# Governance, Audit, Risk Management and Standards Committee AGENDA

**DATE:** Wednesday 1 April 2015

**TIME:** 7.30 pm

**VENUE:** Committee Room 5,
Harrow Civic Centre

## MEMBERSHIP        (Quorum 3)

**Chair:**        Councillor Antonio Weiss

**Councillors:**

| | |
|---|---|
| Ghazanfar Ali | Barry Macleod-Cullinane (VC) |
| Nitin Parekh | Amir Moshenson |
| Primesh Patel | Bharat Thakker |

### Reserve Members:

| | |
|---|---|
| 1. Kiran Ramchandani | 1. Kanti Rabadia |
| 2. Jeff Anderson | 2. Pritesh Patel |
| 3. Kairul Kareema Marikar | 3. Chris Mote |
| 4. Ms Pamela Fitzpatrick | |

**Contact:** Vishal Seegoolam, Senior Democratic Services Officer
**Tel:** 020 8424 1883    **E-mail:** vishal.seegoolam@harrow.gov.uk

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LONDON

# AGENDA - PART I

1.  **ATTENDANCE BY RESERVE MEMBERS**

    To note the attendance at this meeting of any duly appointed Reserve Members.

    Reserve Members may attend meetings:-

    (i)     to take the place of an ordinary Member for whom they are a reserve;
    (ii)    where the ordinary Member will be absent for the <u>whole</u> of the meeting; and
    (iii)   the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
    (iv)    if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

2.  **DECLARATIONS OF INTEREST**

    To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

    (a)     all Members of the Committee;
    (b)     all other Members present.

3.  **MINUTES**   (Pages 5 - 8)

    That the minutes of the meeting held on 29 January 2015 be taken as read and signed as a correct record.

4.  **PUBLIC QUESTIONS ***

    To receive any public questions received in accordance with Committee Procedure Rule 17 (Part 4B of the Constitution).

    Questions will be asked in the order notice of them was received and there be a time limit of 15 minutes.

    **[The deadline for receipt of public questions is 3.00 pm, Friday 27th March 2015.  Questions should be sent to publicquestions@harrow.gov.uk**

    **No person may submit more than one question].**

5.  **PETITIONS**

    To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

6.  **DEPUTATIONS**

    To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

**7. REFERENCES FROM COUNCIL AND OTHER COMMITTEES/PANELS**

To receive references from Council and any other Committees or Panels (if any).

**8. INFORMATION REPORT - AUDIT PLAN 2014-15** (Pages 9 - 72)

Report of the Director of Finance and Assurance.

**9. CORPORATE ANTI-FRAUD TEAM DRAFT EXPECTED FRAUD CODE IMPLEMENTATION OUTCOMES 2015-16** (Pages 73 - 158)

Report of the Director of Finance and Assurance.

**10. RISK BASED VERIFICATION** (Pages 159 - 190)

Report of the Corporate Director of Resources.

**11. DRAFT INTERNAL AUDIT PLAN 2015/16** (Pages 191 - 206)

Report of the Director of Finance and Assurance.

**12. EXCLUSION OF THE PRESS AND PUBLIC**

To resolve that the press and public be excluded from the meeting for the following item of business, on the grounds that it involves the likely disclosure of confidential information in breach of an obligation of confidence, or of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972:

| Agenda Item No | Title | Description of Exempt Information |
|---|---|---|
| 13. | Corporate Risk Register | Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person [including the authority holding that information]). |
| 14. | Appendix A to Risk Based Verification | Information under paragraph 7 (Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.) |

# AGENDA - PART II

**13.**   **CORPORATE RISK REGISTER**   (Pages 207 - 230)

Report of the Director of Finance and Assurance.

**14.**   **RISK BASED VERIFICATION**   (Pages 231 - 240)

Appendix A to the report of the Corporate Director of Resources.

**15.**   **ANY OTHER URGENT BUSINESS**

Which cannot otherwise be dealt with.

**\* DATA PROTECTION ACT NOTICE**
The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[**Note:**  The questions and answers will not be reproduced in the minutes.]

# GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE
## MINUTES

# 29 JANUARY 2015

**Chair:**          *  Councillor Antonio Weiss

**Councillors:**    *  Barry Macleod-Cullinane      *  Nitin Parekh
                    *  Kairul Kareema Marikar (3)   *  Primesh Patel
                    *  Amir Moshenson               *  Bharat Thakker

\*     Denotes Member present
(3) Denotes category of Reserve Member

### 36.    Attendance by Reserve Members

**RESOLVED:**  To note the attendance at this meeting of the following duly appointed Reserve Members:-

Ordinary Member                 Reserve Member

Councillor Ghazanfar Ali        Councillor Kairul Kareema Marikar

### 37.    Declarations of Interest

**RESOLVED:**  To note that there were no declarations of interests made by Members.

38.     **Minutes**

During this item, the Chair reported that the Committee's proposal on using officer titles in minutes had been agreed.

A Member expressed that minutes should also detail the attendance of those Members who were present at meetings and sitting in the public gallery. The Committee agreed that this issue should be referred to the Constitution Review Working Group for further consideration as this may need to involve amendments to the Constitution.

The Chair also commented that an action to provide information on creditors ledger was outstanding and should be sent to all Members of the Committee after the meeting.

**RESOLVED:** That the minutes of the meeting held on 1 December 2014, be taken as read and signed as a correct record.

39.     **Public Questions, Petitions and Deputations**

**RESOLVED:** To note that no public questions, petitions or deputations were received at this meeting.

40.     **References from Council and other Committees/Panels**

There were none.

# RECOMMENDED ITEMS

41.     **Standards Complaints Procedure**

The Committee considered a report which set out proposals to revise the procedure relating to complaints against Councillors.

The Head of Legal Services presented the report and made the following points:

- the Council had a statutory obligation to have a Code of Conduct for Councillors and a procedure for dealing with complaints against Councillors;

- as part of the proposal looking at achieving efficiencies for Committee and its processes, it had been proposed to streamline the complaints process against Councillors;

- the new proposals involved a strengthening of the filter processes by extending the power to rule out complaints which were frivolous and which were more than 6 months old;

- the Assessment and Hearing Working Groups and the Assessment and Hearing Review Sub-Committees would be abolished and

replaced by a Standards Working Group which would make recommendations to the Monitoring Officer. The Standards Working Group would retain an Independent Person as its Chair;

- where there was a disagreement between the recommendations from the Standards Working Group and the Monitoring Officer following a local hearing, this would be referred to the Committee for determination;

- the Independent Persons of the Committee had been consulted on the proposals and were in agreement with them.

During the discussion on this item, the Head of Legal Services responded to a number of issues raised and reported the following:

- the punctuation correction would be made;

- the term 'Political Group' would be clarified within the proposed model procedure;

- there were very few sanctions available to the Standards Working Group if a Member was found to have breached the Code of Conduct;

- it was a local decision as to whether local hearings were conducted in public or not. Under the previous legislative regime, the presumption was that these meetings were held in public;

- if Independent Persons were to be retained as chairing meetings to deal with complaints, these had to be in a format of working groups. Independent Persons were not able to make formal decisions under the current legislation. This is why in order to retain this structure, the Monitoring Officer made formal decisions having considered the recommendations of the Working Group. It was important to note that under the current system, the Monitoring Officer had not yet disagreed with recommendations from the Assessment and Hearing Working Groups;

- there was no objection if the Committee wished for a report to be presented back to it in circumstances where the Monitoring Officer disagreed with recommendations made by the Standards Working Group;

- the terms of reference for the Standards Working Group would be presented to a future meeting of the Committee;

- investigations into complaints were usually conducted by officers, but could also be performed by individuals external to the Council if appropriate.

A Member proposed that the report be deferred until the next meeting of the Committee to allow some of the changes requested to be made and for the Terms of Reference to be presented to the Committee. This was not agreed.

It was then proposed that the recommendations be delegated to the Chair and Vice-Chair for determination. The Head of Legal Services clarified that delegations could only be made to an Officer in consultation with the Chair. This proposal was not agreed.

**Resolved to RECOMMEND:** (to Full Council)

That

(1)     the new procedure for dealing with complaints against Councillors, as amended by the Committee and contained in Appendix 1 to these minutes be agreed;

(2)     a new Standards Working Group be established;

(3)     the Assessment Working Group and the Hearing Working Group be disbanded;

(4)     the Assessment Sub-Committee and Hearing Review Sub-Committee be disbanded;

(5)     the delegations to the Monitoring Officer, as contained in Appendix 2 to these minutes be agreed;

(6)     the Constitutional amendments contained in Appendix 2 to these minutes be agreed.

