to 2016, the private sector – even without including banking and finance – spent nearly £2.6 trillion on procurement (ONS, 2016a), while generating £3.9 trillion in sales (BEIS, 2016).

By comparison, Gross Domestic Product (GDP) for the same period was £1.85 trillion (ONS, 2016b). In the past fraud losses have been directly linked to GDP. However GDP is 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. Any related frauds, which are generally committed by employees, can result in significant losses.

There are no precise estimates for losses to delinquent corporations, rogue governments or state-sponsored cybercrime.

“This is still the sector losing the most to fraud. Private sector fraud is estimated to cost the UK economy just over £140 billion in 2017.”

## Procurement and payroll fraud

Clearly, procurement expenditure of nearly £2.6 trillion and sales income of £3.9 trillion in the non-financial private sector mean 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. However, 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, 2016a). The total value of payroll expenditure includes income tax, employees' national insurance and employers' national insurance.

The cost of fraud in this area has been calculated by assuming an average salary of £26,156 per year (ONS, 2014d). For ease of calculation, given the available data,

we have 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 4.76% 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 cost £121.4 billion (4.76%) of the £2.5 trillion of total expenditure. Total losses from payroll expenditure are estimated to be £12.7 billion (1.7%) from an expenditure of £748 billion. The combined loss is just over nearly £134 billion.



## What is 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 proportion of an organisation's expenditure and is open to a wide range of potential fraud risks. 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 include:

- legitimate suppliers adding unauthorised additional costs to an invoice
- legitimate suppliers conspiring with staff to add additional costs to an invoice
- fraudulent suppliers/staff submitting false invoices for payment
- fraudulent suppliers/staff diverting legitimate payments for legitimate suppliers to themselves
- under provision of goods and services in terms of quality or quantity.

## Case study

An interesting version of this type of fraud which has gained prominence is the 'CEO' fraud. Under this type of fraud, a person impersonates the chief executive either by e-mail, or over the phone or by a combination of both and seeks to request that payments for goods and services are fraudulently diverted to a new bank account.

## What is payroll fraud?

Another significant area of fraud in this report is accounted for by payroll fraud. This covers a wide range of areas such as:

- ghost employees on the payroll
- diversion of payments into fraudulent accounts
- employees set up to receive higher salaries than they are entitled to by either grade or hours worked
- false overtime claims.

## Procurement and payroll by company size

As noted earlier, the cost of procurement fraud among large enterprises declined compared to the 2016 report due to a significant decrease in procurement expenditure. Consequently, among large enterprises the losses are estimated at £69.1 billion in 2017, compared to £77 billion in 2016.

However, for small enterprises the losses increased from £30.8 billion last year to £32.3 billion. For medium sized enterprises it went from £19.4 billion to £20 billion due to increased procurement amongst these enterprises.

Victim	Total fraud loss £ million	Fraud type	Confidence	Coverage	Year	Income/ expenditure £ million	Fraud £ million	Fraud %
Expenditure small enterprises	38,358	Procurement fraud	B#	UK	2013 to 2016	678,876	32,289	4.76
		Payroll fraud	B#	UK	2013 to 2016	356,993	6,069	1.70
Expenditure medium enterprises	21,612	Procurement fraud	B#	UK	2013 to 2016	421,173	20,032	4.76
		Payroll fraud	B#	UK	2013 to 2016	92,930	1,580	1.70
Expenditure large enterprises	74,189	Procurement fraud	B#	UK	2013 to 2016	1,452,959	69,106	4.76
		Payroll fraud	B#	UK	2013 to 2016	298,948	5,082	1.70

# Data updated to the most recent costs based on the Bank of England's inflation calculator



## Financial sector sales fraud

Financial sector sales fraud includes all bronze rated data and amounts to £5.2 billion in this report. Which, compared to £3.2 billion for the 2016 report is a £2 billion increase.

The main reason for the increase is the decision not to use the Association of British Insurers (ABI, 2016) figure of £1.3 billion. This concerns frauds that have been detected and prevented and the losses which would otherwise have occurred. Clearly there are frauds which are detected that cause a loss to insurers and many other frauds which go undetected.

The decision of the UKFCMC therefore was to apply the average loss rate of 3.99% giving a loss of £2.9 billion – a £1.6 billion increase on the 2016 figure of £1.3 billion.

Given the high risk of fraud to the insurance sector, the authors believe a more accurate fraud loss measurement would expose a much higher figure.

