

Merton Council

General Purposes Committee

Membership

Councillors

Peter McCabe (Chair)

Janice Howard (Vice-Chair)

Laxmi Attawar

Adam Bush

Tobin Byers

Stephen Crowe

Mary Curtin

Ian Munn BSc, MRTPI(Rtd)

David Williams

Agatha Mary Akyigyina

Substitute Members:

Stan Anderson

Michael Bull

Daniel Holden

Imran Uddin

A meeting of the General Purposes Committee will be held on:

Date: 10 March 2016

Time: 7.15 pm

Venue: Merton Civic Centre

This is a public meeting and attendance by the public is encouraged and welcomed. For more information about the agenda and the decision making process contact democratic.services@merton.gov.uk or telephone 020 8545 3616.

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General Purposes Committee

10 March 2016

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Note on declarations of interest

Members are advised to declare any Disclosable Pecuniary Interest in any matter to be considered at the meeting. If a pecuniary interest is declared they should withdraw from the meeting room during the whole of the consideration of that mater and must not participate in any vote on that matter. If members consider they should not participate because of a non-pecuniary interest which may give rise to a perception of bias, they should declare this, .withdraw and not participate in consideration of the item. For further advice please speak with the Assistant Director of Corporate Governance.

Agenda Item 3

All minutes are draft until agreed at the next meeting of the committee/panel. To find out the date of the next meeting please check the calendar of events at your local library or online at www.merton.gov.uk/committee.

GENERAL PURPOSES COMMITTEE

4 NOVEMBER 2015

(7.15 pm - 7.47 pm)

PRESENT Councillors Councillor Peter McCabe (in the Chair),
Councillor Janice Howard, Councillor Adam Bush,
Councillor Stephen Crowe, Councillor Mary Curtin,
Councillor Ian Munn, Councillor David Williams,
Councillor Agatha Mary Akyigyina and
Councillor Pauline Cowper

ALSO PRESENT Caroline Holland (Director of Corporate Services)
Andrew Robertson (Head of Electoral Services)
Paul King (External Auditor, Ernst & Young)
Lisa Jewell (Democratic Services)

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

Apologies for absence were received from Councillor Laxmi Attawar

2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

No declarations of interest were received

3 MINUTES OF THE PREVIOUS MEETING (Agenda Item 3)

The Committee noted that additional information requested at the meeting on 16 September had been sent to them via email. This information provided details on how much of the £25.756m short term debtors had been collected, with the total amount collected being £23.2m. Members asked the Director of Corporate Services what she thought about an uncollected figure of £2.5m. The Director of Corporate Services replied that good progress had been made in the collection of debtors and that debt reports were sent to Cabinet.

The minutes of the meeting held on 16 September 2015 were agreed as a true record

4 REVIEW OF POLLING PLACES (Agenda Item 4)

The Head of Electoral Services introduced his report on the review of Polling Places which dealt with two polling places. The first was Christchurch Hall, the current polling place for district KB in Village ward and polling district LA in Raynes Park ward. This is to be demolished and the recommendation is to designate Christ Church which is next door, as the polling place for these two polling districts. The second polling place reviewed was Hillcross Primary School, polling district SD in Cannon Hill Ward. A consultation exercise was undertaken on the future use of the

school as a polling place. The recommendation is that there should be no change Hillcross School, as a longstanding polling place.

RESOLVED

- A. That the General Purposes Committee recommends that the full council agrees the designation of Christ Church as the polling place for polling district KB in Village Ward and polling district LA in Raynes Park Ward.
- B. That the General Purposes Committee recommends that the full council makes no change to the polling place for polling district SD in Cannon Hill Ward.

5 EXTERNAL AUDITOR:ANNUAL AUDIT LETTER (Agenda Item 5)

Paul King, Executive Director, Ernst &Young, presented the Annual Audit Letter 2014/15. He highlighted the issues detailed in the 'Looking Ahead' section of the letter; Highways Network Assets, Better Care Fund, and Earlier deadline for production and audit of the financial statements from 2017/18, as national issues relevant to the Council.

Members discussed the change to the deadline for audit production. They noted that currently the closing date for production of the audit of financial statements was 30 September each year but that new legislation required this to be brought forward to 31 July. Paul King explained that the intention was to aim for 31 August for the 2015/16 audit and 31 July 2017 as preparation for 2017/18. Members discussed how the timetable of General Purpose Committees would need to change in order for the Committee to approve the final accounts. There was a concern that this would require a General Purposes meeting in the School Summer Holidays. Paul King explained that Ernst &Young, as auditors to several 100 Local authorities, would have to consider their processes and possibly simplify them as far as they were allowed.

6 PROGRESS REPORT - RISK MANAGEMENT (Agenda Item 6)

The Director of Corporate Services introduced the progress report on Risk Management. Members noted that changes had been made to the risk management process since it was last brought to General Purposes Committee. Members noted that strategic oversight of Risk Management is provided by Cabinet and General Purposes Committee, and that there will regular updates to both.

Members asked The Director of Corporate Services who owned the risk register within the council. The Director of Corporate Services explained that the risk register is owned by the Council; each department manages their risks through their risk register, and these are reviewed quarterly by DMTs. Any significant risks which may have a strategic impact are escalated by the Corporate Risk Management Group to CMT for inclusion on the Key Strategic Risk Register to ensure that risks which affect the council are being effectively monitored and managed. The Key Strategic Risk Register as at October 2015 was attached to the report at Appendix 1 – this contained all the significant risks that are currently being monitored and managed.

The Director of Corporate Services was asked about the review of the risk management system. She explained that this review of Risk management had been helped by Insurance advisors, and examples from other councils had been considered. There were now risk champions in every department, and the system covered risks other than just financial, there was now an issues register, and more challenge around impact was included. Significant risks that may have a strategic risk are escalated to CMT.

Members asked if the specific risk to fail to adhere to public contract regulations 2006 and contract standing orders, was just a reputational risk, and whether it should also be a financial risk. The Director of Corporate Services replied that it was up to the risk owner to make this decision and in this case it the risk owner wanted to monitor the reputational risk. Regarding this same risk members asked for an explanation on the given likelihood that there was a 50:50 chance of being in breach of the regulations. The Director of Corporate Services answered that this was a risk but that it was being monitored, there would be a revision of contract standing orders, officers would be made aware of the new regulations and this would reduce the likelihood.

RESOLVED

- A. That the General Purposes Committee reviews the adequacy of the risk management framework and the associated control environment.
- B. To consider the Key Strategic Risks and Issues faced by the Council, and determine whether these are being actively managed

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Merton Council

Certification annual report 2014-15

February 2016

Ernst & Young LLP



The Members of the General Purposes Committee
Merton Council
Civic Centre
London Road
Morden, SM4 5DX

10 March 2016

Direct line: 0118 928 1556
Email: pking1@uk.ey.com

Dear Members

Certification of claims and returns annual report 2014-15 Merton Council

We are pleased to report on our certification work. This report summarises the results of our work on Merton Council's housing benefit subsidy claim.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, as transitionally saved, the Audit Commission made arrangements for certifying claims and returns in respect of the 2014-15 financial year. These arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Statement of responsibilities

The Audit Commission's 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities) applied to this work. It serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

This report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the Council. As appointed auditor we take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2014-15 housing benefit subsidy claim certification work and highlights the significant issues.

The housing benefits subsidy claim had a total value of £97.1 million. We met the submission deadline. We issued a qualification letter, and details of the qualification matters are included in section 1. Our certification work found errors which the Council corrected. The amendments had only a minimal impact on the subsidy due.



Fees for certification work are summarised in section 2. The fees for 2014-15 were published by the Audit Commission on 27 March 2014 and are now available on the Public Sector Audit Appointments Ltd (PSAA's) website (www.psaa.co.uk)

We welcome the opportunity to discuss the contents of this report with you at the General Purposes Committee.

Yours faithfully

Paul King
Executive Director
Ernst & Young LLP
Enc

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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£97,123,884
Amended/Not amended	Amended – subsidy reduced by £11,335
Qualification letter	Yes
Fee – 2014-15	£37,760
Fee – 2013-14	£54,989
Recommendations from 2013-14	Findings in 2014-15
<ul style="list-style-type: none"> - Embed and extend a rolling programme of peer review of a sample of new and existing claims to drive up overall accuracy and completeness of claims and further improve the level of expertise among claims officers. Implement measures to demonstrate improvement in performance in accuracy and completeness in these areas. - Continue with an ongoing programme of targeted training in those areas identified in this year's work as 'easy wins' and refresher training in those areas of greater complexity and where errors occurred in this and previous years. - Carry out earlier work on completing initial and extended testing workbooks to help with project management of the schedule of work required to enable timely certification of the claim by external audit. - Identify and carry out early review of those cases where there are potential issues around failure of transfer of information from central government systems. 	<p>The level of errors identified in 2014-15 was reduced compared to previous years, however, errors were still identified regarding the calculation of income (both tax credits and earned income), and the classification of overpayments. There were also system errors which were identified during the course of our work and which required manual amendments to the claim form.</p>

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years claims. We found errors and carried out extended testing in ten areas relating to officer error, and six areas as a result of system errors. This compares to 17 in the previous year, with one area resulting from a system error.

Extended and other testing identified errors which the Council amended. They had a small net impact on the claim. We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid.

The following are the main issues included in our qualification letter:

Underpaid benefit and overpaid benefit as a result of errors in income assessment.	<p>Testing identified both underpaid and overpaid as a result of incorrectly calculating claimant income.</p> <p>As there is no eligibility to subsidy for benefit which has not been paid, the underpayments identified did not affect subsidy and were not classified as errors for subsidy purposes.</p> <p>The overpayment errors have been extrapolated across the relevant cell totals and reported to the DWP.</p>
Misclassification of overpayments	<p>The level of subsidy for overpayments is determined by the classification of the overpayment. The misclassification errors found resulted in both overstatements and understatement of subsidy claimed.</p>

As noted above, the number of areas for extended testing was reduced in 2014-15 compared to 2013-14 which suggests that the Council has improved the overall accuracy of the claim form. The areas identified as errors had also been identified in previous years, and therefore we would suggest that the Council continues its programme of peer review and targeted training in high risk areas. As the certification work outcomes are identified quite late in the financial year subsequent to the one that is being reported on, the full impact of new working practices or training implemented in response to the 2013-14 recommendations would not necessarily be apparent until the 2015-16 grant claim.

Several of the amendments required to the claim form were as a result of system errors. Although these were identified by our initial testing in May 2015, these were not ultimately quantified and resolved until November 2015. We would therefore recommend that the Council's engagement of its software provider in identifying the root cause behind these errors and their resolution is more timely.

We also note that there is the possibility that the system errors encountered could have a continuing impact in 2015-16. We would encourage the Council to ensure that it continues to work with its software provider to ensure that these issues are resolved prior to the submission of the 2015-16 claim form.

In 2014-15 initial testing was completed by our audit team with 90% of extended testing provided to officers for completion by 4 August 2015. Completion of the extended testing was protracted which caused delay to the finalisation of the qualification letter and final claim form. We will therefore continue to work with officers to ensure that extended testing is completed in a more timely manner.

2. 2014-15 certification fees

The Audit Commission determined a scale fee each year for the audit of claims and returns. For 2014-15, these scale fees were published by the Audit Commission on 27 March 2014 and are now available on the PSAA's website (www.psa.co.uk).

Claim or return	2013-14	2014-15	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	54,989	37,760	37,760
Total			

3. Other assurance work

During 2014-15 we also acted as reporting accountants in relation to the following scheme.

Teachers' Pensions

We have provided separate reports to the Council in relation to this return. This work has been undertaken outside the Audit Commission/PSAA regime, and the fees for this of £8,500 (2013-14: £10,000) are not included in the figures included in this report. They are referred to here for completeness to ensure to ensure Members have a full understanding of the returns on which we provide some form of assurance. We did not identify any significant issues as part of this work that need to be brought to the attention of Members.

4. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2015-16 is £41,242. This was prescribed by PSAA in April 2015, based on no changes to the work programme for 2015-16. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2013-14.

Details of individual indicative fees are available at the following web address:
<http://www.psa.co.uk/audit-and-certification-fees/201516-work-programme-and-scales-of-fees/individual-fees-for-local-government-bodies>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Director of Corporate Services before seeking any such variation.

5. Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
Carry out earlier work on completing extended testing workbooks to help with project management of the schedule of work required to enable timely certification of the claim by external audit.	High	Agreed – and more regular updates on progress to be provided	In place by 30 April 2016	David Keppler Head of Revenues and Benefits
Raise and resolve system issues with Civica as soon as they are identified. Where system issues were identified in 2014/15, ensure that these have been appropriately resolved prior to the submission of the 2015/16 claim.	High	Agreed – we will do this but resolution may be out of our control	In place by 31 March 2016	David Keppler Head of Revenues and Benefits
Continue programme of peer review of new and existing claims as well as targeted training in areas with higher error rates	High	Agreed – this action is ongoing	In place by 31 March 2016	David Keppler Head of Revenues and Benefits

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Merton Council

Year ending 31 March 2016

Audit Plan

February 2016

Ernst & Young LLP



Building a better
working world

General Purposes Committee
Merton Council
Civic Centre
London Road
Morden
SM4 5DX

19 February 2016

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 10 March 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Paul King
For and behalf of Ernst & Young LLP
Enc

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the [PSAA website \(www.psa.co.uk\)](http://www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Merton Council give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended; and
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

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

Significant risks (including fraud risks)	Our audit approach
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. ▶ Reviewing accounting estimates for evidence of management bias. Our work in this area will focus in particular on the completeness of the Minimum Revenue Provision charged by the Council, the completeness and valuation of its bad debt provisions and the reasonableness of accounting policies applied by management. ▶ Evaluating the business rationale for significant unusual transactions.

Non - Significant risks	Our audit approach
<p>Payroll</p> <p>The Council makes use of shared arrangements with other London boroughs to process its payroll.</p> <p>The Council's Midland iTrent payroll system is partly operated by Agilisys Ltd, a private company which provides similar services to three other London boroughs as part of a partnership arrangement.</p> <p>Technical support and some administrative functions mainly relating to statutory requirements are undertaken by Agilisys, but the bulk of the system's operational functions, which include payroll and HR activities, are carried out by Central Operations Teams (COT) in each of the four councils using Agilisys. For the Council COT staff are currently employed by the London Borough of Sutton Council (LBS), and the service is delivered under a shared service agreement.</p> <p>In 2014/15 LBS commissioned an independent reporting accountants' assurance report on the internal controls of</p>	<p>We plan to gain assurance in respect of payroll expenditure by both testing controls capable of providing material assurance and undertaking substantive tests of detail.</p> <p>We will consider any updated controls assurance report over the shared HR and payroll service operated by LBS and progress made against the 2014/15 management action plan as part of our continuous audit planning.</p>

the shared HR and payroll service. The reporting auditor issued a qualified opinion on the design and operating effectiveness of controls. A number of specific control weaknesses were identified as part of this qualification.

We have considered the weaknesses identified and have concluded that the issues raised do not give rise to a significant risk of material misstatement of the Council's 2015/16 financial statements. We also note that a management action plan to address the issues identified has been devised and agreed by LBS.

Housing benefit overpayment debtors

In the course of our documentation and walk through of the Council's housing benefit system (Civica) we found the value held in the housing benefit system for overpaid benefit to claimants where recovery is being made by deduction from ongoing entitlement did not agree to the equivalent debtor figure in the general ledger as at 31 December 2015.

Errors in the design of the reconciliation process for this debtor balance between the housing benefit system and general ledger mean that the Council is not able to explain and support this difference. Officers are aware of this and are reviewing the approach taken to the reconciliation to address the errors. This may also require some input from Civica.

Although the difference between the value of relevant debtors on the housing benefit system and general ledger is not material to our responsibilities, we will review the progress made in this area as part of our continuous audit planning. It is important that the Council is able to fully support the value of year-end housing benefit debtors where recovery is being made by deduction from ongoing entitlement appearing in its general ledger and balance sheet by a full reconciliation to the value held in the housing benefit system.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

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

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

- ▶ Identifying fraud risks during the planning stages;

- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

For 2015-16 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. To help auditors to consider this overall evaluation criterion, the following sub-criteria are intended to guide auditors in reaching their overall judgements. However, these are not separate and auditors are not required to reach a distinct judgement against each one:

Sub-Criteria	Proper Arrangements
Informed decision making	Acting in the public interest, through demonstrating and applying the principles and values of sound governance
	Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management
	Reliable and timely financial reporting that supports the delivery of strategic priorities
	Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions
	Managing and utilising assets effectively to support the delivery of strategic priorities
	Planning, organising and developing the workforce effectively to deliver strategic priorities
Working with partners and other third parties	Working with third parties effectively to deliver strategic priorities
	Commissioning services effectively to support the delivery of strategic

	priorities
	Procuring supplies and services effectively to support the delivery of strategic priorities

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. We have not identified any significant VFM risks which we view as relevant to our value for money conclusion.

We will keep our risk assessment under review throughout our audit and communicate to the General Purposes Committee any and any additional local risk-based work we may need to undertake as a result. In particular, during the course of the audit, we will update our assessment of the robustness of your medium term financial strategy and the associated savings plans.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

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

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

Processes

Our initial assessment of the key processes across the Council has identified the following key processes where we will seek to test key controls:

- ▶ payroll
- ▶ accounts payable
- ▶ accounts receivable
- ▶ housing benefit

We have also identified the following key processes that we will test substantively:

- ▶ business rates
- ▶ accounts payable
- ▶ cash and bank
- ▶ treasury management
- ▶ property, plant and equipment

- ▶ pensions
- ▶ schools income and expenditure (SIMS)
- ▶ social services client contributions and provider payments (Care First)
- ▶ financial statements close process.

Analytics

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

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

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

Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements. We do not plan to place direct reliance on the work of internal audit to support our approach.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions	Council actuary, EY Pensions Team
Property, plant and equipment valuations	Council valuers, EY Valuations Team

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and

- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

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

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is approximately £11.2 million based on 2% of gross revenue expenditure on services. We will communicate uncorrected audit misstatements greater than £560,000 to you.

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

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in

accordance with the NAO Code. The indicative fee scale for the audit of Merton Council is £143,498.

4.6 Your audit team

The engagement team is led by Paul King, who has significant experience of Merton. Paul is supported by Simon Mathers, who is responsible for the direction of audit work and is the key point of contact for the Assistant Director of Resources, and Sejal Patel who leads the team on the day to day regularity audit work.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the General Purposes Committee's cycle in 2015/16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the General Purposes Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	General Purposes Committee timetable	Deliverables
High level planning	April 2015	23 June 2015	Audit Fee Letter Progress Report
Risk assessment and setting of scopes	December 2015 - February 2016	10 March 2016	Audit Plan
Testing routine processes and controls	From February 2016	30 June 2016	Progress Report
Year-end audit	July – August 2016	8 September 2016	
Completion of audit	September 2016	8 September 2016	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements and overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October 2016	November 2016	Annual Audit Letter

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

5. Independence

5.1 Introduction

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

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

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

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

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

5.2 Relationships, services and related threats and safeguards

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

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with the PSAA Terms of Appointment.

At the time of writing, there are no non-audit fees. No additional safeguards are required

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

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

Self-review threats

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

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

Management threats

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

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

Other threats

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

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

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Paul King, the audit engagement Director, and the audit engagement team have not been compromised.

5.3 Other required communications

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

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2015/16 £	Outturn fee 2014/15 £	Explanation
Opinion Audit and VFM Conclusion	143,498	143,498	191,330	PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014-15.
Total Audit Fee – Code work	143,498	143,498	191,330	
Certification of claims and returns	41,242	41,242	37,760	The Council's indicative certification fee for 2015/16 was prescribed by PSAA in April 2015, based on no changes to the work programme for 2015/16. Only the Housing Benefits claim to be certified in 2015/16.
Non-audit work ¹	8,500	N/A	10,000	

All fees exclude VAT.

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

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;
- ▶ We can rely on the work of internal audit as planned;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

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

¹ This work relates to the certification of the Teachers' Pension return. The fee for 2015/16 has not yet been fully agreed with the Council.

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

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the General Purposes Committee. These are detailed here:

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.</p>	<p>▶ Audit Plan</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	<p>▶ Report to those charged with governance</p>
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	<p>▶ Report to those charged with governance</p>
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the General Purposes Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	<p>▶ Report to those charged with governance</p>
<p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	<p>▶ Report to those charged with governance</p>
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	<p>▶ Report to those charged with governance</p>
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the General Purposes Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the General Purposes Committee may be aware of 	<p>▶ Report to those charged with governance</p>

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p>

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Local government audit committee briefing

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committee**

Find out more

This sector briefing is one of the ways that we see as supporting you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the local government sector and the audits that we undertake.

The public sector audit specialists in EY's national Government and Public Sector (GPS) team have extensive public sector knowledge which is supported by the wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only

technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authorities.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local engagement team.



Government and economic news

EY Item Club forecast

In its latest quarterly forecast (Winter) the EY Item Club highlights that what it terms the UK consumer's "holiday" from inflation and austerity in 2015 is expected to continue well into 2016, aided by the sharp fall in oil and other commodity prices, and the Chancellor's change of heart on working tax credits.

Whilst the global situation is clearly fragile, the UK is seen to be well placed to ride out the storms. Growth is expected to increase from the revised 2.2% in 2015 to 2.6% this year, being supported by low inflation and interest rates. The CPI is forecast to increase by just 0.7% and they do not expect the Bank of England Monetary Policy Committee to increase bank rate until late in the year.

Looking further forward, the forecast is for inflation and austerity to return, with GDP growth of 2.3% in 2017 and 2.2% in 2018 and consumer spending growth dropping from 2.8% in 2016 of 2.1% in 2017 and 1.7% in 2018. Highlighted as impacting on this are the increasing taxes and levies on consumers and companies, and the roll-out of Universal Credit (which will claw back this Autumn's concessions to low earners). Inflation is expected to increase to 1.8% by 2018, remaining below the MPC target until 2019.

Continuing uncertainty over the EU Referendum could potentially hit business investment this year, as businesses wait to see the result, but momentum in the UK and other economies is seen as supporting capital spending this year.

Local Government Devolution

Towards the end of 2015, Birmingham and Liverpool each agreed devolution deals with Treasury which gives them control over infrastructure investment, transport and skills. This brings the total of devolution deals to 6:

- ▶ Birmingham
- ▶ Liverpool
- ▶ Greater Manchester
- ▶ Sheffield
- ▶ North East
- ▶ Tees Valley

Each area will need to elect a metro mayor, with elections expected to take place in 2017.

For Birmingham, £1.2bn of government investment is anticipated over the next 30 years, and for Liverpool the expectation is £30mn per year over the next three decades.

Read the government announcements in full at <https://www.gov.uk/government/news/historic-devolution-deal-to-power-the-midlands-engine> and <https://www.gov.uk/government/news/liverpool-devolution-deal-boosts-the-northern-powerhouse>.



Government and economic news

Spending Review 2015

Some headlines from the Spending Review 2015 include:

- ▶ The intention to be running a £10bn surplus by 2019/20.
- ▶ Tax credit taper rates and thresholds will remain unchanged.
- ▶ Council tax increases of 2% to support social care will be permitted. Local Police and Crime Commissioners will have the power to increase their share of council tax by 2% from April 2016.
- ▶ From 2020, local government will retain 100% of business rates collected. The system of top ups and tariffs redistributing revenues between local authorities will be retained. The uniform rate will be abolished; allowing local areas to cut business rates if they choose to do so in order to win new jobs and generate wealth.
- ▶ Police and schools funding will be protected in line with inflation.

Read more at:

<https://www.gov.uk/government/topical-events/autumn-statement-and-spending-review-2015>

The Government has also consulted on the 2016-17 settlement. Further details available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486730/Provisional_settlement_consultation_document.pdf.

Consultation: New Homes Bonus

In 2011 the New Homes Bonus was introduced to incentivise local authorities to encourage housing growth in their areas. Since 2011, £3.4bn has been allocated to support the delivery of 700,000 new homes and the return of 100,000 long term empty homes to use.

The Department for Communities and Local Government (DCLG) has released a consultation which seeks views on potential changes to the New Homes Bonus. The changes are intended to “better reflect authorities’ delivery of new housing”. Other proposed changes include introducing a reduction to the number of years in which current and future payments are made, from six years to four years.

See full details of the consultation as well as methods for responding at:

<https://www.gov.uk/government/consultations/new-homes-bonus-sharpening-the-incentive-technical-consultation>

The deadline for response is 10th March 2016.



Government and economic news

Local Authority Revenue Expenditure and Financing

During November 2015, statistics for 2014-15 on revenue expenditure and financing with local government were released by the Department for Communities and Local Government.

Some highlights include:

Total revenue expenditure by local authorities in England reduced by 0.5% in 2014-15, from £96.4bn in 2013-14 to £95.9bn, however, excluding spend on Education (30.7% of total net current expenditure) there was an increase of 1.5% from £60.5bn in 2013-14 to £61.5bn.

Net current expenditure on education saw the largest decrease, which was largely driven by schools achieving academy status and therefore receiving central expenditure, and by the reclassification of some services to Children and Families Social Care services (which saw a £1.2bn increase for this reason).

Local Authorities added £0.9bn to reserves in 2014-15 as compared to £2.4bn in 2013-14. This takes total reserves to £22.5bn and means that the last 15 years has seen a significant increase in the amount held by local authorities in non-ringfenced reserves. Communities Secretary Greg Clark has noted this increase and said:

“With local government accounting for a quarter of all public spending, it is right that they are called on to play their part in dealing with the deficit.

Today’s figures show how they are well placed to do so, with local authorities holding £22.5bn held in non-ringfenced reserves – up 170% in real terms over the last 15 years.

As we continue to secure our country’s economic future and cut the deficit, now is the time to make efficient use of their assets and resources to provide the services local people want to see.”

Public Finance has published an article available at <http://www.publicfinance.co.uk/news/2015/11/mounting-reserves-leave-councils-well-placed-make-cuts-says-clark>, and the full publication is available at <https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-in-england-2014-to-2015-final-outturn>

Response to flooding

The Bellwin scheme, which compensates eligible authorities for exceptional costs incurred in incidents like flooding, has been opened for councils affected by floods resulting from storms Desmond and Eva.

Authorities are eligible for costs under the scheme when they have spent more than 0.2% of their calculated annual revenue budgets on works.



Government and economic news

Bellwin allows eligible authorities to apply to have 100% of their costs above threshold reimbursed by the government.

Eligible authorities include:

- ▶ Councils
- ▶ Policing bodies
- ▶ Fire and rescue authorities
- ▶ National Park authorities

For more information see <https://www.gov.uk/government/news/north-west-england-floods-2015-government-response>.

Council Tax support

A review into the effectiveness of Council Tax support schemes across the country has been initiated, led by Member of Parliament, Eric Ollerenshaw, OBE.

Council Tax Benefit was reformed from 2013-14 to give councils the power to design their own schemes and align them to local needs. This review is intended to examine the implementation of this change and to consider whether or not this support should be part of the Universal Credit payments in the future.

Further details of the review are available at:

<https://www.gov.uk/government/news/launch-of-review-into-council-tax-support>.

Public sector exit payment recovery regulations

The government is consulting on draft regulations that will give effect to the powers enacted in the Small Business, Enterprise and Employment Act 2015. These regulations allow for the recovery of exit payments following the return of a high earner to the public sector within a year of their initial departure.

Changes made to the policy since the previous consultation include:

- ▶ The minimum earnings threshold for individuals subject to the recovery provisions has been lowered from £100,000 to £80,000
- ▶ The policy has been extended to include qualifying returns to any part of the public sector, rather than only to the same part of the public sector
- ▶ Introduction of a tapered recovery period for 12 months from the exit date
- ▶ Recovery will now include employer funded pension 'top up' payments made under the Local Government Pension Scheme.

Public sector organisations that are in scope and those that are proposed to be exempt are included in the draft regulations.

Following this consultation, the regulations will go through Parliamentary scrutiny, and the intention is that the policy will take effect from April 2016.

Read more at <https://www.gov.uk/government/news/government-calls-time-on-public-sector-parachute-payments-for-boomerang-bosses>.