## RESOLVED ITEMS

42.     **INFORMATION REPORT: Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2015/16**

The Committee considered a report which set out the Council's Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2015/16.

**RESOLVED:** That the report be noted.

(Note: The meeting, having commenced at 7.30 pm, closed at 9.05 pm).

(Signed) COUNCILLOR ANTONIO WEISS
Chair

| REPORT FOR: | GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE |
|---|---|
| **Date of Meeting:** | 1 April 2015 |
| **Subject:** | **INFORMATION REPORT** Audit Plan 2014-15 |
| **Responsible Officer:** | Simon George, Director of Finance and Assurance |
| **Exempt:** | No |
| **Wards affected:** | All |
| **Enclosures:** | Appendix 1 – Audit Plan 2014-15 Appendix 2 – Pension Fund Annual Report Audit Plan 2014-15 Appendix 3 – Audit Report on Grant Certification 2013-14 |

# Section 1 – Summary and Recommendations

This Report provides the Committee with the opportunity to see the Accounts Audit Plan 2014-15 and the Pension Fund Annual Report Audit Plan 2014-15.

**Recommendations:**
The Committee is asked to note:
1. The 2014-15 Accounts Audit Plan and Pension Fund Annual Report Audit Plan; and

2. The Grants Certification Report for 2013-14.

**Reason**
To keep the Committee informed of planned work.

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# Section 2 – Report

**Audit Plan for 2014-15**

1. The Accounts Audit Plan provides the Council with clarity about how the external audit of the accounts for 2014-15 will be conducted. The audit planning report sets out the following:-

   a. Estimated overall materiality is £7.5m for General Fund and £2.9m for HRA;

   b. Impact on the Council's Statement of Accounts resulting from the developments in financial reporting standards;

   c. Scope of audit work and approach;

   d. Significant audit risks as summarised below:-

      i. Grant income recognition;

      ii. Management override of key controls which would include testing of journals, significant accounting estimates and any unusual transactions;

      iii. Valuation of properties;

      iv. Valuation of pension liability; and

      v. Accounting for non-current assets used by schools.

   e. Value for Money conclusion;

   f. Auditors responsibilities; and

   g. Audit fees and Timetable.

2. The Pension Fund planning report also sets out the scope of work and approach and identifies significant audit risks which includes Contributions, Benefits, Investments and Management override of controls which are similar to the Council as mentioned in d(ii) above.

3. The Committee is asked to consider both the plans.

**Grant Certification 2013-14**

4. The Report on Grant Certifications in relation to 2013-14 is attached as appendix 3 to this report. Three grant claims and returns were certified for 2013-14 of which Housing and Council Tax Benefit Subsidy resulted in a qualified opinion.

# Section 3 - Financial Implications

5. There are no direct financial implications arising from this report.

# Section 4 - Equalities Implications

6. There are no equalities implications.

# Section 5 - Corporate Priorities

7. The Statement of Accounts provides assurance that the Council has managed and delivered its finances in accordance with its approved plans and budget.

## Section 6 – Statutory clearance

Name: Simon George         | X |    Chief Financial Officer

Date: 20<sup>th</sup> March  2015

## Section 7 - Contact Details and Background Papers

**Contact:**  Hasina Shah tel: 0208 424 1573 (ext. 2573)
**Background Papers:**  None

**Ward Councillors notified:**              **n/a**

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# Deloitte.

London Borough of Harrow

Planning Report to the Governance, Audit and Risk Management and Standards Committee for the year ending 31 March 2015

the
Distinctive
audit

**16 March 2015**

# Contents

*I am delighted to present this planning report for the 2014/15 audit of the London Borough of Harrow. The report sets out our audit approach and the more significant areas where we will focus our attention this year. As our contract with the Audit Commission comes to an end this is our last year as your auditors - we will continue to deliver an efficient high quality audit.*

*(Paul Schofield, Audit Partner)*

# The big picture

# The Big Picture

## Key developments in your business

- During the year there was a local government election after which David Perry was appointed leader of the Council.
- The post of the Chief Executive was reinstated in the current year. The former Chief Executive, Michael Lockwood, was appointed to this post.
- The 2014-15 Quarter 3 revenue financial monitoring indicates a balanced position.