The increase in the value of mortgage and plastic card fraud in 2016 compared to the previous year reflects the increase in lending in both areas. Although the total

amount of fraud increased, the proportion (%) remained the same. This demonstrates that fraud controls for both types of fraud remain effective.

The amount of reported fraud losses for Online Banking and Telephone Banking fraud grew by a significant percentage in 2016. Online banking fraud saw a significant increase of 226% and telephone banking fraud by 178% in 2016, when compared to 2015.

Fraudsters continue to target online and telephone banking. With the introduction of the Payment Services Directive 2 (PSD2), tougher controls will be placed on payment instruments, such as a credit and debit cards. This will likely mean that fraudsters will continue to move their attention towards channels such as online banking and telephone banking because they are not governed by strong customer authentication.

With new counter fraud tools such as device monitoring (tracking and monitoring a device, such as a smart phone or tablet), and behavioural biometric analysis (such as monitoring how a person uses a device or a website to identify anything which is indicative of fraud), lenders can use controls that detect and then prevent fraud occurring on these channels.

Victim	Total fraud loss £ million	Fraud type	Confidence	Coverage	Year	Income/ expenditure £ million	Fraud £ million	Fraud %
Financial sector sales	5,242	General insurance fraud	B	UK	2015	72,619	2,896	3.99
		Mortgage fraud	B#	UK	2010 to 2016	247,300	1,583	0.64
		Plastic card fraud	B	UK	2016	856,000	568	0.07
		Online banking fraud	B	UK	2016	-	134	-
		Cheque fraud	B	UK	2016	400,158	19	0.00
		Telephone banking fraud	B	UK	2016	-	32	-
		Motor finance fraud	B#	UK	2013 to 2014	-	11	-

# Data updated to the most recent costs based on the Bank of England's inflation calculator

## Non-financial sector sales fraud

The cost of fraud in the non-financial sales sector has decreased in total from almost £1.4 billion in 2016 to an estimated just under £1.3 billion in 2017. The three types of fraud are estimated from silver quality data. Retail fraud fell from £223 million to £183 million, telecoms fraud from

£926 million to £900 million and rail transport fare evasion (avoiding paying for a ticket) from £214 million to £175 million. The latter estimate took account of a 1.8% loss rate calculated by Transport for London and provided to the researchers.

Victim	Total fraud loss £ million	Fraud type	Confidence	Coverage	Year	Income/ expenditure £ million	Fraud £ million	Fraud %
Non-financial sector sales	1,258	Retail	S	UK	2016	360,107	183	0.05
		Telecoms fraud	S#	UK	2013 to 2016	37,500	900	2.40
		Rail transport fare evasion	S#	UK	2014 to 2015	9,728	175	1.80

# Data updated to the most recent costs based on the Bank of England's inflation calculator

# Public sector fraud

The public sector has some of the best quality fraud measurements – particularly relating to taxes, benefits and the NHS – where gold standard data exists.

It is therefore particularly interesting to note that public sector fraud is estimated to be £40.4 billion for 2017, which compared to £37.5 billion in the 2016 report, means a £2.8 billion increase (+7.5%) in one year.

The increase in the cost of fraud is largely due to increased procurement fraud (+£1.7 billion) – as the government spent more than the previous year – and increased tax fraud losses (+£800 million). There were some significant reductions too, such as grant fraud which was £541 million lower than the previous year.

## Central government tax fraud

Central government taxation is subject to high quality measurement. The cost of tax fraud for this report is £16.2 billion, which compares to £15.4 billion in the last report, a £800 million increase (HMRC, 2016).

Vehicle excise fraud has also increased from £35 million to £80 million (DVLA, 2015). Vehicle excise duty, also known as ‘vehicle tax’ and ‘car tax’, is levied on most types of vehicles used on public roads. Vehicle excise fraud relates to the fraudulent non-payment of vehicle excise duty.

Victim	Total fraud loss £ million	Fraud type	Confidence	Coverage	Year	Income/ expenditure £ million	Fraud £ million	Fraud %
Central taxation	16,280	Tax fraud	G	UK	2015 to 2016	518,000	16,200	3.13
		Vehicle excise fraud	G#	UK	2015	5,800	80	1.38

# Data updated to the most recent costs based on the Bank of England's inflation calculator

## TV licence fee income

There was very little change in the level of fraud relating to income from the TV licence fee. It increased by £1 million from £205 to £206 million (BBC, 2016).