Accounting, auditing and governance

Faster Close update

Since our think piece 'accelerating your financial close arrangements' in the summer – we have worked together with our clients to successfully deliver another round of financial statements audits.

We have seen again a number of our clients achieve the earlier 31 July deadline – three years ahead of schedule. Nationally, 5% of opinions were issued by 31 July for 2014-15.

At other clients, we have seen a shortening of the actual audit window as both preparers and auditors refine the operational timetable in readiness for 2017-18 audits.

The think piece set out some areas where preparers can hone their closedown plans and work with their auditors in the run up to the revised timetable. Discussions with clients around the country are showing encouraging signs that finance teams are already grasping the issue and working on solutions to enable them to prepare and submit draft financial statements and supporting working papers to the auditor by 31 May. Twenty-one percent of our clients have committed to this earlier target for the 2015-16 audits.

On our side, as a firm, we are reviewing how we can streamline our audit approach, to provide maximum ability to undertake early substantive testing across a Month 8-10 window, thereby reducing some pressure in the key June – July audit window. This may not work in all cases, because of the budget setting process, so other ways of streamlining the audit approach are also being developed.

In addition, we are addressing the resourcing challenge that this presents to audit firms, with a significant recruitment campaign to enable us to continue to deliver exceptional client service across the entire sector. This will require us to phase our audits, at both an interim and final audit stage to allow us greater flexibility in resource deployment and audit clients should be prepared to have bigger audit teams on site for shorter periods of time, as running all audits concurrently is not likely to be possible.

A key issue arising from our recent discussions is dealing with the governance processes at councils for receiving the auditor's report and approving the accounts. There are a wide range of approval processes in place at councils as a result of custom and practice over the years, and some are more streamlined than others.

Councils will need to review their governance processes for approving the accounts with a view to making it as simple as possible to ensure the maximum amount of the nine week window for audit can be used for audit procedures. Under the Account and Audit Regulations 2015, it is only the responsibility of the committee 'charged with governance' to approve the financial statements ahead of final certification by the s151 officer. Adding additional layers of approval through to Cabinet or Full Council slows down the governance process and potentially adds to the audit burden.

For 2014-15 audits, 8% of our clients had Audit Committee meetings scheduled before September for approval of the financial statements. For 2015-16, in several instances Audit Committee timetables have not yet been finalised, however, currently 7% of our client base has already confirmed that their Audit Committee timetable would enable accounts authorisation before September, with 4% scheduled before 31 July 2016.



Accounting, auditing and governance

An effective Audit Committee is one which can appropriately scrutinise the financial statements and the auditor's results report prepared under International Standard on Auditing (UK&I) 260, and challenge officers about accounting policies and estimates in order to be able to approve the financial statements on behalf of the council.

Given the lead time for amending corporate governance processes, officers should review the approval arrangements, and schemes of delegation from Full Council, ensuring that the Audit Committee operates as effectively as possible and to the remit as set out by CIPFA in its guidance 'Audit Committees: Practical Guidance for Local Authorities and Police (2013 edition)'.

We are encouraged by the response of our clients to this challenge and the acceptance that it is a joint responsibility to achieve the faster close, and we will continue to work with you as we both prepare for the advanced deadlines.

For further information, please speak to a member of your engagement team.

Value for Money guidance

The Local Audit & Accountability Act 2014 Section 20(1) requires that: 'In auditing the accounts of a relevant authority other than a health service body, a local auditor must, by examination of the accounts and otherwise, be satisfied ... (c) that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

The Act is implemented through the National Audit Office's 2015 Audit Code of Practice (the Code), which sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act.

Paragraph 3.14 sets out that 'the auditor's work should be designed to provide the auditor with sufficient assurance to enable them to report as appropriate to audited bodies other than health service bodies, providing a conclusion that in all significant respects, the audited body has (or has not) put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period'.

To support the Code, the NAO issues guidance to auditors. This is undertaken by preparing and publishing Auditor Guidance Notes (AGNs) which are publically available on its website. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

AGN 03 – Auditors' work on Value for Money Arrangements was published in November 2015 following a consultation period. It confirms the requirement is for auditors to issue a conclusion in respect of the single overall criterion that:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."

To assist auditors the NAO provide three sub-criteria that are intended to guide auditors in reaching their overall judgement:

- ▶ Informed decision making
- ▶ Sustainable resource deployment
- ▶ Working with partners and other third parties

However, these are not separate and auditors are not required to reach a judgement against each one.

Underpinning these sub-criteria are the proper arrangements,



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which are aligned to the scope of arrangements that are already required to be put in place and reported on through documents such as the annual governance statement.

Auditors are required to undertake a risk assessment to identify any significant risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.

The Code defines 'significant' as follows: **"a matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects."**

Where such a significant risk is identified, further audit work will be undertaken based on the auditor's professional judgement. If the auditor does not identify any significant risks, there is no requirement to carry out further work.

Full information on all of the above can be found within AGN 03. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

New arrangements for the exercise of public rights

The Accounts and Audit Regulations 2015 (the Regulations) set out new arrangements for the exercise of public rights from 2015-16 onwards. In respect of principal bodies, paragraph 9(1) requires the responsible financial officer to commence the period for the exercise of public rights and to notify the local auditor of the date on which that period was commenced. This is a change to previous arrangements where the local auditor notified the audited body of the appointed date on or after which local government electors could exercise their rights.

Paragraph 9(2) is clear that the final approval of the statement of accounts by the authority prior to publication cannot take place until after the conclusion of the period for the exercise of public rights. For 2015-16, the thirty working day period for the exercise of public rights must include the first ten working days of July, this means that authorities will not be able to approve their audited accounts or publish before 15 July 2016.

Paragraph 14(1) states that any rights of objection, inspection and questioning of the local auditor conferred by sections 26 and 27 of the Act may only be exercised within a single period of 30 working days. In effect this paragraph brings the period in which an elector can question the auditor into the inspection period, rather than immediately following the inspection period as per the previous regulations. As a result of this, auditors are unable to issue their audit reports until the 30 day period has been concluded.

Read the regulations in full at <http://www.legislation.gov.uk/uksi/2015/234/regulation/2/made>.

Consultation: HRA accounting

The Department for Communities and Local Government is consulting on directions to replace the Housing Revenue Account (Accounting Practices) Directions 2011, which will cease to have effect in relation to Housing Revenue Accounts of local housing authorities in England from 1 April 2016. DCLG describes the replacement directions as essentially technical changes in order to bring the accounting requirements in line with proper practices under international accounting standards. They specify information to be disclosed in the notes to the HRA.

See full details of the draft direction at:

<https://www.gov.uk/government/consultations/housing-revenue-account-accounting-practices-directions-2015>



Regulation news

Report on the results of auditors' work 2014-15

Public Sector Audit Appointments (PSAA) have published their first report showing the results of auditors' work for 2014-15 covering 509 principal bodies and 9,755 small bodies.

The report includes information on timeliness of reporting, as well as the outcomes of those reports.

- ▶ Auditors were able to issue an early opinion (by 31st July 2015) for 5% of principal bodies.
- ▶ The auditor was unable to issue an opinion by the statutory deadline of 30th September at 15 bodies (3%), compared to 2% in 2013-14.
- ▶ Consistent with 2013-14, no non-standard opinions were issued.
- ▶ 20 non-standard value for money opinions were issued, including 1 adverse conclusion, 18 except-for conclusions, and one report on matters arising.
- ▶ Ten value for money conclusions were outstanding at the time of publishing the report.

Read the report in full at:

<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>



Key questions for the audit committee

What questions should the Audit Committee ask itself?

Have we considered our responses to the key government consultations that affect us, including New Homes Bonus and HRA Accounting Directions?

Have we formulated a response to support the review of Local Council Tax Support Schemes? How effective have our council tax support arrangements been since 2013-14?

Are we monitoring our progress against the revised timetable for closing the accounts from 2017-18 onwards?

Have we considered amending governance arrangements to streamline the approval of the financial statements?



Find out more

Ey Item Club Summer 2015 forecast

For details of the EY Item Club's latest forecast, see <http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

Local Government Devolution

Read the government announcements in full at <https://www.gov.uk/government/news/historic-devolution-deal-to-power-the-midlands-engine> and <https://www.gov.uk/government/news/liverpool-devolution-deal-boosts-the-northern-powerhouse>.

Spending Review 2015

Read more at:

<https://www.gov.uk/government/topical-events/autumn-statement-and-spending-review-2015>

Consultation: New Homes Bonus

See full details of the consultation as well as methods for responding at:

<https://www.gov.uk/government/consultations/new-homes-bonus-sharpening-the-incentive-technical-consultation>

Local Authority Revenue Expenditure and Financing

The full publication is available at:

<https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-in-england-2014-to-2015-final-outturn>

Response to flooding

For more information see <https://www.gov.uk/government/news/north-west-england-floods-2015-government-response>.

Council Tax Support

Further details of the review are available at:

<https://www.gov.uk/government/news/launch-of-review-into-council-tax-support>.

Public Sector Exit Payment Recovery Regulations

Read more at <https://www.gov.uk/government/news/government-calls-time-on-public-sector-parachute-payments-for-boomerang-bosses>

Faster Close update

The original publication 'accelerating your financial close arrangements' can be accessed at [http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/\\$FILE/EY-accelerating-your-financial-close-arrangements.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/$FILE/EY-accelerating-your-financial-close-arrangements.pdf)

For more information, please contact a member of your engagement team.

Value for Money guidance

Full information on the new guidance can be found within AGN 03. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

New arrangements for the exercise of public rights

Read the regulations in full at <http://www.legislation.gov.uk/uksi/2015/234/regulation/2/made>

Consultation: HRA accounting

See full details of the draft direction at:

<https://www.gov.uk/government/consultations/housing-revenue-account-accounting-practices-directions-2015>

Report on the results of auditors' work 2014-15

Read the report in full at:

<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>

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ED None

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ey.com/uk

Committee: General Purposes Committee

Date: 10th March 2016

Subject: Internal Audit Progress

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Chair of the GP Committee

Forward Plan reference number:

Contact officer: Margaret Culleton Head of Audit

Tel. 020 8545 3149

E-mail: margaret.culleton@merton.gov.uk

Recommendation:

- A. **That members note the Internal Audit Progress Report and comment upon matters arising from it.**
- A. **That members note the Whistleblowing update.**

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report summarises the work carried out to date by Internal Audit within the 2015/16 financial year to the end of February 2016. It also details the progress on implementing recommendations from audits completed.
- 1.2 Internal Audit seeks to ensure that Merton's financial and other systems adhere to recognised standards and that public accountability can be demonstrated and is transparent.
- 1.3 Internal Audit is responsible for conducting an independent appraisal of all the Council's activities, financial and otherwise. It provides a service to the whole Council, including Members and all levels of management. It is not an extension of, nor a substitute for, good management. The Internal Audit Service is responsible for giving assurance on all control arrangements to the General Purposes Committee and the Director of Corporate Services (also known as the Section 151 Officer); it also assists management by evaluating and reporting to them the effectiveness of the controls for which they are responsible.
- 1.4 From the 1st October 2015, Merton became part of the 3 borough Internal Audit partnership with Richmond and Kingston. The Head of Internal Audit has been providing part time interim cover for the Head of Audit post at Sutton since the 1st September 2015.

2. DETAILS

- 2.1 In order to contribute to the Annual Governance Statement all Internal Audit reports give an audit assurance. The definitions of these opinions are given below:

Opinion	Definition
Substantial Assurance	There is an adequate system of controls designed to achieve the system objectives
Satisfactory Assurance	All key controls in place, but there is some evidence of minor controls not operating or documentation missing
Limited Assurance	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.
No assurance	Control is weak, causing the system to be vulnerable to error and abuse

- 2.2 In addition each recommendation is given a high, medium or low risk priority. All recommendations are followed up by Internal Audit to ensure that they have been implemented.
- 2.3 A key part of internal audit work is to provide advice to managers; this can either be attendance at meetings, working groups or telephone advice. During 2015/16, advice to departments represented 6% of auditor time.

3 PLANNED AUDIT REVIEWS

- 3.1 This financial year we have finalised 43 audits, 15 of which relate to completion of the 2014/15 audit plan. Eight of these reports have been given a limited assurance (18%).
- 3.2 For the 2015/16 audit plan there are 29 at final stage, 11 at draft stage and 19 in progress. All audit reports issued since April 2015 and outstanding audit actions are included in Appendix A.
- 3.3 Since the last progress report in September 2015, 12 final reports have been issued, 6 with a satisfactory assurance (50%) and 4 reports (33%) with a limited assurance, 1 grant claim (8%) and 2 proactive fraud reports (17%).
- 3.4 As at the end of February 68% of the 2015/16 audit plan had been completed (final and draft reports). It is expected the plan will be completed by the end of May 2016.
- 3.5 Table 1 details those audits with a limited assurance (below the required standard) issued since the last committee report in September 2015

Table 1 – Audit Assurances –limited

Audit Title	Department
Service tenancies	ER
Sickness	All
Adoption	CSF
Smart Centre	CSF

3.6 The Management Summaries of all these limited reports including a summary of the agreed actions can be found in Appendix B.

3.7 The main concerns identified were-

- Service Tenancies- a management record of current tenancies was not available, agreements were not found for all tenancies and a reconciliation of rent received was not carried out. Rents have not been reviewed and there appeared to be uncertainty on the treatment of ex-employees.
- Sickness Monitoring- managers had not been attaching copies of medical certificates to iTrent to support the days sickness, sickness monitoring was insufficient.
- Adoption- related to agreements not signed, rates not reviewed and procedures not updated.
- Smart Centre- related to the deficit budget, approval of this and plans to reduce this.

3.8 Assurance was sought at the September General Purposes committee regarding proposals to avoid a limited assurance report 2 years running. Internal Audit reports always provide a detailed action plan of recommendations with proposed implementation dates. These are always followed up. The audit is then put back on the plan to do a follow audit including testing to ensure that the controls have improved, in most instances there have been improvement, occasionally these have not improved and a further limited assurance report is issued. Where this occurs Internal Audit will draw this to the attention of the relevant director and to the committee.

3.9 This year so far there have been four additional requests for work where either assurance on controls were required or assistance to other councils for a multi authority fraud. Where additional work is requested, a decision is made on whether this work replaces other planned work on the audit plan. Work this year has included:-

- Procurement card costing review
- Review of arrangements for bailiff cash handling
- HB subsidy grant
- PRG audit of grant

4. FOLLOWING UP ON THE IMPLEMENTATION OF AGREED ACTIONS

- 4.1 In 2015/16 there have been 383 agreed actions by managers. The agreed actions for all audits are always followed up. Future implementation dates are agreed with management and a monthly trigger report is run when this date is met. A follow-up report is then sent to officers responsible for implementing the agreed actions to ascertain whether the action has been implemented or reasons for non implementation.
- 4.2 If responses are not received from managers by the following month reminders are escalated to Heads of Service/ Assistant Director Level. If no response is received for those overdue by 3 months or more, then these are reported to GP Committee. There are currently no audit actions overdue by more than 3 months.

5. WHISTLEBLOWING

- 5.1. During 2015/16 there have been 8 whistleblowing concerns received and one on-going case which is being prepared for prosecution.
- 5.2 A summary of all Whistleblowing allegations is reported to the General Purposes committee on an annual basis. Updated reports are provided throughout the year. An outcome of the cases for this year are:-
- One case is being prepared for prosecution (through SWLFP)
 - Three cases are on-going (through SWLFP)
 - Five cases were inconclusive

Table 3 Whistleblowing by departments

Dept	Number
Corporate Services	2
Environment & Regeneration	0
Community & Housing	3
Children Schools & Families	4
Total	9

- 5.3 The council encourages staff, contractors and others to raise concerns. In order to raise awareness of the councils Whistleblowing procedures, the council have undertaken the following:-
- Leaflets sent out to all Departments, partners and schools.
 - Intranet Links on the Procurement site and the CHAS website on the Internet. Standard terms and conditions of contracts.
 - The policy is available on the Intranet and the Internet.

6. FRAUD PARTNERSHIP - 5 boroughs

- 6.1 From April 2015, Merton has been part of a 5 borough fraud partnership led by Wandsworth council, including Sutton, Richmond and Kingston councils, called the South West London Fraud Partnership (SWLFP). This has been set up to pool the resources of each council to gain maximum benefits when investigating fraud and carrying out proactive fraud exercises. Fraud funding from the DCLG of £472,000 was obtained during 2015/16 to assist with setting up this partnership. This funding includes the cost of a tenancy fraud officer for Merton.
- 6.2 Each council prepares a fraud plan of areas for proactive fraud work they want to resource. Other ad-hoc reactive fraud investigations are referred to the SWLFP, including whistleblowing, fraud referral from managers or concerns identified during audit reviews. Other non-fraud related whistleblowing or concerns remain within the council to be investigated by the appropriate section.
- 6.3 The SWLFP provides monthly reports to the Head of Audit and to the Director of Corporate Services. A separate report from the fraud partnership on their progress to date is on the agenda.

7 ALTERNATIVE OPTIONS

- 7.1 None for the purposes of this report.

8. CONSULTATION UNDERTAKEN OR PROPOSED

- 8.1 The strategic plan, Internal Audit Plan and charter have been agreed with Chief Officers who have consulted with their Management teams. Business Partners and Financial Advisors for each department have also been consulted. Customer Agreements are in place. The Head of Audit has monthly meetings with the Director of Corporate Services to report upon progress against the Plan.
- 8.2 Audit briefs outlining the scope and objectives of each audit are agreed with the relevant manager prior to the audit commencing.
- 8.3 All audit reports are discussed with managers prior to issuing as a draft, further meetings are held if required and comments from the Manager and Head of Service/Assistant Directors are included in the final report.

9. TIMETABLE

- 9.1. None for the purposes of this report.

10 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 10.1 The planned work and unplanned work is undertaken within the budget allocated.

11. LEGAL AND STATUTORY IMPLICATIONS

- 11.1 This report sets out a framework for Internal Audit to provide a summary of internal audit work for 2015/16. The Local Government Act 1972 and subsequent legislation sets out a duty for Merton and other councils to make arrangements for the proper administration of their financial affairs. The provision of an internal audit service is integral to the financial management at Merton and assists in the discharge of these statutory duties.

12. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 12.1 Effective and timely auditing and advice enables Departments, Voluntary Organisations and Schools to provide quality services to their clients. These client groups are often vulnerable members of the community, e.g. elderly people, disabled people, asylum seekers, members of staff and voluntary organisations. The audit service helps to identify weak financial management and sometimes reflects weaknesses in other operational systems such as quality and ethnic monitoring. Audit, therefore, has a crucial role in ensuring that Council resources are used to enable a fair access to quality services.

13 CRIME AND DISORDER IMPLICATIONS

- 13.1 There are no specific crime and disorder implications arising from this report.
- 13.2 The report does however include brief details of potential fraud investigations in progress.

14 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 14.1. The Audit Plan has a risk assessment formula built into the process. This takes such aspects as expenditure, income, and previous audit findings into account and calculates priorities and the frequency of the audit.
- 14.2. In addition to the audit risk assessment formula the Corporate Risk Register is consulted during the production of the Internal Audit Plan.
- 14.3. The Audit brief at the beginning of the audit, and the internal audit reports at the end of the audit also identify risks. Audit recommendations are categorised high, medium or low priority in relation to the level of risk involved.

APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- Appendix A- Internal Audit Progress since April 2015
- Appendix B – Limited assurance Management summaries and agreed actions.

BACKGROUND PAPERS

Documents held in Internal Audit Files

Internal Audit progress since April 2015

Audit Title	Department	Final Report Date	Assurance	No of actions	No of outstanding actions
Completion of 2014/15 plan					
DFG audit	CH	2 April 15	Limited	10	5
The Priory Primary School	CSF	8 April 15	Satisfactory	12	1
Creditors	CS	16 April 15	Satisfactory	2	0
Council tax systems	CS	21 April 15	Substantial	0	0
Telecommunications	CS	23 April 15	Satisfactory	6	1
Oyster card review	CS	7 May 15	Satisfactory	9	1
Procurement card expenditure	CS	18 May 15	Satisfactory	16	7
Section 106 & CIL	ER	29 May 15	Satisfactory	8	2
Treasury management	CS	11 May 15	Limited	9	3
Block and Spot Contracts	ER	23 June 15	Limited	13	2
Monitoring of school returns	CS	7 July 15	Satisfactory	11	0
Youth service	CSF	13 July 15	Satisfactory	15	0
Grants to Voluntary Sector	all	30 July 15	Satisfactory	29	14
iTrent	CS	25 August 15	Limited	9	0
Software licences	cs	30 September 15	Satisfactory	9	4
Business rates	CS	12 October	Satisfactory	5	0

2015/16 audit plan					
Business Continuity/disaster recovery	CS	8 July 15	Satisfactory	8	3
14+ Procurement review	CSF	29 May 15	n/a	1	0
AGS	ALL	12 May 15	n/a	0	0
MSJCB	CS	2 June	n/a	0	0
Service tenancies	ALL	23 Dec15	limited	20	19
Sickness	CS	23 Dec 15	Satisfactory	6	5
Local welfare support scheme	CS	23 Sept 15	Satisfactory	5	1
Raynes park high	CSF	3 July 15	Satisfactory	6	0
Risk management	CS	29 June15	Satisfactory	9	9
Supporting people	CH	29 June 15	Limited	9	0
PRG audit	CS	20 July 15	N/A	0	0
Stanford Primary School	CSF	23 Sept 15	Satisfactory	2	0
Vehicle Maintenance f/u	ER	1 Sept 15	Satisfactory	14	5
DBS	CS	8 Sept 15	Limited		
Transport fleet management	ER	14 August 15	Satisfactory	14	1
Joseph Hood Primary School	CSF	12 Nov 15	Satisfactory	5	3
Mayors charitable trust	CS	4 Sept 15	N/A	0	0
Brightwell	CSF	23 Sept 15	Satisfactory	5	2
Troubled Families Grants – 5 grant returns	CSF	various	n/a	0	0
Insurance	CS	30 Sept 15	Satisfactory	12	12
Smart Centre	CSF	1 dec	Satisfactory	15	13
Bailiff Cash arrangements	CS	21 Jan 16	n/a		
Gorrington Park Primary School	CSF	3 Jan 16	Satisfactory	11	5

Capita Housing Application	CH	8 Jan 16	Satisfactory	5	0
Day Centres	CH	23 Jan 16	Satisfactory	11	9
Adoption	CSF	3 Feb 16	Limited	10	5
Procurement card costing review	CH	10 Feb 16	n/a	3	3
client jewellery	CSF	10 Feb 16	n/a	0	0

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Internal Audit Report Summary- Limited Assurances

Service	Service Tenancies		
Date of Final Audit Report	21 st December 2015		
Audit Actions	20	Completed Audit Actions	1
Audit Objectives	<p>Review the</p> <ul style="list-style-type: none"> • policy and procedure for service tenancies. • the level of subsidy received by Council employees. • mechanisms under which Service Tenancies are given and review a sample of tenancy agreements. • arrangement in place for rent review and test the methods of collection of income from Service Tenancies. • arrangements in place for the termination of service tenancies 		
Summary of Audit Findings	<p>The Service Tenancy Policy and Procedures agreed by Cabinet in 2009, need to be reviewed and updated to reflect the current arrangements.</p> <p>Audit testing identified that Property Management and Review Service (PMRS) record of tenancies is not up to date to reflect the current status of all tenancies and does not reflect information held by other departments. This need to be reviewed and updated as soon as possible to ensure that there is a central record held.</p> <p>PMRS does not have a copy of all tenancies; fourteen of sixty tenancy agreements were provided to Internal Audit, and it was difficult to establish their currency. Arrangements should be made to ensure that they have a copy of all agreements.</p> <p>Where employees have left the employment of the council but remained in council property the status of this tenancy changes from a service tenancy to a possible secure tenancy (with potential right to buy). Although the Cabinet report in 2009 highlighted the increased risk of this occurring, there does not appear to be any monitoring of this or an indication whether this has increased since 2009. A review of this needs to be carried out.</p> <p>Regular reconciliations need to be established to ensure that rent collected via iTrent or Ash are matched to the rent amounts due.</p> <p>Annual rent reviews have not been carried out as agreed by Cabinet in 2009, this needs to be reviewed as soon as possible.</p> <p>Where discounts have been awarded, the rationale of these are unclear and inconsistent between departments and the discounts awarded. This needs to be reviewed as soon as possible.</p>		

Internal Audit Report Summary- Limited Assurances

Service	Service Tenancies
	CSO have not been followed in relation to the appointment of agents used to manage commercial lets, in relation to the selection of these agents and the need to have a written agreement in place.
Summary Response from Managers	Records maintained by the Property Management and Review Service will be reviewed to ensure that they hold current data and agree to records held by other departments; and regular reconciliations of rent due to rent collected via iTrent or Ash will be done. The service will confirm that it holds all available copies of tenancy agreements. Arrangements for monitoring properties at risk of changing from a service tenancy to a possible secure service tenancy will be reviewed. Rents and discounts will be reviewed as part of the service TOM process. A review of the use of agents used to manage commercial lets will be undertaken in order to ensure compliance with Contract Standing Orders.