## Key measures from the FY15 Budget (original)

Budget requirement - £174m (2014: £181m)

Amount to be met by government grants and taxpayers - £138m (2014: £145m)

General Fund at 1 April 2014 - £10m

Earmarked revenue reserves at 1 April 2014 - £25m

HRA balance at 1 April 2014 - £3.6m

Surplus on Collection Fund at 1 April 2014 - £1.5m

### Estimated materiality

Overall - £7.5m (2013: £7m)
Housing Revenue Account - £2.9m (£2.5m)

## Key developments in financial reporting requirements

- There is only one change to accounting guidance which is expected to have a significant impact on the 2014/15 financial statements. This relates to the accounting for non-current assets used by local authority maintained schools (further detail provided on page 12). The Council will need to evaluate the existing accounting treatment for schools in the light of this new guidance. During our initial discussions with management they have indicated that this is not expected to have a significant impact on the Council given the nature of the schools in the Borough.
- The CIPFA/LASAAC Code Board may issue mid-year updates to the Code. Officers should remain alert to pronouncements impacting on 2014/15 financial statements.
- Looking forwards, CIPFA have set out the timetable for the implementation of new guidance for the measurement of transport infrastructure assets. The change in accounting policy will apply for the first time from 1 April 2016 and have a significant impact on the measurement of these assets. The 2014/15 Code explains that the change will require restatement of prior period information in the 2016/17 financial statements. As a result Harrow will also need to maintain records on this new basis from 1 April 2015.

## Key developments in our audit response

- No changes to the overall scope of the audit.
- Recognition of grant income identified as an audit risk taking account of the risk of fraud in revenue recognition presumed in auditing standards and in view of the judgements involved in recognition of grant income.
- Risk of management override of controls, as presumed by auditing standards..
- Valuation of properties continues to be an area of audit forcus in view of the judgement involved in estimating the value of the portfolio.
- Valuation of pension liabilities continues to be an area of audit focus due to the complex nature of the calculation and the size of the pension liability.

# Statement of Accounts

# Changes in your Statement of Accounts
## New reporting requirements

We set out for the Governance, Audit, Risk Management and Standards ('GARMS') Committee a summary of the latest developments in financial reporting which will impact this year end.

| Changes in Code of Practice on Local Authority Accounting requirements | Impact on the Council |
|---|---|
| LAAP Bulletin 101 - Accounting for Non-Current Assets Used by Local Authority Maintained Schools – was issued in December 2014. The Bulletin is designed to give practical guidance on the circumstances in which non-current assets should be recognised and accounted for on a local authority balance sheet.<br><br>The recognition of non-current assets represents a change in accounting policy if those non-current assets are not recognised currently in the Council's balance sheet. Alternatively, application of the guidance might require assets to be derecognised. The Bulletin sets out transitional arrangements for these situations. | The Bulletin provides a generalised accounting analysis for the different categories of schools and conclusion based on the likely situation.<br><br>However, the guidance emphasises that local authorities will need to determine whether the situation and accounting analysis described in the Bulletin are applicable in each case.<br><br>During January 2015 we have held discussions with management on their proposed process of accounting for this change. We have requested a detailed assessment of the impact on the Council, including supporting documentation where necessary.<br><br>The key area of judgement is likely to be around the treatment of voluntary aided schools. We understand that the officers have performed an assessment and have determined that out of the 9 voluntary aided schools in the Borough the decision is clear for 7 schools, whilst the investigation is ongoing for the final 2 schools and the impact of these are yet to be determined. |
| The provisions relating to accounting for local government reorganisation and other combinations, have been clarified and augmented including a new definition of a function, clarification of the requirements for a transfer by absorption or a transfer by merger and relevant disclosure requirements. | This is not expected to impact on the 2014/15 financial statements as there are not expected to be any relevant transactions. |
| The 2014/15 Code includes amendments on the presentation of financial statements to reflect the amendments to IAS 1 as required by the Annual Improvements to IFRS 2009–2012 Cycle issued in May 2012 and also to include local authority statutory reporting requirements in the complete list of financial statements | This is not expected to impact on the 2014/15 financial statements in practice. |
| Amendments to IAS 32 Financial Instruments: Presentation (Offsetting Financial Assets and Liabilities), December 2011, requiring reference to the amended application guidance for offsetting financial assets and liabilities, where applicable. | This is not expected to impact on the 2014/15 financial statements in practice. |
| The introduction of the requirements of the five new or amended standards introduced by the IASB in May 2011, ie IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Ventures, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements (as amended in 2011) and IAS 28 Investments in Associates and Joint Ventures (as amended in 2011). | This is not expected to impact on the 2014/15 financial statements as group financial statements are not prepared for the Council and officers anticipate that changes to the definitions on control will not in practice change past assessments of whether entities and arrangements in which the Council has an interest will fall within the group accounting boundary. |

