

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

Audit Committee

Date: Wednesday, 16th January, 2019

Time: 6.30 pm

Place: Committee Room 1 - Civic Suite

Contact:

Email: colingamble@southend.gov.uk

AGENDA

- 1 Apologies for Absence**
- 2 Declarations of Interest**
- 3 Minutes of the Meeting held on 26th September 2018**
- 4 Treasury Management Policy 2019/20**
Report of the Strategic Director (Finance and Resources)
- 5 External Audit Planning 2019/20**
Verbal Update by External Auditor (No Report Attached)
- 6 Update to Counter Fraud, Bribery and Corruption Policy and Strategy and the Counter Money Laundering Policy Strategy**
Report of the Strategic Director (Finance and Resources)
- 7 Counter Fraud and Investigation Directorate Quarterly Performance Report**
Report of Strategic Director (Finance and Resources)
- 8 Internal Audit Service Quarterly Performance Report**
Report of Strategic Director (Finance and Resources)
- 9 Information Item**
 - CIPFA Audit Committee Update – Issue 26

Members:

Cllr M Davidson (Chair), Cllr N Folkard (Vice-Chair), Cllr B Ayling, Cllr A Bright, Cllr K Buck, Cllr L Burton, Cllr D Nelson, Cllr C Willis, Cllr R Woodley and K Pandya

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SOUTHEND-ON-SEA BOROUGH COUNCIL

Meeting of Audit Committee

Date: Wednesday, 26th September, 2018

Place: Committee Room 1 - Civic Suite

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Present: Councillor M Davidson (Chair)
Councillors N Folkard (Vice-Chair), B Ayling, A Bright, K Buck,
D Nelson, C Willis, R Woodley and K Pandya (Co-opted member).

In Attendance: C Gamble, E Allen, A Barnes, D Kleinberg and J Chesterton

Start/End Time: 18.30/19.50

297 Apologies for Absence

Apologies for absence were received from Councillor Burton (no substitute).

298 Declarations of Interest

The following interest was declared at the meeting:

Councillor Buck – Minute 300 (BDO: Audit Completion Report) and Minute 303 (Internal Audit Quarterly Performance Report) – non-pecuniary interest – Governor at Eastwood Academy.

299 Audit Committee Role in Risk Management Framework

The Committee considered a report of the Chief Executive:

- setting out the role of the Audit Committee in respect of the Council's risk management framework;
- providing assurance over the current operation of the risk management framework
- outlining the future plans to develop the risk management approach during 2018/19 and beyond, as the changes introduced by Southend 2050 impact on the governance framework and arrangements for the Council.

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

Resolved:

That the role that the Audit Committee has to play in the Council's risk management framework, the assurance over its current operation and the future plans to develop the Council's governance framework arrangements, including risk management, as a result of the changes arising from the introduction of Southend 2050, be noted.

**300 BDO: Audit Completion Report to the Audit Committee 2017/18
(updated and finalised)**

Further to the meeting of the Audit Committee held on 25th July 2018, Members considered a report of the External Auditor updating the summary results of the work completed for the 2017/18 financial year with regard to:

- the opinion on the Statement of Accounts; and
- the conclusion on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources (the VFM conclusion).

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

Resolved:

That the updated Report to the Audit Committee 2017/18, be accepted.

301 BDO: Annual Audit Letter, Audit for the year ended 31 March 2018

The Committee considered a report of the External Auditor presenting the Annual Audit Letter for 2017/18.

Resolved:

That the Annual Audit Letter for 2017/18, be approved.

302 Counter Fraud & Investigation Directorate Quarterly Performance Report

The Committee considered a report of the Chief Executive on the progress made by the Counter Fraud & Investigation Directorate (CFID) in delivering the Counter Fraud Strategy and Work Programme for 2018/19.

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

On consideration of the report, the Assistant Director for Fraud and Investigations undertook to include information on fraud trends in the quarterly performance report to the Committee.

Resolved:

That the performance of the Counter Fraud & Investigation Directorate over the last year, be noted.

303 Internal Audit Service Quarterly Performance Report

The Committee considered a report of the Chief Executive on the progress made in delivering the Internal Audit Strategy for 2018/19.

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

On consideration of the report, Members' attention was drawn to the vacant positions in the Audit Team and the arrangements that had been put in place to cover the work. Members acknowledged the problems of recruitment and retention that had been experienced and a number of suggestions were put forward to help address the situation, including exploring the employment of undergraduates and the use of the Local Government Association Graduate Development Programme.

In response to a request in relation to the timing of the audit reviews in the Audit Plan, the Head of Internal Audit undertook to prioritise the reviews relating to Children's Centres Contract Management and Safeguarding Arrangements.

Resolved:

That the progress made in delivering the 2018/19 Internal Audit Strategy, be noted.

304 Information Items

(a) Audit Information Papers

The Committee received and noted the following information items:

- CIPFA Audit Committee Update – helping Audit Committees to be effective;
- CIPFA Audit Committee - practical guidance for local authorities and police.

(b) Congratulations – Elaine Allen

The Committee were pleased to note that Elaine Allen had recently won the award of Council Employee of the Quarter and Members congratulated her on her achievement.

Chairman: _____

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Southend-on-Sea Borough Council

Agenda
Item No.

4

Report of Strategic Director (Finance and Resources)
to
Audit Committee
on
16 January 2019

Report prepared by: Caroline Fozzard
Group Manager – Financial Planning and Control

Treasury Management Policy for 2019/20
Cabinet Member: Councillor John Lamb
Part 1 (Public Agenda Item)

1. Purpose of Report

- 1.1 To submit the treasury management policy for 2019/20 to Audit Committee for scrutiny before approval by Council as part of the annual budget process.

2. Recommendation

2.1 That Audit Committee scrutinises and offers comments on the treasury management policy which comprises the following three documents:

- **Treasury Management Policy Statement for 2019/20;**
- **Treasury Management Strategy for 2019/20;**
- **Annual Treasury Management Investment Strategy for 2019/20.**

3. Background

- 3.1 The treasury management policy is agreed in advance of the year to which it relates. The policy is then monitored regularly and is updated, as appropriate, to reflect changing circumstances and guidance.
- 3.2 At its meeting of 13 January 2010 the Audit Committee agreed a report on the implementation of the revised CIPFA (Chartered Institute of Public Finance and Accountancy) Treasury Management Code of Practice. One of the recommendations of the code is that the treasury management policy should be scrutinised in detail by a specialist committee, before being accepted by the authority.

- 3.3 At its meeting of 25 February 2010 Council amended the terms of reference of the Audit Committee to include scrutiny of the treasury management policy. From April 2010 onwards, the Audit Committee has been responsible for ensuring its effective scrutiny.
- 3.4 Since their approval by Council in February 2018 there have been no changes to the Treasury Management Policy Statement, the Treasury Management Strategy or the Annual Treasury Management Investment Strategy.
- 3.5 In compliance with the CIPFA Treasury Management Code of Practice the Council's treasury management policy comprises:
- the Treasury Management Policy Statement;
 - the Treasury Management Strategy;
 - the Annual Treasury Management Investment Strategy.
- 3.6 The purpose of the Treasury Management Policy Statement is to set out the scope of the Treasury Management function, the policy on borrowing, debt restructure, investments, delegation and management of risk. The proposed Treasury Management Policy Statement for 2019/20 is attached as **Appendix 1**.
- 3.7 The purpose of the Treasury Management Strategy is to set out how the budgeted financing costs can be achieved. It covers the prospects for interest rates and the strategy on borrowing and debt restructuring. The proposed Treasury Management Strategy for 2019/20 is attached as **Appendix 2**.
- 3.8 The purpose of the Annual Treasury Management Investment Strategy is to set out the investment objectives and the policies on the use of external fund managers, on the investment of in-house managed funds and on the use of approved counterparties. The proposed Annual Treasury Management Investment Strategy for 2019/20 is attached as **Appendix 3**.
- 3.9 Appendices 1, 2 and 3 together form the treasury management policy and are used on a daily basis for the effective running of the treasury management function.
- 3.10 In response to the on-going economic, regulatory and financial market conditions, and in consultation with our treasury management advisers, the treasury management policy has been updated for the 2019/20 financial year. The changes from the revised 2018/19 policy are shown in **Appendix 4**.
- 3.11 The policy and strategy documents are written in order to provide officers and advisers with clear boundaries within which to work but as a result they are written using technical language. Treasury management training has been offered to all councillors to aid understanding of the issues and further training will be available in the future.

4. Corporate Implications

4.1 Contribution to the Southend 2050 Road Map

The Treasury Management Strategy sets out how the financing costs as part of the Medium Term Financial Plan may be achieved. The treasury management policy together with the prudential indicators, acknowledge how effective treasury management will provide support towards the achievement of the Council's ambition and desired outcomes.

4.2 Financial Implications

The financial implications of the proposed capital programme will be considered in the forthcoming budget reports to Cabinet. Other financial implications are dealt with throughout this report.

4.3 Legal Implications

Compliance with the relevant regulations and codes of practice has been considered throughout this report.

4.4 People Implications

None

4.5 Property Implications

None

4.6 Consultation

The key treasury management decisions are taken in consultation with our treasury management advisers.

4.7 Equalities and Diversity Implications

None

4.8 Risk Assessment

The treasury management policy acknowledges that the successful identification, monitoring and management of risk are fundamental to the effectiveness of its activities.

4.9 Value for Money

Treasury management activities include the pursuit of optimum performance consistent with effective control of the risks associated with those activities.

4.10 Community Safety Implications

None

4.11 Environmental Impact

None

5. Background Papers

5.1 None.

6. Appendices

6.1 Appendix 1 – Treasury Management Policy Statement 2019/20

6.2 Appendix 2 – Treasury Management Strategy 2019/20

6.3 Appendix 3 – Annual Treasury Management Investment Strategy 2019/20

6.4 Appendix 4 – Changes from the revised 2018/19 Treasury Management Policy

SOUTHEND-ON-SEA BOROUGH COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT 2019/20

1 Background

- 1.1 The purpose of this statement is to outline the Council's treasury management policy.
- 1.2 The CIPFA Code of Practice on Treasury Management recommends that Local Authorities:
 - Adopt the CIPFA code;
 - Create and maintain both a Treasury Management Policy Statement and suitable Treasury Management practices;
 - Appoint an officer to whom Treasury Management is delegated;
 - Submit reports regularly.
- 1.3 Cabinet approved adoption of the CIPFA code of Practice for Treasury Management at its meeting on 12 February 2002. CIPFA published a major revision to the Code of Practice for Treasury Management on 27 November 2009, the implementation of which was the subject of a report to Audit Committee submitted to its meeting of 13 January 2010. Since then there have been a number of more minor revisions, the latest being in December 2017.
- 1.4 There is a requirement in the revised code that the treasury management policy should be scrutinised in detail by a specialist committee, before being accepted by the authority, and should be monitored regularly.
- 1.5 The treasury management policy is agreed in advance of the year to which it relates. The policy is then monitored regularly and is updated, as appropriate, to reflect changing circumstances and guidance.
- 1.6 The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management policy, before approval by full Council as part of the approval of the budget.
- 1.7 The Chief Finance Officer (Section 151 Officer under the Local Government Act 1972) is the person responsible for the treasury management function.
- 1.8 The revised code requires that, as a minimum, reporting should include an annual strategy in advance of the year, a mid-year review and an annual report after its close. The reporting and scrutiny of the strategy and policy are dealt with above. Reports on the activities of the treasury management function will be submitted to Cabinet quarterly.

One such report will comprise an annual report for presentation before 31 July of the succeeding year. Another report will be a mid-year review reporting in November of each year.

- 1.9 In the latest version of the CIPFA Code of Practice on Treasury Management the term “investments” now covers all the financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment in property portfolios. This may therefore include investments which are not managed as part of normal treasury management and are therefore covered by the Capital Investment Strategy which forms part of the Capital Strategy.

2 Duration of the Policy Statement

- 2.1 This Treasury Management Policy Statement covers the 2019/20 financial year.

3 Scope of the Treasury Management Function

- 3.1 The Council defines its treasury management activities as:
- the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions;
 - the effective control of the risks associated with those activities;
 - the pursuit of optimum performance consistent with those risks.
- 3.2 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.
- 3.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
- 3.4 The Council acknowledges that responsibility for the effective management and control of risk lies with the authority.

4 Use of a treasury management adviser

- 4.1 The services of a treasury management adviser, Link Asset Services will be used throughout 2019/20 to assist the Council to develop and enhance the performance of the treasury management function.

- 4.2 The role of this adviser is to provide relevant and timely information and advice on all aspects of treasury management.
- 4.3 The Council recognises that responsibility for treasury management decisions remains with the authority at all times.

5 Funding requirements for the capital investment programme

- 5.1 The following methods of funding have been identified as being available to the Council for use in 2019/20:

- Borrowing;
- Use of capital receipts - from the sale of surplus assets;
- Use of Government Grants – e.g. Local Growth Fund, or grants from the Department for Education;
- Other external contributions – e.g. Section 106 agreements;
- Revenue funding – e.g. transferred from the Revenue Account.

- 5.2 No additional funding source will be used without the agreement of the Cabinet.

6 Limits on external borrowings

- 6.1 The Council must set an operational boundary and authorised limit for external debt. The operational boundary is how much external debt the Council plans to take up, and reflects the decision on the amount of debt needed for the Capital Investment Programme for the relevant year. The authorised limit is higher than the operational boundary as it allows sufficient headroom to take account of unusual cash movements.

- 6.2 The table below shows the operational boundary and authorised limits for borrowing for 2018/19 and 2019/20:

	2018/19 Original £m	2018/19 Revised £m	2019/20 Original £m
Operational boundary	285	280	290
Authorised limit	295	290	300

In accordance with the Prudential Code these limits exclude outstanding debt relating to services transferred from Essex County Council (ECC) on 1 April 1998.

7 Policy on sources and types of long term borrowing

- 7.1 The Council's long term borrowing (i.e. for more than one year) for 2019/20 will be via any type of loan from the Public Works Loan Board (which is a statutory body whose function is to lend money to local

authorities and other prescribed bodies) or from banks, building societies or other financial institutions as appropriate.

- 7.2 In addition, if it is deemed to be economically advantageous the Section 151 Officer, in consultation with our Treasury Management advisers, can issue bonds to raise funds, either in this council's name or collaboratively with other Local Authorities or via the Local Government Association (LGA), and either as a private or public placement.
- 7.3 In addition, if it is deemed to be economically advantageous the Section 151 Officer, in consultation with our Treasury Management advisers, can borrow from other Local Authorities.
- 7.4 In addition, if it is deemed to be economically advantageous the Section 151 Officer, in consultation with our Treasury Management advisers, can borrow for the purposes of financing regeneration and other infrastructure related projects.
- 7.5 The PWLB is usually the most economic source available to the Council for long term borrowing. The Council is eligible for HM Treasury's 'certainty rate' which is a discount of 0.2% on standard rates. For specified projects only the Council also has access to the 'project rate' (a concessionary rate to support strategic local capital investment projects) which is a discount of 0.4% on standard rates.
- 7.6 Financing arrangements other than borrowing will be in the form of leases. These will be taken out to finance the purchase or use of assets such as equipment or vehicles.

8 Timing of new borrowing

- 8.1 New borrowing will be undertaken as and when required to finance capital. The Council's Section 151 Officer is authorised to make application for loans during 2019/20 that are deemed appropriate for the long term financing of capital. The amount and timing of these loans will have regard to the Council's cash flow, the PWLB interest rates and the future requirements of the capital investment programme.

9 Debt restructuring policy

- 9.1 Some of the Council's borrowings are at a higher interest rate than the current rate of borrowing. To redeem these loans before their maturity date (i.e. to redeem them early) the Council would be required to pay a premium (this is like paying to redeem a mortgage early except the amount of the penalty depends on the prevailing rate of interest). New loans could then be taken out at the current rate. The savings to be made by paying interest at a lower rate need to be offset by the premiums payable before a decision is made as to whether this would be economically advantageous.

- 9.2 Similarly, some of the Council's borrowings can be at a lower interest rate than the current rate of borrowing. To redeem these loans early the Council would receive a discount (this is the opposite of a premium). New loans could then be taken out at the current rate. The discount receivable would need to be offset by the higher rate of interest paid before a decision is made as to whether this would be economically advantageous.
- 9.3 The Council will undertake debt restructuring as and when appropriate opportunities arise. The main objective of a restructure will be to produce reductions in financing costs as part of an overall budget strategy. The advice of our treasury management advisers would be sought. Members would be notified via the quarterly reporting to Cabinet on treasury management activities.

10 Treasury Management Investments

- 10.1 See the Annual Treasury Management Investment Strategy.

11 The approved activities of the Treasury Management operation are as follows:

- Risk management;
- Cash flow management (daily balance and longer term forecasting);
- Investing surplus funds in approved investments;
- Use of brokers for placing investments;
- Investing surplus funds with external fund managers;
- Long term borrowing to fund the capital investment programme;
- Short term borrowing for cash flow purposes;
- Management of debt (including repayment and rescheduling);
- Capital receipts management;
- Leasing arrangements for the Council (including schools);
- Banking activities;
- Training for members and officers;
- Prevention of money laundering.