Victim	Total fraud loss £ million	Fraud type	Confidence	Coverage	Year	Income/ expenditure £ million	Fraud £ million	Fraud %
Central government other income	206	Television licence fee evasion	S#	UK	2015 to 2016	3,743	206	5.50

# Data updated to the most recent costs based on the Bank of England's inflation calculator

## Central government excluding benefits

The same procurement and payroll rates used for the private sector were applied to the public sector.

Overall this section showed a modest increase compared to 2016 from just over £10 billion to £10.2 billion. There was a significant decrease in National Savings and Investment (NSI) fraud from £69 million (or 3.43% to 0.02%).

The reason for this was a decision by the UKFCMC to apply the NSI detected fraud levels instead of an estimate based upon evidence that fraud risks and therefore fraud levels are very low (NSI, 2016). Grant fraud also fell from £2.7 billion to just over £2 billion and this was due to a fall in the percentage rate applied.

Student finance fraud rose from an estimated £409 million to £481 million.

Victim	Total fraud loss £ million	Fraud type	Confidence	Coverage	Year	Income £ million	Fraud £ million	Fraud %
Central government excluding benefits	10,217	Procurement fraud	B#	UK	2013 to 2016	117,277	5,578	4.76
		Payroll fraud	B#	UK	2013 to 2016	60,805	1,034	1.70
		Grant fraud	B	UK	2015 to 2016	67,958	2,054	3.02
		Student finance fraud	B	England, Wales, Northern Ireland	2015 to 2016	15,910	481	3.02
		Pension fraud	B	UK	2015 to 2016	35,430	1,071	3.02
		National Savings and Investments fraud	S	UK	2015 to 2016	2,067	0	0.02

# Data updated to the most recent costs based on the Bank of England's inflation calculator

## NHS England fraud

The NHS fraud losses estimate is based on high quality fraud loss measurement data, which has been updated for inflation. This shows an increase in fraud from £2.5 billion in the previous report to an estimated £3.4 billion.

The biggest increase concerned general procurement fraud, which rose from just over £1 billion in the 2016 report to an estimated just over £1.7 billion in 2017.

Victim	Total fraud loss £ million	Fraud type	Confidence	Coverage	Year	Income/ expenditure £ million	Fraud £ million	Fraud %
NHS	3,423	Dental charge fraud	G#	England	2007 to 2016	765	29	3.80
		Optical charge fraud	G#	England	2007 to 2016	458	14	3.00
		Prescription charge fraud	G#	England	2014 to 2016	9,199	284	3.09
		Dental contractor fraud	G#	England	2013 to 2016	3,313	116	3.49
		Pharmaceutical contractor fraud	G#	England	2013 to 2016	2,106	84	3.97
		Optical contractor fraud	G#	England	2013 to 2016	542	13	2.47
		General practice contractor fraud	B#	England	2013 to 2016	7,798	356	4.57
		Other procurement fraud	B#	England	2015 to 2016	36,301	1,727	4.76
		Payroll fraud	B	UK	2015 to 2016	47,084	800	1.70

# Data updated to the most recent costs based on the Bank of England's inflation calculator

## Local government fraud

Fraud in local government (excluding benefits) also increased from an estimated £7.3 billion in the last report to £7.8 billion in this one. Every £1 local authorities lose to fraud is £1 not spent on supporting local communities, and in the context of shrinking funding from central government it is more important than ever that local authorities reduce their fraud losses. Some local authorities have made significant savings by reducing their financial cost of fraud.

Victim	Total fraud loss £ million	Fraud type	Confidence	Coverage	Year	Income/ expenditure £ million	Fraud £ million	Fraud %
Local government excluding benefits	7,805	Blue Badge scheme misuse	S#	England	2013 to 2016	1,165	46	3.96
		Housing tenancy fraud	B#	England	2013 to 2016	-	1,827	-
		Procurement fraud	B#	UK	2013 to 2016	93,258	4,436	4.76
		Payroll fraud	B#	UK	2013 to 2016	63,255	1,075	1.70
		Grant fraud	B	UK	2015 to 2016	3,121	94	3.02
		Pension fraud	B	UK	2015 to 2016	10,785	326	3.02

# Data updated to the most recent costs based on the Bank of England's inflation calculator

## Benefits and tax credits fraud

The other area with significant gold standard data is benefits and tax credits fraud, and most of the estimates are based upon gold standard data. This shows a modest increase of 2.2% from the £2.37 billion estimated in 2016 to £2.42 billion.