# Changes in your Statement of Accounts
## New reporting requirements (continued)

| Changes in Code of Practice on Local Authority Accounting requirements | Impact on the Council |
|---|---|
| A new appendix has been introduced in the 2014/15 Code to confirm for authorities the changes to the future editions of the Code for the measurement of transport infrastructure assets. | This will change significantly the way in which transport infrastructure assets are measured. The change in accounting policy will apply for the first time from 1 April 2016. The 2014/15 Code explains that the change will require restatement of prior period information in the 2016/17 financial statements. As a result the Council will also need to maintain records on this new basis from 1 April 2015.<br><br>We raised a finding in relation to the maintenance of infrastructure asset information on the fixed asset register after our 2013/14 audit. We recommend that the Council take this into account when planning to respond to this change to the Code. |
| The Code's adoption of IFRS 13 Fair Value Measurement remains under review and therefore the 2014/15 Code does not include any provisions in relation to this standard. CIPFA/LASAAC will keep authorities advised on the latest position on the developments of this standard on the CIPFA/LASAAC pages of the CIPFA website. | The CIPFA/LASAAC Code Board is in a position to issue mid-year updates to the Code.<br><br>The Council will need to track developments in this area. |

CIPFA provide a disclosure checklist that we recommend management complete in detail to ensure adherence to the areas above which relate to disclosures in the financial statements.

# Scope of work and approach

This section sets out our planned scoping for the audit of the financial statements. We discuss our determined materiality and confirm the level of unadjusted misstatements which we will report to you. We confirm the extent to which reliance will be placed on internal controls and how this decision has been reached.

# Scope of work and approach
## Areas of responsibility under the Audit Commission's Code of Audit Practice

### Responsibilities related to the financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) (ISA (UK and Ireland)) as adopted by the UK Auditing Practices Board (APB) and the Audit Commission's Code of Audit Practice. The Council will prepare its accounts under the Code of Local Authority Accounting. There are no significant changes in respect of the scope of our work in relation to this area of responsibility. We are also required to report on the regularity of income and expenditure.

### The Annual Governance Statement

We are required to consider the compliance of the disclosures in the Annual Governance Statement with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work. We will also review reports from relevant regulatory bodies and any related action plans developed by the Council.

### Whole of Government Accounts

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on the Council's whole of government accounts return. Our report is issued to the National Audit Office (NAO) for the purposes of their audit of the Whole of Government Accounts.

### Responsibilities related to Harrow Council's use of resources

We are required to satisfy ourselves that the Council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in the Council's use of resources.

Our conclusion is given in respect of two criteria:

- Whether the organisation has proper arrangements in place for securing financial resilience; and
- Whether the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In discharging this responsibility, we take into account our work on the Annual Governance Statement and the work of regulators.

We then provide a conclusion on these arrangements (our "Value for Money Conclusion") as part of our audit report.

# Scope of work and approach
## Approach to controls testing

As set out in "Briefing on audit matters" circulated to you in March 2013, a copy of which can be made available, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

### Liaison with internal audit

The audit team, consistent with previous years, will leverage the work performed by internal audit wherever possible to allow efficiencies and limit a duplication of work, as follows:

- We will first update our assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function.
- Over the course of the audit, we will review the findings of internal audit and where internal audit identifies specific material deficiencies in the control environment, we will consider adjusting our testing so that the audit risk is covered by our work.

Our approach takes into account the new restrictions issued by the Financial Reporting Council in June 2013. These create a clear division of responsibility between internal and external audit to safeguard against conflicts of interest.

# Materiality and error reporting threshold

For the 2014/15 financial statements, we have estimated materiality based on gross expenditure for the year and the estimated general reserves position.

We have set a lower materiality for the Housing Revenue Account based on that Account's reserves position.