Service	Sickness Procedure and Monitoring		
Date of Final Audit Report	22 nd December 2015		
Audit Actions	10	Completed Audit Actions	1
	<p>To ensure that the Council's Sickness and Absence Policies and Procedures are up to date. To ensure that roles and responsibilities for Sickness Absence management are clearly defined and managed in a consistent manner across the council.</p> <p>To ensure that periods of sickness absence are properly recorded and supported by appropriate documentation.</p> <p>To ensure that reports on short and long term sickness absence are received and reviewed regularly, the information is reported accurately and any follow up actions identified are actioned</p>		
Summary of Audit	The Business Plan 2015-19 identifies that Merton has a consistently higher than expected rate of sickness, with an average of 9.29		

Internal Audit Report Summary- Limited Assurances

Service	Sickness Procedure and Monitoring
Findings	<p>days per person lost to sickness, which compares unfavourably to the London Council's average of less than eight days, which is also the council target. The corporate dashboard uses a different target to the business plan.</p> <p>The sickness absence policy has not been updated since 2005. This is however currently being reviewed. A decision needs to be made on the frequency of reviews.</p> <p>Audit testing identified that managers had not uploaded the medical certificates in 75% of the sample tested. This has identified a training need regarding the current procedures to follow.</p> <p>The implementation of sickness absence action plans is not monitored in a complete manner. These plans are set for departments not reaching their targets and should be implemented to aid effective action.</p>
Summary Response Managers	<p>from</p> <p>The triggers set in the current policy states that this is 10 days – this is out of line with the corporate target of 8 days per employee in 12 months. There needs to be consistency between the two but this needs to be negotiated with TUs. The frequency of review of policies will be scheduled, and the potential for links to Public Health initiatives considered. Procedures notes have been updated to match the iTrent system structure, and will be updated to identify which documentation is mandatory for service managers to upload. The intranet will be refreshed and updated with the launch of the new absence management policy. To embed the new policy – briefing sessions, toolkits, interactive training and face to face training will be provided.</p>

Internal Audit Report Summary- Limited Assurances

Service	Adoption Services		
Date of Final Audit Report	3 rd February 2016		
Audit actions	10	Completed Audit Actions	5
Audit Objectives	<p>To determine compliance with relevant legislation and regulation in relation to support services. To determine the procedures currently in operation for payments to adoption parents.</p> <p>To examine the relevant documentation to ensure entitlement to any such payments.</p> <p>To check the accuracy of the calculations used for all relevant payments.</p> <p>To determine and comment upon the systems used for the payment of all allowances.</p> <p>To check for overpayments and to comment on the procedures for recovery.</p>		
Summary of Audit Findings	<p>There are currently no written procedures for adoptions and although a draft financial policy has been compiled, it has not been approved and is therefore not being followed.</p> <p>The Adoption Support Services Regulations 2005 stipulates specific regulations that must be adhered to. This was compared to the service provided by London Borough of Merton and the Auditor found that in the main, the regulations are not being adhered to, thus the Authority could be open to legal action by service users for non-compliance of legislation.</p> <p>Non-compliance included:</p> <ul style="list-style-type: none"> • Lack of written agreements of conditions with adoptive parents and other relevant persons • Payments relating to children over the age of 18 where it is unclear as to whether they remain entitled to financial support • No annual reviews (financial or otherwise) 		

Internal Audit Report Summary- Limited Assurances

Service	Adoption Services
	<ul style="list-style-type: none"> • Means tests not being carried out annually to identify changes in financial circumstances • Lack of authorisation prior to starting payments <p>Income support figures used in the calculations for means testing had not been updated to the 2015/16 government figures thus those claiming income support were not being means tested correctly.</p> <p>The maximum Core Fostering and Local Authority Special Guardianship Allowances are not being reviewed by DMT annually to ensure that they do not fall below the minimum allowances prescribed by the government.</p> <p>Reconciliations are not carried out to ensure that the amount actually paid out to adoptive parents and other relevant persons equates to the same amount as that on the fortnightly Financial Executive Summary and that posted to CareFirst.</p> <p>There are no arrangements for the recovery of overpayments.</p>
<p>Summary Response Managers</p>	<p>from</p> <p>Financial procedures have been written and forwarded to the AD and legal services for review and approval .A written agreement template and a Pay Request Form template for persons receiving financial support have been designed and are awaiting approval.</p> <p>The annual review, means testing and recovery of overpayments processes have been set out in the procedures. A review of the maximum Core Fostering and Local Authority Special Guardianship allowances is planned for 2016 and this will be presented to DMT along with recommendations. The income support figures set by the government will be updated and regular checks / reconciliations will be carried out on payments.</p>

Internal Audit Report Summary- Limited Assurances

Service	Smart Centre		
Date of Final Audit Report	1 st December 2015		
Audit actions	15	Completed Audit Actions	13
Audit Objectives	To ensure there are adequate controls in place for budget monitoring, expenditure and income.		
Summary of Audit Findings	<p>The Internal Audit review found that the school had closed the 2014/15 budget at an unauthorised deficit of £145K. The LA finance team has worked very closely with the school to ensure that a sustainable budget is set for 2015/16 with a repayment plan.</p> <p>The school did not comply with the Scheme for Financing for Schools as during the financial year 2014/15: The school failed to submit a 1 year budget plan or a 3 year budget forecast. The school did not seek permission for a planned deficit from the Director of Corporate Services and the Director of Children, Schools and Families. The conditions of a deficit budget was not met, as this is a maximum of 10% of the delegated budget share or £100,000, whichever is the lower.</p> <p>The School requested Cash flow loans totalling £300k in 2014/15, and a further £60k in 2015/16. It was found for 2015/16 expenditure has been committed and budgeted for, however due to insufficient funds available at the bank these are not being paid on a timely basis.</p> <p>During the financial year 2014/15, orders had not been raised for 24% of invoices and 71% of orders had been raised after receipt of invoices. This resulted in £47,174.08 of uncommitted expenditure, and £477,964.91 of expenditure not committed to. This is indicative of weak budgetary control as expenditures are not being committed.</p> <p>Authorisation of virements are not currently being carried out</p> <p>Accountability and Responsibility – The ‘Statement of Roles & Responsibilities, Terms of Reference and Delegated Powers’ document needs to be reviewed to take account of the Debit Card arrangement</p> <p>Recruitment – probation periods are not being formally documented, and recruitment documents are not being</p>		

Internal Audit Report Summary- Limited Assurances

Service	Smart Centre
	obtained and held on file.
Summary Response from Managers	<p>Annual budgets will be produced and submitted to the School Financial Team by the 1st June annually The school is liaising with LEA Finance team to ensure delegated funding is managed adequately, progress to be confirmed next term The SMART centre is still to provide reasons for the unplanned deficit of approximately £145K A review of the cash flow is in progress : actions taken to be confirmed next term The main areas of overspends are being reviewed and monitoring is now on-going A copy of the updated Statement of Roles and responsibilities, Terms of Reference and Delegated Power will be provided. Monthly monitoring meeting will be set up between the Headteacher and SBM Virements will be approved prior to any budget movement. The ordering and commitment process is under review iTrent overtime report to be generated and agreed with Headteacher on a monthly basis A review is to be undertaken on the recruitment and probation process</p>

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Committee: General Purposes Committee

Date: 10 March 2016

Subject: Internal Audit Strategy, Plan and Charter 2016/17

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Chair of the General Purposes Committee

Forward Plan reference number: N/A

Contact officer: Margaret Culleton – Head of Internal Audit

Tel. 0208 545 3149

[Email: margaret.culleton@merton.gov.uk](mailto:margaret.culleton@merton.gov.uk)

Recommendation:

- A. That members review and comment upon the 2016/17 Draft Internal Audit Strategy, Plan and Charter.**
-

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. The Draft Internal Audit Strategy, Audit Plan and Audit Charter 2016/17 are included in Appendix 1.

2 DETAILS

- 2.1. The Internal Audit Plan has been compiled using the following planning mechanism:
- The Corporate Risk Register
 - Financial systems work required by external audit
 - Strategic audit plan and audit previously identified as limited
 - Areas of concern arising from fraud investigations and Whistleblowing concerns.
 - Departmental requests
 - Best Practice and knowledge of significant new initiatives
 - The Contracts Register
 - The Capital Programme
 - Service Plans
- 2.2 The Head of Audit provides copies of the draft plan to department directors and attends the departmental management teams where they may request audits to be added to provide assurance on their areas of risk. Comments are also obtained from their Heads of Services and key managers, business partners,

departmental finance advisors.

- 2.3 Final Audit reports are sent to Directors and Heads of service as well as the Business Partners, in order to improve efficiencies.

Anti-fraud work

- 2.4 Audit days are included in the audit plan for Council-wide anti-fraud initiatives such as on-line fraud training and updating of anti-fraud policies.
- 2.5 Other anti-fraud work is, as far as possible, integrated into individual audits, e.g. an audit of payments would evaluate the controls in place that mitigate the risk of fraud and error. Fraud alerts and information provided by London Audit Group provide areas of potential fraud risk to the authority. Audits are included in the plan where risk is considered high.
- 2.6 Proactive fraud work will also be undertaken as part of the fraud partnership on areas such as Tenancy fraud, blue badge fraud and personal budgets. This type of work involves carrying out data matching.

Information Technology audits

- 2.7 The Internal Audit section will cover non specialist IT work, such as reviewing the controls in place on the main financial systems. Internal Audit also provides advice on new systems.
- 2.8 Where IT audits are of a specialist nature, they require the detailed technical knowledge and expertise of a skilled IT practitioner. A budget has been provided to Internal Audit to buy in external support for this function.

3 ALTERNATIVE OPTIONS

- 3.1. None for the purpose of this report.

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. The draft Audit Plan has been sent to all Chief Officers who have consulted with their management teams. The Head of Audit met with the members of each departmental management team to discuss the audit coverage.

5 TIMETABLE

- 5.1. The Internal Audit Plan will be the basis of Internal Audit's programme of work throughout the 2016/17 financial year. The timing of individual audits is

considered in consultation with the Departments where possible.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. The audit plan is completed within the provision of existing resources.

7 LEGAL AND STATUTORY IMPLICATIONS

7.1. The requirement to maintain an Internal Audit function is defined within legislation, some of which is outlined below:-

a) Section 151 of the **Local Government Act 1972** requires each Local Authority to *make arrangements for the proper administration of their financial affairs and to ensure that one of their officers is made responsible for the administration of those affairs.*

b) The **Accounts and Audit Regulations 2015** require the responsible financial officer of a body, whose accounts are to be audited in accordance with Part III of the Local Government Act 1982, *'A relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector Internal audit standards and guidance.*

c)

7.2. The Director of Corporate Services is the designated officer responsible for ensuring compliance with these pieces of legislation. In a similar manner to a private company:-

a) Elected Members will look to the Director of Corporate Services to provide them with an assurance as to the adequacy of the Authority's financial systems and system of internal audit.

b) Chief Officers will also seek an assurance that the financial dealings within their departments meet the standard required.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. Effective and timely auditing and advice enables Departments, Voluntary Organisations and Schools to provide quality services to their clients. These client groups are often vulnerable members of the community, e.g. elderly people, disabled people, asylum seekers and members of staff and voluntary organisations. The audit service helps to identify weak financial management and sometimes reflects weaknesses in other operational systems such as quality and

ethnic monitoring. Audit, therefore, has a crucial role in ensuring that Council resources are used to enable a fair access to quality services.

9 CRIME AND DISORDER IMPLICATIONS

9.1. There are no specific crime and disorder implications arising from this report.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. The Audit Plan has a risk assessment formula built into the processing. This takes such aspects as expenditure, income, and previous audit findings into account and calculates priorities and the frequency of the audit.

10.2. In addition to the audit risk assessment formula the Corporate Risk Register is consulted during the production of the Draft Plan.

11. APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- Appendix 1 - Merton's Draft Internal Audit Strategy, Plan and Charter 2016/17

12 BACKGROUND PAPERS

12.1. Papers held within the Internal Audit Service.

INTERNAL AUDIT
STRATEGY, AUDIT PLAN AND CHARTER
2016/17



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Introduction

This document sets out the council's Internal Audit Strategy and Annual Audit Plan for the year 2016/17

The purpose of the Internal Audit Strategy and Annual Audit Plan is to:

- Ensure effective audit coverage and a mechanism to provide independent and objective overall assurance to Members, Director of Corporate Services and the Corporate Management Team (CMT);
- Optimise the use of audit resources available, given that they are limited;
- Add value and support senior management in providing effective control and identifying opportunities for improving value for money;
- Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2015

Responsibilities and Objectives of Internal Audit

As an independent appraisal function within the authority, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of the control environment comprising the systems of governance, risk management and internal control as a contribution to achieving the council's objectives and the proper, economic, efficient and effective use of resources.

In addition, the other objectives of the function are to:

- Support the Director of Corporate Services to discharge "Proper Officer duties" (S151 responsibilities)
- Provide an Anti-Fraud function
- Contribute to the overall effectiveness of corporate governance in the council's activities
- Promote the council's anti-fraud policies
- To provide assurance to management on the integrity, effectiveness and operation of the council's internal control system;
- Delivery of the Annual Audit Plan
- To be responsive to transformational change and service demands;
- To continue to meet the requirements of the council's external auditors;
- To follow up on agreed actions to ensure agreed they have been fully implemented;
- To continue to develop and have a lead in the council's corporate governance arrangements including production of the 'Annual Governance Statement' to provide assurance on the council's governance arrangements and any areas for improvement.

Internal Audits Role in the Risk, Internal Control and Assurance Framework

The Accounts and Audit Regulation 2015 require an annual review of the effectiveness of its system of internal control to be reported to the General Purposes committee for consideration. The system of internal control is broader than just the work of the internal audit section and includes the framework of assurance covering how the risks to the authority are identified with effective managed controls. Assurances are provided by a range of internal and external providers. The Head of Audit & Investigations will assess whether the overall framework of assurances is adequately designed and effectively operated through a plan of internal audit work.

In addition to the above, the Director of Corporate Services has a statutory duty under Section 151 of the Local Government Act 1972, to establish a clear framework for the proper administration of the local authority's affairs. To perform that duty the Section 151 Officer relies on, amongst other things the internal audit work for reviewing systems of internal control, financial management and other assurance processes.

The standards for 'proper practice' in relation to internal audit are laid down in Public Sector Internal Audit Standards (effective from 1st April 2013). We continually ensure compliance with these professional standards and reflected in our terms of reference contained in our Terms of Reference, shown at Appendix B.

The standard and quality of internal audit is principally scrutinised in three ways:

- An annual review of the effectiveness of internal audit required by the Accounts & Audit Regulations 2015 reported to the General Purposes Committee
- The external auditor seeks to place reliance upon the quality and standard of work our work through principally the 'managed audit' process and reports this to the Council in the annual audit and inspection letter
- Customer feedback and perceptions

This gives an overall assurance on the adequacy of internal controls within the Council in the Annual Report and the Assurance Statement.

In order to give such an assurance, a balanced programme of Internal Audit review is constructed each year. This Audit Plan contains elements of all audit work assessed by a "Risk Based" approach. There are many elements to this including undertaking systems reviews, regularity audits (e.g. schools), contract and computer audit, and an Annual Review of major financial systems such as Council Tax, the Financial Ledger and debtors/creditors systems.

In order to contribute to the Annual Governance Statement all Internal Audit reports give an audit assurance as follows:

- Substantial Assurance
- Satisfactory Assurance
- Limited Assurance

- No assurance

In addition each recommendation is given a high, medium or low risk priority. All recommendations are followed up by Internal Audit to ensure that they have been implemented.

Key Issues and Priority Areas for 2016/17

Having regard to the current risk profile of the council, the following areas have been identified as key issues and priority areas of our work for 2016/17.

Governance Arrangements

The council's governance framework covers all aspects of its business, including risk management, internal control and ethical standards. We have a key role to play in assessing the effectiveness of governance arrangements by comparison with principles contained in the CIPFA/SOLACE Governance Framework (Delivering Good Governance in Local Government, 2007). A number of audits will support this assessment and will take account of the emerging governance arrangements as the council implements its new operating model. The statutory Annual Governance Statement will be produced in June, for approval by the General Purposes Committee and then signed by the Leader and Chief Executive.

Key Financial Systems

The effectiveness of controls and management of risks within key financial systems remains a core part of our audit work. Key Financial systems are carried out on a 3 year rolling cycle. This work is important in providing annual assurance to the council and to meet the requirements of the External Auditor. We continue to develop our audit approach to give greater assurance and ensuring it meets the External Auditor's requirements, including carrying out testing to assist with the annual audit of accounts.

Transformation

Considering the significant financial challenges facing the public sector and the council's continuous transformation program, our Annual Audit Plan will need to be flexible enough to respond to emerging issues and risks from change.

Value for money (VFM) will continue to be an integral part of our risk based audit approach, in particular being alert to opportunities and ensure reporting of issues raised and agreed management actions from audit recommendations. In addition we will support transformation projects, consider changes to the control environment and risk exposure and provide assurance on program management and realisation of benefits.

Risk Management

We will assess the council's risk management arrangements, including risk management strategy, adequacy of strategic and operational risk registers, risk reporting and the extent to which it is embedded. The Head of Audit is a member of the Corporate Risk Management Group.

ICT and Information Governance

Information technology is fundamental to the delivery of the council's services and is an area of rapid change. Due to this high risk to the council, providing assurance on the adequacy of electronic systems and controls is a key part of our Annual Audit Plan. Our work recognises the pace of change and adoption of new information technology and as such will be well informed to focus our resources on areas of highest risk and benefit.

Partnerships

The council is increasingly operating and delivering services jointly through partnerships. This also brings risks and opportunities to the council and the delivery of services. We will continue to review key partnerships and also work with auditors from partner organisations for effective coverage and assurance.

Contracts, Procurement and Major Projects

Changing approaches to procurement and contract management are a key part of delivering improved services. This also brings additional inherent risks that need to be managed. Major projects also represent a high risk to the council in terms of corporate importance and resources. Our audit work will continue to focus on embedding risk management and controls. A sample of procurement spend will be examined to ensure that VFM has been obtained and councils procedures adhered to.

Anti-Fraud and Corruption

From April 2015, Merton have been part of the SWLFP (a 5 borough fraud partnership led by Wandsworth council). This has been set up to pool the resources of each council to ensure we get maximum benefits when investigating fraud and carrying out proactive fraud exercises. Staff experiences and training shared as well and data matching between councils. Fraud funding from the DCLG has been obtained to assist with setting up this partnership. This funding includes the cost of a tenancy fraud officer for Merton.

Each council prepares a fraud plan of areas for proactive fraud work, to be provided by Wandsworth council. Other ad-hoc reactive fraud investigations are also referred to Wandsworth, including whistleblowing, fraud referral from managers or concerns identified during audit reviews. Other non-fraud related whistleblowing or concerns will remain within the council to be investigated by the appropriate section.

Wandsworth provide quarterly reports to the Head of Audit on progress, and this information will form part of the progress report for GP committee on audit and investigation activity.

During 2015/16, tenancy fraud work has been carried out with Merton Priory Homes as part of a proactive fraud exercise, to ensure that properties have not been illegally sublet. Proactive fraud work has started on Business Rates, Council Tax discounts and Blue Badge

The Internal Audit team will review areas of high fraud risk to recommend improvements in controls.

Related Documents

This document is one of a series that, together, constitute the policies of the authority in relation to anti-fraud and corruption. The other documents are:

- Anti-fraud and Corruption Strategy
- Anti-Money Laundering Policy
- Whistle-blowing policy

Internal Audit's Role Providing Advice

Internal Audit can provide support and advice to managers, particularly regarding the interpretation and application of Council Policies and Procedures.

Internal Audit advice and recommendations are given without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later date.

We provide advice, support and training to schools. We provide templates for schools to improve controls and share best practice. We also issue a guidance manual to schools called 'On the Right Track 5' which covers guidance on all areas of good financial practice.

In order to establish an audit presence and to create sound informal lines of communication as much audit work as possible will be done on location.

Audit Resources and Skills

The staffing structure of the partnership (SWLAP) section comprises a mix of qualified, experienced, technician and trainee auditors, with a mix of professional expertise to reflect the varied functions of the section. There is a sum available to buy in some expertise from a framework agreement set up by Croydon Council to use Mazars.

As far as is practicable, Internal Audit will not participate in the day-to-day operation of any systems of internal financial control. However, in strict emergency situations only, audit personnel may be called upon to carry out non-audit work on a short-life basis.

Members of the internal audit partnership will be expected to contribute to the general management and conduct of business through membership of working groups and participation in ad hoc exercises. Upon request from the Director of Corporate Services, appropriate specialists from departments other than Corporate Services should be made available to take part in any audit or review requiring specialist knowledge.

The Head of Audit will carry out a continuous review of the development and training needs of all audit personnel and will arrange through the audit partnership in-service training covering both internal and external courses.

Protocol for Audit Reviews

For each audit review carried out, the responsible Head of Service/Assistant Director, and Service Manager will be consulted in the scoping to ensure that the audit is appropriately focused on current key perceived risks and issues. A terms of reference (Audit Brief) will be produced for each audit review and agreed to ensure the scope, objectives, approach, timetable are understood and agreed.

Draft internal audit reports will be issued for discussion with the appropriate levels of management and normally set-out in the terms of reference.

Final internal audit reports will be issued after the agreement of draft reports and contain completed management actions plans that will identify those responsible for implementation and timescales. The final reports will always be issued to the 'Lead Client' responsible for the area reviewed.

External Audit

We work closely with the council's external auditors to minimise duplication and maximise the benefits the council receives from total audit resources. We will continue to ensure full reliance is placed on our work and continue to seek opportunities for minimising the external audit fee.

Implementation of Agreed Audit Recommendations

At the end of each audit review, an audit report will be produced containing agreed management actions to audit recommendations made. We will ensure these agreed actions to audit recommendations are fully implemented to ensure improvements to the council's control environment and value for money. We will follow-up on all audit recommendations. We will get confirmation from officers responsible for implementation that required actions have taken place.

Developing the Annual Audit Plan 2016/17

The methodology used for developing the Annual Audit Plan focuses upon the quantification of the risks associated with achieving corporate and departmental objectives. Auditable areas have been selected and prioritised on a rational and objective basis following a systematic assessment using the following predictive factors:

- Control and previous assurance;
- Corporate importance including criticality to the achievement of priorities, legislative and regulatory impact;
- Materiality;
- Value for money and service delivery; and
- Corporate sensitivity and management concern.

The predictive factors are used to determine a risk rating of high, medium or low to reflect the inherent risk or vulnerability. We ensure our coverage is proportionate and appropriately aligned.

Based on past experience and good practice, the Annual Audit Plan includes a

contingency for unplanned work requirements to ensure we are able to respond to changing needs and demands.

The Annual Audit Plan will be indicative and it is inevitable that changes will be made during the year as the risk profile of the council changes. This will be achieved through ongoing review and amendment, in consultation with the relevant lead clients and service managers to reflect the changing needs of the council and to add maximum value.

The General Purposes Committee will be kept informed of progress against the Annual Audit Plan and agree any significant changes during the year.

The Three Lines of Defence

There are three lines of defence in place on controls in the council. The first line of defence is the day to day operational controls, the second line is the management controls which include trend analysis, budget monitoring etc. The third line of defence is independent inspection such as Internal Audit or other assurance providers.

Internal audit provides assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defence achieve risk management and control objectives

Annual Audit Plan 2016/17

Appendix A shows the detailed Annual Audit Plan and provides a brief summary of each review under thematic areas.

Contingency has been provided for unplanned reactive work. This will be used to respond to emerging issues, risks and to have the capacity to respond to requests from senior managers.

Timing of the audit review will be agreed with management during the planning process. There is however flexibility to respond for example to pressures on services audited and audit resource availability.

In addition to the General Purposes Committee receiving regular progress reports against the plan, Corporate Management Team Members will be provided with progress reports as necessary through the year summarising the outcome of reviews and other audit work for the quarter and planned for the quarter ahead. The Head of Audit & Investigations will also attend Management Team meetings as required, to discuss audit coverage and outcomes.

Our Performance Management

To achieve planned coverage, deliver a high standard of customer care and demonstrate effectiveness of the service, we have well established performance targets based on best professional practice and easily comparable with other organisations.

Performance indicators and targets are shown at Appendix C for six aspects of our service:

- Effectiveness of time
- Productivity and process efficiency;
- Quality of output;
- Compliance with professional standards;
- Outcomes and degree of influence; and
- Our Staff.

We will ensure continuous improvement of the Internal Audit Service and adopt new approaches. It is regularly benchmarked with other public sector providers to ensure efficient, effective and competitive.

Internal Audit Plan 2016/17

Summary of days per Department

	Days
Corporate Services	304
Children's Schools and Families	139
Community and Housing	114
Environment and Regeneration	126
Support	253
	936

Corporate Services

TITLE	Description	Days
Declaration of interests	This will be a review of the councils policy and procedures for managing and controlling declaration of interests by staff	8
Gifts and hospitality	Review arrangements in place	8
Housing Benefits & council tax benefit / Discretionary Payments	Review the controls and procedures in place for discretionary payments	6
Business Rates	Review the controls and procedures in place for Business Rates, collection, discounts and debt management.	15
Management of council tax reduction scheme	We will review the controls over the local Council Tax reduction scheme to ensure that systems are sound and secure and achieve the objectives of the Council.	12
Housing benefit overpayments	To review a sample of overpayments to ensure categorisation is correct.	15
Bailiffs	To review the procedures in place to ensure that a timely process is followed. To ascertain the arrangements for collecting debts for other councils and to ensure secure arrangements in place for cash and other assets.	15
iTrent expense claims	To review the arrangement in place on Itrent for claiming expenses. To select a sample of areas to ensure adherence to procedure	15
Recruitment (employee)	To review the robustness of the council's employee vetting procedures and recruitment process making comparison with best practice and third party data sources. The review will include compliance with the Information Safeguarding Authority's requirements and employees rights to work in the uk	15

Corporate Review of DBS Checks f/u	follow up review of compliance with statutory requirements and Council policy and the 'process for safeguarding personal information received across all departments (CRB now DBS)	12
Car/season ticket Loans	To review the policy and procedures in place for car/season ticket loans, to test a sample to ensure adherence. To ascertain the arrangements for leavers and ensure that funds are recovered.	8
Information Security	To review the councils arrangements and compliance	10
Freedom of Information	To review the arrangements in place for managing requests for information	8
Mayors charitable trust	Annual audit of the mayors charitable trust account	8
Firewall Security	A robust control framework is in place to manage the Firewall implementation to support the security and resilience of the Council's network	15
Internet payments/webstaff	To review the controls in place for internet payments	15
IT Network Security and infrastructure	To review the council's network security including consideration of perimeter security, network architecture, network performance and monitoring. The review will include network penetration testing by a third party provider and compliance to meet existing Government Code of Connection Standards (CoCo)	15
Creditors / Payments System	Post implement review of new Financial System, creditor module	15
Mosiac	Post implementation review of new social care system	15
Capital Programme	To review the processes in place for requesting capital monies, monitoring of spend and forecasting.	15
Merton and Sutton Joint Cemetery Board	Review of grant claim	8
E Tendering system	To review the controls in place for e tendering.	12
Management of VAT	We will review systems and controls for VAT management to ensure that VAT regulations are complied with	15

Procurement Cards	This will be compliance testing of how purchase cards are used, controlled and monitored across the Council to provide assurance that the Council's procedures on Purchase cards are followed and complied with	12
Grants to Vol. Organisations.	Follow up audit to provide assurance that as required by the Council's procedures the various grant programmes and initiatives are evaluated on an annual basis to ensure that they have achieved their objectives effectively and that lessons learnt are cascaded to the next round of the programme	12

Environment and Regeneration

TITLE	Description	Days
Trading Standards and licences applications	We will review the systems and procedures for case management, ensuring that the Council's residents and consumers benefit from the programme of work undertaken by the Trading Standards Service. How applications for various licences are managed, including effectiveness of publicity and consultation before granting the licence.	15
Land Acquisitions and transactions	We will review the governance and controls around the Council's land acquisitions programme and land related transactions with developers and other stakeholders to ensure that these are within the Council's powers.	12
Management and Control of Taxis/Cabs	This audit will provide assurance over controls in place for controlling and monitoring of the use of taxis and minicabs	12
review regulatory shared service arrangements	Review the new regulatory service, with Richmond. Recharges and governance arrangements	15
Future Merton	Review the procurement arrangements in place for Future Merton	15
Car Parking- Income On/Off St.	Review of car parking income for on and off street parking	15
Transport fleet management f/u	Follow up review of the robustness for arrangements for procurement utilisation	8

Service tenancies fu	Follow up review of arrangements in place for service tenancies	8
Watersports Centre	Establishment review of budget monitoring, income and expenditure	8
SLWP	Advise on the phase c arrangements for SLWP.	10
Grant Claims.	Allocation of time for grant claim reviews	8

Community and Housing

Title	Details	Days
No recourse to public funds	To review the processes and procedures in place for providing No recourse to Public funds, including carryout out proactive fraud checks. To link with audit for CSF	15
Monitoring of adult social care contracts with 3rd sector organisations	To review the systems and controls for monitoring adult social care delivered by voluntary organisations to ensure that the providers deliver these contract effectively and provide good value for money	15
Mascot Service	To review the effectiveness of the service . To review income and services provided and budget monitoring	15
Better care fund	To review the pooled S75 budget, BCF plans, governance arrangements, data collection and monitoring.	8
Public health	To carry out a review of a sample of contractual arrangements including community services contracts and sexual health	8
Independent Living Fund	To review the arrangements in Merton for implementation of the ILF from June 2015.	5
Safeguarding adults	To undertake sample testing of the effectiveness with which financial safeguarding of vulnerable adults in supported and other accommodation is managed, controlled and monitored	25

Temporary accommodation/homeless	To provide assurance over the systems and procedures for placing and paying for homeless families in temporary accommodation including B&B establishments to ensure that the government regulations are complied with and that Council's objectives are achieved	15
Block and Spot Contracts	follow up review of the commission arrangements for block and spot contracts	8

Children Schools and Families

Area of Review	Description of work	Days
Fostering (access to resources)	To review the processes and procedures in place for payments	15
No recourse to public funds	To review the processes and procedures in place for providing No recourse to Public funds, including carryout proactive fraud checks. To link with C&H.	13
Schools PFI Contract	To review the monitoring arrangements in place for the PFI contract.	15
Unaccompanied asylum seeking children	To review the arrangements in place for assessing, monitoring and supporting asylum seeker children payments	10
Schools - Probity reviews	The school probity audits will cover areas of Leadership and Governance; Budget Management; Procurement; Income and Expenditure controls; Payroll	48
Troubled Families Grant	Review of troubled families grant claims	8
Placements Commissioning and Support	Review of the commissioning arrangements in place for children's social care	10
Contract management of school expansion	We will select a sample of building works in progress and test the effectiveness of contract management and monitoring to ensure that building works are delivered on time and to the agreed budget.	15
MASH	Review of arrangements in place for sharing data across agencies. Security of information.	5

Support

Area of Review	Description of work	Days
Consultancy and advice	Audit has an important role to play in advising management on an ad-hoc basis on a range of issues affecting services. This provision is used to offer advice and assistance throughout the year.	15
Committee and member support	Providing support including advice and reporting to Committee	20
Audit Planning / Monitoring	Time spent on planning and monitoring work	20
Follow up audits	follow up of reviews carried out in 15/16 to ensure implementation of recommendations	25
Management time	this is a provision for management time to direct, control and monitor the work of the internal audit team and outsourced provision	35
Carry over of 15/16 audit plan	To finalise all draft reports from 2015/16	50
Annual Governance Statement	To produce Annual report for use in the AGS and attendance at AGS meetings	25
Corporate Governance	Allocation of time spent for guidance on corporate governance issues	8
Fraud Management and reactive work	Allocation of time for managing the fraud partnership, attendance at steering group. Updating whistleblowing and referring cases.	15
Contingency	Allocation of time to follow up all audit actions	50

Internal Audit Charter 16/17

This charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.