12 Responsibility for the treasury management function

- 12.1 Under the constitution the Council's Section 151 officer who is the Chief Finance Officer (currently the Strategic Director (Finance and Resources)), must take all steps that are considered appropriate for the administration of the financial affairs of the Council. This includes responsibility for the treasury management function.
- 12.2 The table in Annex 1 shows the treasury management activities and the sub-delegated responsibilities from the Chief Finance Officer to others.
- 12.3 Officers are required to explicitly follow policies and procedures.

- 12.4 The training needs of staff and members with treasury management responsibilities are assessed on a regular basis and training is arranged as necessary.

13 Risks

- 13.1 The overriding principle is that it is more important to balance risks than to maximise returns.

Credit and Counterparty risk

- 13.2 This is the risk that the organisation with which we have invested money becomes insolvent and cannot pay us back our investment. A prime objective of treasury management activities is the security of the principal sums invested and this is placed ahead of the investment return. Accordingly, the Council will ensure that robust due diligence procedures cover all external investment.
- 13.3 Investment activities are limited to the instruments, methods and techniques referred to in the Annual Treasury Management Investment Strategy. The use of limits and a combined matrix of investment criteria using credit ratings reflects a prudent attitude towards organisations with whom funds may be deposited. Investment activities will be limited to those who meet the criteria in this matrix when the investment is placed, with the exception of the UK part-nationalised bank and the Council's bank, and then limited by other relevant market information.
- 13.4 The policy in respect of those organisations from which the council may borrow, or with whom it may enter into other financing arrangements is set out in this Treasury Management Policy Statement and in the Annual Treasury Management Investment Strategy.

Liquidity risk

- 13.5 This is the risk that there will be insufficient cash available to make payments as they fall due. The Chief Finance Officer will ensure that cash resources are adequate, though not excessive, and that borrowing arrangements are available at all times to enable the Council to achieve its business objectives.

Interest Rate risk

- 13.6 Interest rates will be reviewed as part of the ongoing monitoring arrangements to ensure that, as far as possible, investments are made so as to maintain the return to the Council, whilst retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

- 13.7 Regard will be given to the limits imposed by the treasury management policy, particularly the importance of maintaining the security of the monies invested.

Partnership risk

- 13.8 There are currently no major partnerships involving private borrowing. Some of the Council's costs are met by 'match funding' where other organisations match the funding that the Council contributes. Where this is the case there may be liquidity risk (see 13.5) if the other organisations do not make their contributions when agreed. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes.

Market risk

- 13.9 Our long term borrowing is mainly through fixed rate maturity loans, whilst our investments are at both fixed and variable rates. To mitigate the risk as far as possible the Council seeks to find the appropriate balance of investments between short and long term and between variable and fixed rate.

Refinancing risk

- 13.10 Our borrowing arrangements are negotiated, structured and documented, and the maturity profile of these monies are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable as can reasonably be achieved in the light of market conditions prevailing at the time.

Currency risk

- 13.11 The Council does not have any foreign currency risk as all investments are in pounds sterling.

Inflation risk

- 13.12 The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

Treasury Management Activity	Delegated to:	In their absence, delegated to:
Production of a Treasury Policy each year for approval by the Council prior to the start of the financial year	Group Manager (Financial Planning & Control)	Finance Manager – Capital/ Treasury Management
Staffing and organisation of the Treasury Management function	Group Manager (Financial Planning & Control)	Chief Finance Officer
Ensuring that all staff engaged in Treasury Management receive appropriate training	Group Manager (Financial Planning & Control)	Finance Manager – Capital/ Treasury Management
Ensuring that all members with Treasury Management responsibilities receive appropriate training	Chief Finance Officer	Group Manager (Financial Planning & Control)
Advising the Council's Monitoring Officer when necessary	Chief Finance Officer	Deputy Section 151 Officer
Decisions on long term borrowing	Chief Finance Officer	Deputy Section 151 Officer
Decisions on the restructuring of the Council's debt	Chief Finance Officer	Deputy Section 151 Officer
Taking out new loans/repayment of loans with the PWLB	Group Manager (Financial Planning & Control)	Chief Finance Officer/ Deputy Section 151 Officer
Maintaining adequate and effective cash flow forecasting records to support the decision to lend or borrow	Designated Accounting Technician/Finance Manager	Any other designated Accounting Technician/Finance Manager

Treasury Management Activity	Delegated to:	In their absence, delegated to:
Proposals on placing overnight monies with the Council's bank or in short/long term investments	Finance Manager – Capital/ Treasury Management	Designated Accounting Technician/ Finance Manager
Approval of short/long term investments	Chief Finance Officer	Deputy Section 151 Officer/Group Manager (Financial Planning & Control)
Placing money in investments once approval has been obtained	Finance Manager – Capital/ Treasury Management/ other designated Finance Business Partner/ Senior Finance Business Partner	Group Manager (Financial Planning & Control)
Contact for correspondence with external fund managers	Finance Manager – Capital/ Treasury Management	Other designated Accounting Technician/Finance Business Partner
Decisions on placing with or recalling monies from external fund managers	Chief Finance Officer	Deputy Section 151 Officer
Entering into lease agreements	Chief Finance Officer	Deputy Section 151 Officer
Key contact with the Council's treasury management advisers	Group Manager (Financial Planning & Control)	Finance Manager – Capital/ Treasury Management
Monitoring of actual against budget for debt charges, interest earnings and debt management expenses	Designated Accounting Technician/ Finance Manager	Any other designated Accounting Technician/Finance Manager
Monitoring of performance; average interest rates earned and paid etc.	Designated Accounting Technician/Finance Manager	Any other designated Accounting Technician/Finance Manager
Monthly report to Section 151 officer detailing performance and any non-compliance with the Treasury Management Policy	Finance Manager – Capital/ Treasury Management	Designated Accounting Technician/Finance Manager

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SOUTHEND-ON-SEA BOROUGH COUNCIL
TREASURY MANAGEMENT STRATEGY 2019/20

1. Introduction

- 1.1 The Treasury Management Strategy is written in compliance with the CIPFA Treasury Management Code of Practice requirement to review and report policy and strategy before the start of the year. This has been revised following publication of the revised Code of Practice.
- 1.2 The Treasury Management Strategy sets out how the financing costs may be achieved. It needs to be regularly monitored and modified in the light of changing external and internal circumstances.
- 1.3 The objective of the strategy is to optimise the income generated by surplus cash and minimise borrowing costs, consistent with a low level of risk, maintaining capital sums and maintaining liquidity.

2. The Council's Budget

- 2.1 The budget includes provision for the financing costs of the Council's Capital Investment Programme, including interest on external borrowings. Offsetting this, the Council will earn interest by temporarily investing its surplus cash, which includes unapplied and set-aside capital receipts. These budgets depend on many factors, not least the Council's level of revenue and capital budgets, use of reserves, methods of funding the budget requirement, interest rates, cash flow and the Council's view of risk.
- 2.2 The Council can be both a lender and borrower at the same time as it seeks to invest short-term surpluses and fund longer-term capital investment. The timing of the taking of borrowing is important to secure the most advantageous interest rates.
- 2.3 The net budget for financing costs and interest earned on balances is £11.8m in 2019/20.

3. The Council's Cash Surplus and Cash Flow

- 3.1 It is projected that surplus cash balances will average £65m (of which £50m is the estimated sum of medium and long term funds managed by external fund managers) during 2019/20 based on information currently available and historical spending patterns.

4. Interest Earnings (in-house investments)

- 4.1 At the date of this report, the Bank of England base rate was 0.75%. Based on economic forecasts it is very difficult to predict the timing of any change in interest rates, however it has been assumed that during 2019/20 the bank base rate will increase to 1% in June 2019 and to 1.25% in March 2020. The average interest earned by the Council on its in-house lending is likely to be 1.17% but this does depend on market conditions.
- 4.2 Sensitivity analysis shows that a difference of 0.5% in interest rates would make a difference of £75k in external interest earned and a difference of £1m in average balances would make a difference of £12k in interest earned in a full year. This risk is reflected in the annual review of the robustness of estimates for the Council Budget undertaken by the Strategic Director (Finance and Resources).

5. Long Term Borrowing

- 5.1 There is no Central Government funding to support borrowing by the Council to fund capital projects. Under the Prudential Code the cost of any additional borrowing has to be financed by the Council.
- 5.2 The funding available to support capital investment is based on an assumption that the Council will undertake borrowing in 2019/20 of £31m, £8m of which relates to invest to save schemes and £6m is towards reversing the under-borrowed position against CFR (see paragraph below). The revenue impact of this borrowing is funded in the Revenue Budget proposals. As an indicative guide to this revenue impact, there is a cost of approximately £70k for every £1m borrowed.
- 5.3 The Capital Financing Requirement (CFR) is the council's theoretical need to borrow but the Section 151 Officer can manage the council's actual borrowing position by either:
- 1 - borrowing to the CFR;
 - 2 - choosing to use temporary cash flow funds instead of borrowing (internal borrowing) or;
 - 3 - borrowing for future increases in the CFR (borrowing in advance of need).
- The Council is likely to begin 2019/20 in the second of the above scenarios. However, as the 2019/20 financial year progresses a combination of scenarios 1, 2 and 3 will be considered, as appropriate.
- 5.4 This authority will only borrow in advance of need where there is a clear justification for doing so and will only do so for the current capital investment programme or to finance future debt maturities.
- 5.5 So far in 2018/19 no new PWLB loans have been taken out.

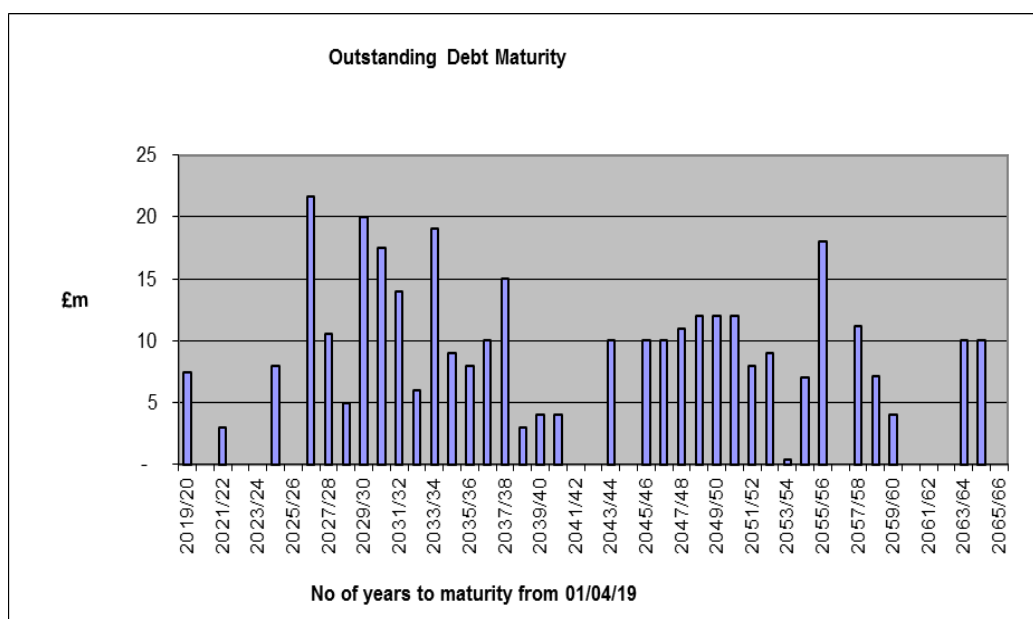
- 5.6 The Council's current outstanding loans for both General Fund and Housing Revenue Account, which will need to be repaid, are set out below:

Southend-on-Sea Borough Council		Main Schemes (£m)	Invest to Save Schemes (£m)	Total (£m)
Opening position as at 31 March 2019	GF	160	11	171
	HRA	77	0	77
	Total	248		
New loans in 2019/20	GF	23	8	31
	HRA	0	0	0
	Total	31		
Repayments in 2019/20	GF	(5)	0	(5)
	HRA	(2)	0	(2)
	Total	(7)		
Closing position as at 31 March 2020	GF	178	19	197
	HRA	75	0	75
	Total	272		

- 5.7 Outstanding debt relating to services transferred from Essex County Council (ECC) on 1 April 1998, remains under the management of ECC and is set out below. Southend Borough Council reimburses the debt costs incurred by the County.

ECC transferred debt	Amount (£m)
Opening position as at 31 March 2019	11.3
New loans in 2019/20	0
Repayments in 2019/20	(0.5)
Closing position as at 31 March 2020	10.8

- 5.8 The graph on the next page shows the repayment profile of the Council's PWLB borrowings if all new loans are included to reflect the funding of the proposed capital investment programme and the refinancing of debt.



It shows the gaps in the repayment profile and that there is no one year where the loan maturities are excessive.

The next maturity date of any PWLB debt redemption is September 2019 and is for a sum of £7m (General Fund: £5m, Housing Revenue Account (HRA): £2m).

- 5.9 The potential for the early redemption of high interest loans is reviewed periodically, however the interest savings from the repayment of these loans is usually offset by the premiums that must be paid on their redemption and it has not yet been advantageous for the Council to discharge these loans prematurely. This followed advice from our treasury management advisers which demonstrated the excessive cost to the Council of any debt restructuring. Further advice from our treasury management advisers will be sought at the appropriate time about the potential for restructuring of debt and the timing of such a restructure.
- 5.10 Long term borrowing will normally be taken from the Public Works Loan Board (PWLB) since this is usually the most economic source available to the Council. If other sources are thought to be more advantageous and are permitted under the relevant legislation they will be considered.
- 5.11 As at 21 December 2018 rates of borrowing (from the PWLB) were between 2.62% and 2.67% for loans between 20 and 30 years (these rates include the certainty rate discount of 0.2%). During 2019/20 the investment and borrowing interest rates will be kept under review and the further use of capital balances will be considered in lieu of new borrowing where this is advantageous.
- 5.12 Where it is considered appropriate to take out new borrowing, regard will be given to the existing repayment profile (see 5.8 above) and the need for a spread of maturity dates to ensure that a significant value of loans do not mature at the same time. Loans are taken out for a range

of periods in order that the Council continues to balance its debt profile over the longer term and so is not unduly exposed to the prevailing interest rates at the time of the possible debt replacement.

6. Monitoring and Review Arrangements

6.1 During 2019/20, within 7 working days of each month end, the Section 151 Officer will receive a report detailing performance and any non-compliance with the treasury management policy. He will either approve the report or raise the necessary queries to satisfy himself in relation to:

- (i) all transactions being properly authorised
- (ii) all transactions being with approved counterparties
- (iii) all transactions being in accordance with the Council's approved policy
- (iv) monitoring of security and liquidity (i.e. spread of investments by long term credit rating, financial sector, country, maturity profile)
- (v) in-house investment performance against 7 day LIBID
- (vi) investment performance for external fund managers for the relevant period

6.2 In addition to the monthly reports:

- (i) monitoring reports will be included in the regular Performance Monitoring report
- (ii) any changes affecting the treasury management strategy will be reported to Audit Committee for scrutiny and Cabinet for recommending to Council for approval.

6.3 Benchmarking that considers security and liquidity will be achieved by appropriate comparisons with relevant statistical data.

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SOUTHEND-ON-SEA BOROUGH COUNCIL

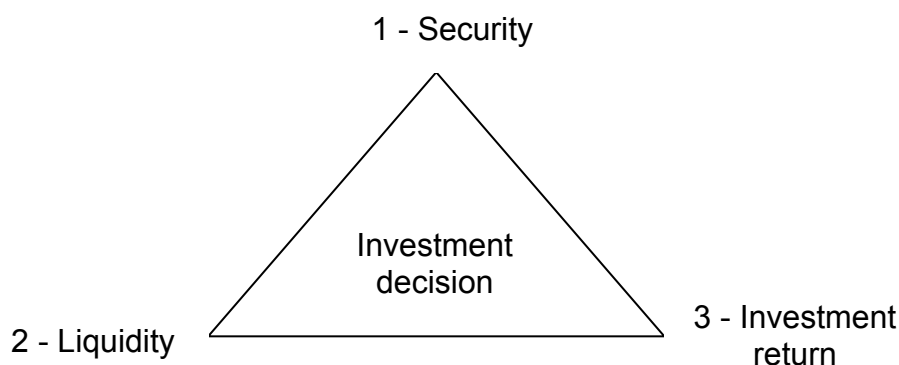
ANNUAL TREASURY MANAGEMENT INVESTMENT STRATEGY 2019/20

1 Scope of this strategy

- 1.1 This investment strategy covers Treasury Management investments only. (Capital investments including service and commercial investments and loans are covered in the Capital Investment Policy which is Annex 1 to the Capital Investment Strategy.)