We will report to the Audit and Risk Management Committee on all unadjusted misstatements greater than the reporting threshold shown below and other adjustments that are qualitatively material.

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**Estimated materiality and error reporting thresholds**

**Overall**
Materiality - £7.5m (2012/13: £7m)
Error reporting threshold - £370k (2012/13: £350k)

**Housing Revenue Account**
Materiality - £2.9m (2012/13: £2.5m)
Error reporting threshold - £140k (2012/13: £123k)

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# Significant audit risks

This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks will be addressed by our audit work and any related presentational and/ or disclosure matters within the financial statements.

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

# 1. Grant income recognition
## Evaluating whether recognition is consistent with grant terms and conditions can involve significant judgement.
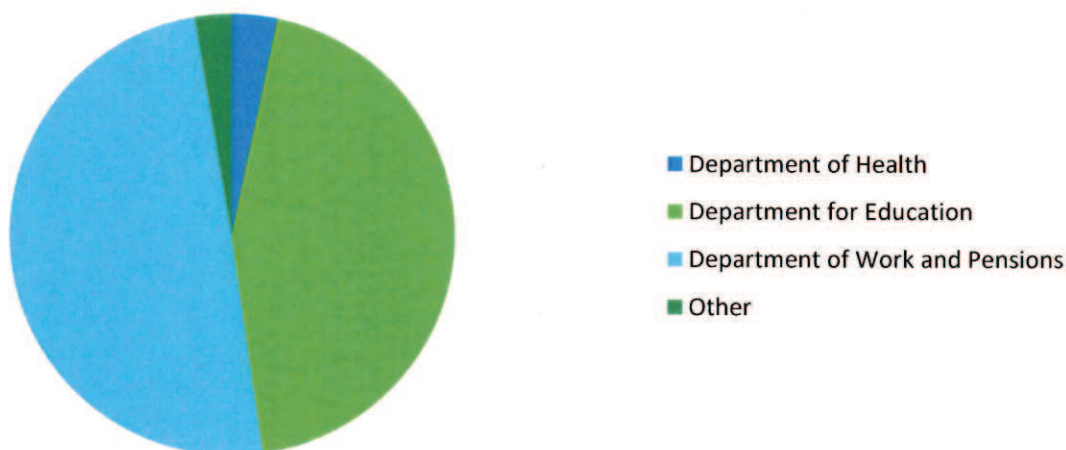
### Nature of risk

There is a presumed risk of fraud in revenue recognition identified in the International Standards on Auditing. We have identified a key audit risk related to revenue recognition from grants from fraud or error. This is due to the fact that where grants have conditions attached revenue should only be recognised when such conditions have been met.

Determining if there are conditions attached to a grant and if these conditions have been met can involve significant management judgement. In the prior year revenue grants included within cost of services amounted to £298m (2012/13: £303m).

We illustrate below the revenue grants by awarding body in the 2013/14 financial year:

**2013/14 Revenue Grant by Awarding Body**



- ■ Department of Health
- ■ Department for Education
- ■ Department of Work and Pensions
- ■ Other

### The key judgement areas and our planned audit challenge

We will examine guidance given to staff on the accounting for grants and associated operating instructions and other arrangements. We will determine whether our work can be further focused on the basis of this.

We will test the design and implementation of key controls that address the risk of incorrect revenue recognition.

We will also carry out extended testing to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the draft or final grant claim and that the grant control account balance has been properly reconciled.

# 2. Management override of key controls

## We will focus on the testing of journals, significant accounting estimates, and any unusual transactions in the year.

### Nature of risk

International Standards on Auditing require auditors to identify a presumed risk of fraud in management override of key controls. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

### The key judgement areas and our planned audit challenge

Our work will focus on:

- the testing of journals, using our proprietary software "Spotlight" to analyse the journal data as a basis for focusing our testing on higher risk journals;

- as a result of our ongoing dialogue with management, we will also focus our attention on provisioning in relation to restructuring to ensure that the conditions to provide are met; and consider any one off transactions impacting reserves in light of the low reserves position;

- any significant accounting estimates in addition to the estimates discussed above in respect of provisioning for provider claims; and

- any unusual transactions, including those with related parties.