The charter will be reviewed annually and presented to the GP Committee (which covers the role of the 'board' as defined in the standard) for approval.

Purpose

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as "an independent objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

The Accounts and Audit Regulation 2015 require an annual review of the effectiveness of its system of internal audit to be reported to the General Purposes committee for consideration.

The system of internal control is broader than just the work of the internal audit section and includes the framework of assurance covering how the risks to the authority are identified with effective managed controls. Assurances are provided by a range of internal and external providers. The Head of Audit will assess whether the overall framework of assurances is adequately designed and effectively operated through a plan of internal audit work.

In addition to the above, the Director of Corporate Services has a statutory duty under Section 151 of the Local Government Act 1972, to establish a clear framework for the proper administration of the local authority's affairs. To perform that duty the Section 151 Officer relies on, amongst other things the internal audit work for reviewing systems of internal control, financial management and other assurance processes. The statement on the role of the Chief Financial Officer (CFO) in local government states that the CFO must:

- ensure an effective internal audit function is resourced and maintained
- ensure that the authority has put in place effective arrangements for internal audit of the control environment
- support the authority's internal audit arrangements, and
- Ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively.

There is a requirement to undertake at least once annually a review of the effectiveness of the internal audit function. This is covered by the adherence to the Public Sector Internal Audit Standards (effective from 1st April 2013). We will ensure continued compliance with these professional standards.

Authority

In carrying out their duties and responsibilities, Internal Audit shall be entitled to have full and unrestricted access to all of the Council's activities, records, property, personnel and information, which they consider to be necessary to properly fulfill their function. Access also applies to other third parties / organisation's as permitted through contract, shared services and partnering.(Accounts and Audit regs 2015 (6.2(a)(b))).

Internal audit will consider all requests from the external auditor for access to any information files or working papers obtained or prepared during audit work and which external audit need to discharge their responsibilities.

Responsibilities

As an independent appraisal function within the authority, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of the control environment comprising the systems of governance, risk management and internal control as a contribution to achieving the council's objectives and the proper, economic, efficient and effective use of resources.

In addition, the other objectives of the function are to:

- To provide a quality' independent and objective audit service that effectively meets the Council's needs' adds value' improves processes and helps protect public resources
- To provide assurance that the Council's operations are being conducted in accordance with legislation' and relevant external and internal regulations' policies and procedures
- To provide assurance that significant risks to the Council's objectives are being managed
- To continue to develop and have a lead in the council's corporate governance arrangements including production of the 'Annual Governance Statement' to provide assurance on the council's governance arrangements and any areas for improvement.
- Promote the council's an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud
- To provide assurance to management on the integrity, effectiveness and operation of the council's internal control system;
- To support management through the provision of advice and guidance on the overall control environment' and where new systems and / or procedures are implemented
- To be responsive to transformational change and service demands;
- To continue to meet the requirements of the council's external auditors;
- To follow up on agreed actions to ensure that those agreed have been fully implemented;
- To receive allegations of fraud, corruption, bribery and other concerns and pass them to the appropriate section to investigate (fraud to the Wandsworth partnership) co-ordinate progress and report to GP committee.

In meeting its responsibilities, the activities of Audit will be conducted in accordance with the council's objectives, established policies and procedures. In addition, internal auditors comply with the Public Sector Internal Audit Standards.

Audit will co-ordinate effectively with the External Auditors for optimal audit coverage and to ensure that appropriate reliance can be placed on internal audit work.

The Head of the Internal Audit is required to provide the Council via the Director of Corporate services and the General Purposes Committee with an annual opinion on the adequacy and effectiveness of the internal control system for the whole council.

There are inherent limitations in any system of internal control and thus errors or irregularities may occur and not be detected by internal audit's work. When carrying out its work internal audit will provide management with comments and report on breakdowns failures or weaknesses of internal control systems together with recommendations for remedial action. However internal audit cannot absolve line management of responsibility for internal controls.

Where appropriate internal audit will undertake audit or consulting work for the benefit of the Council in organisation's that are wholly owned by the Council (such as CHAS). Internal audit may also provide assurance to the Council on third party operations where this is provided for as part of the agreement or contract.

Anti-Fraud and Corruption

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit reviews alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Audit will however be alert in all their work to risks and exposures that could allow fraud or corruption. Internal Audit identify areas of control risks and make appropriate recommendations to reduce the risk of further fraud occurring.

The fraud partnership, led by Wandsworth council undertakes proactive fraud work on areas such as tenancy fraud, blue badge and personal budgets as well as investigations on reported allegations of fraud. Quarterly update reports are provided by Wandsworth for progress monitoring and to assist with the information provided to GP committee.

Related Documents

This document is one of a series that, together, constitute the policies of the authority in relation to anti-fraud and corruption. The other documents are:

- Anti-fraud and Corruption Policy
- Anti-Money Laundering Policy
- Whistle-blowing Policy

Reporting

The UK Public Sector Internal Audit Standards require the Head of Audit report directly to the top of the organisation and those charged with governance. This will be done as follows:

- The Audit Charter will be agreed with the GP Committee

- The annual audit plan will be compiled by the Head of Audit following discussions with senior managers at their Departmental Management Team (DMT) meetings.
- Progress reports will be made to DMT's on a frequent basis.
- The Head of Audit will report at least twice a year to the General Purposes Committee on progress made against the Annual Audit Plan together with any significant risk exposures and control issues arising and the summarised outcomes of individual audits.
- The Head of Audit will provide an Annual Audit Report to the General Purposes Committee that includes an opinion on the adequacy and effectiveness of the control environment.
- Any instances of nonconformance with the Public Sector Internal Audit Standards will be reported to the General Purposes Committee and will be included in the Head of Audit annual report. Any significant failings will be included in the Annual Governance Statement
- Any external review of the internal audit function will be agreed by and reported to the General Purposes Committee

Independence

The main determinant of the effectiveness of Internal Audit is that it is seen to be independent. The Head of Audit has full and unrestricted access to the following:

- The Director of Corporate Services (S151 officer)
- Chief Executive
- Chair of the General Purposes Committee
- The Council's Monitoring Officer
- All senior management

The Internal Audit Section is part of the Corporate Governance Division within Corporate Services. The Head of Audit, who is required to hold a professional qualification (CCAB) and be suitably experienced, is responsible for the strategic management and appropriate resourcing of the service. The Head of Audit has a reporting line to the Assistant Director of Corporate Governance (monitoring officer) and also reports to the Director of Corporate Services, (Section 151 officer).

The Council General Purposes Committee meets at least 4 times a year. The Head of Audit reports directly to the Council via the General Purposes Committee, and has a right of access to the Chair of the General Purposes Committee.

Notwithstanding the above, the Head of Audit has the right of direct access to any officer and member of the Council

Every effort will be made to preserve objectivity by ensuring that all audit members of staff are free from any conflicts of interest and do not undertake any non-audit duties. All audit staff complete an annual declaration of interests form and would not be assigned audit work if there was any potential conflict.

External Auditors

The external auditors fulfill a statutory duty. Effective collaboration between internal and

external audit helps to ensure effective and efficient audit coverage and resolution of issues of mutual concern. Internal and external audit will meet periodically to discuss respective work plans and coverage and potential issues arising from work completed.

Due Professional Care

The Internal Audit Section is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards.
- All Council Policies and Procedures
- All relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. This is supported by the use of an outsource budget to buy in resources where gaps appears. A framework agreement with London Borough of Croydon to use Mazars to support the work of internal audit is currently used.

Service Performance Targets

Aspect of	Performance Indicators	Target
Effectiveness of time	Productive/direct time as % of total time	<ul style="list-style-type: none"> • 70%
Productivity and Process	<ul style="list-style-type: none"> • Achievement of annual plan by 30th April (%) • Issue of draft report after completion of fieldwork • Issue of final report after agreement with client of draft • Time between start of audit (entry meeting) and exit meeting • Audit reviews delivered within budgeted time 	<ul style="list-style-type: none"> • 90% • Within 10 Days • Within 10 Days • Days not exceeding 3x total planned time for audit review • 100%
Quality of Output	<ul style="list-style-type: none"> • Client satisfaction levels (including added value from audit recommendations), source customer satisfaction questionnaires • External audit reliance on work 	<ul style="list-style-type: none"> • 90% of scores within good to excellent • Reliance placed
Compliance with Professional Standards	<ul style="list-style-type: none"> • Public Sector Internal Audit Standards 	<ul style="list-style-type: none"> • Compliant
Outcomes and degree of influence	<ul style="list-style-type: none"> • Implementation of agreed recommendations 	<ul style="list-style-type: none"> • 90% of Recommendation
Our Staff	<ul style="list-style-type: none"> • Professionally Qualified/ Part qualified CPD • Annual Training & Development Received 	<ul style="list-style-type: none"> • 80 % • 5 Day(Minimum).

Committee: General Purposes Committee

Date: 10th March 2016

Agenda item:

Wards: All Wards

Subject: Whistleblowing Policy

Lead officer: Caroline Holland- Director of Corporate Services

Lead member: Chair of General Purposes Committee

Forward Plan reference number:

Contact officer: Margaret Culleton Head of Internal Audit

Margaret.culleton@merton.gov.uk

Recommendation:

A The Committee comments upon and approves the revised Whistleblowing policy

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. In May 1995 the Nolan Committee issued a report on the Standards in Public Life: Local Public Spending Bodies. This report made a number of recommendations, some sector specific and others more general in nature. The Nolan Committee recommended that Local Authorities should institute Codes of Practice on Whistleblowing, which would enable concerns to be raised confidentially inside and if necessary outside the organisation. Merton's first policy was agreed at the Policy Strategy and Quality Committee on the 8th March 2000.

2 DETAILS

WHISTLEBLOWING POLICY

2.1 The councils whistleblowing policy has always encouraged staff to raise concerns and assurance given that these would be treated in confidence. The policy has clearly stated the action that is taken when a whistleblowing allegation is received.

2.2 A review of the whistleblowing policy was carried out by Merton in 2014, following the publication of the code of proactive by the whistleblowing commission; these changes were approved by committee in September 2014. These changes included, that employees raising a concern:-

- Will be told how and by whom the concern will be handled
- Be given an estimate of how long the investigation will take
- Be told, where appropriate, the outcome of the investigation

- Be told that if the worker believes that he/she has suffered a detriment for having raised a concern, he/she should report this and
- Be told that he/she is entitled to independent advice

2.3 Following high profile cases of whistleblowing in the NHS, an independent review on Whistleblowing was carried out in the NHS. This review was concluded in November 2014 and made the following recommendations:-

- workers can raise concerns in the public interest with confidence that they will not suffer detriment as a result
- appropriate action is taken when concerns are raised by workers
- where whistleblowers are mistreated, those mistreating them will be held to account

2.4 The review considered independent mediation and appeal mechanisms to resolve disputes on whistleblowing fairly.

2.5 The review engaged closely with individual NHS workers who said they have suffered detriment as a result of raising legitimate concerns, as well as with employers, trade unions, professional and system regulators and professional representative bodies.

2.6 The first bullet 3 points above are covered by the Merton's whistleblowing policy and were strengthened in the review carried out previously (September 2014).

2.7 Consideration for mediation and dispute resolution has now been added to the policy in paragraph 4.5, 16.4 and 16.5 and the current address for Public Concern at Work has been updated.

2.8 The NHS independent review stated that workers should not suffer a detriment to their employment once they have raised a concern. In Merton where staff have disclosed their names, these were kept confidential.

Effective Whistleblowing Policy

2.9 The Council should demonstrate a commitment to high standards of conduct and maintain public confidence, by establishing an effective policy whereby staff can properly raise concerns without prejudice to their personal position. An effective policy on Whistleblowing allows employees and members of public the opportunity to raise their concerns, either internally to the Internal Audit or Senior Officers of the Council or externally to outside bodies.

2.10 An effective and positive whistleblowing culture has the following advantages:

- Detects and deters wrongdoing;
- Provides information to managers so they can make decisions and contain the risk;

- Demonstrates to stakeholders that Merton is serious about good governance;
- Reduces the chance of anonymous or malicious leaks;
- Reduces the chance of Legal claims against the Council.
- Clear whistleblowing arrangements are likely to help with a defence under the Bribery Act 2010.

2.11 CIPFA's guide on delivering good governance recommends the following is considered as part of its Annual Governance Statement

2.12 Ensure that effective arrangements for Whistleblowing are in place to which officers, staff and all those contracting with or appointed by the authority have access. That a Whistleblowing policy exists and is reviewed on a regular basis. The policy is made available to members of the public, employees, partners and contractors.

2.13 A copy of the Council's policy is attached as Appendix 1.

THE PUBLIC INTEREST DISCLOSURE ACT 1998

2.14. Employees who blow the whistle on wrongdoing at work are protected from victimisation and dismissal under the Public Interest Disclosure Act 1998. This Act aims to promote greater openness in the workplace between employers and workers in dealing with wrongdoing that might arise.

2.15. Under the Act, workers are initially required to resolve these concerns with their employer. Employees are protected from victimisation if in the last resort they have to take their concerns to an outside body.

2.16. A disclosure to a manager or the employer will be protected if the whistleblower has an honest and reasonable suspicion that the malpractice has occurred, is occurring or is likely to occur. The whistleblower will also be protected if they make their disclosures to an external body as long as they honestly and reasonably believe that the information and any allegations are substantially true.

CONFIDENTIALITY

2.17. An important issue addressed in the context of investigating allegations and dealing with complaints from an informant is that of respecting the anonymity of the informant, where appropriate or where requested.

2.18. Nolan considered it appropriate that anyone should be able to whistleblow confidentially if they so wish. As long as their complaint appears to have been made in good faith, their wish for confidentiality should be respected. Without this guarantee there is a risk that matters of concern could escape investigation, as people with genuine concerns might be deterred from bringing these concerns to the attention of the council.

- 2.19. This approach is further supported by decisions of the court. They have recognised in certain circumstances the identity of the persons who have made the complaints or given information to the public or other bodies should not be revealed (in the course of legal proceedings, for example). They recognise that disclosure could discourage others from making complaints or giving information to the proper authorities. It is important to note, however, that a cast iron guarantee of confidentiality cannot be given to a whistleblower if a court or other tribunal directs otherwise.
- 2.20. Merton's whistleblowing policy respects and reinforces this concept of confidentiality.

REPORTING

- 2.21. The Head of Internal Audit maintains a central register of all whistleblower allegations. This register records a summary of the original allegation and the actions taken. Where an allegation has been received by other departments in the council and involves a non-financial issue, an appropriate manager will be appointed to investigate the issue; this will be reported to Internal Audit when the original allegation is made and at the conclusion of the investigation. Fraud concerns are passed to the South West London Fraud Partnership to investigate.

PUBLICITY

- 2.22. It is important that all members of staff, contractors and members of the public are provided with details of the policy. These initiatives have continued to take place or are planned to promote the policy:
- Leaflets sent out to all Departments, partners and schools .
 - Intranet Links on the Procurement site and the CHAS website on the Internet
 - The policy is available on the Intranet and the Internet.
 - Confidential hotline

3 ALTERNATIVE OPTIONS

- 3.1. None for the purposes of this report.

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. Other Local Authorities' Whistleblowing Policies have been reviewed in the past for the purposes of updating Merton's Policy.
- 4.2. Human Resources, Legal Services and Directors were also consulted in respect of the policy review in earlier years.

5 TIMETABLE

- 5.1. This does not apply.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. The costs of dealing with Whistleblowing allegations and the publication and promotion of the policy is usually met from within existing budgets.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. These are contained within the report and reflect the requirements of the Public Interest Disclosure Act 1998 and the Bribery Act 2010.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1. Human Rights implications are considered in the conduct of all whistleblowing investigations. For example if directed surveillance is felt necessary this will be carried out in accordance with the Regulation of Investigatory Powers Act 2000.
- 8.2. In addition the Whistleblowing Policy provides a mechanism where concerns regarding the welfare of clients can be raised and therefore helps protect their Human Rights.
- 8.3. Whistleblowing investigations will take into consideration Equality and Diversity implications. Investigations may reveal weaknesses in financial management and other monitoring systems, e.g. ethnic monitoring. Ensuring action is then taken in respect of these weaknesses plays a role in ensuring that Council Resources are used to enable fair access to quality services.

9 CRIME AND DISORDER IMPLICATIONS

- 9.1. The Whistleblowing Policy allows for staff to come forward and report their concerns without the fear of reprisals in any form.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1. Each allegation is considered on a risk basis as to the amount of resources that should be employed in the investigation.
- 10.2. Some allegations involve Health and Safety matters and these are referred to the appropriate Council Section for investigation.

11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- Appendix 1 – Whistleblowing Policy – March 2016

12 BACKGROUND PAPERS

- 12.1. Whistleblowing Policies and register
- 12.2. Internal Audit Papers

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LONDON BOROUGH OF MERTON

WHISTLEBLOWING POLICY



March 2016

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London Borough of Merton

Whistleblowing Policy

1 Policy Statement

- 1.1 The London Borough of Merton is committed to achieving the highest possible standards of service, including honesty, openness and accountability, and recognises that employees have an important role to play in achieving this goal.
- 1.2 All of us at one time or another has concerns about what is happening at work. Usually these concerns are easily resolved. However, when you are troubled about something that involves a danger to the public or colleagues, misconduct or malpractice or wrongdoing with affects others, it can be difficult to know what to do.
- 1.3 You may be worried about raising such an issue, perhaps feeling it's none of your business or that it's only a suspicion. You may feel that raising the matter would be disloyal to colleagues, to managers or to the Council. You may have said something but found that you have spoken to the wrong person or raised the issue in the wrong way and are not sure what, if anything, to do next.
- 1.4 The London Borough of Merton has introduced this policy to enable everyone to blow the whistle safely so that such issues are raised at an early stage and in the right way. We know from experience that to be successful we must all try to deal with issues on their merits. The Council welcomes your genuine concerns and is committed to dealing responsibly, openly and professionally with them. Without your help, we cannot deliver a safe service and protect the interests of the public, staff and the Council. If you are worried, we would rather you raised it when it is just a concern than to wait for proof.
- 1.5 If something is troubling you, which you think we should know about, or look into, please use this procedure. If, however, you are aggrieved about your personal position, please use the Grievance Procedure. This Whistleblowing procedure is primarily for concerns where the interests of others or of the Council are at risk.
- 1.6 The Council has an Anti-Fraud and Corruption Strategy and an Anti-Money Laundering Policy. These are available on the Council's website. Where a concern relates to an employee or Member of the Council failing to comply with the Anti-Money Laundering Policy this concern can be raised in accordance with this Whistleblowing Policy. The Anti-Fraud and Corruption Strategy sets out the ways in which the Council prevents, detects and investigates fraud and corruption. A concern about fraud and corruption can also be raised through in accordance with this Whistleblowing Policy.

2 Introduction

- 2.1 The London Borough of Merton seeks to ensure that all of its activities are conducted to a high standard and with integrity. In the event that employees or members of the public become aware of activities that give cause for concern, the following Whistleblowing policy, or code of practice, will be followed. This policy acts as a framework to allow concerns to be raised confidentially and provides for a thorough and appropriate investigation of the matter to bring it to a satisfactory conclusion.
- 2.2 The London Borough of Merton is committed to tackling fraud and other forms of malpractice and treats these issues seriously.
- 2.3 The London Borough of Merton recognises that some concerns may be extremely sensitive. It has therefore, developed a system that allows for the confidential raising of concerns within the Council environment but also has recourse to an external party outside the management structure of the Council.
- 2.4 The London Borough of Merton is committed to creating a climate of trust and openness. A person who has a genuine concern or suspicion can raise the matter with full confidence that it will be appropriately considered.

3 Purpose of the policy

- 3.1 The purpose is as follows:
 - To encourage you to feel confident in raising concerns.
 - To provide the you with a confidential method of raising concerns.
 - To enable you to confidentially raise concerns within the Council environment.
 - To ensure you receive a response to your concerns and if not satisfied you are aware of how to pursue them.
 - To reassure you that you will be protected from reprisals or victimisation where you reasonably believe the disclosure to be made in the public interest.

4 Scope

- 4.1 Council employees including schools, agency staff, trainees, apprentices, volunteers, consultants and interim managers, or any self employed staff employed on council business.
- 4.2 The policy applies to contractors working for the Council and partner agencies. It also covers any suppliers and those providing services under a contract or in partnership with the Council in their own premises.
- 4.3 This policy is in addition to the Council's Complaints, Grievance and Dignity at Work procedures, and other statutory reporting procedures that may apply to some sections.

- 4.4 This policy is not part of the disciplinary procedures, although disciplinary action may result from the use of this policy.
- 4.5 This policy is not designed to be used for allegations that fall within the scope of other procedures (for example child or vulnerable adult protection) which will normally be referred for consideration under those procedures, unless there is good reason to believe that the procedure is not being followed or will not be followed effectively.

This Whistleblowing procedure is primarily for concerns where the interests of others or of the Council are at risk.

5 What types of activity would Whistleblowing apply to?

5.1 The type of activity or behaviour that the Council considers should be dealt with under this policy includes:

- Action which is contrary to the code of conduct for employees or members.
- The inappropriate use of the Council's standing orders and financial procedures.
- Corruption, bribery or blackmail
- Dangerous procedures risking Health and Safety, including risk to the public as well as other employees.
- Services that fall below approved standards or practice.
- Sexual or physical abuse of clients, or
- Other unethical conduct, including deliberate concealment of information relating to the above.
- Damage to the environment.
- The unauthorised use of public funds.
- Conduct which is a criminal offence or a breach of law.
- Disclosures related to miscarriages of justice.
- Involves possible fraud or financial irregularity
- Failure to comply with legal or regularity duty or obligation..

6 Raising unfounded malicious concerns

6.1 You are encouraged to come forward in good faith with genuine concerns with the knowledge they will be taken seriously. If you make an allegation in good faith, but it is not confirmed by the investigation, no action will be taken against you. However, when it appears that there are clear grounds for suggesting that you may have acted frivolously, maliciously or vexatiously, this will be taken seriously and may constitute a disciplinary offence.

7 Harassment or Victimisation

7.1 The Council is committed to good practice and high standards and wants to be supportive of employees.

- 7.2 The Council recognises that the decision to report a concern can be a difficult one to make. If what you are saying is true, you should have nothing to fear because you will be doing your duty to your employer and those for whom you provide a service.
- 7.3 The Council will not tolerate any harassment or victimisation (including informal pressure) and will take appropriate action to protect you when you raise a concern.

8 Main Principles

- 8.1 The following important principles are contained within this policy:
- a) The policy is complementary to the Council's Code of Conduct for employees, Code of Conduct for members and Procedures relating to Member complaints;
 - b) The Chief Executive has overall responsibility for the maintenance and operation of this policy;
 - c) It contains the provisions that are required from the Public Interest Disclosure Act 1998, and requirements under the common law "duty of care", e.g., to:
 - Draw attention to any matter considered damaging to the interest of service users, carers or colleagues,
 - Put forward suggestions which may improve quality of service,
 - Correct any statutory omission,
 - Prevent malpractice;
 - d) That the Council is committed to tackling malpractice and that employees know that any matter regarding malpractice and other illegal acts will be dealt with seriously;
 - e) If a matter raised results in any disciplinary action, the Council's disciplinary procedure will apply.

9 What protection have you got?

- 9.1 The Public Interest Disclosure Act 1998 has given protection to Whistleblowers from victimisation and dismissal. This Act has both the support of employers' organisations and Trade Unions.
- 9.2 The Council will not tolerate any harassment or victimisation (including informal pressures).
- 9.3 Under the Act, you will be required to resolve your concerns directly with the Council and will be protected from victimisation if in the last resort you have to take your concerns to an outside body.
- 9.4 A disclosure will be protected if you have an honest and reasonable suspicion that the malpractice has occurred, is occurring or is likely to occur. You will also be protected if you make your disclosures to an external body as long as

they honestly and reasonably believe that the allegations are substantially true.

- 9.5 If appropriate, for members of staff, the Council's Dignity at Work procedure will apply to those who carry out unacceptable behaviour. Any investigation into allegations of potential malpractice will not influence or be influenced by any disciplinary, grievance, capability or redundancy procedures.

10 Support for Employees

- 10.1 It is recognised that raising concerns can be difficult and stressful. Advice and Support is available via an employee's line manager, Departmental Human Resources or Trade Union representative. It must be recognised that employees who are subject to investigation following concerns being raised will also be entitled to support from the same sources, although not from the same individuals. The Council provides Employee Assistance Programme (EAP) for members of staff which can provide support including regarding employment issues, consumer rights. This service is free to employees and is available 24 hours a day, 7 days a week, 365 days a year. Contact details are available on the intranet at: <http://intranet/staffcounsellingservice>.
- 10.2 Employees can also discuss their concerns with Public Concern at Work. <http://www.pcaw.org.uk> or telephone 020 7404 6609.
- 10.3 The Council will take steps to minimise any difficulties which you may experience as a result of raising a concern. For instance, if you are required to give evidence in criminal or disciplinary proceedings the Council will arrange for you to receive advice about the procedure.
- 10.4 Help will be provided to you in order to minimise any difficulties which you may experience. This may include advice on giving evidence if needed. Meetings may, if necessary be arranged off-site with you and with you being represented, if you so wish.
- 10.5 If you believe that you have suffered a detriment for having raised a concern, you should report this.
- 10.6 If you are not satisfied with the action taken by the Council and feel it's right to question the matter further may consider the following possible contact points:
- External Auditor
 - the employee's Trade Union
 - the Citizens Advice Bureau and / or law centre / firm
 - relevant professional bodies or regulatory organisations
 - the Local Government Ombudsman
 - the Information Commissioner
 - a relevant voluntary organisation
 - the Police and/ or Health and Safety Executive

11 Confidentiality

- 11.1 Wherever possible the London Borough of Merton seeks to respect the confidentiality and anonymity of the Whistleblower and will as far as possible protect you from reprisals. The Council will do its best to protect your identity when you raise a concern and do not want your name disclosed. However, it must be appreciated that the investigation process may reveal the source of the information and a statement by you may be required as part of the evidence in criminal proceedings or Employment Tribunals.
- 11.2 The Council will endeavour to ensure your identity will not be disclosed to third parties without a court order.
- 11.3 The Council will not tolerate any attempt to victimise you or attempts to prevent concerns being raised and will consider any necessary disciplinary or corrective action appropriate to the circumstances.
- 11.4 The confidentiality of service users will not be compromised as employees have a duty in law and within their professional codes of conduct to maintain this.
- 11.5 Where the procedure allows a matter to be taken outside the Council, you should not disclose confidential information unless the information relates to the matter under investigation and until the internal procedures have been exhausted. No confidential information shall be disclosed externally in a frivolous or vexatious manner.

12 Anonymous allegations

- 12.1 This policy encourages you to give your name when making an allegation. Concerns expressed anonymously are usually much less powerful, but they will be considered at the discretion of the investigating officers.
- 12.2 In exercising the discretion, the factors to be taken into account would include:
- the seriousness of the issues raised
 - the credibility of the concern and
 - the likelihood of confirming the allegation from attributable sources
 - the evidence base

13 What action should *you* take?

- 13.1 The London Borough of Merton encourages you to raise the matter internally in the first instance. This allows staff and those in positions of responsibility and authority the opportunity to right the wrong and give an explanation for the behaviour or activity.
- 13.2 As a first step you should normally raise concerns with your line manager or the line manager's manager.