Victim	Total fraud loss £ million	Fraud type	Confidence	Coverage	Year	Income/ expenditure £ million	Fraud £ million	Fraud %
Benefit and tax credits	2,423	Housing benefit fraud	G	UK	2016	24,771	1,000	4.04
		Income support	G	UK	2014 to 2016	2,879	61	2.12
		Jobseekers allowance	G	UK	2015 to 2016	2,434	78	3.20
		Employment and support allowance	G	UK	2015 to 2016	14,979	280	1.87
		Universal credit	G	UK	2015 to 2016	490	13	2.65
		Pension credit	G	UK	2015 to 2016	6,484	165	2.54
		Incapacity benefit	G#	UK	2010 to 2016	1,455	0	0.00
		Disability living allowance	G#	UK	2005 to 2016	13,300	60	0.45
		Carer's allowance	G#	UK	1997 to 2016	2,600	102	3.92
		State pension	G#	UK	2005 to 2016	89,400	0	0.00
		Council tax reduction fraud	S#	UK	2012 to 2013	4,900	60	1.22
		Unreviewed	S	UK	2015 to 2016	16,712	120	0.72
		Tax credits fraud	G#	UK	2015 to 2016	28,482	484	1.70

# Data updated to the most recent costs based on the Bank of England's inflation calculator

# Charities

Victim	Total fraud loss £ million	Fraud type	Confidence	Coverage	Year	Income/ expenditure £ million	Fraud £ million	Fraud %
Registered charities	2,314	Procurement fraud	B#	UK	2015 to 2016	24,443	1,163	4.76
		Payroll fraud	B#	UK	2013 to 2014	58,217	990	1.70
		Grant fraud	B	UK	2015 to 2016	5,344	161	3.02

# Data updated to the most recent costs based on the Bank of England's inflation calculator

In the 2016 report, fraud in registered charities was estimated at just under £1.9 billion and this has risen to an estimated £2.3 billion. Much of this increase was due to an increased expenditure on procurement, leading to an

increase in estimated fraud of almost £400 million. Payroll fraud rose by £4 million and grant fraud fell by £35 million compared to the previous year.



# Fraud against individuals

The calculation of estimated fraud against individuals has undergone the most significant change this year. This is due to the new data from the ONS Crime Survey for England and Wales, which now seeks information on fraud victimisation (ONS, 2017). This provides very accurate data on the number of individual fraud victims.

As a result of having this more accurate data, there is greater confidence in the estimates for losses to mass marketing fraud and identity fraud. Mass marketing fraud is when someone receives an uninvited contact by email, letter, phone or adverts, making false promises to con them out of money.

Mass marketing fraudsters try to lure victims with false promises of large cash prizes, goods or services in exchange for upfront fees, or what they call taxes or donations.

As a whole, fraud against the adult population has declined from an estimated £9.7 billion in 2016 to £6.8 billion as shown in this report. Mass marketing fraud is calculated to be costing £4.5 billion and identity fraud is £1.3 billion. The cost of private rental property fraud is estimated at £918 million, an increase compared to £769 million in the last report. The cost of prepayment meter scams is estimated to be the same as the previous year.

Victim	Total fraud loss £ million	Fraud type	Confidence	Coverage	Year	Income/ expenditure £ million	Fraud £ million	Fraud %
UK adult population	6,785	Mass marketing fraud	G	UK	2015 to 2016	857,376	4,520	0.53
		Identity fraud	S#	UK	2015 to 2016		1,344	0.16
		Private rental property fraud	S#	UK	2010 to 2016	46,907	918	1.96
		Prepayment meter scams	S#	UK	2013 to 2014	-	3	-

# Data updated to the most recent costs based on the Bank of England's inflation calculator



# Conclusion

The reduction in the total cost of fraud in the UK from an estimate of £193 billion in 2016, to around £190 billion in this report, might be seen as a success. However, the reality is the extent of fraud has mostly remained the same or risen slightly. The reduction in the total cost is mostly due to reduced levels of expenditure in key areas such as procurement.

Greater focus should be given to the higher quality data available for this report, specifically the gold standard data. This shows an increase in fraud of around £2.1 billion. From £21.5 billion in the 2016 AFI report to £23.6 billion in 2017, it is an almost 10% increase. Given the much greater use of gold standard measurement methodologies, it is important to note the 7.5% increase in the cost of public sector fraud to £40.3 billion from £37.5 billion.

The reduced expenditure of large private sector enterprises obscure upward trends in fraud losses that are still occurring. The fraud total is likely to rise in line with increases in private sector expenditure.

“Organisations that take the threat of fraud seriously and invest in the appropriate strategies to counter it will avoid increased fraud losses.”