2 Treasury Management Investment Objectives

- 2.1 To secure the principal sums invested
- 2.2 To maintain liquidity (i.e. adequate cash resources)
- 2.3 To optimise the income generated by surplus cash in a way that is consistent with a prudent level of risk
- 2.4 Security and liquidity are placed ahead of the investment return. This is shown in the diagram below:



3 Policy on use of external fund managers

- 3.1 The Council currently has monies placed with five external fund managers to use their knowledge and experience to invest on our behalf the medium and long term funds that are, under normal circumstances, not required for day to day cash flow purposes. These funds are summarised on the next page:

Type of fund	Fund manager	Estimated average balance in 2019/20 (£m)
Property Fund	Lothbury Investment Management Limited	14.0
Property Fund	Patrizia (formally Rockspring) Property Investment Managers LLP	15.3
Short Dated Bond Fund	AXA Investment Managers Limited	7.6
Short Dated Bond Fund	Royal London Asset Management	7.7
Enhanced Cash Fund	Payden & Rygel Global Limited	5.1
Total		49.7

- 3.2 Withdrawals may be made during 2019/20 so that a proportion of the council's debt can be repaid or the monies invested as part of the in-house managed funds. Conversely, monies may be placed with the existing and/or a new fund manager during 2019/20 to take full advantage of the knowledge and experience of fund managers in making investment decisions. As to whether monies are deposited or withdrawn, the reason and timing of the decision will have regard to the council's cash flow, relevant interest rates and advice from our treasury management advisers.
- 3.3 In consultation with our treasury management advisers and if appropriate the Section 151 officer will appoint one or more new fund managers in 2019/20 to enable investment of monies.
- 3.4 During 2019/20, if appropriate, the Section 151 officer will approve the placing of monies in Property Funds and will approve the direct investment in property. Any resulting updates to the capital programme would be submitted to Cabinet for approval.
- 3.5 During 2019/20, if appropriate, the Section 151 officer will approve the placing of monies in Short Dated Bond Funds or Enhanced Cash Funds.

4 Policy on investment of in-house managed funds

- 4.1 The remaining funds will be managed in-house with the investment period and amounts being determined by the daily cash flow requirements of the Council. Cash flow forecasts will be produced in order to inform in-house investment decisions.
- 4.2 This authority has accepted the risk of placing funds with financial institutions, rather than solely with the UK government Debt Management Office. However, the risk is minimised by this Annual Treasury

Management Investment Strategy, which restricts the types of investment, the counterparties used and the limits for these counterparties.

- 4.3 Government guidance recommends that specified and non-specified investments are identified in the Investment Strategies of local authorities. Specified investments have relatively high security and liquidity, with high credit quality and a maturity of no more than a year. Non-specified investments are investments that do not fall into this category. The types of investment in this strategy and whether they are specified or non-specified are set out in Annex A.
- 4.4 During 2019/20 the Section 151 officer will, if appropriate, approve the placing of monies in deposit accounts, fixed term deposits or certificates of sterling cash deposits up to five years, subject to the proposed banks and building societies satisfying the investment criteria in a combined matrix of credit ratings, and having regard to other market information available at the time.
- 4.5 During 2019/20 the Section 151 officer will, if appropriate, approve the placing of monies in Money Market Funds, term repurchase arrangements, Treasury bills, with other Local Authorities or the Debt Management Office. The regulations regarding Money Market Funds have changed and all references to Money Market Funds now relate to Low Volatility Net Asset Value (NAV) funds, Constant NAV funds and Variable NAV funds.
- 4.6 During 2019/20 the Section 151 officer will, if appropriate, approve the investment of monies into Development Companies (either partly or wholly owned by the Council) focused on regeneration and other infrastructure related projects, subject to the necessary due diligence being satisfactorily completed and in consultation with our treasury management advisers. The provision of loan facilities to such companies would count as capital investment in the company and any resulting updates to the capital programme would be submitted to Cabinet for approval.
- 4.7 Where credit ratings are used to assess credit risk, they will be checked when an investment is taken out to ensure that investment satisfies the criteria in this Treasury Management Investment Strategy. Our treasury management advisers provide alerts when credit ratings are changed by the three main rating agencies. If the credit ratings of an institution or investment no longer satisfy the criteria the monies will be withdrawn as soon as possible. This would depend on the maturity date or notice period.
- 4.8 During 2019/20 the Section 151 officer will, if appropriate, approve the short term borrowing of monies from other Local Authorities or the PWLB in order to manage the cash flow and maintain liquidity.
- 4.9 Fixed term deposits may be made directly with the banks and building societies or through the use of a broker. Monies will be placed with other Local Authorities through the use of a broker. Investments in Certificates of Deposit and Treasury bills will be made through the use of a custodian account. The Council acknowledges that it retains responsibility for all investment decisions made whether they are made on its behalf or not.

- 4.10 When investing in-house managed funds, the following are considered; the type of investment, the individual counterparty, the amount that can be invested, the method of placement of monies. These are summarised in Annex A.
- 4.11 The services of our treasury management adviser, Link Asset Services will be used throughout 2019/20 to provide advice as well as credit rating and other market information regarding counterparties and types of investment. However, the Council recognises that responsibility for investment decisions remains with the authority at all times.

5 Investment Criteria for Funds Managed In-house

- 5.1 All financial institutions considered for investment will be assessed for credit worthiness against a combined matrix of pre determined criteria using available credit ratings. Credit ratings are assessments by professional organisations of an entity's ability to punctually service and repay debt obligations. Credit ratings are used by investors as indications of the likelihood of getting their money back in accordance with the terms on which they invested.
- 5.2 The credit rating components used in the matrices comprise:
- Short term ratings;
 - Long term ratings.

Ratings provided by all three credit rating agencies will be consulted and a counterparty will be considered for investment if it meets the ratings criteria of at least one of the agencies.

- 5.3 The short term rating covers obligations which have an original maturity not exceeding one year. The short-term rating places greater emphasis on the liquidity necessary to meet financial commitments. All three credit rating agencies provide short term ratings. The ratings are expressed from F1+ (highest credit rating) through to D (highest default risk) for Fitch, from A-1+ (highest credit rating) through to D (highest default risk) for Standard and Poors, and from P-1 (highest credit rating) through to NP (highest default risk) for Moody's.
- 5.4 The long term ratings generally cover periods in excess of one year. Due to the larger time horizon over which the rating is determined, the emphasis shifts to the assessment of the ongoing stability of the institution's prospective financial condition. All three credit rating agencies provide long term ratings. The ratings are expressed from AAA (highest credit rating) through to D (highest default risk) for Fitch and Standard and Poors and from AAA (highest credit rating) through to C (highest default risk) for Moody's.
- 5.5 In order to balance the objective of securing the maximum level of return on investments with a prudent level of risk a matrix of criteria will be adopted as a starting point to determine the acceptability of a potential investment.

5.6 These matrices are set out below:

If the short and long term ratings meet the following criteria from a minimum of one of the ratings agencies:

For Lending of up to 6 months to Banks and Building societies:

	Fitch	S&P	Moodys
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	A-	A-	A3

For Lending of up to 12 months to Banks and Building societies:

	Fitch	S&P	Moodys
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	A	A	A2

For Lending of up to 3 years to Banks and Building societies:

	Fitch	S&P	Moodys
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	AA-	AA-	Aa3

For Lending of up to 5 years to Banks and Building societies:

	Fitch	S&P	Moodys
Short term rating minimum	F1+	A-1+	P-1
Long term rating minimum	AA+	AA+	Aa1

5.7 An example of the use of this credit ratings matrix as at 21 December 2018 is shown below (the long and short term ratings are Fitch, then Standard and Poors, then Moodys).

Financial Institution	Long Term Rating	Short Term Rating	Maximum length of investment
The Bank of New York Mellon	AA AA- Aa1	F1+ A-1+ P-1	5 years
Royal Bank of Canada	AA AA- Aa2	F1+ A-1+ P-1	3 years
Standard Chartered Bank	A+ A A1	F1 A-1 P-1	12 months

- 5.8 The Council's treasury management advisers, Link Asset Services, will continually review the appropriateness of our investment criteria and continue to develop a best practise counterparty list. The latest advice has now been incorporated in this Strategy, which is set out below.
- 5.9 The individual ratings for some banks and building societies are low which means that they do not meet the criteria in our credit ratings matrix. However, this does not take account of part nationalised banks (currently The Royal Bank of Scotland Plc and National Westminster Bank Plc). These banks can be included in the counterparty list if they continue to be part nationalised or they meet the criteria of our credit ratings matrix in paragraph 5.6. An example of the institutions meeting the criteria for the UK will therefore include:
- Bank of Scotland Plc (RFB)
 - Lloyds Bank Plc (RFB)
 - The Royal Bank of Scotland Plc (RFB)
 - National Westminster Bank Plc (RFB)
 - Barclays Bank Plc (NRFB)
 - HSBC Bank Plc (NRFB)
 - Nationwide Building Society
 - Santander UK Plc
- 5.10 The largest UK banks were required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing" and is a regulatory initiative created in response to the global financial crisis to improve the resilience and resolvability of banks. The initials RFB and NRFB in paragraph 5.9 refer to whether the bank is the Ring-fenced Bank or the Non Ring-fenced Bank. Each part of the bank has an individual credit rating and for any potential investment the counterparty would be considered against the criteria in this strategy in the normal way.
- 5.11 Counterparties that are manually added back to the list will have a maximum length of investment of two years. Amendments to the counterparty list can happen at any point in time.
- 5.12 In addition, for practical purposes the Council's bank will form part of the counterparty list, whether or not it meets the criteria in our credit ratings matrix.
- 5.13 Regard will be given to forward looking rating warnings from the three main credit rating agencies (i.e. rating watches and outlooks) provided by our treasury management advisers.
- 5.14 The current advice from DCLG and CIPFA is not to rely solely on the credit rating agencies and the Council recognises that ratings should not be the sole determinant of the quality of an institution. So regard will also be given to market information such as the financial press, and officers will engage with their advisers to maintain a monitor on market pricing (such as share and 'credit default swap' prices) and other such information pertaining to the banking sector. Where available credit information, other

than credit ratings has been used, this will be documented when the investment decision is made.

- 5.15 Consideration will also be given to Link Asset Services' rating methodology approach, where counterparties are put into bands of risk. These reflect the differences in credit quality of suggested duration and counterparties are assigned a risk number/colour.
- 5.16 The achievement of an appropriate balance between short-term and longer-term deposits will be driven by the credit quality of counterparties, the council's cash flow requirements, and the need to achieve optimum performance from our investments consistent with effective management of risk.

6 Investment Limits for Funds Managed In-house

- 6.1 The ratings agencies produce a credit rating for each country, called a sovereign rating. The ratings are expressed from AAA (highest) to D (lowest). The following limits have been set for an investment with a bank or building society whose parent company is registered in a country with a sovereign rating from Fitch and Standard and Poors (S&P) of AAA or AA+ or a sovereign rating from Moody's of Aaa or Aa1. Sovereign ratings provided by all three credit rating agencies will be consulted and the lowest rating will be taken.

Country Sovereign Rating	Limit * All except UK (£ million)
AAA/Aaa	20
AA+/Aa1	5
Lower than AA+/Aa1	0

* These limits relate to the principal sums invested and do not include any accrued interest on that principal.

- 6.2 These limits will also apply to supranationals (international organisations whereby member states transcend national boundaries or interests to share in the decision-making and vote on issues pertaining to the wider grouping). An example of a supranational is the European Investment Bank.
- 6.3 Fitch and S&P have set the UK's sovereign rating at AA and Moodys have set it at Aa2. Therefore, to ensure the continued use of UK institutions that fall within our investment criteria, the country sovereign rating limits exclude the UK. The limit will therefore remain at £20 million for all counterparties where the parent company is registered in the UK.
- 6.4 Where the parent company of a bank is not registered in a country with a sovereign rating from Fitch and S&P of AAA or AA+ or a sovereign rating from Moody's of Aaa or Aa1 but that bank's UK operations are ring-fenced to the UK (as is the case for Santander UK), if these banks are included in the counterparty list they will have a counterparty limit of £20 million.

6.5 £20 million is 31% of the authority's estimated amount of investments for 2019/20 of £65m. £5m is 8% of the estimated investments. These are upper limits and would only be fully used in exceptional circumstances as, under normal circumstances, diversification is sought to reduce counterparty risk. These limits are deemed appropriate by our Treasury Management advisers.

6.6 To minimise counterparty risk, the limit on any investment with a bank or building society (with the exception of the Council's bank which is currently Barclays Bank) will be determined in the following way:

- consider the country in which the parent company of the bank or building society is registered
- use the sovereign rating of that country to apply the limits above
- consider the cumulative balance of funds already held in various investment products with that bank or building society
- consider the cumulative balance of funds already held in various investment products for any related group of financial institutions
- determine the remaining amount that can be placed with that bank or building society

For example, the limit on an investment with Lloyds Bank Plc would be determined in the following way:

Steps to determine limit: <i>(for illustrative purposes only and not an indication of actual investments)</i>	Remaining limit available at each stage:
Lloyds Bank Plc is part of the Lloyds Banking Group which is registered in the UK	£20 million
£4 million already placed in an instant access account with Lloyds Bank Plc	£16 million
£5 million already placed in a fixed term deposit with Lloyds Bank Plc	£11 million
£6 million already placed in a notice account with Bank of Scotland Plc (part of the Lloyds Banking Group)	£5 million
Therefore the maximum investment would be £5 million	

6.7 The Council's bank is the exception to these investment limits however, and under normal circumstances our intention would be to comply with a counterparty limit of £30 million, to enable the efficient and effective management of the Council's cash flow.

6.8 The limit on deposits in Money Market Funds will be £20 million with any one AAAm/AAAf rated (or equivalent) liquidity fund. These work in the same way as a deposit account but the money in the overall fund is invested in a number of counterparties, therefore spreading the counterparty risk.

- 6.9 There are products being developed that are similar to, but not the same as Money Market Funds, such as 'term repurchase arrangements'. The risk associated with these funds is somewhere between a fixed term deposit and a Money Market Fund. The Section 151 officer will approve the placing of monies in these types of fund up to a maximum of £20 million per fund, if deemed appropriate and in consultation with our treasury management advisers.
- 6.10 Given the prevailing financial market conditions, financial institutions will inevitably devise various investment products to offer enhanced returns. The Council's Section 151 Officer will consider these in consultation with our treasury management advisers and will approve the placing of monies in such investment products with appropriate limits, only after the options and their associated risks have been fully analysed by the treasury management team and our treasury management advisers.
- 6.11 To maximise flexibility, there is no limit on deposits with the UK Government (e.g. Debt Management Office, HM Treasury bills). These deposits will have a maximum duration of 6 months.
- 6.12 The limit on deposits with other Local Authorities will be £40 million which is 62% of the authority's estimated amount of investments for 2019/20 of £65m. These deposits will have a maximum duration of 5 years. This is an upper limit and would only be fully used in exceptional circumstances. The limit is higher than the limit for other counterparties such as banks and other financial institutions due to the lower counterparty risk associated with Local Authorities. These limits are deemed appropriate by our Treasury Management advisers.

7 Fund Managers investment criteria

- 7.1 Investments undertaken by external fund managers on behalf of the Council can only be placed in certain types of investment as permitted under the Local Government Act. The types of investment, counterparties and limits used by each fund manager are set out in their Investment Management Agreement.
- 7.2 The Council's Section 151 Officer is authorised to amend these Investment Management Agreements as appropriate to reflect the needs of the Council, after fully considering the options and their associated risk and in consultation with the Council's treasury management advisers. Subject to the relevant due diligence being undertaken, the Investment Management Agreements could include investment in asset classes such as gilts, corporate bonds, property or equities, or investment in a multi asset fund.
- 7.3 The limit on deposits in Property Funds will be £20 million with any one fund that passes the selection process.
- 7.4 The limit on deposits in Short Dated Bond Funds will be £20 million with any one fund that passes the selection process.

- 7.5 The limit on deposits in Enhanced Cash Funds will be £20 million with any one fund that passes the selection process.
- 7.6 The performance and associated risk will be assessed on an on-going basis through half yearly strategy meetings with each fund manager and the Council's treasury management advisers. Any appropriate action would be identified and taken in consultation with those advisers.

8 Markets in Financial Instruments Directive (MiFID II)

- 8.1 MiFID is the framework of European Union legislation for investment intermediaries that provide services to clients around financial instruments such as shares, bonds, units in collective investment schemes and derivatives and the organised trading in such financial instruments.
- 8.2 This was revised by MiFID II to improve the functioning of financial markets in light of the financial crisis and to strengthen investor protection. It recognises that investors have different levels of knowledge, skill and expertise. The application of specific regulatory obligations under MiFID depends on a client's 'regulatory' category.
- 8.3 Local Authorities are categorised as retail clients by default but may 'opt up' to become elective professional clients if certain criteria are satisfied. This Council satisfies the criteria to become an elective professional client and has 'opted up' where appropriate to ensure that it can continue to be eligible to invest in the current range of counterparties and investment products, as some are not available to retail clients.
- 8.4 MiFID II does not cover simple term deposits as it is only focussed on regulated products. This includes our investments in Money Market Funds, enhanced cash funds, short dated bond funds and property funds. The Council is classed as an elective professional client for all its relevant counterparties except for certain Money Market Funds where the fund has confirmed there is no requirement to 'opt up' as the products can continue to be used as a retail client. The Council's designation under MiFID II will be regularly reviewed to ensure it remains appropriate.