- 13.3 If the circumstances make contacting a line manager not appropriate then you can use the Whistleblowing Hotline 020 8871 8383.
- 13.4 The following officers can be contacted: -
- **Chief Executive** 020 8545 3332
 - **Leader of the Council** 020 8545 3424
 - **Head of Audit** 020 8545 3149
 - **South West London Fraud Partnership hotline** 020 8871 8383
 - **Assistant Director Corporate Governance (Monitoring Officer)** 020 8545 3338 / 3163
 - **Head of Human Resources** 020 8545 3370
 - **Chair of the General Purposes Committee** (contact democratic services on 020 8545 3864)
- 13.5 You may prefer to raise the matter in person, by telephone or in written form marked private and confidential and addressed to one of the above named individuals. All matters will be treated in strict confidence and anonymity will be respected wherever possible.
- 13.6 Concerns made in writing should set out the background and history of the concern, giving names, dates and places where possible and the reason why there are particular concerns about the situation. The earlier the concern is expressed, the easier it is for someone to take action.
- 13.7 If you need advice and guidance on how matters of concern may be pursued, this can be obtained from Departmental HR Managers, or the Audit service.
- 13.8 Because of the difficulty of raising a concern, a trade union or work colleague may raise the matter on behalf of you, or accompany you when making the allegation.
- 13.9 If you are not in a formal line management relationship because of your employment relationship, e.g., agency staff or contractors, you should first discuss your concerns with a relevant colleague or manager within the service.

14 How will the Council respond?

- 14.1 The individual who receives the information or allegation will assemble the information made available to them. The details of the allegation are then immediately passed on to the Internal Audit service in order that it can be included on the central Whistleblowing register.
- 14.2 An appropriate investigating officer is then appointed by the relevant service, dependent on the nature of the allegation. The investigating officer(s) will carry out a preliminary investigation. This will seek to establish the facts of the matter and assess whether the concern has foundation and can be resolved internally. The initial assessment may identify the need to involve third parties to provide further information, advice or assistance. This could involve for example members of staff, the Audit service, external audit, legal or HR

advisors, or the police. Concerns or allegations, which fall within the scope of specific procedures (e.g., child protection, Health and Safety or discrimination issues), will normally be referred for consideration under those procedures. It may be decided to employ an outside firm to undertake the investigation or it may be passed to external audit to investigate, depending on the nature of the allegation.

- 14.3 Fraud allegations will be passed to the South West London Fraud Partnership to carry out the investigation.
- 14.4 Records will be kept of work undertaken and actions taken throughout the investigation. The investigating officer(s), will consider how best to report the findings and what corrective action needs to be taken. This may include some form of disciplinary action or third party referral such as the police.
- 14.5 The amount of contact between the officers considering the issues and you will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary, further information will be sought from you as part of the investigation process. If you are a Council employee, and the investigating officer has invited you to attend a meeting, you will have the right to be accompanied. This should be a representative of a recognised trade union, or a work colleague who is not involved in the area of work to which the concern relates.
- 14.6 The Council will take steps to minimise any difficulties that you may experience as a result of raising a concern. For instance, if you are required to give evidence in criminal or disciplinary proceedings, the Council will advise on the procedure.
- 14.7 A central register of all Whistleblowing allegations will be held by the Audit service, this register will record the nature of the allegation and the action taken.
- 14.8 Whistleblowing allegations are reported annually to the General Purposes Committee, so that they can ensure that the appropriate action has been taken in investigating the matter (your identity will remain confidential).
- 14.9 You will be informed within 4 weeks of receipt of the Whistleblowing, how and by whom the concerns will be handled and an estimate of how long the investigation will take and where no further action is proposed, reasons for this decision.
- 14.10 Subject to legal constraints, you will be informed of the outcome of the investigation however you will not be provided with specific details of any proposed disciplinary action, as these will remain confidential to the individual(s) concerned.
- 14.11 If you are dissatisfied with the conduct of the investigation or outcome of the matter or have genuine concerns that the matter has not been handled appropriately, or feel you have suffered a detriment for raising the concern,

you should report this to the Chief Executive or appropriate nominated officer. You are entitled to independent advice on this.

15 How the matter can be taken further

- 15.1 This policy is intended to provide you with a way in which concerns can be raised and resolved within the Council.
- 15.2 In exceptional circumstances you may consider the matter too serious or sensitive to raise within the internal environment of the Council. In this instance depending on the nature of the concern, the matter could be directed to the police or local MP (contact through directory enquiries or local telephone directory).

The NAO is a 'prescribed person' under the Public Interest Disclosure Act 1998 and provides a confidential public interest disclosure line for employees of councils where they are unable, or unwilling, to report internally. Their Whistleblowing hotline **020 7798 7999**

Or write to:

The Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
London SW1W 9SP

The councils external auditor is Ernst & Young
<http://www.ey.com/UK/en/Home/>

- 15.3 The Local Government Ombudsman can also be contacted, they will not however, take any action until the allegation has been dealt with internally first. They can be contacted at:- <http://www.lgo.org.uk/>
- Telephone the LGO Advice Team on 0300 061 0614 or 0845 602 1983

The Local Government Ombudsman
PO Box 4771
Coventry CV4 0EH

- 15.4 In addition, information and advice can be obtained from the charity Public Concern at Work. This charity provides free advice for employees who wish to express concerns about fraud or other serious malpractice. They can be contacted at:-

Public Concern at Work
<http://www.pcaw.org.uk/>
Whistleblowing Advice Line: 020 7404 6609 e mail: whistle@pcaw.co.uk

Public Concern at Work
CAN Mezzanine
7-14 Great Dover Street
London SE1 4YR

Further information may be obtained from the following:

Citizens Advice Bureau <http://www.citizensadvice.org.uk/>

The Information Commissioner <http://www.ico.gov.uk/>

Health and Safety Executive <http://www.hse.gov.uk/>

Care Quality Commission 020 7448 9200

Ofsted (Whistleblowing hotline) 0300 123 3155

16 Relationship with other employee procedures

- 16.1 The Whistleblowing Policy is not designed to replace the Grievance or Dignity at Work Procedures because it exists for clearly defined reasons.
- 16.2 An issue considered under the Whistleblowing Policy may lead to action under the Council's Disciplinary Procedure and/or action by the Council's Audit service, SWLFP or the police.
- 16.3 The Council's Code of Conduct outlines the approach employees must take regarding contact with the media. It is particularly important that disclosures are not made directly to the media but are initially directed through the Whistleblowing Policy if appropriate. Failure to do this may expose vulnerable clients to public view and may expose the employee to disciplinary action.

Mediation and dispute resolution

If we believe that the issues relate more to conflicts or trust between managers and employees or other staff members, we will give consideration at the earliest opportunity, to the use of mediators or officers from another service in an attempt to resolve these conflicts, rebuild trust or support staff who have raised concerns.

Accountability

Everyone should expect to be held accountable for adopting fair, honest and open behaviours and practices when raising, receiving and handling concerns.

Individuals and service areas will be accountable for:

- poor practice in relation to encouraging the raising of concerns and responding to them
- the victimisation of staff for making public interest disclosures
- raising false concerns in bad faith or for personal benefit
- acting with disrespect or other unreasonable behaviour when raising or responding to concerns

17 Conclusion

- 17.1 Existing good practice within the Council in terms of its systems of internal control both financial and non-financial and the external regulatory environment in which the Council operates ensures that cases of suspected fraud or impropriety rarely occur. This Whistleblowing policy is provided as a

reference document to establish a framework within which issues can be raised confidentially internally and if necessary outside the management structure of the Council. This document is a public commitment that concerns are taken seriously and will be actioned.

18 In Summary

DO

- Make an immediate note of your concerns
 - a) Note all relevant details, such as what was said in telephone or other conversations, the date, time and the names of parties involved.
 - b) Note any documentary evidence that may exist to support your claim but do not interfere with this evidence.
- Report your concerns
 - a) to your line manager or
 - b) to those listed above in 13.4
- Deal with the matter quickly. Any delay could allow the problem to continue and escalate and evidence to disappear
- Think about risks and outcomes before you act
- Follow the guidance provided and contact the appropriate officer

DON'T

- Do nothing and let it go unreported
- Be afraid of raising concerns
- Approach and accuse individuals directly
- Try and investigate the matter yourself
- Convey your suspicions to anyone except those of the proper authority as set out in our policy.
- Use the whistleblowing procedure to pursue a personal grievance

IF IN DOUBT – RAISE IT!

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Committee: General Purposes Committee

Date: 10th March 2016

Subject: Fraud Update

Lead officer: Caroline Holland – Director of Corporate Services
Lead member: Chair of the GP Committee
Contact officer: Kevin Holland – Head of Shared Fraud Partnership
Tel. 020 8871 6451 kholland@wandsworth.gov.uk

Recommendations:

- A. That members note the Fraud Progress report and comment on the matters arising from it.**
 - B. That members receive as information the first London based Protecting the Public Purse Report and support continued participation including the development of the London baseline for future regional benchmarking activities.**
-

1. Background to Fraud Investigation Resource

- 1.1 Merton Council entered into a shared fraud investigation service, known as the South West London Fraud Partnership (SWLFP), with Kingston, Richmond, Sutton & Wandsworth Councils from 1st April 2015 to ensure that an effective fraud investigation and prevention service would be maintained following the transfer of benefit fraud investigation to the Department for Work and Pensions (DWP). A brief outline on the structure and governance arrangements for the SWLFP is attached at [Appendix A](#).
- 1.2 The bringing together of retained knowledge and expertise under a single team strengthens resilience for individual authorities, enabling a collaborative approach to fraud investigations and introduces the ability to undertake regional proactive counter fraud exercises. Individual partner authorities retain responsibility for ensuring that its affairs are managed in accordance with proper standards of financial conduct and for preventing and detecting fraud and corruption.
- 1.3 The SWLFP undertakes internal enquiries into alleged or suspected fraud and corruption and maintains an immediate response capability in this respect. Trained staff undertake investigations in accordance with legislation, regulations and codes of practice to ensure that actions are not prejudicial to the outcome of a case, and to preserve the rights of the individuals.

1.4 Non-financial irregularities concerning an employee’s moral, ethical, or behavioural conduct (including criminal offences against parties outside of the SWLFP), or other unprofessional conduct are covered by the Partner’s Codes of Conduct and should be resolved by the relevant organisation. However the SWLFP Service can provide assistance with complex cases where required.

2. The South West London Fraud Partnership (SWLFP)

2.1 The SWLFP investigation team comprises 14 full time and 5 fixed term posts, with a mixture of expertise from both within and outside local government. 10 officers hold relevant Accredited Counter Fraud Specialist qualifications and 6 officers have commenced Accredited Counter Fraud Specialist training with CIPFA.

2.2 The investigation service is divided into two teams that deal with Corporate and Housing fraud. No Merton officers transferred into the partnership and the Council funds (including DCLG funding for tenancy fraud work) the equivalent of three officers that will be used to deliver the following activities:

	Planned Days	%
Referral Review	35	7
Pro Active Fraud Drives	199	41
Fraud Investigation	209	43
Fraud Awareness/prevention	13	3
Contingency	32	6
Total	488	100

2.3 The SWLFP has the ability to

deploy flexible resources with knowledge and experience to provide coverage across a range of counter-fraud activities in the areas shown below.

- Blue Badge/Parking Permits
- Contract/procurement fraud
- Council Tax Reduction/Discount
- Employee fraud
- NNDR, Business Rate Relief
- Social Care fraud
- Tenancy fraud/abuse

2.4 Priority areas of coverage for individual partner Councils are agreed through consultation with the Heads of Audit. This the first time that a fraud investigation resource has been allocated to tenancy fraud investigation and the SWLFP has worked closely with Merton Priory Homes.

3. Pro-Active Fraud Drives

- 3.1 **Council Tax Reduction:** As part of a pro-active fraud drive the SWLFP put itself forward for Council Tax Reduction data match and was selected by NFI as one of the organisation to pilot this new data match. Matched output was received in July with 2,101 potential matches for investigation of which 1,322 were within NFI defined high risk reports.
- 3.2 At the 10th February 2016:
- 704 matches were in progress (had some action taken on them);
 - 493 matches had been completed and closed;
 - 2 matches had been closed as fraud; and
 - 9 matches identified as errors.
 - To date, £10,753 has been identified as overpaid/incorrectly paid.
- 3.3 **NNDR:** The SWLFP has commenced a review on the NNDR process to identify potential for misuse of the system. There are several areas of potential misuse including: charitable relief; small business rate relief (SBRR); non occupation; composite liability; and phoenix companies frequently changing ownership to avoid recovery of debt. For this initial exercise the SWLFP is reviewing charitable relief and SBRR. The SWLFP will use data matching to identify anomalies within individual applications and where necessary undertake visits to business premises and/or interview business owners in order to verify entitlement.
- 3.4 Other pro-active fraud drives include; Housing Waiting lists; applicants review; Housing Tenancy review; working with a credit agency and utilising data matching across all five partner authorities; Single Person Discount; and Procurement. However, resources may be transferred to other fraud investigations depending upon the risk and volume of referrals.
- 3.5 The ability to undertake such pro-active fraud drives significantly depends upon: access to data sets for data matching; and access to the Council's systems for follow up enquiries.

4. Summary of Fraud Investigations and Performance Results

- 4.1 In total, 73 fraud cases have been opened as a result of referrals received and concerns highlighted through pro-active fraud drives up to the end of January 2016. A breakdown of fraud referrals is shown in Table 1 below and Table 2 summarises the overpayments and notional savings identified as a result of the fraud work undertaken.

Table 1: Summary of fraud referrals

	2015/16 to end January 2016
Referral accepted in period for investigation by type:	
- Tenancy fraud/abuse	59
- Right to Buy	2
- Permit Fraud	1
- Corporate (Internal)	7
- Corporate (External) i.e. CTR & SPD	4
Total referrals in period	73
Closed in period	
- Closed no fraud	35
- Closed with sanction	11
Referrals still under investigation	27

Table 2: Summary of Overpayments and Notional savings

(* notional savings figures as per Audit Commission estimates)	2015/16 to Jan £
Social Housing (notional @ £18k per property recovered*)	126,000 (7 prop)
Right to buy (notional @ £100k discount)	200,000
Blue Badges & Parking Permit (notional @ £500 per case*)	0
Council Tax (identified overpayments and administrative penalties)	10,753
Total actual and notional savings	336,753

4.2 Appendix B shows closed investigations into fraud and financial irregularity to date in 2015/16. The referrals received are a reflection of the effectiveness of the implementation of the Council's Anti-Fraud and Anti-Corruption Strategy. This indicates a reasonable level of general fraud awareness by officers across all the Council's departments.

5. Local Government Transparency Code.

5.1 Under the code the Council is required to publish the following data regarding its Fraud Investigation activity 2015/16 figures to 31 January (with 2014/15 comparative figures show within brackets), shown below.

- Accredited number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers

Benefit Fraud Investigations (under the Social Security Fraud Administration Act 2001	0 (23)
Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014	19 (0)

- Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud

	Absolute	FTE
Fraud Investigation - SWLFP #	16 (8)	15.8 (7.8)

- Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists

	Absolute	FTE
PINS trained Fraud Specialist	9 (7)	9.0 (6.7)
CIPFA Certificate in Investigative Practices	2 (1)	1.8 (0.8)

- Total amount spent by the authority on the investigation and prosecution of fraud

	15/16	(14/15)
Other Fraud Investigation (* includes DCLG Funding)	£170.9k*	(£223.4k)

- Total number of fraud cases investigated.

	15/16	(14/15)
Benefit Fraud Investigations	0	(31)
Housing/Tenancy related Investigations	59	(0)
Right to Buy	2	(0)
Permit Fraud Investigation	1	(0)
Other Investigations	11	(28)

5.2 On 1st November 2014, responsibility for housing benefit fraud investigation transferred to the DWP under the Single Fraud Investigation Service (SFIS) and the team of officers responsible for housing benefit fraud investigation transferred to the DWP.

5.3 To ensure that sufficient knowledge and capability for fraud investigation was maintained Merton entered into a partnership with four neighbouring boroughs, the SWLFP. For 2015/16, the number of Fraud Investigation Officers and Officers with specialist fraud qualifications relates to the pool of officers within the SWLFP # that can be called upon although Merton's funding contribution equates to 3 FTE investigators.

6. PROTECTING THE PUBLIC PURSE

6.1 The report attached at [Appendix C](#) is the first Protecting the Public Purse report exclusively for London. It follows a series of national fraud reports previously published by the Audit Commission and has been compiled by The European Institute for Combating Corruption and Fraud (TEICCAF).

6.2 The report identifies trends in current fraud risk, highlights emerging risks and for the first time in the public domain provides comparative benchmark information for London councils. It promotes the fight against fraud and encourages locally elected members to recognise and celebrate the success of London boroughs that are playing their part protecting taxpayers' money and local services from fraud.

6.3 This report aims to; help the Committee better understand the fraud risks specific to the capital; and to help establish a new London baseline for future regional benchmarking activities.

6.4 Some of the key headlines from the report are listed below:

- Councils in London uncovered £73 million of fraud last year, an increase of 46% on the previous year;
- While the number of fraud cases councils are dealing with has decreased by about 10%, the value of those cases has increased dramatically, by 46%;
- London boroughs recovered 1,618 properties from fraudsters in 14/15 – half the total recovered across the entire country;
- Right to buy fraud has seen a huge increase, with detected cases more than doubling to 300 in 14/15. The value of this fraud increased by more than 185% to almost £26 million, and analysis suggests that at least 3% of right to buy applications in London are fraudulent;
- A new type of fraud is emerging. Councils in London identified 432 cases worth more than £7 million relating to people with no recourse to public funds.

6.5 The Chair of the London Boroughs' Fraud Investigators' Group, said: "*Councils in London are leading the way in the fight against public sector fraud. Councils across the country can learn from our proactive approach to tackling fraud, and protecting the public purse, at a time when council coffers are stretched more than ever before. The sterling work our fraud teams are doing is taking money and council houses back from fraudsters, so that they can benefit those in genuine need. However we can't be complacent. New risks are emerging all*

the time and we need to stay one step ahead of those who want to cheat the public purse”.

7 MAIN ISSUES COUNCILS FACE IN TACKLING FRAUD

7.1 In preparing the report, councils were asked to identify the top three issues they face in tackling fraud. The three most significant items that needed to be addressed were:

- Capacity;
- effective fraud risk management; and
- better data sharing.

7.2 To ensure that a sufficient resilience of investigative resource remained following the transfer of benefit fraud investigation to the Department for Work and Pensions, the Council entered into a shared fraud service, the South West London Fraud Partnership (SWLFP). This bringing together of retained knowledge and expertise under a single team has strengthened resilience for individual authorities, enabled a collaborative approach to fraud investigations, introduced the ability to undertake regional proactive counter fraud exercises, promote cross fertilisation of skills, sharing of knowledge and provides cover for extra work when circumstances dictate.

7.3 The TEICCAF report goes on to demonstrate that London is the strongest performing area in the prevention and detection of fraud, and encourages councils with low levels of detected fraud to consider whether they are giving this issue the attention it deserves. The report mentions that generally, local authorities with particularly high levels of non-benefit fraud detection have a strong corporate commitment to the fight against fraud and are often the most proactive and innovative in their approach.

8 FRAUD BENCHMARKING FOR MERTON

8.1 In addition to the Protecting the London Public Purse report, TEICCAF produced fraud benchmarking reports for each borough, a copy for Merton Council is attached at [Appendix D](#). Some precautionary points which TEICCAF have asked individual Council's to note when using the benchmarking are that the data is derived from the data made available in the fraud survey and that these benchmark briefing have been produced manually so Council's should be aware that there is a possibility of errors, (a figure transposed, wrong cell clicked etc.) being included in the graphs.

8.2 The benchmarking report demonstrates that fraud investigation and prevention by Merton is successful. The Council is ranked sixth in London for the number of detected fraud and abuse cases (excluding tenancy fraud) detecting 1,121 fraud cases with a value of £293k. The majority of the detected cases relate to Council tax discount fraud.

9. CONCLUSION

- 9.1 The Council has made suitable provision for the investigation and prevention of fraud and corruption.

GLOSSARY

CIPFA	Chartered Institute of Public Finance and Accountancy
CTR	Council Tax Reduction
DCLG	Department for Communities and Local Government
DWP	Department for Work and Pensions
FTE	Full Time Equivalent
NFI	National Fraud Initiative
NNDR	National Non Domestic Rate
PINS	Professionalism IN Security
POSHFA	Prevention of Social Housing Fraud Act
RTB	Right to Buy
SBRR	Small Business Rate Relief
SFIS	Single Fraud Investigation Service
SPD	Single Person Discount
SWLFP	South West London Fraud Partnership
TEICCAF	The European Institute for Combatting Corruption and Fraud

APPENDIX A

Structure & Governance Arrangements



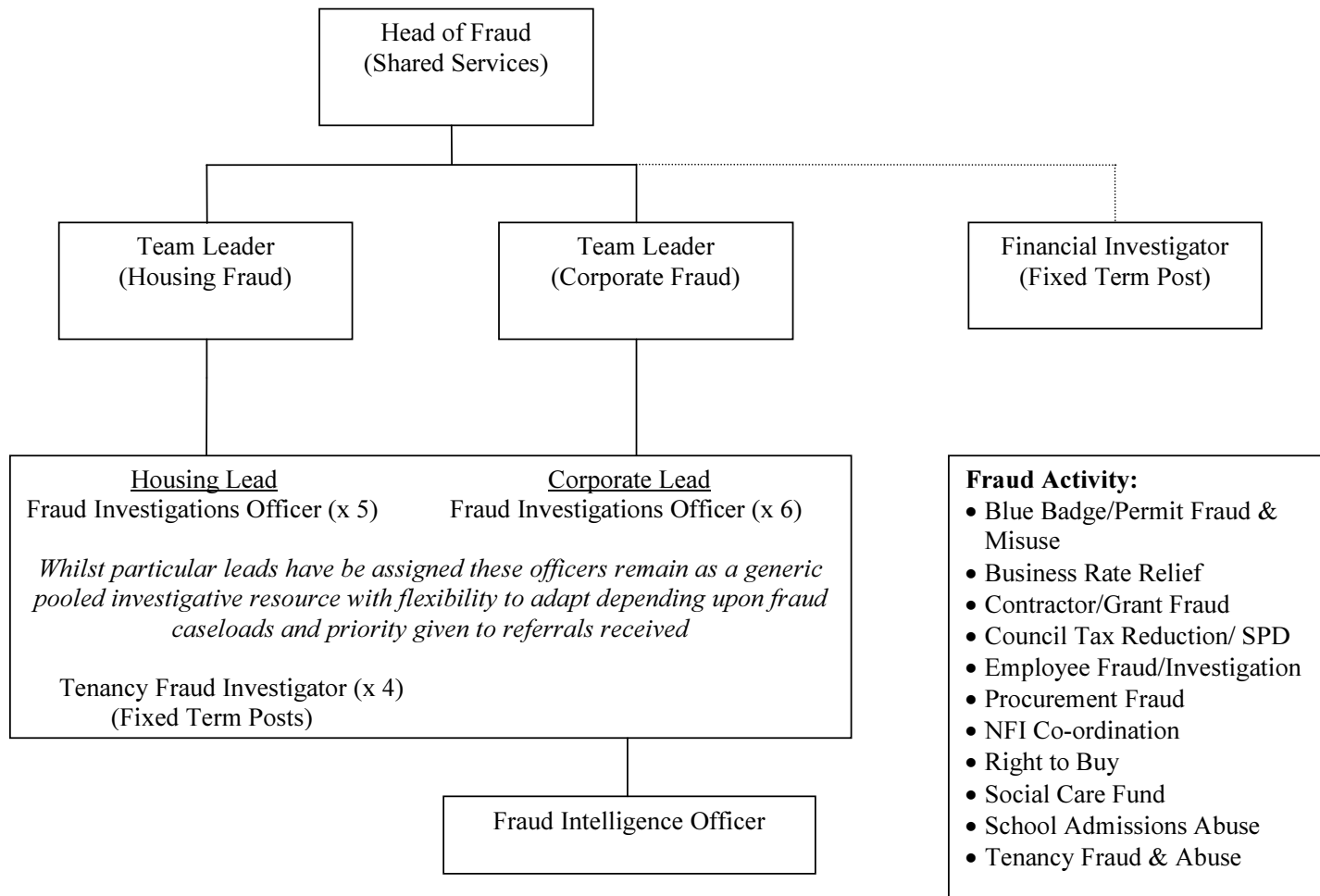
South West London Fraud Partnership

Incorporating the London Boroughs of Merton, Richmond,
Sutton, Wandsworth and the Royal Borough of Kingston

Background to the SWLFP

- Following the Government's announcement to centralise the investigation of Benefit Fraud within the DWP, Council's stood to lose experienced trained investigators as staff were to transfer to the DWP's Single Fraud Investigation Service (SFIS)
- This presented a potential risk for councils in that there would be insufficient skilled officers to undertake any major investigation that might be required.
- To ensure that a sufficient resilience of investigative resource remains Kingston, Merton, Richmond, Sutton and Wandsworth Councils entered into a Shared Fraud Service, the South West London Fraud Partnership (SWLFP).

SWLFP Structure





Structure

To maintain the ability to assign resources to where fraud activity has been detected officers are not specifically assigned to any one authority.

However, to assist with maintaining consistent contact with individual authorities and partner organisations some officers have been designated as lead contacts.

The existing staff consist of a mixture of experienced investigators, some new investigators from a non local authority investigation background and some new officers.

Arrangements are in place to ensure that all permanent fraud investigators hold an accredited counter fraud specialist status thus satisfying the Local Government Transparency Code expectation.

Governance - 1

SWLFP Steering Group

Each Partner nominates a representative onto the Steering Group whose functions areas follows:

- To be the forum which ensures that this agreement operates efficiently and that there is effective joint working between the Parties
- To monitor the work of the Shared Fraud Service
- To make recommendations to a Party or Parties or all the Parties concerning the future work, resourcing or conduct of the Service
- The Steering Group shall hold a minimum of 4 ordinary meetings in every year

Governance - 2

- The current Steering Group nominees are the Heads of Audit for each Authority
- Regular fraud updates are issued to all Heads of Audit and Directors of Finance, highlighting the issues identified in the fraud cases across the group, including the outcomes of any data matching exercises.
- An annual and interim report will be prepared for partner Audit Committees.
- The Heads of Audit are then responsible for ensuring that any control weaknesses identified are subsequently addressed.
- Each organisation is responsible for ensuring that its' affairs are managed in accordance with proper standards of financial conduct and for preventing and detecting fraud and corruption.



Referrals

- Investigations are agreed (commissioned) by the Heads of Audit.
- We have a fraud referral email and contact number and where we receive referrals directly from staff, contractors or the public we will confirm the need for opening an investigation with the Head of Audit.
- Our aim is to respond to a referral within 48 hours, to either acknowledge that it is something that we can investigate or the refer onward or explain why the referral is something that is not for us to investigate (subject to discussion and agreement with the Head of Audit).



Referrals - Fraud Activity

Whilst not an exhaustive list, we investigate referral on:

- Blue Badge/Permit Fraud & Misuse
- Business Rate Relief
- Contractor/Grant Fraud
- Council Tax Reduction/ SPD
- Employee Fraud/Investigation
- Procurement Fraud
- NFI Co-ordination
- Right to Buy
- Social Care Fund
- School Admissions Abuse
- Tenancy Fraud & Abuse

Investigations - 1

We undertake investigations into alleged or suspected fraud and corruption and maintain an immediate response capability in this respect.

Trained staff undertake investigations in accordance with legislation, regulations and codes so as to ensure that actions are not prejudicial to the outcome of a case, and to preserve the rights of the individuals.