# Appendices

## The complete costs of fraud table

Where a confidence category is followed with a # symbol, data has been updated to the most recent costs based on the [Bank of England's inflation calculator](#). Central to the bronze level estimates is the application of the fraud loss rate derived from the Gee and Button (2017) report

The Financial Cost of Fraud 2017 (weighted for pure fraud) which is based upon an assessment of worldwide organisations using the most accurate fraud loss measurement.



Sector	Fraud loss by victim sector £ million	Victim	Total fraud loss £ million	Fraud type	Confidence	Coverage	Year	Income/ expenditure £ million	Fraud £ million	Fraud %
Public sector	40,354	Central taxation	16,280	Tax fraud	G	UK	2015 to 2016	518,000	16,200	3.13
				Vehicle excise fraud	G#	UK	2015	5,800	80	1.38
		Central government other income	206	Television licence fee evasion	S#	UK	2015 to 2016	3,743	206	5.50
		Central government excluding benefits	10,217	Procurement fraud	B#	UK	2013 to 2016	117,277	5,578	4.76
				Payroll fraud	B#	UK	2013 to 2016	60,805	1,034	1.70
				Grant fraud	B	UK	2015 to 2016	67,958	2,054	3.02
				Student finance fraud	B	England, Wales, Northern Ireland	2015 to 2016	15,910	481	3.02
				Pension fraud	B	UK	2015 to 2016	35,430	1,071	3.02
				National Savings and Investments fraud	S	UK	2015 to 2016	2,067	0	0.02
		NHS	3,423	Dental charge fraud	G#	England	2007 to 2016	765	29	3.80
				Optical charge fraud	G#	England	2007 to 2016	458	14	3.00
				Prescription charge fraud	G#	England	2014 to 2016	9,199	284	3.09
				Dental contractor fraud	G#	England	2013 to 2016	3,313	116	3.49
				Pharmaceutical contractor fraud	G#	England	2013 to 2016	2,106	84	3.97
				Optical contractor fraud	G#	England	2013 to 2016	542	13	2.47
				General practice contractor fraud	B#	England	2013 to 2016	7,798	356	4.57
				Other procurement fraud	B#	England	2015 to 2016	36,301	1,727	4.76
				Payroll fraud	B	UK	2015 to 2016	47,084	800	1.70
		Local government excluding benefits	7,805	Blue Badge scheme misuse	S#	England	2013 to 2016	1,165	46	3.96
				Housing tenancy fraud	B#	England	2013 to 2016	-	1,827	-
				Procurement fraud	B#	UK	2013 to 2016	93,258	4,436	4.76
				Payroll fraud	B#	UK	2013 to 2016	63,255	1,075	1.70
				Grant fraud	B	UK	2015 to 2016	3,121	94	3.02
				Pension fraud	B	UK	2015 to 2016	10,785	326	3.02
		Benefit and tax credits	2,423	Housing benefit fraud	G	UK	2016	24,771	1,000	4.04
				Income support	G	UK	2014 to 2016	2,879	61	2.12
				Jobseekers allowance	G	UK	2015 to 2016	2,434	78	3.20
				Employment and support allowance	G	UK	2015 to 2016	14,979	280	1.87
				Universal credit	G	UK	2015 to 2016	490	13	2.65
				Pension credit	G	UK	2015 to 2016	6,484	165	2.54
				Incapacity benefit	G#	UK	2010 to 2016	1,455	0	0.00
				Disability living allowance	G#	UK	2005 to 2016	13,300	60	0.45
				Carer's allowance	G#	UK	1997 to 2016	2,600	102	3.92
				State pension	G#	UK	2005 to 2016	89,400	0	0.00
				Council tax reduction fraud	S#	UK	2012 to 2013	4,900	60	1.22
				Unreviewed	S	UK	2015 to 2016	16,712	120	0.72
				Tax credits fraud	G#	UK	2015 to 2016	28,482	484	1.70
		Financial sector sales	5,242	General insurance fraud	B	UK	2015	72,619	2,896	3.99
				Mortgage fraud	B#	UK	2010 to 2016	247,300	1,583	0.64
				Plastic card fraud	B	UK	2016	856,000	568	0.07
				Online banking fraud	B	UK	2016	-	134	-
				Cheque fraud	B	UK	2016	400,158	19	0.00
				Telephone banking fraud	B	UK	2016	-	32	-
				Motor finance fraud	B#	UK	2013 to 2014	-	11	-
Private sector	140,658	Non-financial sector sales	1,258	Retail	S	UK	2016	360,107	183	0.05
				Telecoms fraud	S#	UK	2013 to 2016	37,500	900	2.40
				Rail transport fare evasion	S#	UK	2014 to 2015	9,728	175	1.80
		Expenditure small enterprises	38,358	Procurement fraud	B#	UK	2013 to 2016	678,876	32,289	4.76
				Payroll fraud	B#	UK	2013 to 2016	356,993	6,069	1.70
		Expenditure medium enterprises	21,612	Procurement fraud	B#	UK	2013 to 2016	421,173	20,032	4.76
				Payroll fraud	B#	UK	2013 to 2016	92,930	1,580	1.70
		Expenditure large enterprises	74,189	Procurement fraud	B#	UK	2013 to 2016	1,452,959	69,106	4.76
				Payroll fraud	B#	UK	2013 to 2016	298,948	5,082	1.70
		Registered charities	2,314	Procurement fraud	B#	UK	2015 to 2016	24,443	1,163	4.76
Charity sector	2,314			Payroll fraud	B#	UK	2013 to 2014	58,217	990	1.70
				Grant fraud	B	UK	2015 to 2016	5,344	161	3.02
Adult individuals	6,785	UK adult population	6,785	Mass marketing fraud	G	UK	2015 to 2016	857,376	4,520	0.53
				Identity fraud	S#	UK	2015 to 2016	-	1,344	0.16
				Private rental property fraud	S#	UK	2010 to 2016	46,907	918	1.96
				Prepayment meter scams	S#	UK	2013 to 2014	-	3	-