Type of Treasury Management Investment	Individual Counterparty	Limit	Method of placement	Specified/non-specified
Deposit accounts	Bank or building society that meets the criteria of our combined matrix of credit ratings, or one of the part nationalised banks	Per bank or building society, based on country sovereign rating	Directly or through a broker	Specified (if 1 year or less), Non-specified (if more than 1 year)
Fixed term deposits			Directly or through a broker	
Certificates of sterling cash deposits			Custodian account	
Money Market Funds	AAAm/AAAf rated* (or equivalent) liquidity fund	Per fund	Directly or via an on-line site for managing money market funds	Specified
Property Funds	Via selection process	Per fund	Directly or through a broker	Non-specified (more than 1 year)
Short Dated Bond Funds	Via selection process	Per fund	Directly	Non-specified (more than 1 year)
Enhanced Cash Funds	Via selection process	Per fund	Directly	Non-specified (more than 1 year)
Term repurchase arrangements	AAAf/S1 rated [#]	Per fund	Directly	Specified (if 1 year or less), Non-specified (if more than 1 year)
Other Local Authorities	Depends on which Local Authorities want to borrow money at that time	For total invested with other Local Authorities	Through a broker	Specified (if 1 year or less), Non-specified (if more than 1 year)
Debt Management Office	UK Government	For total invested with UK Government	Directly	Specified
Treasury Bills			Custodian account	

* A fund with a principal stability rating of 'AAAm/AAAf' (or equivalent) has an extremely strong capacity to maintain stability and to limit exposure to losses of the principal sums invested due to credit, market and/or liquidity risks.

[#] A fund with a credit quality rating of 'AAAf' has a portfolio holding that provides extremely strong protection against losses from credit defaults. A fund with a volatility rating of S1 possesses low sensitivity to changing market conditions.

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SOUTHEND-ON-SEA BOROUGH COUNCIL

CHANGES FROM THE 2018/19 TREASURY MANAGEMENT POLICY

Appendix	Paragraph	Change	Reason for the change
1	1.9	This refers to the revisions to the CIPFA Code of Practice on Treasury Management and that the term “investments” now cover all the financial assets of the organisation.	To reflect changes in the Treasury Management and Prudential Codes
2	Paragraph removed	This referred to the HM Treasury consultation regarding the transfer of PWLB functions to another body. The outcome was that the PWLB has remained in its current form.	To take out information no longer relevant.
1	Annex 1	All references to ‘Finance Team Leader – Capital/Treasury Management’ changed to ‘Finance Manager – Capital/Treasury Management’ and all references to ‘Finance Team Leader’ changed to ‘Finance Manager’.	To reflect a change in the relevant job title.
3	1.1	New section to set out the scope of the Treasury Management Investment Strategy as there is now a Capital Investment Strategy.	To reflect changes in the Treasury Management and Prudential Codes
3	4.5	The reference to Money Market Funds is now in the present tense (rather than the future tense) as the changes to the regulations have now occurred.	To reflect external changes

Appendix	Paragraph	Change	Reason for the change
3	5.10	New paragraph regarding the regulatory changes to the largest UK banks known as “ring-fencing”.	To reflect external changes
3	7.6	New paragraph to clarify how the associated risk is assessed and managed if appropriate.	To clarify the management of risk for the monies invested by the fund managers
3	Annex A	The Money Market Fund rating criteria has been changed from AAAm to AAAm/AAAf to reflect the changes in regulations.	To reflect external changes

Southend-on-Sea Borough Council

Report of the Strategic Director (Finance and Resources)

to

Audit Committee

on

16 January 2019

Agenda
Item No.

6

Report prepared by: David Kleinberg, Assistant Director for
Fraud & Investigations

**Counter Fraud & Investigation Directorate: Update to Counter Fraud,
Bribery & Corruption policy and strategy and the Counter Money
Laundering policy & strategy**

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the revisions being made to the Counter Fraud, Bribery & Corruption policy and strategy and the Counter Money Laundering policy & strategy.

2. Recommendation

- 2.1 **The Audit Committee approves the revised Counter Fraud, Bribery & Corruption policy and strategy.**
- 2.2 **The Audit Committee approves the revised Counter Money Laundering policy & strategy.**

3. Policies and Strategies

- 3.1 The Counter Fraud, Bribery & Corruption policy and strategy is designed to advise council workers and suppliers on what fraud, bribery and corruption is, how to identify it and report it. This policy sets out what the council will do to make it the most difficult environment for fraud to occur and the responsibility on everyone in the council to find fraud and report it.
- 3.2 Money laundering is a serious crime and recognised as a 'critical enabler' for organised criminal gangs and terrorists to benefit and use for other criminality. Denying criminals the use of their ill-gotten gains disrupts criminality and can help law enforcement identify offenders. The Counter Money Laundering policy & strategy is designed to advise council workers and suppliers on what money laundering is, how to identify it and report it and sets out the action we will take to mitigate the risk that money could be laundered through our systems.
- 3.3 The policies have been updated to reflect changes in legislation, reporting methods and current best practice.

4. Corporate Implications

4.1 Contribution to Council's Aims and Priorities

- 4.1.1 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.

4.2 Financial Implications

- 4.2.1 Proactive fraud and corruption work acts as a deterrent against financial impropriety and might identify financial loss and loss of assets.
- 4.2.2 Any financial implications arising from identifying and managing the fraud risk will be considered through the normal financial management processes.
- 4.2.3 Proactively managing fraud risk can result in reduced costs to the Council by reducing exposure to potential loss and insurance claims.

4.3 Legal Implications

- 4.3.1 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.'*

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

4.4 People Implications

- 4.4.1 Where fraud or corruption is proven the Council will:

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

4.5 Property Implications

- 4.5.1 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 social housing stock to those in need or recovering the assets of those who seek to profit from their criminal behaviour.

4.6 Consultation: None

4.7 Equalities Impact Assessment: None

4.8 Risk Assessment

- 4.8.1 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.
- 4.8.2 Although risk cannot be eliminated from its activities, implementing these strategies will enable the Council to manage this more effectively.

4.9 Value for Money

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

4.10 Community Safety Implications and Environmental Impact: None

5. Background Papers

None.

6. Appendices

- Appendix 1: Revised Counter Fraud, Bribery & Corruption Policy & Strategy
- Appendix 2: Revised Counter Money Laundering Policy & Strategy

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Counter Fraud, Bribery and Corruption Policy and Strategy

VERSION CONTROL SHEET

Title:	Counter Fraud, Bribery and Corruption Policy and Strategy
Purpose:	To advise council workers and suppliers on what fraud, bribery and corruption is, how to identify it and report it.
Owner:	Counter Fraud & Investigation Directorate
Approved by:	Corporate Management Team – 09/01/2019 Audit Committee – 16/01/2019
Date:	Approved – 16/01/2019 Implemented – 17/01/2019
Version Number:	2.1
Status:	Draft
Review Frequency:	Annually
Next Review Date:	January 2020

Change History		
Date	Change Details	Approved by
Nov 2018	Revision of formatting and reporting methods, legislative changes.	Joe Chesterton, Strategic Director (Finance & Resources)

Policy Statement

Southend-on-Sea Borough Council is serious about protecting the public money we are charged with to protect. We take a strong stance against those who seek to commit fraud against the council.

It is an unfortunate reality that Southend-on-Sea Borough Council, like any large organisation, is not immune from fraud, bribery and corruption from both those outside the organisation and the few who may work here and commit crime.

Cases of internal fraud are extremely rare and we have a strong framework of policies and controls in place to detect any risks, supported by our Internal Audit Service and Counter Fraud & Investigation Directorate.

This policy sets out what the council will do to make it the most difficult environment for fraud to occur and the responsibility on everyone in the council to find fraud and report it.

Fraud in councils can happen anywhere. No team or department is immune. As a council we spend around £520m annually. International standards say that about 3% of that spending will be lost due to fraud and corruption. That equates to £15m, every year.

It is important that we look after our resident's money and make sure no one misuses it. It is upon all of us in the council to report any suspicions we may have and support the Internal Audit and Counter Fraud services in their work.

Alison Griffin

Chief Executive & Town Clerk

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Southend-on-Sea Borough Council
Counter Fraud, Bribery and Corruption Policy and Strategy

1. Introduction

- 1.1 As a local authority Southend-on-Sea Borough Council (the Council) is responsible for delivering key frontline services such as maintaining roads, keeping our borough clean and green, educating our children and young adults as well as supporting the vulnerable in health and social care support.
- 1.2 We deliver these services with the £520m of public money we have in our budget. Criminals do and will continue to seek to take that money from the Council. Criminals come in all forms from our services users, to suppliers and the colleagues sitting next to us.
- 1.3 The way to beat those who seek to take the public's money is to make sure our systems and controls in place are strong and then follow them. This means all of the procedures we have as a team are robust and auditable so we can prevent fraud and identify possible concerns.
- 1.4 This policy sets out what fraud, bribery and corruption is, how you can spot it and what to do if you suspect it.
- 1.5 Every council worker and our partners are responsible for following this policy and reporting their suspicions to our Counter Fraud & Investigation Directorate.
- 1.6 As council workers we are public officials who must all follow the seven Principles of Public Life, also known as the Nolan Principles. These are:

1. Selflessness

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

2. Integrity

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

3. Objectivity

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

4. Accountability

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

5. Openness

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

6. Honesty

Holders of public office should be truthful.

7. Leadership

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

2. What is Fraud?

- 2.1 In this policy 'fraud' is used as shorthand for any criminal offence where money or assets belonging to the Council can be lost. It includes theft, fraud, burglary and other deception offences such as corrupt practices by those who work for us or suppliers.

- 2.2 Fraud is where a person is dishonest in their actions in order to cause a loss to the Council or expose the Council to a potential loss. It also includes where a person causes a chain of events by doing **OR** not doing something, that causes **or** exposes the Council to a loss.
- 2.3 Any of the actions described above are criminal offences and can result in imprisonment.

3. How is fraud committed against Council?

Applying for Services / Making a Declaration

- 3.1 The Council provides hundreds of different services to the public we serve. Unfortunately there is a small minority of those who seek to take advantage of those services. This could be by a person embellishing their circumstances, making something up completely or purposefully not declaring something.
- 3.2 In the Council's welfare support services such as Social Care, Housing and Essential Living Fund, this could be a person not being honest about their needs, what their financial status is or what they will be using the services for. It may be a person acting on the service user's behalf that is being dishonest in order to benefit them.
- 3.3 In each of these examples the frauds are denying the legitimate use of Council funds for those who are in need.

Suppliers / Providers

- 3.4 The highest risk to the public sector is from its supply chain. A Council is a business making regular and sometimes large financial transactions with our suppliers and providers in order to deliver our services.
- 3.5 Some unscrupulous suppliers, or staff working in supplier companies, may seek to take advantage of our payment systems and processes.
- 3.6 Fraud in this area can be committed where suppliers submit false or 'erroneous' invoices or other requests for payment. Suppliers may also be dishonest in how they are delivering the services or goods we have asked them for. They may be poor quality or not supplied at all.
- 3.7 Staff that deal with our suppliers and providers must ensure that the Council is getting what it has paid for. The Council's Corporate Procurement Team is experienced in letting and managing contracts and applying the right controls when sourcing goods, works and services.

Did you know?

In 2014, the Council prosecuted a Foster Carer who stole £5,500 from a child in their care.

Council Worker Fraud

- 3.8 Like any large employer employing thousands of people, there will always be a small minority of people who seek to commit fraud or allow fraud to take place.

- 3.9 Fraud in this area can be staff who take unauthorised absences, such as:
- Claiming 'flexi time' when they haven't accrued any
 - Claiming to be working from home when they are not
 - Claiming to be working in the field but going home early/starting later.
- 3.10 Payroll or expenses fraud can also be committed by Council workers. For example, staff falsely claiming overtime for hours they have not worked or mileage or subsistence for expenses they have not incurred.
- 3.11 It is therefore important for all staff to follow the Council's procedures, particularly those staff in management positions as well as colleagues who may notice irregularities.

Did you know?

The impact of staff falsely working half an hour less per week would cost the Council £130k every year.

4. What is bribery and corruption?

- 4.1 As public servants, all workers in the Council are in a privileged position to serve the public of Southend-on-Sea. That responsibility comes with a significant amount of trust and confidence in how we conduct ourselves.
- 4.2 It has always been a criminal offence for anyone working at the council to receive gifts or hospitality where the person giving the gift or hospitality is seeking to induce, or reward us to doing something for their, or somebody else's benefit.
- 4.3 This type of corruption has been depicted in many different films and fictional stories since time began. Examples have seen cases of criminals:
- seeking to build a house that would be normally rejected by planners
 - wanting the Council to 'look the other way' for parking fines or other enforcement responsibilities.
- 4.4 This type of criminality is the most serious type of dishonesty.
- 4.5 Those who act corruptly or offer themselves to receive gifts or hospitality to feed this criminality bring the Council and their colleagues in to disrepute.

5. What do I do if I suspect fraud, bribery or corruption?

- 5.1 The Counter Fraud & Investigation Directorate (CFID) is responsible for dealing with any cases of suspected criminality described in this policy, **not the police**.
- 5.2 It is the responsibility of everyone working here to look for and report any possible fraud taking place. You **do not** have to speak to a manager before reporting your suspicions.

5.3 If you see any of the suspicious activity linked to fraud **you should**:

- △ Not tell the person that you have any suspicions about them
- △ Take copies of any records that could help to a secure location
- △ Telephone a member of the CFID team right away on **03000 999111 (24/7)**
- △ Follow the instructions given by the CFID team.

6. What does the Council do with cases of suspected fraud?

- 6.1 The Council has a dedicated team of professionally trained and accredited investigation officers who fully investigate instances of suspected fraud. The CFID team work around the clock, anywhere in the UK, utilising powers to arrest persons, search their premises and seize their assets to take back what the Council has lost.
- 6.2 In cases where there may be a proven case of fraud the Council's Legal Services has dedicated Criminal Prosecutors who apply the Code for Crown Prosecutors. This code is used by a lawyer to decide, independently, whether:
- there is sufficient evidence of a crime
 - it is in the public interest to prosecute those responsible.

Did you know?

Since 2014, the Council has recovered £552k from fraudsters.

- 6.3 CFID also has a dedicated Criminal Finances Unit that is accredited by the National Crime Agency to restrain and seize a person's assets, investigate their lifestyle and present cases to a Judge to confiscate any criminal proceeds.
- 6.4 The Council will always publicise cases of proven fraud in the media to act as a deterrent and encourage people to come forward to report fraud.

7. Whistleblowing

- 7.1 The Council is committed to providing the highest quality service to our residents, businesses and visitors to Southend-on-Sea. Maintaining the full trust and confidence in the way the Council manages our services and resources is essential. Our priority is making sure those in need and vulnerable are provided for safely, effectively and in accordance with best practice.
- 7.2 The Council's Whistleblowing Policy is intended to encourage and enable workers to raise serious concerns. Council workers reporting concerns this way are afforded certain rights and protection through legislation enacted under the Public Interest Disclosure Act 1998.
- 7.3 Workers who report concerns will be supported and protected from reprisals. Everything possible will be done to protect their confidentiality. They will be advised of the action that has been taken by the person to whom they reported their concerns.
- 7.4 Management are responsible for reporting all allegations received from whistleblowing under the confidential reporting code to the Monitoring Officer. The Monitoring Officer

Counter Fraud, Bribery and Corruption Policy and Strategy

will refer the allegations relating to suspected fraud, money laundering, bribery and corruption to the Counter Fraud & Investigation Directorate for investigation. All such cases should be recorded in a register maintained by the Monitoring Officer.

- 7.5 CFID will deal with the matter promptly, efficiently and in accordance with the law, involving such outside agencies as appropriate (including the police). Where a service provider employee is involved, the supplier will be informed where appropriate in liaison with the Chief Finance Officer and CFID.

8. Information Sharing

- 8.1 As a responsible data controller, the Council always ensures that personal data we hold is safeguarded pursuant with the Data Protection Act 2018 and the General Data Protection Regulation.
- 8.2 The Council will use data to ensure that we are protected from any cases of suspected fraud, bribery or corruption as well as money laundering and identify those involved.
- 8.3 Any workers contacted by the CFID, Internal Audit or Legal Services as part of a criminal investigation must provide any Council data held in any form (paper or electronically). Council workers must not tell anyone that they have been asked for any material for an investigation, unless permitted to by the CFID, Internal Audit or Legal Services.
- 8.4 Any concerns workers may have about releasing information should be directed to the Assistant Director for Fraud & Investigation, Head of Internal Audit, Director of Finance and Resources or Director of Legal and Democratic Services.

9. Monitoring Delivery

- 9.1 The CFID leads the Council's fight against fraud and economic crime, including bribery and corruption. The team reports quarterly to the Council's Corporate Management Team and Audit Committee on its work to tackle the problem and its performance in delivering this Strategy.

Expected Behaviour

The Council requires all staff and elected Members to act honestly and with integrity at all times and to safeguard the resources for which they are responsible. Fraud is an ever-present threat to these resources and hence must be a concern to all staff and elected Members. The purpose of this statement is to set out specific responsibilities with regard to the prevention of fraud.