### Spotlight helps us to deliver audits in a faster, better way.

| | | |
|---|---|---|
| Spotlight is Deloitte's centralised analytics platform that provides access to pre-built analytics on a growing range of risks and account balances. It allows us to build and configure analytics in a risk-focused and user-friendly way. | Spotlight can be used for financial and analytical review (identifying trends), fraudulent financial reporting through identification of high risk journals, Fixed assets (assessment of additions and recalculating depreciation) accounts payable (assessment of year end payables balance). | We will use Spotlight to give us insight into your annual financials. We will also use Spotlight to identify high risk journals for our testing the specific identified risk of Management override of controls. |

# Other accounting judgements and issues
## We note other accounting judgments and issues which have not currently been identified as significant audit risks

**Valuation of properties**

- During the prior year we identified a number of findings in relation to the valuation process used by the Council. These matters were discussed with the Council's internal valuation team in January 2015 to ensure that the findings raised will be taken into account in the 2014/15 valuation process.

- We will consider the qualifications, relevant expertise and independence of the valuer engaged by the Council and the instructions and sources of information provided to the valuer, including information on subsequent works to assets. We will include a specialist from our team of valuation specialists in our engagement team to assist in the review of assumptions and the reasonableness of the resulting valuations.

- We have not identified fixed asset accounting as an area of significant audit risk as there is no impact on the General Fund balance from the accounting entries made under IFRS and limited impact on the HRA. However, as this remains an area involving considerable judgement and estimation, we will provide a commentary on the key assumptions used in the valuation of properties in our final report to the GARMS Committee.

**Valuation of pension liability**

- The valuation of the pension liability continues to be an audit risk in view of the complexity of the judgements and sensitivity of the valuation to small changes in individual assumptions. This is not considered to be a significant risk as this does not impact the general fund, which is a key focus of users of the financial statements. However, given that this is an area of judgement and estimation, we propose to provide enhanced commentary on our review of the assumptions in our final reporting to assist the committee in their scrutiny of this aspect of the financial statements.

- The net liability relating to the pension scheme is substantial, amounting to £338.1m at 31 March 2014, so its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables. Some of these assumptions draw on market prices and other economic indices and these have become more volatile during the current economic environment.

- We will consider the qualifications, expertise and independence of the actuary engaged by The Council and the instructions and sources of information provided to the actuary.

- We will include a specialist from our team of actuaries in our engagement team to assist in the review and challenge of assumptions used to calculate the pension liability and related in year transactions and the reasonableness of the resulting accounting entries.

# Other accounting judgements and issues (continued)
## We note other accounting judgments and issues which have not currently been identified as significant audit risks

**Accounting for non-current assets used by local authority maintained schools**

- LAAP BULLETIN 101 - Accounting for Non-Current Assets Used by Local Authority Maintained Schools – was issued in December 2014. The Bulletin is designed to give practical guidance on the circumstances in which non current assets should be recognised and accounted for on a local authority balance sheet.

- The recognition of the non-current assets outlined above will be deemed to be a change in accounting policy if non-current assets are not recognised currently in the local authority balance sheets. Alternatively, it might require assets to be derecognised. The Bulletin sets out transitional arrangements for these situations.

- The Bulletin provides a generalised accounting analysis for the different categories of schools and conclusion based on the likely situation.

- However, the guidance emphasises that local authorities will need to determine whether the situation and accounting analysis described in the Bulletin are applicable in each case.

- We will assess the design of the Council's arrangements for reviewing the accounting for non-current assets used by schools in the light of the guidance provided in the Bulletin.

- We will test key information and assumptions used in the analysis made to supporting documentation and challenge the Council's analysis in the light of guidance in the Bulletin and other relevant accounting guidance.

- As part of our procedures to address the risks of management override of controls we will review the appropriateness of judgements made by management in accounting for this change.

# Value for money conclusion

# Value for money conclusion
## Our work will focus on the establishment of key governance arrangements during the first year of operation

### Scope

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the London Borough of Harrow has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources in respect of the Council - this conclusion is known as "the VFM conclusion".

| Specified criteria for auditors' VFM conclusion | Focus of the criteria for 2015 |
| --- | --- |
| **The organisation has proper arrangements in place for securing financial resilience.** | The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. |
| **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** | The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. |

### Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the audited body's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on our responsibilities;
- any work mandated by the Commission – of which there was none in 2014; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

### Risk assessment

Our preliminary assessment is that there were no risks in relation to our VFM responsibilities which require local work to be carried out and we have therefore not identified any risks or additional local studies in our audit plan.