Non-financial irregularities concerning an employee's moral, ethical, or behavioural conduct or other unprofessional conduct are covered by the Partner's Codes of Conduct and should be resolved by the relevant Organisation, however we can provide assistance with complex cases where required.


Investigations - 2

As part of any investigation, we will ensure that:

- All allegations are dealt with promptly and confidentially.
- All evidence that has been collected is handled in accordance with appropriate legislation such as Criminal Procedures and Investigations Act.
- Any interviews undertaken are conducted fairly and in line with appropriate legislation such as the Police & Criminal Evidence Act.
- All investigations are conducted in a timely manner, with the relevant Head of Audit and Service Manager being kept informed of progress.

Investigations - 3

- At the conclusion of an investigation we will produce a report highlighting the findings and where appropriate make relevant recommendations.
- Should any disciplinary and/or criminal proceedings result from the report the relevant Organisation is responsible for undertaking such action and ensuring it complies with relevant legislation and their own internal procedures.
- Officers from the Shared Fraud Service would provide relevant support for any action including attending court and disciplinary hearings.



SWLFP Fraud Investigations – (2015/16 to end of January 2016)

In total 1046 investigations have been worked on since April 2015. This includes some cases brought forward from the previous financial year.

From these 226 sanctions have been achieved which include:

- 67 properties recovered
- 14 housing applications reject
- 82 RTB applications withdrawn
- 40 parking permit abuse or misuse cases (35 criminal prosecutions and 5 official warnings)
- 8 employee related sanctions
- 4 other/external sanction
- 11 council tax reduction/discount fraud

Contacts

Name	Position	Telephone No	Email Address
Kevin Holland	Head of Fraud – SWLFP	020 8871 6451	kholland@wandsworth.gov.uk
Lead Contact for Housing Fraud			
Lynn Sanger	Fraud Team Leader - Housing	020 8871 6453	lsanger@wandsworth.gov.uk
Lead Contact for Corporate Fraud			
Veronika Siggers	Fraud Team Leader – Corporate	020 8871 7063	vsiggers@wandsworth.gov.uk
Main Support Officers – Merton Council			
Dan Voller	Fraud Investigations Officer - Corporate	020 8871 7876	dvoller@wandsworth.gov.uk
Erin Barry	Fraud Investigations Officer - Housing	020 8871 8773	ebarry@wandsworth.gov.uk

South West London Fraud Partnership (SWLFP)
Wandsworth Council
Town Hall (TH205)
Wandsworth SW218 2PU

SWLFP email for referrals: SWLFP@wandsworth.gov.uk

SWLFP Telephone **020 8871 8383**



South West London Fraud Partnership

Incorporating the London Boroughs of Merton, Richmond,
Sutton, Wandsworth and the Royal Borough of Kingston

FRAUD, CORRUPTION AND FINANCIAL IRREGULARITIES – RESULTS OF CASES CLOSED 01/04/15 to 31/01/16

Offence/irregularity, sanctions and redress	Key outstanding actions
1. (0120) Suspected sub-letting: Data matching highlighted tenant with credit history and a mortgage at another property. Property visited and an individual and their partner who we suspect are the sub-tenant were seen. Tenant attended for interview and but denied sub-letting. Following the interview they surrendered the property.	None
2. (0134) Suspected sub-letting: Data matching highlighted tenant with credit history and that they were the liable party for council tax at a property in another borough. Tenant requested to attend for interview during which they admitted owning and living at another property. Following the interview the tenant surrendered the property.	None
3. (0136) Suspected abandonment: Data matching highlighted credit history at another property and further enquiries highlighted that the tenant previously held a mortgage on another property. Tenant requested to attend for interview and although initially denied having moved out, following the presentation of some evidence held and after consultation with their solicitor they provided a statement relinquishing all rights in the social housing property.	None
4. (0137) Suspected sub-letting: Investigation identified that tenant was also the liable party for council tax at a property in another authority. Tenant requested to attend for interview during which they admitted moving out and leaving their ex-partner (not a co-tenant) in the property. Notices served and tenancy terminated.	None
5. (0138) Suspected sub-letting: Data matching highlighted tenant with credit history at an address in Scotland. Despite numerous visits to the property the tenant was never seen. Tenant attended for interview, during which they admitted that they spent most of her time in Scotland where she had worked for 3 years, leaving their adult daughter in the property. Notices served and tenant gave vacant possession.	None
6. (0140) Suspected sub-letting: Data matching highlighted tenant with credit history and a mortgage at another property. Property visited and the occupant, who was not the tenant, seen who stated that they had resided at the property for six months. Tenant requested to attend for interview during which they stated that they worked away and that a relative was looking after the property whilst they were away. However, they admitted that they had not resided at the social housing property for more than 3 years whilst. Following the interview the property was recovered.	Criminal Prosecution under the Prevention of Social Housing Fraud Act being considered.
7. (0224) Suspected sub-letting: Data matching highlighted tenant with credit history at another property. Property visited, sub-tenant seen and witness statement obtained, they had seen the property advertised for rent on Gumtree in April 2014 and were paying £600 per month. Tenant interviewed and initially claimed that he was only taking in a lodger so they thought that it was ok. However, there wasn't sufficient room for the tenant so they moved in with their partner. Civil action taken and at Court possession granted, with tenant ordered to pay £900 in costs.	None

Offence/irregularity, sanctions and redress	Key outstanding actions
<p>8. (0150) Suspected false Right to Buy (RTB) application: Referred for investigation as a joint RTB application had been received when the current Council Tax liable party was in receipt of a Single Person Discount (SPD). Property visited, tenant seen along with two males who claimed to be just visiting but observations during the visit suggested that they, or other persons unknown, were residing in the property. A discussion with a neighbour suggested that the tenant had moved out approximately two years previously and that two males had been living there recently. Tenant interviewed; they denied sub-letting and claimed to have lived at the property for the previous 14 years with his wife and children. RTB application has been cancelled and with insufficient evidence to prove subletting case closed. SPD was cancelled resulting in £310.50 saving.</p>	None
<p>9. (0195) Suspected sub-letting: Data matching highlighted tenant with credit history at an address in Guildford, tenant had also submitted RTB application. Investigation identified that tenant had married in June 2015 and would appear to have moved into their partner's property in Guildford leaving an adult son in occupation. The RTB application was denied as tenant was no longer resident and re-possession proceedings commenced with Notices served.</p>	Continue to support recovery proceedings.
<p>10. (0371) Falsified Absence Record: A parent falsified a school's permitted absence authorisation documentation so that their child could attend a paid acting assignment. Parent attended for interview, apologised and admitted falsifying the permitted absence authorisation as they believed that they did not have sufficient time to obtain a genuine absence authorisation. Parent was issued with a formal written warning.</p>	None
<p>(0778) Abuse of Position: A property owner contacted the Council as they had become aware that the individuals who had rented his property had, against the terms of the rental agreement, sub-let the property to two vulnerable Merton clients. These clients had informed him that one of the individuals the owner had rented the property to was their Social Worker.(agency). Due to concerns over abuse of position the Police were notified and they arrested the Agency Social Worker, who was bailed whilst they complete their investigation. The Agency Social Worker's services were terminated and internal control arrangements are being reviewed.</p>	Finalise control review and liaise with the Police on their Criminal Investigation

FOREWORD

Protecting the London Public Purse 2015: fighting fraud against London boroughs

As the UK's capital and largest city, London is home to more than 8.6 million people living across its 33 boroughs. It is a vibrant, diverse and multicultural city, but it is also a magnet for fraud, with the boroughs and their residents suffering serious losses.

Over the past few years, local authorities across the country have had to absorb very significant cuts to public spending. These cuts mean that, more than ever before, London boroughs are expected to do more with less, with these trends set to continue for the foreseeable future. Reducing fraud is one way in which local authorities can make real savings, protect taxpayers' money and local services, and help those who are genuinely in need.

There have been other changes too. With the creation of the Single Fraud Investigation Service to tackle welfare fraud, local authorities have shifted focus away from housing benefit fraud towards non-benefit, corporate, risks. The Audit Commission is gone. So, too, has its annual national fraud survey and report which played an important role in fighting fraud locally.

At the same time, devolution means that local authorities have more power to make decisions about their local communities and how best to focus their resources. *Protecting the London Public Purse 2015* is a valuable tool to help London boroughs do this. By highlighting levels and types of detected fraud within the capital, it enables local authorities and councillors to better understand their fraud risks and target anti-fraud resources where they are most needed and can make the biggest difference to the lives of ordinary Londoners.

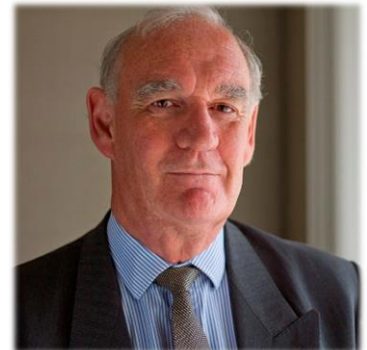
London boroughs seem to understand this well, with over 93% voluntarily responding to the survey. Good progress is being made, despite a reduced

investigative capacity. The future challenge is to continue this good work.

For many years the Fraud Advisory Panel has taken a keen interest in how fraud against the public purse is perceived and tackled. It is not a victimless crime and its impact is often felt most keenly by the vulnerable.

We commend the collaborative efforts of the London Boroughs Fraud Investigators Group and The European Institute for Combatting Corruption And Fraud, for picking up the mantle and building upon the foundations laid by the Audit Commission to identify trends in fraud detection, share best practice, and enable London authorities to benchmark against one another. We encourage other regions to follow suit.

David Kirk
Chairman
Fraud Advisory Panel



Kevin Campbell-Scott, Chair

London Boroughs' Fraud Investigators' Group

"I am pleased to be able to present this regional benchmarking report, the first of its kind. The Fighting Fraud Locally review in 2012 had a vision, which said 'By 2015 Local Government will be better able to protect itself from fraud and corruption and will provide a more effective fraud response'. I believe that this report demonstrates how London borough fraud teams are stepping up to the plate and helping to achieve this vision."

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SUMMARY AND RECOMMENDATIONS

This is the first Protecting the Public Purse type report exclusively for London (PLPP 2015) and the first such regional report for any region of the country. London boroughs are encouraged to use this unique analysis to challenge their own commitment in the fight against fraud in London.

PLPP 2015:

- enhances the national series of reports previously published by the Audit Commission;
- was commissioned by the London Boroughs' Fraud Investigators' Group (LBFIG) who identified the need for a London centric report;
- is the result of a collaboration between LBFIG and The European Institute for Combating Corruption And Fraud (TEICCAF); and
- sets a baseline from which to compare future benchmarking reports.

Detected corporate fraud increased by 5.3 %, while value increased to almost £50 million

Fraud committed against English councils continues to be a major issue. However, the evidence shows London to:

- be the most **transparent** and **accountable** region in the country in fraud detection;
- be the most **proactive** region in re-balancing the focus of resources towards corporate fraud risks; and
- proportionately detect more fraud than any other region.

In total, London boroughs' detected fraud value rose by 46 per cent with fewer cases of fraud in 2014/15 compared with the previous year. In particular:

- London is to be commended for this proactive shift from benefit to non-benefit (corporate) fraud detection.
- the number of detected cases of non-benefit (**corporate**) fraud increased by 5.3 per cent to nearly 17,000, while their value increased by nearly 129 per cent to almost £50 million;
- the number of detected cases fell by nearly 10 per cent to just over 19,500 while their value increased by more than 46 per cent to £73 million; and
- the number of detected cases of **housing benefit and council tax benefit** fraud fell by more than half to nearly 2,700, while their value fell by almost 17 per cent to nearly £23.5 million. This decline was expected as boroughs prepare for the implementation of the Single Fraud Investigations Service (SFIS)¹ by shifting focus to corporate fraud risks;

Overall detected fraud value increased by more than 46% to £73 million

Boroughs detected fewer housing tenancy frauds in 2014/15, but continue to disproportionately recover more council homes from tenancy fraudsters than the rest of the country. In particular:

- 1,618 **tenancy frauds** were detected, a greater than 10 per cent decrease on the previous year;
- nearly two thirds of tenancy frauds in London **are illegal sub-letting** for profit, the reverse of the situation in the rest of the country; and

¹ SFIS is a government initiative that will combine benefit fraud investigators from councils, the Department for Work and Pensions and Her Majesties Revenues and Customs into a single fraud investigation service. Council benefit fraud investigators began to transfer to SFIS on a council by council basis in April 2014 and the transfer will be complete in March 2016.

- five boroughs with housing stock each detected more than 100 tenancy frauds, while five boroughs with housing stock detected fewer than ten tenancy frauds.

Right to Buy (RTB) and No Recourse to Public Funds (NRPF) have emerged as major areas of fraud risk for boroughs. In particular:

- detected RTB fraud cases more than doubled to 300, while their value increased by more than 185 per cent to almost £26 million;
- at least **3 per cent** of RTB applications in London boroughs may be fraudulent, based on TEICCAF’s proxy indicators for such fraud;
- NRPF is a new sub-category of fraud. Relatively few London councils proactively targeted this type of fraud in 2014/15, yet there were still 432 cases detected in London with a value of over £7 million; and
- NRPF now constitutes one of the most significant types of fraud detected by London boroughs and is likely to increase significantly as more boroughs focus their attention on this issue.

London can have confidence in the actions taken and commitment shown by boroughs to tackle corporate fraud.

RECOMMENDATIONS

London boroughs should:

- celebrate and promote their performance in detecting fraud and corruption;
- use the free, individually tailored benchmark comparative analysis (available from autumn 2015 to all participating boroughs) to inform local understanding of fraud detection performance; and
- assess their exposure to RTB and NRPF fraud risks.

CHAPTER 1: INTRODUCTION

This is the first Protecting the Public Purse (PPP) report solely focusing on London boroughs. It has been developed by The European Institute for Combatting Corruption And Fraud (TEICCAF), on behalf of the London Boroughs' Fraud Investigators' Group (LBFIG). This is the first such regional report for any region of the country. LBFIG encourages London boroughs to use this unique analysis to challenge their own commitment and performance in the fight against fraud in London.

1. National *PPP* reports have played an important role in the fight against local authority fraud over the last 25 years. These reports identified trends in fraud detection, highlighted and disseminated good practice in tackling fraud and identified current and emerging fraud risks. Although regional trends in fraud detection were noted, no regional version of *PPP* was ever published.
2. The London Boroughs' Fraud Investigators' Group (LBFIG) commissioned the former counter-fraud team of the Audit Commission (now part of TEICCAF – The European Institute for Combatting Corruption And Fraud)² to conduct the annual detected fraud and corruption survey for London councils and publish the results.
3. Protecting the London Public Purse 2015 (*PLPP 2015*) is the product of that collaboration and sets a new benchmark against which London boroughs can make comparisons in fraud detection in future years.
4. *PLPP 2015* provides an analysis of fraud detected by London boroughs. The report identifies trends in current fraud risks, highlights emerging risks and places for the first time in the public domain comparative benchmark information for London councils.

² The European Institute for Combatting Corruption and Fraud (TEICCAF) is an independent, not for profit organisation working in partnership with public, private and voluntary sector organisations to support the fight against public and voluntary sector fraud.

5. This report will help to promote the fight against fraud and encourage locally elected members to recognise and celebrate the success of London boroughs that are playing their part protecting taxpayers' money and local services from fraud. *PLPP 2015* also provides information to help elected members effectively challenge the performance of those boroughs that can still do more.

6. Above all, *PLPP 2015* aims to help London boroughs better understand the fraud risks specific to the capital and provide a new London baseline comparison for future regional benchmarking activities. *PLPP 2015* provides:
 - key considerations fundamental to the successful interpretation of detected fraud and corruption data (Chapter 2);
 - a contextual national framework in which to compare London fraud detection performance with other English regions (Chapter 3);
 - the amount of detected fraud reported by London boroughs in 2014/15 compared with 2013/14 (Chapter 4);
 - an analysis of the performance of individual London boroughs in tackling specific fraud types (Chapter 5); and
 - an overview of two significant emerging fraud risks for London, Right to Buy and No Recourse to Public Funds (Chapter 6).

7. Appendix 1 to this report contains further information on the survey and extrapolation methodology. Appendix 2 provides a series of London fraud case studies.

THE MAIN ISSUES BOROUGHES FACE IN TACKLING FRAUD

8. London boroughs are best placed to understand how effectively they overcome barriers to fighting fraud. In this year's survey we asked boroughs to identify the top three issues they face in tackling fraud (Figure 1).

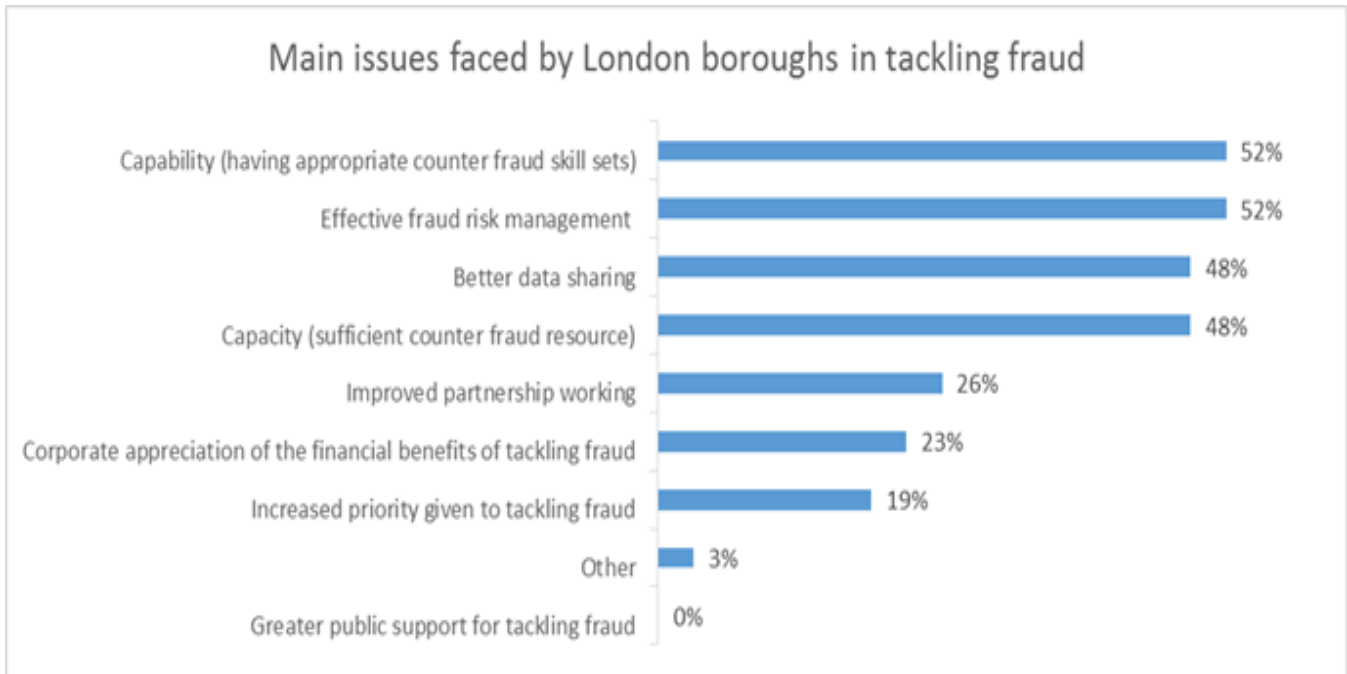


Figure 1: Main issues faced by London Boroughs’ in tackling fraud

9. The respondents on behalf of the London boroughs report that the two most significant potential issues to be addressed in order for them to effectively tackle the risk of fraud are capability and effective fraud risk management. In particular, *PLPP 2015* provides benchmark comparative information to help boroughs inform their own fraud risk strategies to address London-specific risks.

10. The results in *PLPP 2015* should be considered in the context of a significant national shift in local authority counter-fraud focus. The advent of the Single Fraud Investigation Service (SFIS) has been a positive driver and has required councils to focus resources away from housing benefit fraud and towards all the corporate (non-benefit) fraud risks they face. From a local taxpayer and local service user perspective this should be welcomed. This shift may represent concerns around capability in the immediate term as boroughs look to ensure that investigators have the necessary skillsets to tackle new fraud risk areas.

11. Although tackling housing benefit fraud is important, non-benefit frauds have a far greater financial impact on local people and local taxpayers. *PPP 2014*

concluded that London was the most proactive of all the regions in addressing this developmentⁱ.

12. Our evidence suggests that London continues to lead the way. Almost 94 per cent of London boroughs now have a corporate fraud team, compared to just over 37 per cent outside Londonⁱⁱ. This is a remarkable achievement by London and shows there is still significant capacity to counter fraud across London.

13. *PLPP 2015* explores other London-specific developments and trends in more detail. Chapter 2 provides contextual information to assist the interpretation of detected fraud and corruption information for London.

CHAPTER 2: INTERPRETING FRAUD DETECTION RESULTS

Fraud detection results provide only part of the overall picture of how effective regions, and individual councils, are in tackling fraud. Detection results can be open to misinterpretation. Counter-intuitively, our experience shows that those councils that detect the most fraud are often among the most effective at fraud prevention and deterrence. Generally, local authorities with particularly high levels of non-benefit fraud detection have a strong corporate commitment to the fight against fraud and are often the most proactive and innovative in their approach. London has specific socio-economic and demographic factors that suggest certain fraud risks may be more acute in the capital.

14. There are a number of factors that affect the level of fraud councils detect. These include:

- the level of fraud committed locally, often influenced by a number of socio-economic and demographic factors;
- the effectiveness of fraud prevention arrangements and deterrence strategies;
- the resources applied to identify and investigate such fraud (capacity);
- the successful detection by councils as a result of the skills, knowledge and experience of investigators (capability) ; and
- improved methods of recording fraud.

15. Interpreting fraud detection results can be difficult and lead to misunderstanding. Myths have developed over time, that have acted as a barrier to effective counter-fraud activity. For example, the myth that little or no fraud detected implies that little or no fraud is being committed.

16. Based on the experience in tackling London-specific frauds it is believed that:

- boroughs that look for fraud, and look in the right way, will detect it;
- fraud affects every borough, although local socio-economic and demographic factors will impact on the type and level of fraud in different boroughs;
- fraud prevention and deterrence strategies can reduce the risk of fraud, but some fraud will always be committed;
- boroughs that report little or no detected non-benefit fraud are generally at higher risk of exposure than those that detect significant levels of fraud; and
- fraud detection levels provide a useful indicator as to the level of commitment to tackle fraud.

17. These are important factors when interpreting fraud detection results. In addition, different types of fraud will also require different fraud prevention, detection and deterrence strategies. This will depend in part on whether they are high volume/low value frauds such as blue badge or low volume/high value frauds such as procurement.

18. In this chapter we now consider some of the socio-economic and demographic factors specific to London and their implications for counter-fraud priorities in the capital.

LONDON-SPECIFIC FACTORS AND HOW THEY AFFECT FRAUD RISKS

19. London's response to fraud is dependent on both national and local factors. In Table 1 we compare London to the rest of the country in relation to just a few socio-economic and demographic factors. We suggest the implications of these differences on the risks of fraud in the capital.

Table 1: How London compares to the rest of England on a selection of demographic and socio-economic factors

Category	London	England	Fraud risk implications
Number of households in temporary accommodation	47,020	61,970	London accounts for more than two thirds of all households in temporary accommodation. Specific fraud risk – Tenancy
Average cost of property in 2014	£470,000	£162,000	Suggests greater demand for social housing. Specific fraud risks – Tenancy and Right to Buy
Average weekly private sector rents in 2013/14	£281	£145	Suggest the difference between private and public sector rental levels is greatest in London. A financial incentive for sub-letting fraud. Specific fraud risk – Tenancy
Long term international migration. Turnover per 1,000 residents population in 2013	31.0	13.4	Higher turnover of London population. Potentially more transient. Suggest likely to have greater local public service requirements and access to public funds. Specific fraud risk area – No Recourse to Public Funds
Internal migration. Turnover per 1,000 resident population in 2013	53.3	3.8	Suggests higher public housing stock demand and turnover. Fraud risk areas – Tenancy and Right to Buy

20. Local priorities will of course determine individual boroughs' counter-fraud strategies. However, Figure 2 does in part explain the greater focus that London has on tenancy fraud and other developing areas of fraud such as Right to Buy (RTB) and No Recourse to Public Funds (NRPF). It is encouraging that London boroughs' fraud detection results align generally with the areas of greatest London-specific risk.

21. This chapter provided a framework against which readers can interpret and contextualise the fraud and corruption detection results in later chapters. In Chapter 3 we consider how London compares to the rest of the county.

CHAPTER 3: LONDON COMPARED TO NATIONAL FRAUD DETECTION PERFORMANCE

London is the most proactive region in England in tackling fraud. In recent years London has consistently detected proportionately more fraud than the rest of English local government.

22. English local government is more transparent and accountable in fraud detection performance than any part of the UK public, private or voluntary sectorsⁱⁱⁱ. London has continued this commitment by being the only region in England to publish a PPP style report this year. London region, and participating individual boroughs, are to be commended for this commitment.

HOW LONDON COMPARES WITH THE REST OF THE COUNTRY

23. London consistently detects more fraud than most other regions of the country, proportionate to the council spend in those regions (Table 2, below).

Table 2: Detected frauds, losses and spend 2014/15 and 2013/14 by region

Regions	Spend by region as % of total council spend	% of total value of all detected frauds 2014/15	% of number of all cases of detected fraud 2014/15	% of total value of all detected frauds 2013/14	% of number of all cases of detected fraud 2013/14
London	18.2	35.3	23.1	27.1	20.8
East of England	10.3	10.6	12.1	9.9	10.3
East Midlands	7.7	5.1	7.0	6.4	8.6
North East	5.4	4.3	5.4	4.1	6.5
North West	13.6	10.3	8.1	10.9	8.3
South East	15.0	13.0	15.5	14.5	15.7
South West	9.1	6.5	7.9	9.0	9.6
West Midlands	10.8	8.0	9.9	9.8	12.5
Yorkshire and Humber	10.1	6.9	10.9	8.3	7.7

Source: Audit Commission, TEICCAF and LBFIG³

³ Data sources for Table 2 are Audit Commission report Protecting the Public Purse 2014, LBFIFG detected fraud and corruption survey 2014/15 for London and TEICCAF detected fraud and corruption survey for English councils 2014/15

24. London accounts for 18.2 per cent of total local authority spend in England, yet in 2014/15 accounted for 23.1 per cent of fraud cases detected and 35.3 per cent by value detected. The disproportionately higher number of cases of fraud detected, and their associated values, reflects a trend first noted in PPP 2012. It suggests a level of commitment and investment in tackling fraud that other regions should seek to emulate.

FRAUD DETECTION SURVEY PARTICIPATION RATE

25. In the TEICCAF report Protecting the English Public Purse 2015 (PEPP 2015), the participation rate of councils in the voluntary national detected fraud and corruption survey is used as a proxy indicator of the commitment of regions and individual councils to tackle fraud^{iv}.

26. We acknowledge that there were many reasons why some boroughs may have chosen not to participate in the LBFIG detected fraud and corruption survey. LBFIG encourages councils to demonstrate their commitment to tackling fraud by taking part in future surveys.

27. We also believe that the benchmark data that the survey provides is beneficial to London boroughs, locally elected members and the wider public in understanding the effectiveness and commitment of their local authority to the fight against fraud and helps provide an evidence base to support the importance of continuing counter-fraud work.

28. We note that London region achieved a 93.9 per cent participation rate in the survey^v. The next best region in England achieved 67.9 per cent^{vi}. Nationally TEICCAF report that 59.5 per cent of all councils participated in the survey^{vii}. This highlights London's strong regional commitment to tackling fraud. We would encourage the London boroughs that did not participate in the survey to do so in the future, so that they can benefit from the sharing of such information.

29. Based on fraud detection performance over several years, combined with participation levels in our detected fraud survey this year, London can reasonably

argue to be the most effective, transparent and accountable region tackling fraud in English local government.