Section 151 Officer (Chief Finance Officer) is responsible for:

- Proper administration of the authority's financial affairs
- Reporting to Members and External Audit if the Council, or one of its representatives makes, or is about to make a decision which is unlawful, or involves illegal expenditure or potential financial loss (Local Government Finance Act 1988 s.114)

Monitoring Officer is responsible for:

- Reporting on contraventions or likely contraventions of any enactment or rule of law
- Report on any maladministration or injustice where the Ombudsman has carried out an investigation
- Receiving copies of whistleblowing allegations of misconduct
- Promoting and maintaining high standards of conduct through and with the support of the Standards Committee
- Advice on vires (legality) issues, maladministration, financial impropriety, probity and policy framework and budget issues to all Members

Managers are responsible for:

- Maintaining internal control systems and ensuring that the authority's resources and activities are properly applied in the manner intended
- Identifying the risks to which systems and procedures are exposed
- Developing and maintaining effective controls to prevent and detect fraud
- Ensuring that controls are being complied with, including making sure their staff are performing well and meeting council policies and procedures.

Individual members of staff are responsible for:

- Their own conduct and for contributing towards the safeguarding of corporate standards (including declarations of interest, gifts & hospitality, private working, whistleblowing etc.)
- Acting with propriety in the use of official resources and in the handling and use of corporate funds, such as when dealing with contractors and suppliers
- Reporting details immediately to the Counter Fraud & Investigation Directorate if they suspect that a fraud, theft, bribery, corruption and money laundering has been committed or see any suspicious acts or events

Southend-on-Sea Borough Council
Counter Fraud, Bribery and Corruption Policy 2017
Appendix 1: Roles & Responsibilities

Internal Audit is responsible for:

- The independent appraisal of control systems
- Reporting to the Corporate Management Team and the Audit Committee on the council's governance framework
- The implementation of an annual audit plan to include identification of fraud risks to the Counter Fraud & Investigation Directorate

Counter Fraud & Investigation Directorate is responsible for:

- The investigation into allegations of any money laundering, fraud, bribery, theft, corruption and related offences committed against the authority
- Reporting of persons for consideration of prosecution (or the application of an alternative sanction)
- All action under the Proceeds of Crime Act 2002 and Criminal Justice Act 1988 in respect of financial investigation, restraint, detention, forfeiture and confiscation
- The co-ordination of participation in the National Fraud Initiative (NFI)
- Providing Counter-Fraud, Money Laundering, Theft, Bribery & Corruption Awareness
- Taking redress from offenders under criminal and civil law
- Referring any matters to & receiving information and intelligence from all law enforcement agencies (Police, HMRC, Home Office etc) where appropriate.

External Audit has specific responsibilities for:

- Reviewing the stewardship of public money
- Considering whether the Council has adequate arrangements in place to prevent fraud and corruption
- Signing off the annual accounts of the authority

Elected Members are each responsible for:

- Their own conduct
- Contributing towards the safeguarding of corporate standards, as detailed in the Members' Code of Conduct

Southend-on-Sea Borough Council
Counter Fraud, Bribery and Corruption Policy 2017
Appendix 2: Key Contacts

Contact	Details
Counter Fraud & Investigation Directorate	9 th Floor, Civic Centre, Victoria Avenue, Southend-on-Sea, SS2 6EN Tel: 03000 999 111 E-mail: counterfraud@southend.gov.uk Web: southend.gov.uk/fraud
David Kleinberg Assistant Director for Fraud & Investigation	Tel: 03000 999 111 E-mail: davidkleinberg@southend.gov.uk
Joe Chesterton Strategic Director (Finance & Resources) <i>(s.151 Chief Finance Officer)</i>	10 th Floor, Civic Centre, Victoria Avenue, Southend-on-Sea, SS2 6EN Tel: 01702 215200 E-mail: joechesterton@southend.gov.uk
John Williams Strategic Director (Legal and Democratic Services) <i>(Monitoring Officer)</i>	2 nd Floor, Civic Centre, Victoria Avenue, Southend-on-Sea, SS2 6EN Tel: 01702 215102 E-mail: johnwilliams@southend.gov.uk
Andrew Barnes Head of Internal Audit	9 th Floor, Civic Centre, Victoria Avenue, Southend-on-Sea, SS2 6EN Tel: 07827 348375 E-mail: andrewbarnes@southend.gov.uk
Protect <i>(Independent charity for whistleblowing, providing free independent legal advice)</i> 	CAN Mezzanine, 7-14 Great Dover Street, London SE1 4YR Tel: 020 3117 2520 E-mail: whistle@protect-advice.org.uk Web: pcaw.org.uk

1 Fraud

- 1.1 The Fraud Act 2006 introduced the first statutory definition of fraud whereby:

“A person is guilty of fraud if he is in breach of any of the sections listed in subsection (2) (which provide for different ways of committing the offence).

Fraud can be committed by:

- a) section 2 (Fraud by False Representation),*
- b) section 3 (Fraud by Failing to Disclose Information), and*
- c) section 4 (Fraud by Abuse of Position). “*

Fraud by false representation

A fraud will be committed if a person dishonestly makes a false representation and when doing so intends to make a gain or cause loss (or a risk of loss) to another.

Fraud by failing to disclose information

A fraud will be committed if a person dishonestly fails to disclose information where there is a legal obligation to do so and when doing so intends to make a gain or cause loss (or a risk of loss) to another.

Fraud by abuse of position

A person will commit fraud if he occupies a position in which he is expected to safeguard, or not act against, the financial interests of another person and he dishonestly abuses that position; and in doing so intends to make a gain or cause loss (or a risk of loss) to another.

2 Theft, Burglary and Robbery

- 2.1 A person is guilty of **theft** if they dishonestly appropriate property, belonging to another, with the intention of permanently depriving the other of it.
- 2.2 Theft includes where someone takes something “and uses it as their own”.
- 2.3 A person is guilty of **robbery** if they steal, and immediately before or at the time of doing so, and in order to do so, they use force on any person or put or seek to put any person in fear of being then and there subjected to force.
- 2.4 A person is guilty of **burglary** if they enter any building or part of a building as a trespasser and with intent to steal anything in the building or part of a building in question, of inflicting on any person therein any grievous bodily harm; or having entered any building or part of a building as a trespasser they steal or attempt to steal anything in the building or that part of it or inflicts or attempts to inflict on any person therein any grievous bodily harm.

1 Bribery

- 1.1 A bribe is *“a financial or other advantage that is offered or requested with the intention of inducing or rewarding the improper performance of a relevant function or activity, or with the knowledge or belief that the acceptance of such an advantage would constitute the improper performance of such a function or activity.”*
- 1.2 The types of offending relating to bribery are:
- 1.2.1 **Bribery:** Giving or receiving something of value to influence a transaction dishonestly makes a false representation.
 - 1.2.2 **Illegal gratuity:** Giving or receiving something of value after a transaction is completed, in acknowledgment of some influence over the transaction.
 - 1.2.3 **Extortion:** Demanding a sum of money (or goods) with a threat of harm (physical or business) if demands are not met.
 - 1.2.4 **Conflict of interest:** Where a worker has an economic or personal interest in a transaction.
 - 1.2.5 **Kickback:** A portion of the value of the contract demanded / provided as a bribe by an official for securing the contract.
- 1.3 The Bribery Act 2010, which came into force on 1st July 2011, introduced four primary offences in a single piece of legislation with all previous statutes being repealed.
- 1.3.1 Section 1: Offences of bribing another person, where:
 - (a) *a person offers, promises or gives a financial or other advantage to another person, and*
 - (b) *intends the advantage to:*
 - (i) *induce a person to perform improperly a relevant function or activity, or*
 - (ii) *reward a person for the improper performance of such a function or activity.*
 - 1.3.2 Section 2: Offence relating to being bribed.
 - 1.3.3 Section 6: Bribery of foreign public officials.
 - 1.3.4 Section 7: Failure by a commercial organisation to prevent bribery.
- 1.4 Under the Bribery Act, an organisation has a defence if it can show that it has adequate bribery prevention procedures in place. The Ministry of Justice guidance¹ on the Bribery Act 2010, explains what needs to be in place to rely on this defence:
- 1.4.1 **Proportionality:** An organisation’s procedures to prevent bribery by persons associated with it are proportionate to the bribery risks it faces and to the nature, scale and complexity of the organisation’s activities. They are also clear, practical, accessible, effectively implemented and enforced.
 - 1.4.2 **Top Level Commitment:** *Those at the top of an organisation are in the best position to ensure their organisation conducts business without bribery. We want to show that we have been active in making sure that our staff (including*

¹ <http://www.justice.gov.uk/downloads/legislation/bribery-act-2010-quick-start-guide.pdf>

Southend-on-Sea Borough Council
Counter Fraud, Bribery and Corruption Policy
Appendix 4: Bribery and Corruption Legislation

any middle management) and the key people who do business with us and for us understand that we do not tolerate bribery.

- 1.4.3 **Risk Assessment:** The organisation assesses the nature and extent of its exposure to potential external and internal risks of bribery on its behalf by persons associated with it. The assessment is periodic, informed and documented. It includes financial risks but also other risks such as reputational damage.
- 1.4.4 **Due Diligence:** *Knowing exactly who we are dealing with can help to protect our organisation from taking on people who might be less than trustworthy.*
- 1.4.5 **Communication:** *Communicating our policies and procedures to staff and to others who will perform services for us enhances awareness and helps to deter bribery by making clear the basis on which our organisation does business.*
- 1.4.6 **Monitoring and Review:** we monitor and review procedures designed to prevent bribery by persons associated with it and makes improvements where necessary.

- 1.5 Prior to 2011, under Common Law, a person commits an offence where a person *“Offering, giving or receiving, any undue reward, by or to any person whatsoever in a public office, in order to influence his behaviour in office and incline him to act contrary to the known rules of honesty and integrity.”*

Corruption

- 1.6 Corruption can be committed in many ways but normally involves *“two or more people entering into a secret agreement.”*
- 1.7 Indicators showing this type of offending can include the following:
 - 1.7.1 Abnormal cash payments.
 - 1.7.2 Pressure exerted for payments to be made urgently or ahead of schedule.
 - 1.7.3 Private meetings with public contractors or companies hoping to tender for contracts.
 - 1.7.4 Lavish gifts being offered or received.
 - 1.7.5 An individual who never takes time off even if ill, or holidays, or insists on dealing with specific contractors himself or herself.
 - 1.7.6 Making unexpected or illogical decisions accepting projects or contracts.
 - 1.7.7 Abuse of the decision process or delegated powers in specific cases.
 - 1.7.8 Agreeing contracts not favourable to the organisation either because of the terms or the time period.
 - 1.7.9 Unexplained preference for certain contractors during tendering period.
 - 1.7.10 Avoidance of independent checks on the tendering or contracting processes.
 - 1.7.11 The Council’s or its suppliers / partner’s procedures or guidelines not being followed.

- 1.8 The Local Government Act 1972 requires under section 117(2) that employees must disclose any personal interest in contracts that have been, or are proposed to be, entered into by the Council. Failure to do so is a criminal offence.



FRAUD AFFECTS COUNCILS TOO

Have you seen anything suspicious?

- Unusual applications for council services
- Suspicious identity documents or transactions
- Suppliers not delivering what we pay for

If you suspect it, report it.

Call in confidence on **03000 999 111** or
visit **southend.gov.uk/fraud**

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Counter-Money Laundering Policy and Strategy

VERSION CONTROL SHEET

Title:	Counter-Money Laundering Policy & Strategy
Purpose:	To advise council workers and suppliers on what money laundering is, how to identify it and report it.
Owner:	Counter Fraud & Investigation Directorate
Approved by:	Corporate Management Team – 09/01/2019 Audit Committee – 16/01/2019
Date:	Approved – 16/01/2019 Implemented – 17/01/2019
Version Number:	2.1
Status:	Draft
Review Frequency:	Annually
Next Review Date:	December 2019

Change History		
Date	Change Details	Approved by
May 2017	Inclusion of 4 th Money Laundering Directive	Joe Chesterton

Counter-Money Laundering Policy Statement

Southend-on-Sea Borough Council is serious about protecting public money and ensuring that criminals do not use the council in their enterprises.

Money laundering is a serious crime and recognised as a 'critical enabler' for organised criminal gangs and terrorists to benefit and use for other criminality. Denying criminals the use of their ill-gotten gains disrupts criminality and can help law enforcement identify offenders.

The UK has developed strong legislation to tackle the problem with the right focus being on the financial services industries that are largely targeted to launder the proceeds of crime. The 'regulated sector', as it is known, has experienced and robust processes to make it difficult for criminals to launder their criminal proceeds.

As this work by the banks, financial institutions, legal and property related firms becomes more successful the way criminals launder their illegal money becomes more difficult for them.

The effect of this success is that more and more public bodies are being targeted by criminals to launder their criminal proceeds.

Southend-on-Sea Borough Council takes a strong stance against any criminality. Our dedicated Criminal Finances Unit in the Counter Fraud & Investigation Directorate is experienced in using their powers to identify, seize and confiscate criminal proceeds. We need to ensure that the entire council is live to this reality and works hard to prevent and detect it.

We will continue to work closely with our partners in the National Crime Agency to share information and intelligence and pursue criminals who seek to use the council as a money laundering vehicle.

Ali Griffin

Chief Executive

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1. Introduction

- 1.1 An overriding responsibility of all public sector organisations is the provision of effective and efficient services to our residents in a manner that seeks to ensure the best possible protection of the public funds we use.
- 1.2 This policy sets out the action we will take to mitigate the risk that money could be laundered through our systems.
- 1.3 The legislative requirements concerning anti-money laundering procedures are lengthy and complex. Whilst the risk to the Council of contravening the legislation is relatively low, it is extremely important that all Council and schools workers are familiar with their legal responsibilities. Serious criminal sanctions may be imposed for breaches of the legislation, including imprisonment.
- 1.4 As a responsible public body we expect all of our suppliers and contractors to follow to our strong stance and not tolerate any criminality attempting to affect our services or staff.

2. What is Money Laundering?

- 2.1 Money laundering is the process where 'criminal property' (i.e. a person's benefit from criminal conduct) is given the appearance of having originated from a legitimate source.
- 2.2 Criminal conduct is anything that is a criminal offence in the United Kingdom. It could be fraud, theft, drug dealing, prostitution, terrorism and includes offences such as breaching building planning law and trade mark offences
- 2.3 Criminal property is defined as anything which is a person's benefit from their criminal conduct. That could be money, real and personal property (houses, buildings, boats, cars, horses, watches etc), 'things in action' and other intangible or incorporeal property (i.e. debts, intellectual property such as copyright, designs and patents etc)

3. What are the Money Laundering criminal offences?

Proceeds of Crime Offences

- 3.1 The criminal offences of money laundering are contained in the Proceeds of Crime Act 2002. They are committed when ‘criminal property’ is transferred, concealed, disguised, converted or removed by a person from England, Wales, Scotland & Northern Ireland.
- 3.2 A person also commits the offence of ‘money laundering’ if they enter into or becomes concerned in an arrangement which they know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person
- 3.3 A person commits a criminal offence when they do something that might prejudice ‘a money laundering investigation’, for example, falsifying or concealing a document or ‘tipping off’ (“telling”) a person who is suspected of being involved in money laundering.

Terrorist Financing Offences

- 3.4 The Terrorism Act 2000 also creates money laundering offences where a person enters in to or becomes concerned in an arrangement which facilitates the retention or control by or on behalf of another person of terrorist property (“money”);
- by concealment
 - by removal from the United Kingdom
 - by transfer to nominees, or
 - in any other way
- 3.5 It should be understood that ‘terrorist property’ covers not only the money stolen in, say, a terrorist robbery, but also any money paid in connection with the commission of terrorist acts. Any resources of a proscribed organisation are also covered: not only the resources they use for bomb-making, arms purchase etc but also money they have set aside for non-violent purposes such as paying their rent.
- 3.6 A proscribed organisation is defined under Schedule 2 of the Terrorism Act 2000. The Counter Fraud & Investigation Directorate is responsible for monitoring these organisations and responding appropriately.

- 3.7 A person also commits a criminal offence if they fail to disclose to a constable that they believe a person has committed a terrorism money laundering offence.

Criminal Law Defences

- 3.8 A person does not commit a criminal offence where they can demonstrate that ***“his employer has established a procedure for the making of disclosures of the matters specified”*** and they follow that procedure.

4. How to identify suspected Money Laundering

- 4.1 All council workers should be alert to the possibility of someone trying to launder criminal proceeds through the Council. Some indications of suspicious activity are:

- △ Large cash payments (e.g. paying business rates in cash)
- △ Overpayments by a person/ company in any way
- △ Duplicate payments by a person/ company in any way
- △ Regular requests for refunds of payments
- △ Regular ‘chargebacks’ for card payments
- △ Someone paying on behalf of a third party
- △ Cash buyers purchasing land or property (e.g. Right to Buy properties)

- 4.2 Any council workers with concerns about money laundering should contact a member of the Counter Fraud & Investigation Directorate (CFID) on **03000 999111** for advice.
- 4.3 CFID regularly provides training to council services on identifying and reporting suspected money laundering.