## Calculating procurement fraud

Private sector procurement fraud represents a very significant proportion of the UK's annual total cost of fraud with losses at £121 billion, from total annual expenditure of £2,553 billion. The estimate was calculated by using the lowest fraud and error rate of 7.8% derived from several confidential loss measurement exercises. The cost of error was then removed by applying the mean fraud/error adjustment factor (AF) of 61% to produce a subsequent fraud loss rate (FLR) of 4.76%.

Fraud losses were then calculated by applying the FLR to government revenue and capital procurement expenditure as reported in PESA (HM Treasury, 2016) and the Annual Business Survey records (ONS, 2016a) for all sectors bar the financial sector. There is no precise data for the financial sector. This figure also excludes dental contractor fraud. There is also no official procurement expenditure data for the charity sector. However, the charity sector's purchasing levels can be estimated by subtracting its £58,217 million payroll costs and £5,344 million of grants from the £88,004 million total turnover figure (BEIS, 2016; NCVO, 2016). Procurement fraud estimates are based on the methodology shown in the yellow box to the right.

Procurement expenditure in each sector was multiplied by the fraud loss rate of 4.76% to produce the cost of procurement fraud for each sector.

### Private sector

Expenditure = £2,661,863 million

×

Fraud loss rate = 4.76%

The cost of fraud = £121,428 million

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### Charity sector

Expenditure = £24,443 million

×

Fraud loss rate = 4.76%

The cost of fraud = £1,163 million

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### Central government

Expenditure = £153,579 million

×

Fraud loss rate = 4.76%

The cost of fraud = £7,305 million  
(excluding NHS contractor fraud)

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### Local government

Expenditure = £93,258 million

×

Fraud loss rate = 4.76%

The cost of fraud = £4,436 million

## Calculating payroll fraud

Payroll fraud is estimated to cost the UK nearly £17 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, 2016). There is no centrally provided figure for payroll expenditure for the private and charity sectors. 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 (BEIS, 2016; ONS, 2016a). In 2016, the average salary cost across both the public and private sectors was £28,594. This figure includes £26,156 gross salary plus £2,438 employers' national insurance.

The calculation of the cost of fraud in this area was based on this formula.

### Central government

(excluding NHS England)

Expenditure = £60,805 million

×

Fraud loss rate = 1.7%

The cost of fraud = £1,034 million

### NHS England

Expenditure = £47,084 million

×

Fraud loss rate = 1.7%

The cost of fraud = £800 million

### Local government

Expenditure = £63,255 million

×

Fraud loss rate = 1.7%

The cost of fraud = £1,075 million

### Private sector

Expenditure = £28,594 x 26,190,000 =  
£748,870 million

×

Fraud loss rate = 1.7%

The cost of fraud = £12,731 million

### Charity sector

Expenditure = £28,594 x 2,036,000 = £58,217 million

×

Fraud loss rate = 1.7%

The cost of fraud = £990 million

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# Start the conversation



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