30. In the next chapter we consider in detail the main types of fraud detected by London boroughs in 2014/15.

CHAPTER 4: LONDON BOROUGHS' DETECTED FRAUD

London boroughs detected fewer cases of fraud in 2014/15 compared with previous year. However, the value of losses from detected fraud has increased significantly.

31. Previous *PPP* reports were able to draw upon data collected by the Audit Commission's annual detected fraud and corruption survey for local government bodies. This was a mandatory survey that achieved a 100 per cent response rate and each council's auditor validated its return.

32. In 2015 LBFIG commissioned the former counter-fraud team of the Audit Commission (now part of TEICCAF) to undertake a voluntary fraud and detection survey for London. TEICCAF, a not for profit organisation, does not have the powers to mandate the collection of such data. Thus *PLPP 2015* is based upon a voluntary self-completion survey, in which questionnaires were sent to each London borough. A full description of the methodology used is in Appendix 1.

33. Nearly all London boroughs (93.9 per cent) participated in the voluntary detected fraud and corruption survey this year. From these results, and drawing upon publicly available information sources on historical trends in fraud detection by London boroughs, we are able to extrapolate a comprehensive overview of detected fraud for all of London. These results:

- map the volume and value of different types of detected fraud
- provide information about emerging and changing fraud risks; and
- help to identify good practice in tackling fraud.

34. London boroughs detected fewer frauds in 2014/15 (19,513) compared to the previous year (21,606) (Table 3). However, the value of fraud detected in 2014/15 increased over the previous year, rising from £49,921,000 to £73,086,000. This is the highest value of detected fraud in London since the collection of detected fraud data began with the first *PPP* over 25 years ago.

Table 3: London detected fraud and corruption 2014/15 and 2013/14 (excluding housing tenancy)

Type of fraud	Detected fraud in 2014/15 (excluding tenancy fraud)	Detected fraud in 2013/14 (excluding tenancy fraud)	Change in detected fraud 2013/14 to 2014/15 (%)
Total Fraud			
Total value	£73,086,000	£49,921,000	46.4
Number of detected cases	19,513	21,606	-9.7
Average value per case	£3,745	£2,310	62.1
Housing and council tax benefit			
Total value	£23,472,000	£28,247,000	-16.9
Number of detected cases	2,795	5,734	-51.3
Average value per case	£8,398	£4,926	70.5
Council tax discounts			
Total value	£4,931,000	£3,686,000	33.8
Number of detected cases	13,144	12,502	5.1
Average value per case	£375	£295	27.1
Other frauds			
Total value	£44,683,000	£17,987,000	148.4
Number of detected cases	3,574	3,370	6.1
Average value per case	£12,502	£5,337	134.3
<i>Source: Audit Commission and LBF⁴</i>			

⁴ Source includes historical information published by the Audit Commission including public presentations and the series of Protecting the Public Purse national reports as well as the LBF⁴ 2014/15 detected fraud survey.

35. The near 10 per cent reduction in the total number of cases detected is largely driven by a fall of more than half in the number of detected cases of housing benefit (HB) and council tax benefit (CTB). This decline in cases of HB and CTB fraud detected in 2014/15 reflects a trend first reported in PPP 2013. This is likely to continue as the responsibility for investigating HB and CTB fraud migrates in stages from boroughs to the Department for Work and Pension's Single Fraud Investigation Service (SFIS). This will be completed by March 2016.
36. The increase in the average value of detected HB and CTB cases may also be an indication that those London boroughs still investigating HB and CTB fraud are focusing on higher value frauds. This is an understandable development, but may indicate that they are generally not investigating lower value HB frauds. This response to the SFIS transfer process was to be expected.
37. Over a number of years London boroughs have increasingly changed the focus of their counter-fraud activities towards non-benefit (corporate) frauds. Our analysis of the volume and value of national detected fraud levels suggests London is responding well to this shift in activity (see Chapter 5).

NON- BENEFIT FRAUD

38. Table 4 highlights the nine main fraud types in the 'Other' group in Table 3⁵. Between them, they account for almost £40 million of the £73.1 million detected by London boroughs in 2014/15.

⁵ This excludes housing tenancy fraud, which is analysed separately.

Table 4: Other frauds against London boroughs in 2013/14 and 2014/15

Fraud type	Number of cases 2014/15	Value 2014/15 (£ million)	Number of cases 2013/14	Value 2014/15 (£million)	Change in number of cases 2013/14 to 2014/15 (%)	Change in value 2013/14 to 2014/15(%)
Right to Buy (RTB)	300	£26,462,530	131	£9,260,198	129.0	185.8
No Recourse to Public Funds	432	£7,040,264	N/A	N/A	N/A	N/A
Procurement	7	£1,816,576	29	£871,310	-75.9	108.5
Insurance	43	£1,374,692	41	£1,560,406	4.9	-11.9
Abuse of position	52	£714,160	53	£1,261,536	-1.9	-43.4
Social Care	31	£704,643	200	£1,483,844	-84.5	-52.5
Disabled parking concessions (Blue Badge)	1,078	£539,000	1,779	£889,500	-39.4	-39.4
Payroll and employee contract fulfilment fraud	35	£514,568	61	£384,858	-42.6	33.7
Economic and third sector support fraud	19	£501,860	11	£303,813	72.7	65.2

Source: Audit Commission⁶ and TEICCAF

⁶ This includes analysis of London specific counter fraud detection in 2013/14 put in the public domain by former Audit Commission employees at national and regional conferences and forums.

39. Interpreting these results can be problematic, as annual percentage changes in results can be affected by a few costly frauds in either year. Procurement fraud is an example of this. The number of such detected fraud cases fell by nearly 76 per cent, but their value increased by almost 110 per cent.

40. For all cases of non-benefit fraud, including those not included in Table 4, there has been a 5.3% rise since 2013/14, while the overall value has risen by 128.9 per cent. This is a large year-on-year increase in values from a small increase in cases. This suggests that London boroughs are seeking to use their counter-fraud resources to target frauds with the highest monetary risk.

41. RTB has shown the greatest increase in both detected cases and value. Of most interest is the advent of 'No Recourse to Public Funds' (NRPF) as a major fraud risk. The 2014/15 detected fraud survey is the first year we have specifically included NRPF as a separate fraud detection category. This was in response to London investigators who first alerted us to this issue. We will consider both RTB and NRPF in more detail in Chapter 6.

HOUSING TENANCY FRAUD

42. London continues to lead the country in detecting housing tenancy fraud. We define housing tenancy fraud as:

- subletting a property for profit to people not allowed to live there under the conditions of the tenancy;
- providing false information in the housing application to gain a tenancy;
- wrongful tenancy assignment and succession where the property is no longer occupied by the original tenant; or
- failing to use a property as the principal home, abandoning the property, or selling the key to a third party.

43. London recovered 1,618 council homes from tenancy fraudsters in 2014/15, a decrease of 10.5 per cent (see Table 5). Within London most tenancy frauds are illegal sub-letting. This differs from the rest of the country, where abandonment and non-occupation as the principal home are the most common^{viii}.

Subletting tenancy fraud properties recovered 2014/15	Subletting tenancy fraud properties recovered 2013/14	Percentage change 2013/14 to 2014/15 (%)
1,057	1,146	-7.8
Other tenancy fraud properties recovered 2014/15	Other tenancy fraud properties recovered 2013/14	Percentage change 2013/14 to 2014/15 (%)
561	661	-15.1
Total properties recovered 2014/15	Total properties recovered 2013/14	Percentage Change in Total properties recovered
1,618	1,807	-10.5
<i>Source: TEICCAF and PPP 2014</i>		

Table 5: London boroughs tenancy fraud in 2014/15 and 2013/14

44. Nationally, London accounts for more than half of all properties recovered in 2014/15^{ix}. However, London only has just over a quarter (26.8%) of the council house stock of England. This disproportionately strong performance reflects in part that London boroughs have been more pro-active in adopting good practice in tackling such fraud.

45. This chapter summarises the main areas of fraud detection by London as a whole. The next chapter highlights how individual boroughs compare.

CHAPTER 5: INDIVIDUAL LONDON BOROUGHS' FRAUD DETECTION PERFORMANCE

While London as a region continues to take significant strides forward in the fight against fraud, some individual boroughs can still do more to tackle fraud and achieve the results of the best performing London councils.

46. This chapter highlights how well individual London boroughs detected specific fraud types in 2014/15. Each borough will focus its scarce investigative resources on different fraud types from year to year, as befits a risk-based approach. This means, however, that the 'snapshot' of fraud detection in the capital we highlight in this chapter may change in the future. We encourage London boroughs, and especially their elected members, to consider longer term trends in fraud detection at their own councils.

47. In Figure 2 below, each bar represents an individual London boroughs' total detected fraud cases for the 2014/15 financial year. The line shows the total value of those frauds. One London borough detected 2,582 cases valued at £9,714,562. The average number of cases detected for the participating boroughs was 608. The average value was £2,125,180.

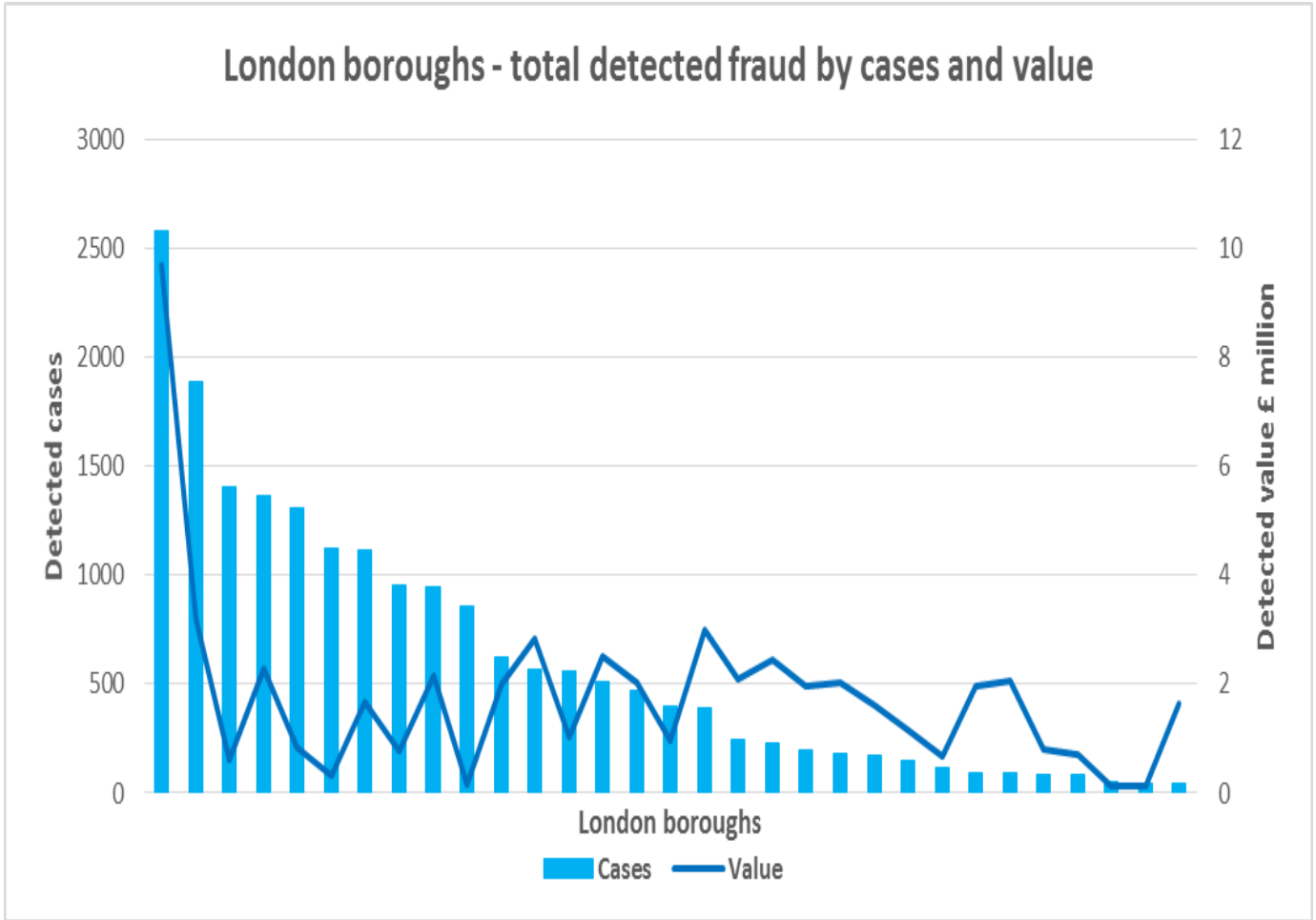


Figure 2: London boroughs: total detected fraud cases and value

48. In Figure 3 we show the detected cases and values of Housing benefit (HB) fraud for all London boroughs. London, like the rest of the country, is in a period of transition as the detection of HB fraud migrates from councils to SFIS (see Chapter 1).

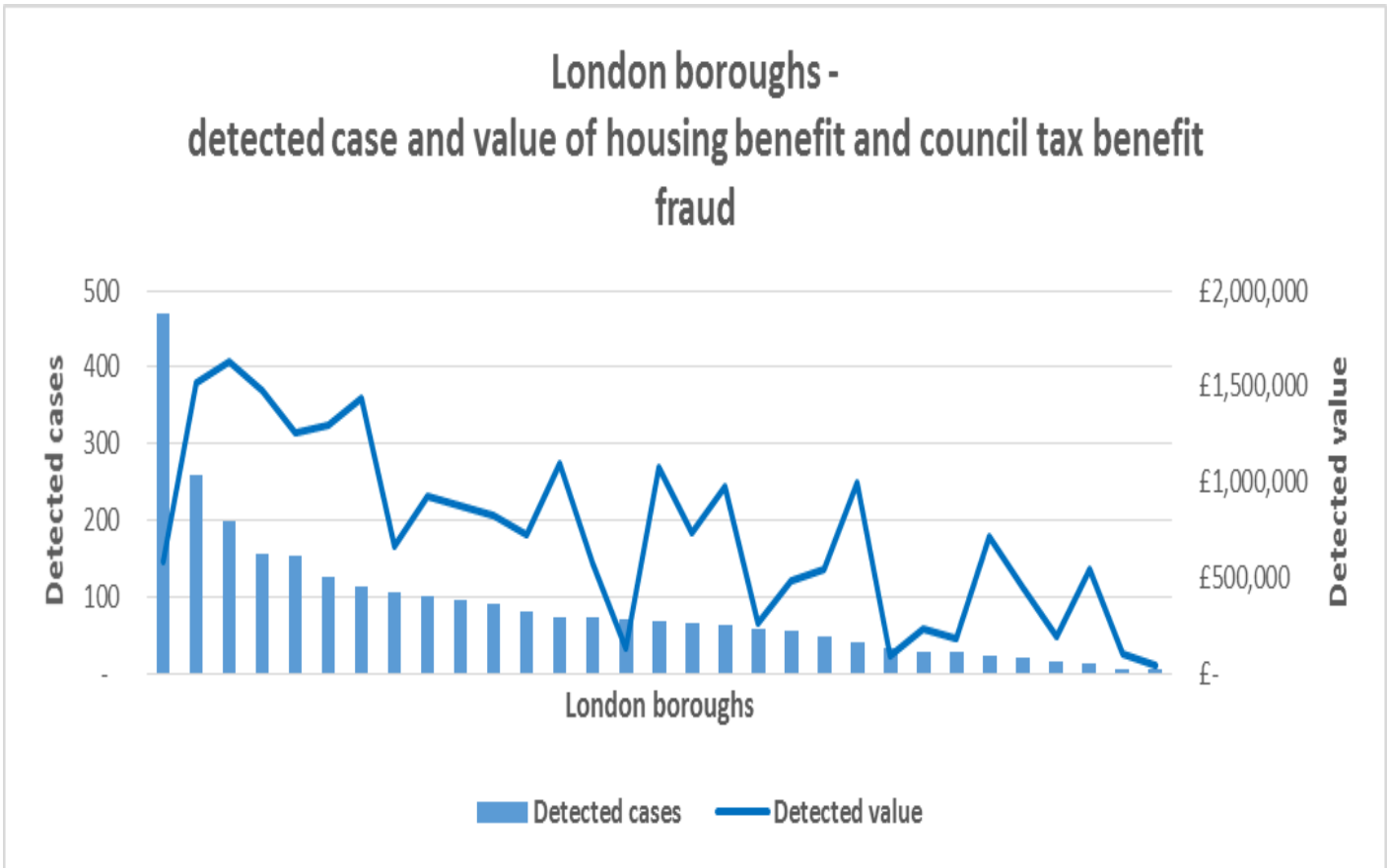


Figure 3: London boroughs – detected cases and value of housing benefit and council tax benefit fraud

49. Tackling HB fraud will no longer be the responsibility of London boroughs from early 2016. Thus, the remainder of this chapter will focus on the main areas of non-benefit (corporate) fraud. This is summarised in Figure 4.

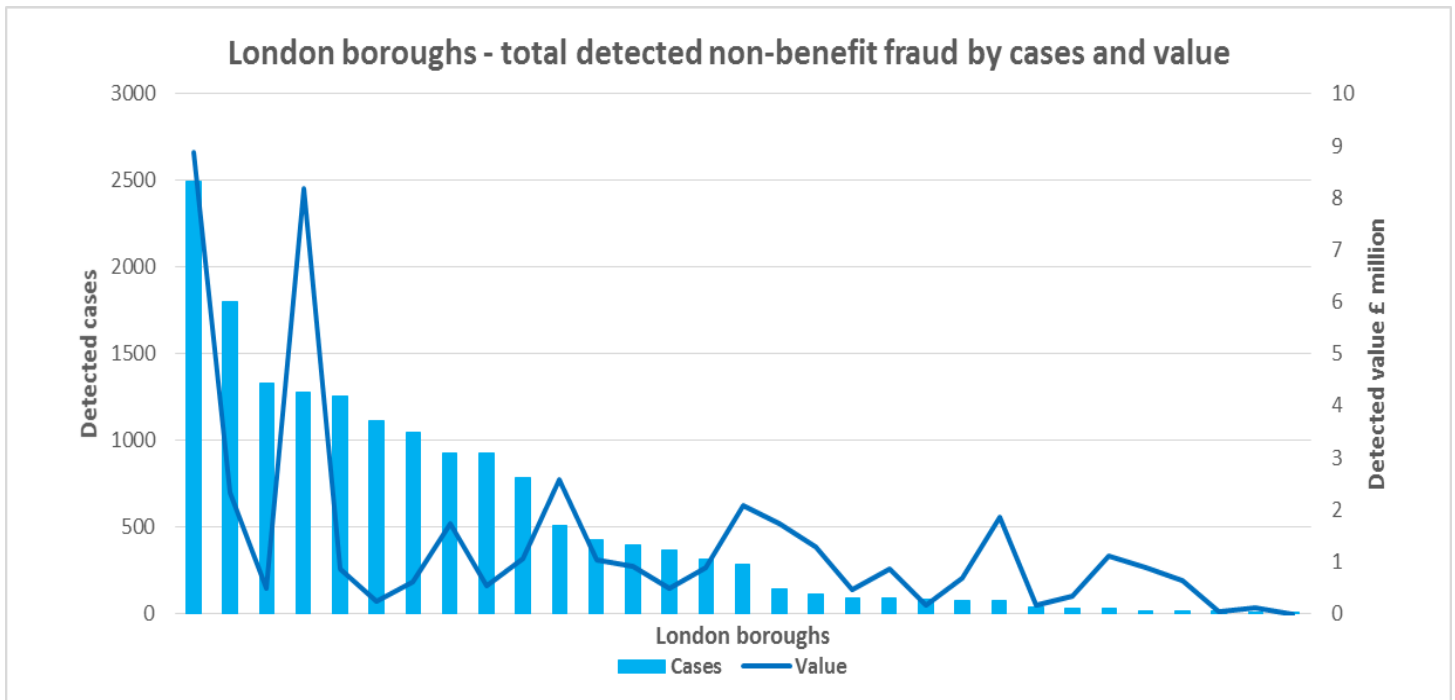


Figure 4: London boroughs – total non-benefit fraud by cases and value

50. One London borough detected more than 2,400 cases of non-benefit frauds, worth £8.9 million. This is commendable. However, Figure 4 also shows wide variation in performance among councils, which suggests there is scope for improvement across the capital as a whole.

51. In particular, we note that five boroughs detected fewer than 20 cases of non-benefit fraud in 2014/15. Those boroughs should accelerate the re-focusing of their counter-fraud activities towards corporate fraud risks.

52. Council tax (CTAX) discount fraud directly impacts on the amount of tax some Londoners pay every year to their local borough. Between 4 per and 6 per cent of claims for the most common form of discount, Single Person Discount, are fraudulent^x.

53. In Figure 5, each bar represents the number of CTAX discount frauds each London borough detected. Interpreting just one year of CTAX discount fraud results can be problematic. As a high volume/low value fraud risk area, boroughs sometimes adopt strategies that place greater emphasis on tackling such fraud in different years. This is a reasonable approach to adopt designed to maximise the value for the boroughs concerned.

54. We note that nine boroughs report detecting less than 10 cases of all types of CTAX discount fraud in 2014/15. By comparison six boroughs detected more than 1,000 cases. We encourage elected members to satisfy themselves that their individual borough has a proactive strategy to tackle CTAX discount fraud and are accurately recording such fraud as fraud.

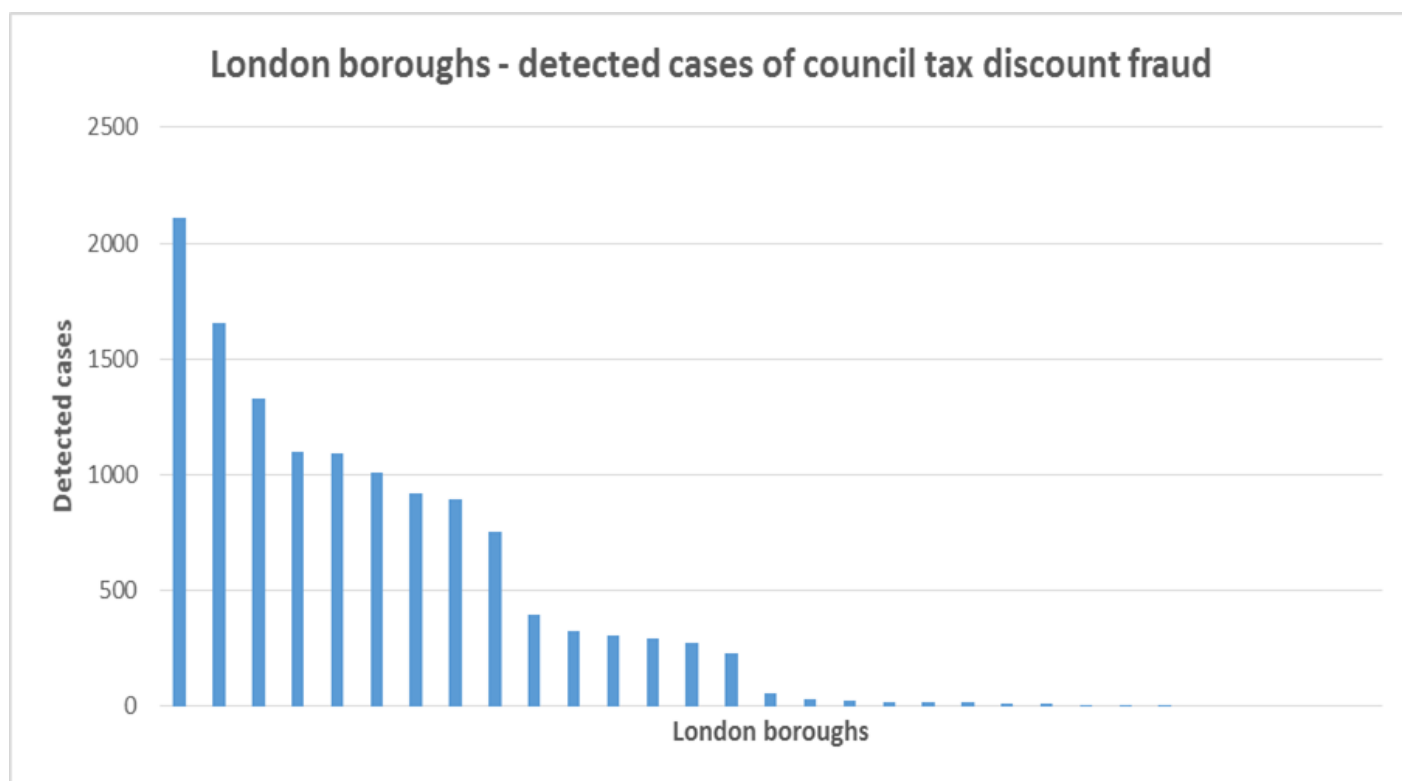


Figure 5: London boroughs – detected cases of council tax discount (CTAX) fraud

55. Chapter 2 identified social housing fraud as a major risk for London. Chapter 3 highlighted how well London as a region has performed in detecting such frauds. In Figure 6 below, we highlight how well individual boroughs have performed.

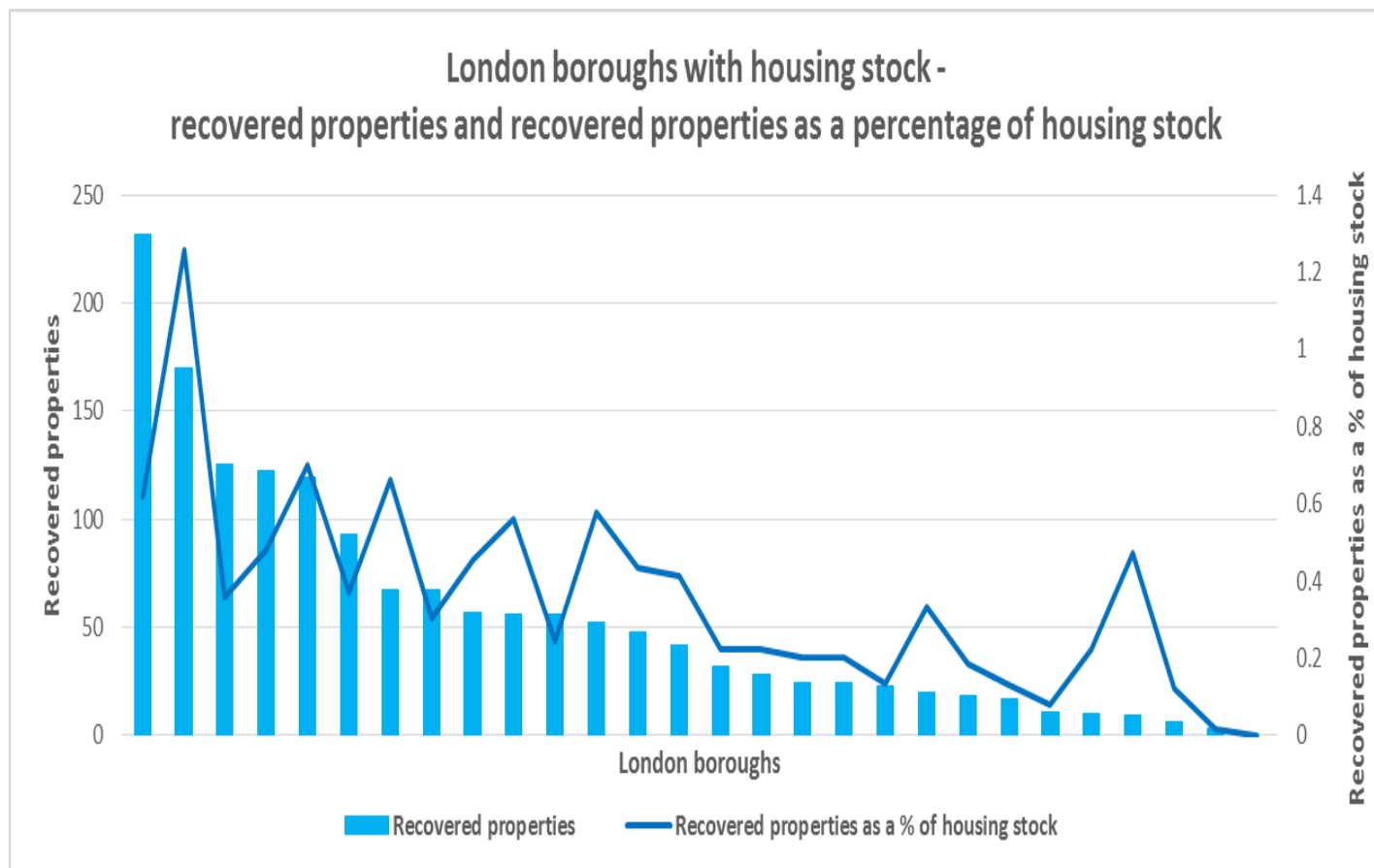


Figure 6: London boroughs with housing stock – recovered properties and recovered properties as a percentage of housing stock

56. In Figure 6 each bar represents the total number of council homes recovered from tenancy fraudsters by London boroughs with housing stock in 2014/15. The line shows the number of tenancy frauds detected as a proportion of housing stock at each council, providing contextual benchmark information.