5. How to report suspected Money Laundering

- 5.1 The Counter Fraud & Investigation Directorate (CFID) is responsible for managing any cases of suspected money laundering.

- 5.2 It is the responsibility of every council worker to look for and report any possible money laundering taking place. You **do not** have to speak to a manager before reporting your suspicions.
- 5.3 If you see any of the suspicious activity linked to money laundering **you should**:
- △ Not tell the person that you have any suspicions about them
 - △ Take all the records (and any cash) from the person to a secure location
 - △ Telephone a member of the CFID team right away on **03000 999111 (24/7)**
 - △ Follow the instructions given by the CFID team.
- 5.4 **Remember:** Failure to report your suspicions to CFID could expose *you* to criminal prosecution.

6. What does the council do about Money Laundering?

- 6.1 The Criminal Finances Unit in the Counter Fraud & Investigation Directorate is accredited by the National Crime Agency to conduct money laundering investigations. The Accredited Financial Investigators in the team can obtain court Production Orders to access a person's bank accounts, seize any cash and restrain a person's assets, worldwide, who they suspect of money laundering.
- 6.2 In cases where money laundering is proven the council will prosecute those offenders and use the Proceeds of Crime Act 2002 to take their ill-gotten gains. Any money confiscated is paid back in to the council to fight crime.

7. Monitoring Delivery

- 7.1 The Counter Fraud & Investigation Directorate leads the council's fight against fraud and economic crime, including money laundering. The team reports quarterly to the council's Audit Committee on its work to tackle the problem.
- 7.2 The service also reports regularly on its performance to the council's Corporate Management Team.

8. Relevant Legislation

- 8.1 The Terrorism Act 2000 as amended by the Anti-Terrorist Crime and Security Act 2001
- 8.2 The Proceeds of Crime Act 2002 (POCA)
- 8.3 Serious Organised Crime and Police Act 2005
- 8.4 The Money Laundering Regulations 2007
- 8.5 Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (*known as the EU 4th Money Laundering Directive*)

9. Appendix 1 – Key Contacts

Contact	Details
Counter Fraud & Investigation Directorate	9 th Floor, Civic Centre, Victoria Avenue, Southend-on-Sea, SS2 6EN Tel: 03000 999 111 E-mail: counterfraud@southend.gov.uk Web: southend.gov.uk/fraud
David Kleinberg Assistant Director for Fraud & Investigation	Tel: 03000 999 111 E-mail: davidkleinberg@southend.gov.uk
Joe Chesterton Strategic Director (Finance & Resources) <i>(s.151 Chief Finance Officer)</i>	10 th Floor, Civic Centre, Victoria Avenue, Southend-on-Sea, SS2 6EN Tel: 01702 215200 E-mail: joechesterton@southend.gov.uk
John Williams Strategic Director (Legal and Democratic Services) <i>(Monitoring Officer)</i>	2 nd Floor, Civic Centre, Victoria Avenue, Southend-on-Sea, SS2 6EN Tel: 01702 215102 E-mail: johnwilliams@southend.gov.uk
Andrew Barnes Head of Internal Audit	9 th Floor, Civic Centre, Victoria Avenue, Southend-on-Sea, SS2 6EN Tel: 07827 348375 E-mail: andrewbarnes@southend.gov.uk
Protect <i>(Independent charity for whistleblowing, providing free independent legal advice)</i> 	CAN Mezzanine, 7-14 Great Dover Street, London SE1 4YR Tel: 020 3117 2520 E-mail: whistle@protect-advice.org.uk Web: pcaw.org.uk



MONEY LAUNDERING

Could you spot the signs?

- Cash payments over £1,500
- A person regularly receiving account refunds
- One person paying the debts for several individuals

If you suspect it, report it.

Call in confidence on **03000 999 111** or
visit **southend.gov.uk/fraud**

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Southend-on-Sea Borough Council

Report of the Strategic Director (Finance and Resources)

to

Audit Committee

on

16 January 2019

Agenda
Item No.

7

Report prepared by: David Kleinberg, Assistant Director for
Fraud & Investigations

Counter Fraud & Investigation Directorate: Quarterly Performance Report

A Part 1 Public Agenda Item

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 2018/19.

2. Recommendation

- 2.1 The Audit Committee notes the performance of the Counter Fraud & Investigation Directorate over the last year.**

3. Investigations

- 3.1 For the year 2018/19 good progress has been made in responding to reports of suspected fraud, with:
- **115** reports of suspected fraud have been received in the year
 - **21** reports are currently under investigation
 - **18** reports have been closed with sanctions being delivered
 - **70** reports remain under intelligence review
 - **20** intelligence reports has been disseminated to service areas
- 3.2 The reports provided to the committee this year have been amended to include additional information to demonstrate the entire work of the service. This includes 'intelligence reports' and 'intelligence disseminated.'
- 3.3 Intelligence reports – are information received of suspected fraud but limited in being able to identify an offender or other supporting information. These reports are assessed and kept under constant review in order that any correlative or new information is matched up.

- 3.4 Intelligence disseminated – these reports are where CFID have provided information to service areas or other partners, about known or suspected criminality, in order to prevent crime and stop criminal attacks on the council and its supply chain. Recent examples have included Mandate Fraud – where a criminal mimics a ‘well known’ supplier and attempts to change the suppliers bank details at the council to receive money fraudulently.

4. Counter Fraud Work Plan

- 4.1 The work plan for the period 2018/19 is shown at **Appendix 1**. This work plan details the current projects of the CFID.
- 4.2 The work plan for this year included updates and revisions to the council’s Counter Fraud, Bribery & Corruption and the Counter Money Laundering policies. These policies take account of the threat the council faces, historical detected cases, national intelligence and legislative changes, such as the 4th Money Laundering Directive.
- 4.2 Some of these projects have already been implemented and progress will be updated to future audit committees. A section of the work plan, regarding questionnaires for bribery & corruption and money laundering has been carried over from the 2017/18 work plan but this is now complete.

5. Fraud Risk Matrix

- 5.1 At the previous audit committee members asked for details on fraud trends to be included in the next audit committee report.
- 5.2 **Appendix 2** details the top ten fraud risks within the Council, this includes:
- Potential overall risk value of fraud within the top team areas
 - Potential value of fraud under investigation
 - Fraudulent value detected
- 5.3 This document will be used to educate service areas on their on-going fraud risk. It has been presented to directors and senior management teams, and will evolve throughout the year.

6. Staff Changes

- 6.1 Daniel Helps who headed the CFID operations as the deputy to David Kleinberg left the council on 4th January 2019 to take a new job with the Foreign & Commonwealth Office. A recruitment process took place and that post was taken by Michael Dineen who was formerly the head of the CFID investigations unit.

7. Corporate Implications

7.1 Contribution to Council's Aims and Priorities

7.1.1 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.

7.2 Financial Implications

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

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

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

7.3 Legal Implications

7.3.1 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.'*

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

7.4 People Implications

7.4.1 Where fraud or corruption is proven the Council will:

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

7.5 Property Implications

7.5.1 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 social housing stock to those in need or recovering the assets of those who seek to profit from their criminal behaviour.

7.6 Consultation: None

7.7 Equalities Impact Assessment: None

7.8 Risk Assessment

7.8.1 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.

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

7.9 Value for Money

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

7.10 Community Safety Implications and Environmental Impact: None

8. Background Papers

None.

9. Appendices

- Appendix 1: Work Plan for 2018/19
- Appendix 2: Annual Fraud Impact Measurement Matrix

Risk area	Tasks	Planned for	Current status	Responsible CFID Officer	Completed Activity Date
77 Council-wide	Revised policies for Counter Fraud, Bribery & Corruption and; Counter-Money Laundering to be produced	January 2019	Draft policies were distributed to the statutory officers, which take account of the enhanced strategies in place. The draft documents were also distributed to the council's leadership group for comment and consideration. The final draft are now submitted to the Audit Committee for approval.	David Kleinberg	Completed January 2019
Council-wide	Fraud risk matrix assessment to be delivered to all service areas	Dec 2018 – March 2019	These have been presented to corporate directors, directors and senior departmental management teams. It has now been agreed that service managers will be meeting with the CFID Investigation Manager to discuss the matrix. This will be during the remainder of 2018/19.	Michael Dineen	Initial phase completed in November 2018. On-going meetings with wider managers now taking place. Planned dates updated to March 2019.

Risk area	Tasks	Planned for	Current status	Responsible CFID Officer	Completed Activity Date
Council-wide	UK Bribery Act (UKBA) Compliance Review. A questionnaire will be distributed to all Managers to ensure UKBA compliance.	November 2018	The questionnaire was submitted to the council's managers for completion. That data is now being analysed for consideration of further actions for compliance.	Michael Dineen	Completed January 2019
Council-wide	Counter Money Laundering (CML) Compliance Review. A questionnaire will be distributed to all staff to ensure CML compliance.	November 2018	The questionnaire was submitted to the council's managers for completion. That data is now being analysed for consideration of further actions for compliance.	Michael Dineen	Completed January 2019
Proactive Fraud Drives	Conduct proactive activity to disrupt and detect fraud affecting the council.	Throughout 2018/19	Proactive work continues to be undertaken across the high-risk areas. Monthly meetings are taking place with housing to arrange pro-active operations	Michael Dineen	Ongoing, in-progress. Further proactive work is taking place by assisting Council Tax in their fight against abuse of the system.

Risk area	Tasks	Planned for	Current status	Responsible CFID Officer	Completed Activity Date
Investigation Review	Review of insider threat investigations with Human Resources to reviews action and learning points	Throughout 2018/19	Meetings booked once an insider threat is identified. A monthly meeting also takes place between CFID and HR Single-Point-of-Contact.	Michael Dineen	Ongoing, in-progress.
Fraud Awareness Training 79	Training to be delivered to high risk areas – housing officers, housing allocations, temporary accommodation and right to buy	Ongoing to March 2019	Training now being booked with assistance from CFID business support team.	Michael Dineen / Nicola Spencer	Ongoing, in-progress

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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	£595,000	£0	£538,000	£0	£13,950
Proven	£0	£0	£0	£5,000	£307,401
81	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	£79,368	£6,000	£1,600	£45,900	£53,450
Proven	£139	£23,389	£0	£32,000	£0

Total Potential Loss Impact

£15,270,249

Total Amount Under-Investigation

£1,333,268

Total Proven in 2017/18

£367,929

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Southend-on-Sea Borough Council

Report of the Strategic Director (Finance and Resources)

to

Audit Committee

on

16th January 2019

Agenda
Item No.

8

Report prepared by: Andrew Barnes, Head of Internal Audit

Internal Audit Services, Quarterly Performance Report

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the progress made in delivering the Internal Audit Strategy for 2018/19.

2. Recommendations

- 2.1 **The Audit Committee notes the progress made in delivering the 2018/19 Internal Audit Strategy.**

3. Internal Audit Plan Status

- 3.1 **Appendix 1** sets out the current status of the audit work planned for the year as at 4 January 2019. This highlights where audits contained in the original plan considered by the Audit Committee in March 2018 have changed and why.
- 3.2 **Appendix 2** sets out the results of the work completed since the last progress report to the Audit Committee in September.
- 3.3 In addition to the originally planned audit work, the team has also been assisting the organisation with the work being undertaken to deliver Transforming Together, providing challenge and advice to the teams working on delivering the outcomes required for the Council to change. Different members of the audit team have been involved in different aspects of this work, each helping to shape the direction of travel being pursued by the Council.
- 3.4 The team has also been providing challenge, advice and support on a number of other issues, initiatives and projects that the Council is undertaking and dealing with, as outlined in Appendix 1 under "Advice and Support". As well as these, other areas supported by the team since the last Audit Committee include:
- arrangements in respect of holiday pay
 - resolving an invoicing issue by a contractor
 - assistance provided to Southend Care.

4. Performance Targets and Resourcing

- 4.1 As outlined in the Strategy presented to the March 2018 Audit Committee, the team will be reporting on a more limited set of indicators this year given the amount of work that is still being contracted out.
- 4.2 So as at 4th January 2019:
- the team has had seven days of sickness absence since April 2018 (which impacts on productivity) and equates to 0.96 days per FTE
 - in terms of the jobs in the plan:
 - 37% of audits are finalised
 - 24% of audits have work complete with reports being produced or discussed
 - 28% of audits are in progress
 - 2% of audits have terms of reference produced
 - 9% of audits are resourced and booked, but yet to be started.
- 4.3 Stakeholder surveys are completed throughout the year as audits are completed. **Appendix 3** reflects the results of the four surveys covering nine audits undertaken since April 2018. Overall the feedback obtained remains positive, with the results showing that stakeholders find the service to be flexible, communicative, and collaborative and of value to the organisation. The results also show that the service needs to develop its skills around articulating its understanding of services and issues surrounding it when scoping potential audit work.
- 4.4 **Appendix 4** reflects the progress in addressing the actions arising from the 2017/18 assessment of compliance with professional standards that concluded that the service 'generally conforms' with the Institute of Internal Auditors International Professional Practices Framework, which is the highest rating available from the external quality assessment.
- 4.5 Since the last report to the Audit Committee in September 2018 the trainee auditor on a three month secondment to the team has become a permanent member of the team.
- 4.6 That leaves the team with five vacancies out of ten posts. The salaries of the vacant posts are currently being used to fund audit resource brought in from external suppliers to deliver the audit plan.
- 4.7 The expected requirements of the internal audit service into the future are now being assessed to determine the most appropriate team model utilising the resources available, so that this can then be implemented with an appropriate mix of experienced staff and trainees to deliver the internal audit service required by the organisations that it serves.

5. Reasons for Recommendations

- 5.1 **Internal audit are an assurance function providing assurance to assist the Audit Committee to effectively discharge its responsibilities as per its Terms of Reference. The delivery of the internal audit plan will assist the Audit Committee with obtaining assurance that the Annual Governance Statement appropriately reflects the conditions at the Council.**

6. Corporate Implications

6.1 Contribution to the Southend 2050 Road Map

Audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes.

6.2 Financial Implications

The Audit Plan will be delivered within the approved budget.

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

6.3 Legal Implications

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

6.4 People Implications

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

6.5 Property implications

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

6.6 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.

6.7 Equalities and Diversity Implications

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

6.8 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
- 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 while the service is being rebuilt.

6.9 Value for Money

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

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

6.10 Community Safety Implications

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

6.11 Environmental Impact

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

7. Background Papers

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

8. Appendices

Appendix 1 Internal Audit Plan 2018/19

Appendix 2 Audit Assurance and Themes

- a • Satisfactory Assurance
- b • Grants and other audits

Appendix 3 Stakeholder survey results

Appendix 4 Action plan arising from assessment of the service by the Institute of Internal Auditors

Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 4 th January 2019
Managing the Business			
All Aims			
T (JR)	Information Governance, General Data Protection Regulation 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.	No	Draft report reviewed by Head of Internal Audit, with contractor for updating.
FR (JC)	Shareholder Board 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.	No	Draft report with the Head of Internal Audit for review.
T (JR)	Southend 2050 Transforming Together To provide support and challenge as it plans and delivers the cultural change required to deliver the Council's 2050 outcomes. Southend 2050 Outcomes To assess the risks regarding the delivery of the outcomes and then agree the focus of any work with management.	No	New Work in progress. Is being assessed as part of the 2019/20 audit plan work.
Managing Service Delivery Risks			
Safe			
PE	Management Response to Quality Assurance Audits (2017/18) 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	Current status report issued to Management July 2018. Implementation of recommendations scheduled for January to March 2019 (see below).

Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 4 th January 2019
PE (JO'L)	Assessment and Intervention of Families <i>(Interim Management Review)</i> 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.	No	Deleted. Change of approach being developed within Children's Services.
PE (BM)	Children Centres Contract Management 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.	No	Terms of reference agreed. Service locating required documents for audit to commence in January 2019.
PL/PE	Safeguarding Arrangements – service to be determined To assess whether appropriate arrangements are in place to identify and effectively manage safeguarding risks when delivering the service.	No	Terms of reference being drawn up.
PE / PL (SH)	Social Care IT Case Management System, Project Implementation “Go Live” Readiness Assessment for Adults (Liquid Logic) 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'.	No	Completed. Reported to July 2018 Audit Committee.
PE (SH)	Social Care, Hospital Discharge Process To assess whether there is a robust process in place to ensure people are discharged from hospital, to an appropriate setting, when they are ready, reducing the risk of re-admission.	No	Completed November 2018.
PE (JO'L)	Social Care Payments to Individuals and Providers (Children's) 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.	Yes	Planned for February to March 2019.

Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 4 th January 2019
PE (SH)	Vibrance Contract Management 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.	Yes	Work in progress.
PE (BM)	Virtual School 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.	No	Audit deferred as external experts are being brought in to carry out an independent peer review. We will follow up the service's approach to dealing with any issues arising from that review.
<i>Implementing Action Plans</i>			
PE (JO'L)	<ul style="list-style-type: none"> Management Response to Quality Assurance Audits To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	No	New Work in progress.
Clean			
PL (CR)	Recycling, Waste and Street Cleansing Services Contract Management 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.	Yes	Terms of reference being drawn up.
Healthy			
PE (JL)	Commissioned Service Contract Letting and Management To assess whether the: <ul style="list-style-type: none"> needs and outcomes required were properly assessed, appropriately translated into the contract and contract procedure rules were properly applied 	Yes	Planned for March 2019.

Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 4 th January 2019
	<ul style="list-style-type: none"> 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. 		
Prosperous			
PL (PG)	Highways Contract Management (2017/18) To assess whether the highways block of contracts are being effectively managed.	Yes	Work in progress.
PL (PG)	Car Park Management Contract (Lot 1) Contract Management (2017/18) 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	Draft report is with the Audit Manager for review.
PL (PG)	Car Park Management Contract (Lot 2) Contract Management (2017/18) To assess whether the Car Park Management arrangements (cash collection) as part of the Parking Management contract are being effectively managed.	Yes	Draft report is with the Audit Manager for review.
PL (EC)	Better Queensway To assess whether the needs and outcomes required are properly assessed, appropriately translated into the contract and Contract Procedure Rules are properly applied.	Yes	First Interim Management report completed November 2018 (Selection Questionnaire) Second draft Interim Management report being discussed with client (Detailed Solutions) Work in progress on Refined Solutions stage.
PL (PG)	South Essex Active Travel Project 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.	Yes	Draft report being discussed with service.

Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 4 th January 2019
<i>Implementing Action Plans</i>			
PL (EC)	<ul style="list-style-type: none"> Airport Business Park <p>To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.</p>	Yes	Included in 2018/19 Audit Plan in error. Work undertaken during 2017/18 and reported to Audit Committee January 2018.
PL (EC)	<ul style="list-style-type: none"> Better Queensway <p>To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.</p>	Yes	Completed December 2018.
Excellent			
PL (CR)	Building Control <p>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.</p>	Yes	Draft report being discussed with service.
PL (NC)	Cyber Security <p>To assess the robustness of arrangements to prevent a cyber-attack infiltrating the Council's systems.</p>	Yes	Response to the Local Government Association's 'stocktake' of resilience arrangements against cyber-attacks is now being developed by the Council.
PE (JO'L)	Data Quality of Children's Service's Key Performance Indicators <p>To assess whether there are adequate and effective arrangements in place to produce accurate, complete and timely performance indicators for senior management.</p>	No	Draft report being discussed with service.
PL (NC)	IT Enterprise Change Management <p>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.</p>	No	Completed. Reported to Audit Committee July 2018.

Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 4 th January 2019
<i>Implementing Action Plans</i>			
PL (NC)	<ul style="list-style-type: none"> Agresso System Access Control <p>To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.</p>	Yes	Work in progress.
FR (JC)	<ul style="list-style-type: none"> Procurement Cards (2017/18) <p>To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.</p>	Yes	Report issued September 2018.
Key Financial Systems			
All Aims			
T (JR)	Payroll, Self-Serve Module (2017/18) <p>To assess whether the new arrangements for processing and approving expense, mileage and overtime allowance claims are working effectively.</p>	Yes	Draft report being discussed with service.
FR (JC)	Financial systems work to support the production of the Council's Financial Statements <p>To confirm that selected key objectives and associated controls within financial systems:</p> <ul style="list-style-type: none"> are designed to prevent or detect material financial errors have been in place during 2018/19 and therefore, can be relied when producing the Council's Statement of Accounts. 	Yes	Deleted as the new external auditor has confirmed that they do not plan to utilise this work.
T (JR)	Payroll <p>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.</p>	Yes	Work in progress.

Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 4 th January 2019
Grant Claims			
PE	Disabled Facilities Grant To certify, in all significant respects, that the conditions attached to the grant have been complied with.	Yes	Work Completed. Certification submitted to MHCLG September 2018.
PL	Highways Maintenance Challenge Fund To certify, in all significant respects, that the conditions attached to the grant have been complied with.	Yes	Work Completed. Certification submitted to DFT September 2018.
PL	Local Transport Plan Block Funding To certify, in all significant respects, that the conditions attached to the grant have been complied with.	Yes	Work Completed. Certification submitted to DFT September 2018.
PL	Pothole Action Fund To certify, in all significant respects, that the conditions attached to the grant have been complied with.	Yes	Work Completed. Certification submitted to DFT September 2018.
PE	Troubled Families Intervention 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.	Yes	Report on the April to August 2018 submissions reported to September Audit Committee. Completed August to December 2018 submissions, as reported in Appendix 2.
Advice and Support			
All Aims			
	Good Governance Group To attend and provide independent support and challenge to the work of the Group.		The Head of Internal Audit attends and supports.
T (JR)	Corporate Establishment 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.	Yes	Externally facilitated workshop to assess the Council's requirements and identify potential appropriate solutions being held on 18 January.

Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 4 th January 2019
Prosperous			
PL (EC)	Airport Business Park 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 ¹ . Grant conditions primarily focus on ensuring: <ul style="list-style-type: none"> • expenditure is spent in accordance with all legal requirements • compliance with government reporting requirements 	Yes	Internal Audit continues to challenge and support officers to ensure grant conditions are met. No work required for the period September to December 2018.
Excellent			
PE (BM)	Early Years Funding – Nursery School Settings To provide ongoing support and challenge of the arrangements currently in place and being developed within the funded childcare provision to ensure: <ul style="list-style-type: none"> • the accuracy of the funding being approved by the Group Manager, Early Years • providers are fulfilling their duties in line with agreements. 	Yes	Deferred until implementation of new system. Is being risk assessed as part of the 2019/20 audit planning work.
PE (SH)	Adults Pre - payment cards 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"> • in receipt of direct payments • where the Council acts as the official receiver for Court Protection purposes. 	Yes	Work in progress.
PL (SD)	Safety Of Gas Boilers 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.	Yes	Feedback provided. Draft report being discussed with service.

¹ 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 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 4 th January 2019
PL (PG)	Sustainable Motion To support colleagues in undertaking due diligence work of the Community Interest Company's financial statements submitted as part of a procurement exercise.	Yes	New Completed November 2018.
FR (JC)	Income management system implementation To provide support and challenge to the project team planning and delivering the implementation of the new income management system.	Yes	New Work in progress.
T (JR)	Recruitment contract and system implementation To provide support and challenge to the project team planning and delivering the implementation of the new recruitment contract and system.	Yes	New Work in progress.
FR (JC)	P2P new supplier process To provide support and challenge as the project team introduce workflow to automate the current manual process for adding new suppliers to Business World (Agresso). With the recent upgrade to Business World in has become possible to use workflow to automate the new supplier process	Yes	New Work in progress.
Safe			
PE (JO'L)	Early Help Maturity Model To support the Council in bringing partner organisations together to work collaboratively in achieving the agreed outcomes for families and young people beyond 2020 when the local Troubled Families comes to an end (see also Grants above).	No	All partner workshop December 2018. Challenge and support from Internal Audit focused around the Data Maturity Model.
PE (SH)	Social Care Payments to Individuals and Providers (Adult's) 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.	Yes	Draft report with Audit Manager for review.

Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 4 th January 2019
Healthy			
PE (SH)	Aids and Adaptations Works Processes To provide support and challenge to the Aids and Adaptations Team in developing a process for assessing the works exceeding the £30K Disabled Facilities Grant limit provided by the Ministry of Housing and Local Government. (see also Grant Claims above)	Yes	Addition to Audit Plan August 2018. Internal briefing note issued August 2018.
Managing Service Delivery			
Delivering the internal audit service involves: <ul style="list-style-type: none"> • audit planning and resourcing • managing Audit Plan delivery which includes overseeing contractor work • reporting to Corporate Management Team and Audit Committee. 			
Implementing the outstanding actions arising from the External Quality Assessment undertaken by the Institute of Internal Auditors issued October 2017.			

Appendix 1: Internal Audit Plan 2018/19

Risk Watch List	
All	Ethical Governance
LD	Business Continuity Revisited
FR	Debt Management
LD	Emergency Planning Revisited
PL	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	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

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

Appendix 1: Internal Audit Plan 2018/19

Audit Activities	Resource allocation
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%
Total	100%
Total Council Audit Plan Days	607

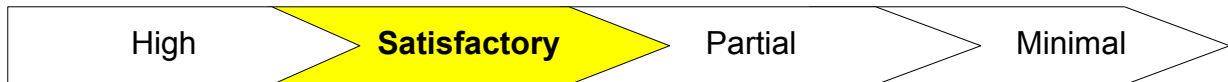
The days required to revisit and retest action plans from previous reports are included under each heading.

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

Analysis Over Departments		
All	Cross Cutting	4%
FR	Finance and Resources	13%
T	Transformation	
LD	Legal and Democratic Services	
PE	People	39%
PL	Place	27%
All	Contingency	5%
All	Managing Delivery of the Audit Plan	12%
	Total	100%

Appendix 2a: Assurance and Themes

Assurance



Social Care, Hospital Discharge Process

Objective

To assess whether there is a robust process in place to ensure people are discharged from hospital, to an appropriate setting, when they are ready, reducing the risk of re-admission, in line with statutory requirements¹.

Themes

The hospital discharge process aims to ensure that people:

- do not remain in hospital when they no longer require care in an acute setting; and
- where required, are provided with sufficient support to allow them to continue living in the community, whether that be at home or in a residential setting.

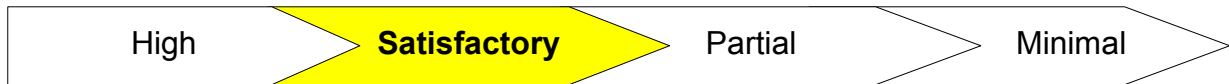
Delayed Transfers of Care (DTOC) figures are consistently low within Southend, and strengthening arrangements as identified below will help to ensure this continues:

- formalising and agreeing the Council's 'surge and escalation plan' with partners which aims to address resourcing pressures experienced by the Hospital Social work team. This will particularly ensure the informal arrangements that have worked well to date can continue, even with a change in staff
- moving to work consistently from the hospital's Assessment notification will allow a further two days to undertake assessments of the care and support a patient may need after discharge. This would also give Senior Social Workers and Managers more time to review and challenge assessments and care plans to ensure they are of a consistently high standard
- using functionality within the Council's case management system Liquid Logic (LAS) to gain a better understanding of reasons behind re-admissions, which will allow the team to:
 - identify if re-admissions are linked to an unmet social care need or due to a medical condition, which will allow appropriate action to be undertaken to address the identified causes
 - target individuals who frequently enter hospital without acute medical need to better meet their needs in the community.

¹ The Care Act 2014

Appendix 2a: Assurance and Themes

Assurance



Introducing KPI monitoring of the timeliness of assessments and reviews within LAS will:

- give senior management assurance that performance of the hospital team continues as expected
- reduce the need to manually compile the data currently used for monitoring of assessment timeliness.

Work on the above actions has already begun, with some completed at the time of finalising the findings with officers.

Appendix 2b: Grant Claims and other audit work

Troubled Families Programme, Payments by Results Scheme Grant

Objective

To assess compliance with the terms and conditions of the Ministry of Housing, Communities and Local Government's (MHCLG) 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.

Conclusion

Between September and December 2018, 72 PBR claims were presented for audit prior to submission to the MHCLG.

Claims continue to be reviewed and challenged at 'Outcome Surgeries' established by the Early Help and Family Support team. These aim to ensure the criteria of the Council's Troubled Families Outcome Plan have been met and can be evidenced. Additionally, the Team Manager reviews a minimum of 10% of claims to confirm appropriate evidence has been provided.

Of the 72 claims presented, the Team Manager reviewed 12. Internal Audit randomly selected 11 claims for review, which included four checked by the Team Manager. For all but one claim, suitable evidence was available to support:

- entry into the programme
- a claim for either significant and sustained progress, or continuous / subsequent employment.

One claim submitted under the significant and sustained progress outcome was withdrawn as evidence was not available to demonstrate that concerns over the suitability of home tutoring arrangements within the family had been addressed. The team have kept the case open and will monitor progress in this area.

This is the only case that has been withdrawn since July 2017. This demonstrates that both the 'Outcome Surgeries' and the Team Manager's quality assurance checks are working effectively to ensure sufficient evidence is available to support required troubled family outcomes and the PBR claims made.

Appendix 2b: Grant Claims and other audit work

Better Queensway Benefits Management

Objective

To provide support and independent challenge in the development of benefits management controls designed to help ensure the project can demonstrate achievement of its expected benefits.

The need for this bespoke piece of work was identified in previous internal audit reports examining overall project assurance arrangements.

Conclusion

This work resulted in Internal Audit supporting the project in the development of a draft benefits profile template, which now contains fields to capture key information in relation to the project's planned benefits. The template was discussed at the Better Queensway Project Board on the 31 October 2018.

Once a development partner is selected, further work is required, for the project team to:

- review and agree this draft benefits profile template
- develop the proposed baselines and targets and ensure they are appropriate
- agree nominated benefit owners
- update this document to include any other potential benefits identified by the development partner
- consider and update this document to include potential dis-benefits¹ and how the project plans to minimise any impact, and
- monitor and manage the realisation of planned benefits as the project progresses.

¹ A dis-benefit is an actual consequence of a project which is perceived to be negative by one or more stakeholders e.g. the potential loss of revenue to existing businesses.

Appendix 3: Stakeholder Surveys, Compliance with Professional Standards

Setting up and planning the audit (PSIAS 1200 / 2200)		
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?	50%
Performing the audit (PSIAS 2300)		
2	Did we work effectively with you when doing the audit to minimise the impact on your service?	83%
3	Were we able to talk knowledgeably with you about information provided to us and queries we had during the audit?	67%
Communicating results (PSIAS 2400) and Improving governance, risk management and control processes (PSIAS 2100)		
4	Did we keep you informed of the progress of the audit and issues arising from the work in timely manner?	100%
5	Did we effectively explain to you where we felt action was required to improve your arrangements and why?	83%
6	Was the report fair and reflective of the work done by audit and the issues found as discussed with you?	100%
Independence and Objectivity (PSIAS 1100)		
7	Did we provide relevant evidence to back up our findings if required?	75%
8	At the end of the audit, did you understand the rationale for the overall opinion given?	83%
Managing the Internal Audit Activity (PSIAS 2000)		
9	Do you think internal audit adds value to the Council?	100%

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Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 31st December 2018

Action required	Current status	Date
Attribute Standards		
1100 Independence and Objectivity		
1111 Direct Interaction with the Board		
Re-establish annual Audit Committee performance assessments in line with good practice.	<p>New good practice guidance was published in May 2018. Good practice workshop is being undertaken with the Audit Committee in September 2018.</p> <p>At some point, an assessment of compliance with CIPFA's best practice expectations should be produced. This can then be considered as part of a wider review of the Council's governance and assurance framework.</p>	HoIA, 31 March 2019
1200 Proficiency and Due Professional Care		
1230 Continuing Professional Development		
Continue with the recruitment programme for professional audit staff during 2017/18.	<p>No further recruitment was undertaken in 2017/18.</p> <p>In April 2018, an experienced Senior Auditor on the team was promoted to Audit Manager.</p> <p>In July 2018 a current council employee was seconded into an Audit trainee role with a view to making this appointment permanent.</p> <p>This leaves the combined team with six vacancies out of ten posts. The intention is to fill some of the posts with graduates or school leavers, who will be put through a relevant training programme.</p>	Implemented and ongoing
Create and then recruit to the Business Support function that will support both the Internal Audit and Counter Fraud & Investigation Directorate.	<p>The Business Support Team is in the process of taking over the relevant functions from the two teams.</p> <p>The capacity of the team to deliver the increased</p>	HoIA, 31 Mar 2019

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 31st December 2018

Action required	Current status	Date
	workload will be monitored over the autumn.	
1300 Quality Assurance and Improvement Programme		
Re-introduce cold file reviews when more fully staffed and include a sample of contractor files.	<p>This has now been built into the Audit Strategy presented to Audit Committee in April 2018.</p> <p>This is not currently a priority due to the positive outcome of the PSIAS Inspection in October 2017, but will be introduced when there is sufficient resource in the team.</p>	To be determined
1311 Internal Assessments		
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
2000 Managing the Internal Audit Activity		
2010 Planning		
<p>Summarise the activities considered significant enough to warrant periodic, independent challenge by internal audit.</p> <p>Present the list periodically to senior management and the Audit Committee as part of the audit planning process.</p>	This will form part of the papers presented to support the 2019/20 Audit Plan.	HoIA, 31 Mar 2019
<p>Consider how to split out time allocated to a review on:</p> <ul style="list-style-type: none"> pure audit work advice and support. 	The time recording system will be amended to capture advice and support given throughout audits. This will be reviewed for effectiveness over the next six months.	AMs, 31 Mar 2019

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 31st December 2018

Action required	Current status	Date
2030 Resource Management		
When resources allow, arrange more regular meetings with individual Group Managers as required, to help progress work in the Audit Plan.	These sessions have been taking place throughout 2018/19 as audits have been planned and set up. This work will continue.	AMs, 31 Mar 2019
2040 Policies and Procedures		
Refresh the Audit Manual and supporting forms to reflect: <ul style="list-style-type: none"> updates in the Standards current working practices any issues arising from the independent external assessment. 	<p>Most of this work is still 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> <p>Work is also needed to update the Audit Manual to detail the approach adopted by the team which ensures compliance General Data Protection Regulations (GDPR) from May 2018.</p>	AMs, 31 Mar 2019
2050 Co-ordination and Reliance		
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 for 2018/19. This will be developed throughout the year as audit work is completed and as part of the 2019/20 audit planning process.	HoIA, 31 Mar 2019
2100 Nature of Work		
2110 Governance		
Assess whether an ethical governance audit should be included in 2018/19 Audit Plan.	This will be considered as part of the audit planning for 2019/20.	HoIA, 31 March 2019

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 31st December 2018

Action required	Current status	Date
2200 Engagement Planning		
2210 Engagement Objectives		
Make sure that the audit approach makes the links to performance management as part of the planning process.	<p>The audit planning form requires auditors to consider what criteria or measures of success management have established to determine whether the activity's objectives are being achieved.</p> <p>Focus will be given to assess the effectiveness and appropriateness of these measures in future audits.</p> <p><i>(Also see Standard 2040 about Policies and Procedures)</i></p>	AMs, 31 March 2019
2300 Performing the Engagement		
2330 Documenting Information		
Set up a project to check all files and destroy whatever is necessary to comply with the Retention Policy.	<p>This project is well underway with document disposal and retention work being undertaken on all client files.</p> <p>Disposal of paper files is complete and the review of electronic files continues.</p> <p>The team are awaiting the publication of a corporate retention schedule detailing requirements around personal data held in areas such as electronic personnel files.</p> <p>A Disposal and Retention Log is in use, which also serves as the service's Information Asset Register.</p>	BSM, 31 March 2019

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 31st December 2018

Action required	Current status	Date
2400 Communicating Results		
2410 Criteria for Communicating		
<p>Include an instruction in the operational protocol that meetings should always be held to:</p> <ul style="list-style-type: none"> • feedback findings at the conclusion of fieldwork • discuss the draft report. <p>109</p>	<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"> • findings will be fed back during the audit, so there are no surprises • all auditors will have a final feedback meeting on conclusion of the fieldwork. 	<p>AMs, 31 March 2019</p>
<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 will be reassessed after senior management have undertaken the review of the risk management, control and governance arrangements that is due following the introduction of the council's new vision and strategic framework.</p>	<p>HoIA, 31 March 2019</p>
2420 Quality of Communications		
<p>Build triggers into the Audit Manual that remind staff to keep clients informed of when reports can be expected and if there are delays in producing them.</p>	<p>Work outstanding is to:</p> <ul style="list-style-type: none"> • amend the Planning, Fieldwork and Reporting sections of the Audit Management Checklist for in house staff • add this to the “Ways of Working” document with contractors. <p><i>(Also see Standard 2030 About Resource Management regarding monitoring delivery of work which also contributes to this action).</i></p>	<p>AMs, 31 March 2019</p>

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 31st December 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 a focus of the team from now on.	Implemented
Complete the project on upgrading / refreshing how we use APACE, our time recording / performance management data base.	This work has been paused whilst the Business Support Manager reviews the list of improvements and changes required to the database's functionality with the new Head of Internal Audit.	BSM, 31Dec 2018
110 Use APACE effectively to timetable the delivery of audits and monitor progress against both budgets and timelines.	<p>APACE, in conjunction with the Internal Audit Resource Schedule, is now being used to:</p> <ul style="list-style-type: none"> • allocate, phase and cost audits • allow the Business Support Team to monitor the delivery of audits against both the Audit Plan and the financial profile. <p>Reports on job budget monitoring are being provided to the team on a weekly basis.</p> <p>Opportunities to do this more effectively are being considered in the projected noted above.</p>	Implemented
<p>Include a requirement in the Audit Manual about:</p> <ul style="list-style-type: none"> • issuing the guidance to and discussing it with clients within the draft terms of reference • attaching it as an appendix to the report. 	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 Mar 2019
2431 Engagement Disclosure of Non-Conformance		
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 Mar 2019

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 31st December 2018

Action required	Current status	Date
2500 Monitoring Progress		
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 Council officers.	BSM, 31 Mar 2019
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 Council officers.	BSM, 31 Mar 2019
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 Council officers.	BSM, 31 Mar 2019

→
Key:

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

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CIPFA Better Governance Forum

Audit Committee Update

Helping audit committees to be effective

Issue 26

CIPFA's Position Statement on Audit Committees in Local Authorities and Police

Briefing on topical issues

Audit committee training

September 2018

Introduction

Dear audit committee member,

This issue's main article highlights the main changes to CIPFA's Position Statement and guidance publication on audit committees in local authorities and police. These updates reflect the importance that CIPFA places on having effective audit committees, supported by robust frameworks for governance risk management and internal control. If you haven't already seen these then I recommend you read the article and then download the Position Statement. You should also be able to access the detailed guidance directly if your organisation has purchased the publication as it is in a format that can be placed on an intranet for wide access.

We have a number of audit committee training events coming up, so if you would like to receive further support and guidance please do consider attending one of these events. They also provide opportunities to network with other audit committee members.

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

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

Best wishes

Diana Melville, CIPFA Better Governance Forum

Sharing this Document

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

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) 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. You can also select your preferences for any newsletters or mailings.

Support for Audit Committees

Links to all CIPFA resources, guidance and training details relating to audit committees can be accessed by a dedicated page on the [CIPFA website](http://www.cipfa.org).

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	Issue 7
Commissioning, Procurement and Contracting Risks	Issue 8
Reviewing Assurance over Value for Money	Issue 9
Issues from 2013	
Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA's Guidance on Audit Committees	Issue 11
Reviewing Internal Audit Quality, New CIPFA Publication, Audit Committees Practical Guidance for Local Authorities and Police, Regular Briefing on Current Issues	Issue 12
Issues from 2014	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	Issue 13
External Audit Quality and Independence, Government Consultation on Local Audit Regulations, CIPFA's Consultation on a New Counter Fraud Code, Regular Briefing on Current Issues	Issue 14
CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, the Audit Committee Role in Countering Fraud, Regular Briefing on Current Developments	Issue 15
Issues from 2015	
What Makes a Good Audit Committee Chair? Governance Developments in 2015	Issue 16
The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments	Issue 17
Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors, Regular Briefing on Current Issues	Issue 18
Issues from 2016	
Good Governance in Local Government – 2016 Framework, Appointing Local Auditors, Regular Briefing on Current Issues	Issue 19
CIPFA Survey on Audit Committees 2016, Regular Briefing on Current Issues	Issue 20
The Audit Committee and Internal Audit Quality, Briefing on Topical Issues	Issue 21

Issues from 2017	
Developing an Effective Annual Governance Statement, Regular Briefing on Current Developments, Audit Committee Training	Issue 22
2017 edition of the Public Sector Internal Audit Standards, Understanding the Risks and Opportunities from Brexit, Recent Developments and Resources	Issue 23
Issues from 2018	
The Audit Committee Role in Risk Management, Regular Briefing on Current Developments	Issue 24
Developing an Effective Annual Governance Statement	Issue 25

Workshops and Training for Audit Committee Members in 2018 from CIPFA

Inaugural CIPFA and CfPS Conference for Councillors

This event will outline current legislative, governance and funding challenges facing councillors and their councils and share insights on how best to address these challenges. This is a joint event with the Centre for Public Scrutiny (CfPS).

- [13 September 2018, House of Commons](#)

Developing the knowledge and skills of the audit committee

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

- [20 September 2018, London](#)

Development day for police audit committees

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

- [19 September 2018, York](#)
- [20 September 2018, London](#)

Development day for local authority audit committees

These events are suitable for members of local authority audit committees and those supporting the committee. They will provide guidance and updates on topical issues and new developments affecting the work of the committee.

- 7 November 2018, London
- 5 December 2018, Birmingham
- 16 January 2019, York

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

In house training and facilitation

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

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

For further details contact our [in-house training team](#) or email diana.melville@cipfa.org or visit the [CIPFA website](#) for further details on the support we have available for audit committees.

CIPFA Position Statement on Audit Committees in Local Authorities and Police 2018

CIPFA has published an updated [Position Statement](#) setting out the principles that it recommends for audit committees in the local government sector. The statement covers the role and purpose of the committee, its key areas of focus and the membership of the committee. There is further support for the committee in the CIPFA publication [Audit Committees: Practical Guidance for Local Authorities and Police \(2018 Edition\)](#).

Having an effective audit committee is a key component of a local authority's or police body's governance arrangements. By providing a high-level focus on audit, assurance and financial reporting it helps to secure good standards of governance and financial management.

Key changes to the CIPFA guidance

CIPFA's earlier guidance was published in 2013 and while there is some continuity in the principles there are also some changes. Since then there has been new legislation, regulations and standards that impact on the work of the committee so it is important that the guidance properly reflects those changes. The key changes include:

- emphasis on establishing an effective structure (applicable to local authorities only)
- new guidance on the audit committee role in relation to external audit
- audit committee role in collaborative arrangements
- accountability and annual reports
- new self-assessment of good practice.

Establishing an effective model for the committee

CIPFA is recommending that all local authority audit committees should include an independent (co-opted) member. Some authorities (those in Wales and English combined authorities) are required to include a co-opted member already and some have voluntarily taken this step. CIPFA considers that independent members add value to the committee providing additional knowledge and expertise, continuity of membership and helping to support the independence of the committee. Other factors that support an effective model include:

- a dedicated committee rather than a committee combined with other responsibilities
- direct accountability to those charged with governance
- avoiding a large number of members
- independence from the executive and not including members of the executive on the committee
- regular meetings.

CIPFA has seen good examples of audit committees in local authorities but it has also seen committees which are weak and ineffective. Reviewing the structure of the committee is one way to improve a committee that struggles to make an impact.

The audit committee role in relation to external audit

The new guidance reflects the changes introduced in England for the appointment of external auditors in the Local Audit and Accountability Act 2014. It also reflects the greater expectations of audit committees in relation to ethical standards of auditors. Receiving and reviewing the reports and recommendations from external audit has always been an important role for the committee, but changes to the legislative and regulatory environment have increased the importance of the audit committee role.

Audit committee role in collaborative arrangements

The 2013 guidance highlighted the importance of the audit committee having oversight of the significant partnerships that the authority participated in. The importance of this has grown with increasing numbers of collaborative arrangements. In the police sector the statutory duty to consider collaboration is leading to collaborations with fire authorities or with other police bodies.

The guidance recommends that the committee should seek assurances over the establishment of new arrangements and help to ensure that satisfactory governance, risk, audit and accountability arrangements are put in place. The audit committee should be satisfied that the annual governance statement reflects the governance in partnerships and collaborative arrangements.

Accountability and annual reports

Audit committees provide a valuable mechanism of internal accountability, helping to ensure that those responsible for exercising effective governance, the management of risk and adequate internal controls are discharging these effectively. Whether the committee follows up an internal audit report, recommendations from external audit or reviews risk registers, it is holding to account.

CIPFA recommends that all audit committees should report regularly on their work and an annual public report should demonstrate the committee's effectiveness.

New self-assessment of good practice

The guidance also includes an updated self-assessment, incorporating the key aspects of the Position Statement and guidance. The self-assessment is short, only 25 questions, but challenging. Completing the self-assessment will help the committee to challenge itself and consider whether it is tackling the right issues and operating in an effective way.

Next steps

The Position Statement can be downloaded from the [CIPFA website](https://www.cipfa.org/position-statement). The supporting guidance, including the self-assessment, is a publication, which once purchased, can be placed on an organisation's intranet so that all with an interest can access it. I would encourage all authority and police audit committee members to review the Position Statement and guidance and evaluate their own committee against the principles. The following questions may help to open up discussions.

Key questions to ask	
1	How does the structure and reporting arrangements of our audit committee compare to the CIPFA recommendations?
2	Is the membership of the committee objective, knowledgeable and properly trained to fulfil their role?
3	Do the terms of reference of the committee reflect all the core functions of the committee as set out in the Position Statement and guidance?
4	Has a self-assessment of the committee been completed recently?
5	Has the committee published an annual report setting out how it has discharged its responsibilities?

Further material to inform committee members is available to download from the [CIPFA website in our dedicated section](#). Full access to the issues of *Audit Committee Update* is only available to organisations subscribing to the [CIPFA Better Governance Forum](#).

Diana Melville

Governance Advisor, CIPFA

Recent Developments You May Need to Know About

Legislation, regulations and consultations

Financial management code of practice

The Home Office has published new statutory guidance for police bodies. The code sets out responsibilities for governance and financial management, including the role of the joint audit committee. The latest version addresses some of the changes required to support combined authorities and collaborations between police and fire, including audit committee arrangements. [Financial Management Code of Practice](#)

The Responsible Finance Officer in Local Enterprise Partnerships (LEPs)

Working with the Cities and Local Growth Unit of the Ministry of Housing, Communities and Local Government (MHCLG), CIPFA has developed principles to help support the Section 151 officer of the accountable body of each of the local enterprise partnerships (LEPs). The need for the principles was identified by the report by Mary Ney into the governance of LEPs in 2017. The principles cover the role of the Section 151 officer and also highlight the value of appropriate audit and audit committee arrangements.

[Principles for section 151 officers working with LEPs](#)

Northamptonshire County Council best value inspection

The inspection report was published into the failure of Northamptonshire to comply with its duty to provide best value in the delivery of its services. The report examines the causes of this failure and the circumstances that led to the issue of the Section 114 notice in February 2018. [Best value inspection report](#)

Consultation on CIPFA index of resilience for English councils

CIPFA has recently consulted on the development of an index of resilience for English Councils. The proposal is in response to concerns around financial sustainability raised by the sector and the recent National Audit Office report. Using publicly available information the index would provide an assessment of the relative financial health of each English council. CIPFA is currently considering the responses received. [CIPFA Consultation](#)

Reports, recommendations and guidance

Briefings

Essential Governance, Risk Management and Control

A briefing from CIPFA highlighting the importance of ensuring that internal controls operate effectively and acknowledging the challenges of ensuring this when resources are under pressure. Service transformation and outsourcing also present challenges and audit committee members should have a good understanding of the risks to good governance and internal control. [Essential Governance, Risk Management and Control](#)

Reports

Monitoring the quality of external audit

Public Sector Audit Appointments (PSAA) publish quarterly compliance monitoring reports on the external audit contracts they oversee. The annual report summarises these results together with audit quality review findings. Audit committee members should be aware of any audit quality or compliance issues relating to their appointed external audit firm. [2018 Annual Regulatory Compliance and Quality Report](#)

Each year Audit Scotland publishes a report on the quality of its audit work including the findings of the independent assurance reviews carried out by The Institute of Chartered Accountants in Scotland (ICAS). [Audit Scotland Audit Quality Annual Report 2017/18](#)

National Fraud Initiative

The National Fraud Initiative is a mandatory data matching exercise operating across local government. In England the Cabinet Office leads the exercise and each of the devolved governments run their own exercise, led by the appropriate audit institution. The following reports show the results from the latest exercises:

[The National Fraud Initiative in England](#)

[The National Fraud Initiative in Scotland](#)

Governance of arms-length organisations

A report from Audit Scotland on councils' use of arm's-length organisations for the delivery of services. The report considers the effectiveness of the arrangements and the adequacy of governance arrangements. The report includes a useful checklist and is of relevance for all local authorities that have or are developing alternative service delivery arrangements. [Councils' Use of Arm's-length Organisations](#)

2016/17 audit of Dundee City Council: report on a significant fraud

A report by Audit Scotland examining the control failures that allowed a fraud totalling £1m to take place at Dundee City Council. The report highlights the importance of effective controls and lessons for other councils to consider. [Audit of Dundee City Council](#)

Ethical standards for public service providers

The Committee on Standards in Public Life has published a progress report to their 2014 report on ethical standards for public service providers. The 2018 report highlights that progress in implementing the earlier recommendations has been disappointing and the Committee remains of the view that more must be done to encourage strong and robust cultures of ethical behaviour in those delivering public services. [The Continuing Importance of Ethical Standards for Public Service Providers](#)

Financial resilience and sustainability

These challenges are significant for many public bodies. Reports from the state audit institutions provide insights into the experiences of specific sectors.

- National Audit Office (NAO) report – [Financial Sustainability of Local Authorities 2018](#)
- Public Accounts Committee report – [Financial Sustainability of Local Authorities](#)
- Accounts Commission report – [Local Government in Scotland: Challenges and Performance 2018](#)

The audit committee and transformation

The NAO issued guidance for audit committees on their oversight role of transformation programmes. It includes questions committees should ask during set-up, delivery and live-running phases. [Transformation Guidance for Audit Committees](#)

Forthcoming reports to look out for

The NAO will be publishing a report on the financial sustainability of police in the autumn of 2018.

Late 2018 or early 2019, the NAO will publish a report on governance and accountability in local authorities.

The Committee on Standards in Public Life is currently undertaking a review of standards in local government. The report is expected in the autumn of 2018.

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