57. If all boroughs commit the same amount of resource to tackle tenancy fraud proportionate to their housing stock, the connecting line should be horizontal. It is not. This suggests that there is variation in the performance of individual London boroughs.

58. We note that five boroughs with housing stock detected fewer than ten tenancy frauds. There may be local factors to explain this performance, but it suggests that more can be done at those councils to prioritise tackling tenancy fraud.

59. This is perhaps surprising as most London boroughs with housing stock received non-ring fenced funding by the Department of Communities and Local Government to tackle such fraud (£100,000 per borough covering the 2014/15 financial year). It is also notable that five boroughs with housing stock each detected more than 100 tenancy frauds.

60. We encourage London boroughs to use this information to better understand the fraud risks they face, to challenge fraud detection performance and to inform their own proportionate response to local fraud risks.

61. Above all we encourage elected members at those London boroughs that have detected significant levels of non-benefit fraud to celebrate those achievements and the contribution that fighting fraud makes to vital public services and local taxpayers. It is by recognising and rewarding good performance in fraud detection that public confidence in council stewardship of public funds can be enhanced. PLPP 2015 provides a robust and publicly available evidence base to strengthen public confidence in the counter fraud activities of London boroughs.

RESPONSIBLE TRANSPARENCY IN FRAUD DETECTION

62. The charts included in this report do not specifically identify individual boroughs. We believe that would be irresponsible transparency as such information could be used by fraudsters to their advantage. However, we will provide an individually tailored comparative analysis to all participating boroughs later this year, to help inform their own understanding of local risks and to benchmark their performance against their neighbours.

63. This chapter has highlighted the fraud detection performance of individual London boroughs. In the next chapter, we consider emerging fraud risks and good practice.

CHAPTER 6: EMERGING FRAUD RISKS FOR LONDON – RTB AND NRPF

RTB and NRPF frauds account for most of the increase in the total value of fraud detected by London boroughs in 2014/15. However, these are relatively little known frauds. TEICCAF's proxy indicator of RTB fraud suggests that at least 3 per cent of London borough RTB applications are potentially fraudulent. NRPF has quickly emerged as a potentially significant fraud risk for London.

64. In Chapter 4 we identified RTB and NRPF as two emerging fraud risk categories deserving of further consideration.

RIGHT TO BUY (RTB) FRAUD

65. In 2012, the government relaxed the qualifying rules and raised the discount threshold for Right to Buy (RTB) in relation to council homes. This encouraged greater opportunity for council house tenants to own their own home.

66. The significant sums involved and the relentless increases in property values, especially in London, have made RTB discounts highly attractive, including to fraudsters^{xi}. In the two years immediately after the discount increase was implemented, there was a near five-fold increase in the number of RTB frauds detected nationally.

67. There is currently no nationally accepted estimate of the scale of RTB fraud. To help address this gap in understanding, TEICCAF have developed a proxy indicator to estimate the potential level of RTB fraud. This uses known trends in detected RTB fraud levels combined with Department for Communities and Local

Government publicly available information sources. Further detailed information on the TEICCAF approach is published by in PEPP 2015 this year.

68. By interpreting the resulting analysis, both nationally and for London, and by triangulating those findings with housing tenancy fraud research specific to London, the evidence suggests that at least 3 per cent of London RTB discount applications are subject to fraud.

NO RECOURSE TO PUBLIC FUNDS (NRPF) FRAUD

69. NRPF fraud involves people from abroad who are subject to specific immigration controls which prevent them from gaining access to specific welfare benefits or public housing.

70. However, families who have NRPF may still be able to seek assistance, housing and subsistence from their local authority whilst they are awaiting or appealing a Home Office decision on their status (Children's Act 1989, Children Leaving care Act 2000 and National Assistance Act 1948).

71. Individuals concerned have, on occasion, been able to deceive councils into providing welfare and other state assistance. In some cases this appears to have been done by claiming family status with children who, on further enquiry, may not be their own. NRPF is a locally administered scheme, thus creating the potential for multiple claims at different councils using the same alleged 'family'.

72. Boroughs tell us that applications for financial assistance from families with NRPF have started to rise quite dramatically in recent times. Five boroughs undertaking a pilot exercise in London estimate that the annual NRPF cost to them is approximately £22 million per year. Leading commentators suggest that the average cost to the local taxpayer to support one NRPF family is approximately £25,000 per family per year. Some boroughs report over 400 such NRPF cases.

73. In the first year of separately recording this category of fraud, London boroughs detected in total 432 cases valued at more than £7 million. This already constitutes one of the largest value fraud types detected in London. Our analysis indicates some boroughs have yet to look for such fraud, suggesting that far more such fraud could be detected.

74. Boroughs are at a relatively early stage in understanding the nature and scale of NRPF fraud. However, some early preventative work is enlightening. One borough, concerned about the potential fraud risk, changed the application process. All new NRPF applicants are now subject to both identity document scans and credit checks. The borough reports that on being informed that such checks will be undertaken, approximately 10 per cent of new claimants withdrew their application. Not all of these will be fraudulent, but this does suggest the potential scale of such fraud now confronting London.

75. TEICCAF and LBFIFG urge the government to prioritise the fight against NRPF fraud. In particular to engage with and incentivise London boroughs to increasingly focus on this fraud risk and to undertake research to better understand the nature and scale of this emerging fraud.

CONCLUSIONS

76. London can have confidence in the actions taken and commitment shown by boroughs to tackle corporate fraud. Compared to the rest of England, London is the most transparent, accountable, and (proportionate to annual spend) successful fraud detection region in the country. London has also been proactive in responding to the impact of SFIS and the need to re-focus resources towards corporate fraud risks.

77. However, some boroughs can still do more to achieve a proportionate response to current and emerging fraud threats. In particular, London boroughs should remain vigilant to emerging fraud threats such as RTB and NRPF frauds.

APPENDIX 1: DATA COLLECTION APPROACH AND EXTRAPOLATION METHODOLOGY

1. In previous years the Audit Commission used its powers to mandate all local government bodies in England to submit information and data on detected fraud and corruption annually (the survey). As a result the survey achieved a 100 per cent submission rate.
2. TEICCAF and LBFIF do not have similar powers. The 2014/15 London boroughs detected fraud and corruption survey is voluntary. However, we are able to draw upon the extensive knowledge and experience of the (former) Audit Commission counter fraud team that had created and delivered the original national detected fraud survey and *PPP* reports.
3. This team are able to draw upon a unique understanding of over six years of survey and fraud intelligence submissions by every local government body in England. This has been used to put in place arrangements that ensures quality, validity, accuracy and robustness of the data submitted.
4. Information sources used include previous *Protecting the Public Purse* reports, other Audit Commission national publications and other conference, seminar and fraud forum presentations and supporting analysis by the former counter fraud team of the Audit Commission. All of these are available in the public domain. They have been extensively utilised to inform longer term trends in the report as well as to assess the accuracy and completeness of individual data submissions.
5. In addition weighted extrapolation was undertaken to inform regional results where appropriate. Where a council has not participated in the survey, we have used weighted trend data to calculate their results.

APPENDIX 2: LONDON CASE STUDIES

Case Study 1: Prevention of Right to Buy Fraud

A doctor attempted to obtain a social housing property from a London borough under the Right to Buy scheme by falsely claiming he lived at the property. The doctor instead had sub-let the property. The case was first brought to London borough fraud investigators' attention when it was suspected that the property was being sublet in breach of the tenancy agreement.

The investigation discovered that the doctor was living with his wife in Essex. His wife owned the Essex property, he was registered to vote there and used this address to register with the NHS. Had the Right to Buy application been successful the doctor would have received a £100,000 discount.

In court, the doctor pleaded guilty to failing to disclose he was not living at the London property. He was sentenced to 80 hours unpaid work, ordered to pay costs of £3,000 and a victim surcharge of £60. In addition, there was an additional £7,321 awarded to the borough. The court ordered that he should surrender his tenancy.

Case Study 2: Right to Buy Fraud

A woman purchased her social housing property from a London borough in 2003, stating that the property was her only principal home. She received a £38,000 discount under the Right to Buy scheme. Over time she fell into council tax arrears and was being pursued by the borough for outstanding council tax debts. As a means of proving to the borough that she did not owe the money, she produced copies of tenancy agreements showing that she had rented out the property to tenants. Therefore she claimed it was her tenants who owed the council tax, not her.

However, the tenancy agreements she produced dated back to 2001. This showed that as a council tenant she had been unlawfully subletting her social housing property. Thus at the time she purchased the property from the council, she was not living there and therefore was not eligible for RTB discount.

London borough fraud investigators subsequently established that the woman had been living in Essex with her husband since 1994. In the Crown Court, she was found guilty of two offences under the Theft Act. The woman was sentenced to 18 months in prison.

Case Study 3:

London borough and Housing Association working together to combat tenancy fraud

A man had been the tenant of a social housing property since 1996. A local housing association was the landlord, following the transfer of London borough housing stock to the association.

In 2014, the tenant unlawfully sublet the property, stating to his tenants that the property was actually privately owned. However, these new 'tenants' became aware that the property was in fact owned by a housing association. They contacted the housing association who in turn contacted the council and asked them to investigate the matter on their behalf. London borough fraud investigators gathered sufficient evidence to prosecute the man under the Prevention of Social Housing Fraud Act 2013.

The man was found guilty in his absence and fined £1,000 and £500 costs. The housing association is in the process of recovering the property under civil proceedings from the tenancy fraudster.

Case Study 4:

No Recourse to Public Funds

A woman who, due to her immigration status, had no recourse to public funds used false identification to obtain a council social housing property and housing benefit from a London borough. Even after she had obtained British citizenship she continued with the deception to ensure she kept the property.

After finally being caught out, she pleaded guilty to a number of fraud related offences and was sentenced to 2 years in prison. The criminal benefit, that is the difference between paying rent on a social housing property and a similar property in the private sector, was £127,000. The council has recovered the property.

Currently there is a ten year housing waiting list for a similar property in the borough.

Case Study 5:

Tenancy Fraud

A doctor applied to buy his social housing flat from a London borough under the Right to Buy scheme. Under the scheme the doctor was entitled to a £75,000 discount. However, during the valuation process London borough officers became suspicious that the doctor and his family were not using the flat as their main home. The matter was referred to the boroughs' fraud investigators. The subsequent investigation discovered that the flat had been unlawfully sublet and the doctor and his family instead lived in North Wales.

In court, the doctor argued that he had merely been trying to help the people he had sublet the flat too. However, the Judge in his sentencing described the doctor's actions as a "piece of thoroughly dishonest behaviour".

The fraudster was sentenced to 135 hours of unpaid work and had to pay £7,613 in costs. The council repossessed the flat.

Case Study 6:

Schools Fraud and using the Proceeds of Crime Act (POCA)

Following a referral from a school, a London borough was able to show the effectiveness that a qualified Financial Investigator (FI) affords.

A school had identified an unknown withdrawal of £40,000 from their bank account. This was passed to the FI who had received specialist training to undertake financial investigations and recover monies lost through crime. FIs also have specific powers under the Proceeds of Crime Act 2002 (POCA) to trace transactions through financial institutions (such as banks).

The FI discovered that the £40,000 withdrawal had been made by a former employee at the school. This individual had managed to transfer the money directly into their personal bank account. Acting swiftly using their powers, the FI was able to freeze the suspect's bank account preventing a withdrawal of this money, pending completion of their work.

With the level of information ascertained by the FI, the support of the police was secured. When confronted with the information the FI held, the former employee fully confessed their crime. In court, the fraudster was sentenced to two years in prison. Using the proceeds of crime powers, the £40,000 could then be recovered and returned to the school.

REFERENCES

-
- ⁱ Protecting the Public Purse 2014, Audit Commission
- ⁱⁱ Protecting the English Public Purse 2015, The European Institute for Combatting Corruption And Fraud (TEICCAF)
- ⁱⁱⁱ Protecting the English Public Purse 2015, The European Institute for Combatting Corruption And Fraud (TEICCAF)
- ^{iv} Protecting the English Public Purse 2015, The European Institute for Combatting Corruption And Fraud (TEICCAF)
- ^v Protecting the English Public Purse 2015, The European Institute for Combatting Corruption And Fraud (TEICCAF)
- ^{vi} Protecting the English Public Purse 2015, The European Institute for Combatting Corruption And Fraud (TEICCAF)
- ^{vii} Protecting the English Public Purse 2015, The European Institute for Combatting Corruption And Fraud (TEICCAF)
- ^{viii} Protecting the Public Purse 2012, Audit Commission
- ^{ix} Protecting the English Public Purse 2015, The European Institute for Combatting Corruption And Fraud (TEICCAF)
- ^x Protecting the Public Purse 2010, Audit Commission
- ^{xi} Protecting the Public Purse 2014, Audit Commission

Purpose of Fraud Briefing

an information source to support councillors in council's fraud detection activities

an opportunity for councillors to consider fraud detection, compared to similar local authorities

to discussing local and national fraud risks, reflection and the proportionate responses needed

analyst for reviewing the council's current strategy, recommendations for tackling fraud

Understanding the bar charts

All data are drawn from council submissions for the TEICCAF annual fraud and corruption survey for 2014/15

Your council is compared with the other London boroughs taking part in the voluntary survey

London boroughs submission rate: 93.9%

English councils surveyed submission rate: 59.5%

(County councils, district councils, metropolitan districts & unitary authorities and London boroughs)

Your council for detected cases is shown in **Yellow**

Your council for detected value is shown in **Red**

All averages are 'mean' averages

In some cases, council report they have detected fraud and do not report the number of cases and/or the value - for the purposes of this fraud briefing these 'Not Recorded' records are shown as

Nil

NB it is always best practice to ensure counter fraud activity is accurately and comprehensively recorded, particularly for assessing fraud risk

housing benefit (HB) and council tax benefit (CTB)

of benefit fraud is transferring from councils to the Department for Fraud Investigation Service (SFIS)

have already transferred their benefit fraud investigators to SFIS, the have done so by March 2016

comparison of HB/CTB of little value, as some council did not invest only a part of the year

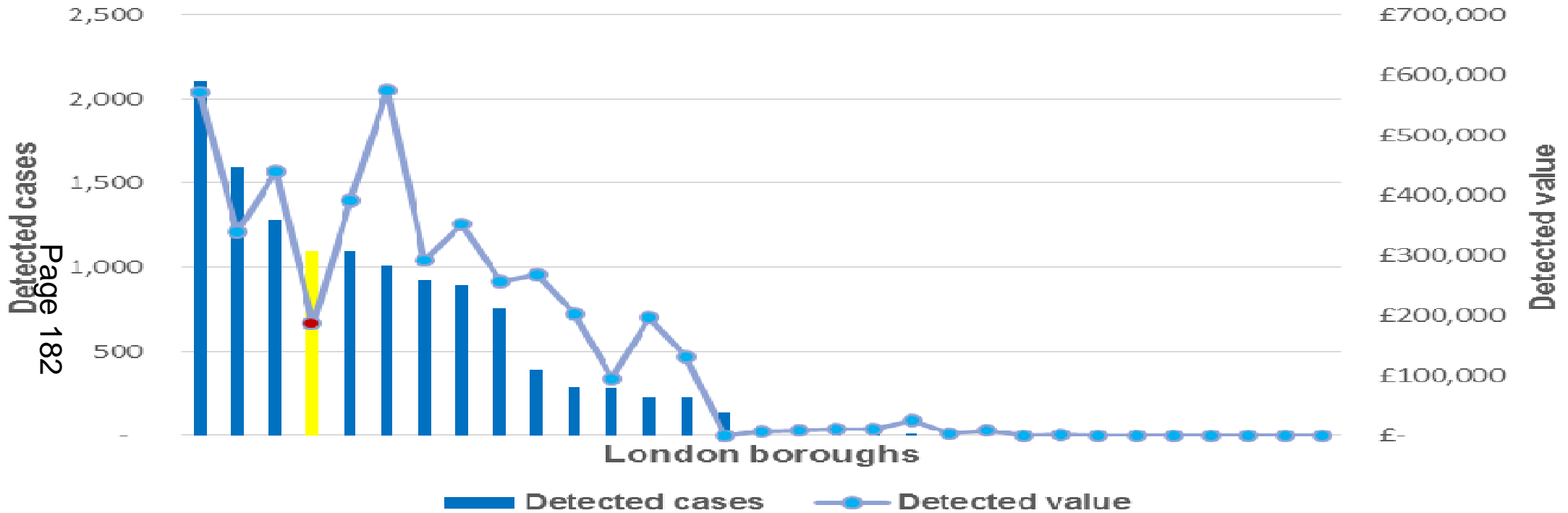
may wish to ask:

Will have enough counter fraud resource to tackle non-benefit fraud post
Council's counter fraud resource have the skill sets to tackle the wide and
issues?

Partnership working arrangement available that helps provide a counter fraud
resource?

Council tax discount fraud

Council tax discount fraud - detected cases and value



il - Total number of detected cases: 1,098. Total detected value
 ough average per council. Detected cases: 402. Detected value

Social Housing fraud

(councils without housing stock)

Council does not have housing stock the financial and social cost of affordable housing falls on councils

Local Government Social Housing Fraud Act 2013 criminalises tenancy fraud and it gives councils the power to investigate and prosecute tenancy fraudsters on behalf of housing associations

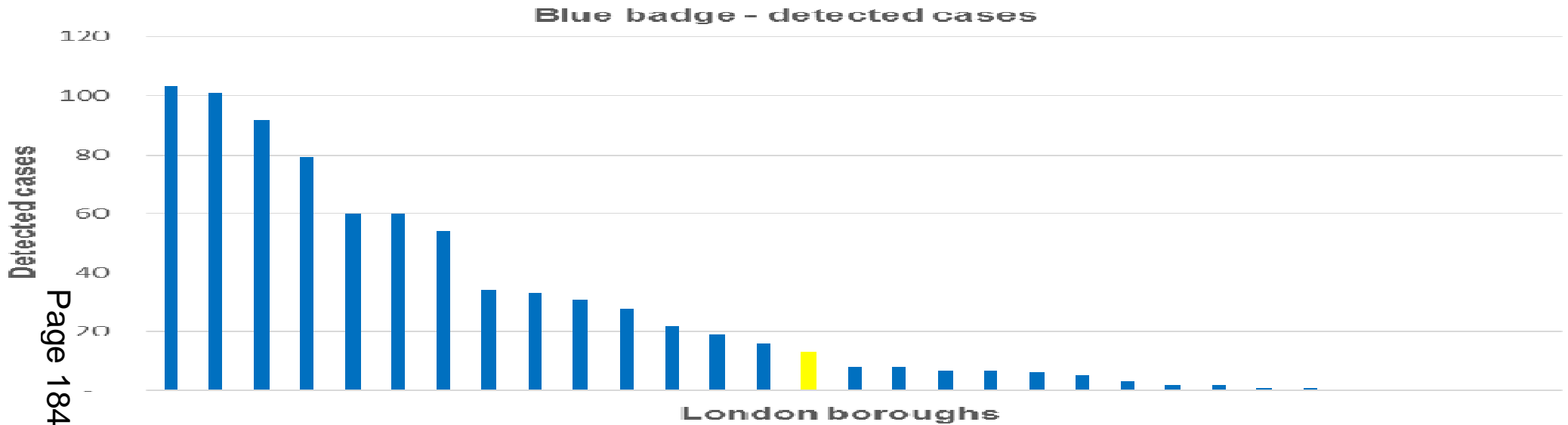
Housing associations in housing association properties will have the Right to Buy (RTB)

At least 3% of RTB applications in London councils are fraudulent and at least 10% in other councils

Housing associations do not have the counter fraud resource to combat tenancy fraud

Can councils be partnering with the housing associations in your area to ensure housing is not abused and stolen by fraudsters?

Disabled parking (Blue Badge) fraud



Your council - Total number of detected cases: 13.

London borough average per council – Detected cases: 26.

NB It is difficult to calculate the value of Blue Badge fraud. However, fraud causes social, as well as financial, harm – particularly the undermining of public confidence in public services

Other frauds

Number of detected cases: nil.
Average per council – Detected cases: 1. Detected value: £40,694.

Public funds fraud

Number of detected cases: nil.
Average per council – Detected cases: 14. Detected value: £227,105.

Number of detected cases: 1. Detected value: £757.
Average per council – Detected cases: 1. Detected value: £16,453.

Number of detected cases: nil.
Average per council – Detected cases: 1. Detected value: £20,453.

Private sector fraud

Number of detected cases: nil.
Average per council – Detected cases: 1. Detected value: £16,189.

Number of detected cases: 4. Detected value: £757.
Average per council – Detected cases: 9. Detected value: £40,229.

Further information and support

The 'Protecting the English Public Purse 2015' (PEPP) report and the 'Protecting the London Public Purse 2015' (LPP) report are available at www.teiccaf.com

These PEPP reports also contains a counter fraud checklist for councils to use – questions you may

- Are our priorities reflected in our approach to countering fraud?
- Are we considered counter-fraud partnership working?
- Are we satisfied that we will have access to comparative information and data to assist our future decision making in the future?

If you have any questions concerning:

- the fact finding;

- LCA;

- CCA and the PEPP report, please contact Kevin Campbell-Scott, chair of LB

chair@lbfig.org, or Duncan Warmington, Secretary to the TEICCAF Board at

duncanw@teiccaf.com

Committee: General Purposes Committee

Date: 10 March 2016

Wards: All

Subject: Review of non key delegated executive decisions

Lead officer: Paul Evans, Assistant Director Corporate Governance

Lead member: Councillor Peter McCabe, Chair, General Purposes Committee

Contact officer: Julia Regan, Head of Democracy Services

Recommendations:

- A. To discuss and comment on the review of the new process for recording and publishing non-key delegated executive decisions that was implemented in November 2014
- B. To recommend that no changes are made to the processes for recording and publishing these decisions at present
- C. To recommend that, should he identify concerns or a need for change in future, the Assistant Director Corporate Governance should bring a further review report to the Committee.

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. The purpose of this report is to advise General Purposes Committee of the findings of the review of the processes for recording and publishing non-key delegated executive decisions that were introduced in November 2014.
- 1.2. The Openness of Local Government Bodies Regulations 2014 requires local authorities to record and publish non-key delegated executive decisions. Following recommendations made by Standards Committee and General Purposes Committee, Council agreed that those decisions should be subject to call-in so that they are treated in the same way as non key delegated executive decisions taken by a cabinet member.
- 1.3. General Purposes Committee reviewed the implementation of the new process in March 2015 and requested a further update in 12 months.

2 DETAILS

- 2.1. The Head of Democracy Services has attended each of the departmental management teams at least once to brief them regarding the new processes. Guidance notes have been provided and published on the intranet to help with the definition of what should be included. The template form to use for recording such decisions was also published on the intranet.
- 2.2. In March 2015 it was reported to this Committee that a total of three non key delegated executive decisions had been published since November 2014:

- London contracts & supplies joint agreement - contract for supply & delivery of office stationery 2014 to 2018 – 25 November 2014 – Director of Corporate Services
- Cricket Green expansion 2015 appointment of design consultants– 20 February 2015 - Director of Children Schools and Families
- Travellers’ site – Annual review of weekly licence fee –24 February 2015 – Director of Corporate Services

2.3. Between 13 March 2015 and 23 February 2016 a further nine non key delegated executive decisions were published:

- Disabled parking bay, 10 Hogarth Crescent – 13 March 2015 – Head of Sustainable Communities
- Grant of a lease of the kiosk, South Park Gardens – 4 April 2015 - Director of Environment and Regeneration
- Contract award – school admission IT systems – 15 May 2015 – Director of Children Schools and Families
- Disposal of freehold interest in the land rear of 8 Ellerton Road – 26 June 2015 – Director of Environment and Regeneration
- Safer Schools Officers’ Contract 2015-18 – 1 September 2015 – Director of Children Schools and Families
- Contract award for replacement self service technology to the library and heritage service – 18 September 2015 – Director of Community and Housing
- Award of contract for pensions investment services – 17 November 2015 – Director of Corporate Services
- To purchase freehold interest in Farm Road Church – 17 November 2015 – Director of Environment and Regeneration
- Award of contract for payment processing and cash receipting systems – 17 November 2015 – Director of Corporate services
- Travellers’ site – Annual review of weekly licence fee –24 February 2016 – Director of Corporate Services

2.4. None of these non key delegated executive officer decisions have been called in.

2.5. The Head of Democracy Services has advised that the work associated with these decisions, including advising officers, assisting with documentation, publishing the decisions and communication with councillors has not added significantly to the team’s workload.

2.6. It is therefore recommended that no changes be made to processes for recording or publishing these decisions at present. It is further recommended that the Assistant Director of Corporate Governance should alert the Committee, by way of a review report, should he become aware of any concerns in future.

3 ALTERNATIVE OPTIONS

- 3.1. The Council is legally required to record non-key delegated executive decisions and publicise them on line. Subjecting such decisions to call-in is discretionary.

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. Directors have been consulted on the proposals within the report.

5 TIMETABLE

- 5.1. None.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. Processes will be followed within existing resources.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. The Council has a statutory duty to comply with legislation and not doing so may result in the validity of decisions being subject to legal challenge.

- 7.2. The 2014 Regulations require the decision making officer to produce a written record of any decision that:

“would otherwise have been taken by the relevant local government body, or a committee, sub-committee of that body or a joint committee in which that body participates, but it has been delegated to an officer of that body either:

- a) *under a specific express authorisation; or*
- b) *under a general authorisation to officers to take such decisions and, the effect of the decision is to:*
 - I. *grant a permission or licence;*
 - II. *affect the rights of an individual; or*
 - III. *award a contract or incur expenditure which, in either case, materially affects that relevant local government body’s financial position”*

- 7.3. The 2014 Regulations also require that, as soon as practicably possible after the record is made, to make it available for inspection by members of the public on the website and at council offices for a period of six years from the date of the decision. Any background papers must be retained and made available for inspection for a period of four years from the date of the decision. These requirements do not apply to confidential or exempt information.

- 7.4. It is an offence for an officer to intentionally obstruct or refuse to provide written records or background papers.

- 8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**
- 8.1 The Council has a statutory duty to comply with legislation around openness and transparency that meets the values and needs of all its residents. Not doing so could leave the council open to legal challenge.
- 9 CRIME AND DISORDER IMPLICATIONS**
- 9.1. N/A
- 10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**
- 10.1. N/a
- 11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT**
- 12.1 None
- 12 BACKGROUND PAPERS**
- None

Work Programme General Purposes Committee 2016 -2017

June 2016:

- Internal Audit: Annual Governance Statement
- Internal Audit: Annual Report
- Finance: Draft Accounts
- Temporary and contract workers
- Constitutional Amendments (Finance and Procurement)

September 2016:

- Internal audit: Progress on annual audit plan
- Finance: Final Accounts

November 2016

- External Auditor: Annual Audit Letter

March 2017

- External Audit: Certification of Claims Report
- External Audit: Audit Progress Report
- External Audit: Audit Plans
- Internal Audit: Progress Report
- Internal Audit: Plan, Strategy and Terms of Reference
- Internal Audit: Whistleblowing Policy
- Internal Audit: Annual Update

Other standard items

Specific items:

- Constitutional changes (when necessary)

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