We will carry out a detailed risk assessment to take account of the latest refresh of the Medium Term Financial Strategy, as well as the outturn financial and performance information for 2014/15. We will also consider past results of our VFM assessment and key changes that took place in the current financial year, such as those discussed in the executive summary of this report. The risk assessment involves consideration of common risk factors for local authorities identified by the Audit Commission, concluding on whether they represent actual risks for the purpose of our VFM conclusion on the Council. We will undertake this work through review of relevant documentation, including committee papers and discussion with officers. We will also consider whether there are other risks which might be specific to the Council. We will do this principally through our consideration of what has been reported in the Annual Governance Statement, matters reported by regulators and other matters which have come to our attention from our work carried out in relation to our other Code responsibilities.

# Responsibility statement

# Purpose of our report and responsibility statement
## Our report is designed to help you meet your governance duties

**What we report**

Our report is designed to establish our respective responsibilities in relation to the financial statement audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope and timing of our audit

- Key regulatory and corporate governance updates, relevant to you on request.

**What we don't report**

- As you will be aware, our audit is not designed to identify all matters that may be relevant to Governance, Audit and Risk Management Committee.

- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

**Other relevant communications**

- This report should be read alongside the supplementary "Briefing on audit matters" circulated to you in March 2013, a copy of which can be made available.

- We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

*Deloitte LLP*

**Deloitte LLP**
Chartered Accountants

Cambridge
16 March 2015

This report has been prepared for the Governance, Audit and Risk Management Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

# Appendices

# Appendix 1: Prior year misstatements
## We remind you of prior year misstatements

### Uncorrected audit adjustments

The following misstatements were identified in the prior year that were not corrected in the financial statements:

| Description | Assets DR / (CR) £ '000 | Liabilities DR / CR) £ '000 | Equity DR / (CR) £ '000 | Income Statement DR / (CR) £ '000 |
|---|---|---|---|---|
| HRA Revaluation difference due to change in HPI between preparation of account and audit date | 691 | (691) | | |

### Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements.

We have not identified any disclosure deficiencies during our audit of the 2013/14 financial statements of the Council.

# Appendix 2: Independence and fees
## We confirm we are independent of the London Borough of Harrow

As part of our obligations under International Standards on Auditing (UK & Ireland), the Listing Rules and the Companies Act, we are required to report to you on the matters listed below:

| | |
|---|---|
| **Independence confirmation** | We confirm we are independent of the London Borough of Harrow and will reconfirm our independence and objectivity to the Governance, Audit and Risk Management Committee for the year ending 31 March 2015 in our final report to the Audit and Risk Management Committee. |
| **Fees** | Details of the non-audit services fees proposed for the period have been presented separately below. |
| **Non-audit services** | In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the non-audit services performed or proposed or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. |

# Appendix 2: Independence and fees (continued)

## We summarise earned or proposed audit and non audit fees for the year

The professional fees earned or proposed by Deloitte in the period from 1 April 2014 to 31 March 2015 are as follows:

| | Current year £000 | Prior year £000 |
|---|---|---|
| Fees payable in respect of our work under the Code of Audit Practice | 196 | 196 |
| Fees payable in respect of our work under the Code of Audit Practice – extensions to audit work | 8 | 8 |
| Fees payable in respect of our work under the Code of Audit Practice - in respect of the WGA return | 5 | 5 |
| Fees payable in respect of the certification of grants | 40 | 40 |
| Fees payable in respect of our work under the Code of Audit Practice in respect of the Pension Fund | 21 | 21 |
| Fees payable in respect of work not performed under the Code of Audit Practice [1] | 4 | 4 |
| Fees payable in respect of non-audit services [2] | 6 | - |

[1]    Fees related to certification of grants not covered by the Audit Commission contract

[2]    These fees relate to advice provided by our VAT advisory team.

# Appendix 3: Fraud: responsibilities and representations

## We summarise our respective responsibilities regarding fraud

| **Characteristics** | <ul><li>Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.</li><li>Two types of intentional misstatements are relevant us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.</li></ul> | |
|---|---|---|
| | **Your responsibilities** | **Our responsibilities** |
| **Responsibilities** | <ul><li>The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations</li></ul> | <ul><li>We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.</li><li>As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.</li><li>As set out in Section 2 above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.</li></ul> |

# Appendix 3: Fraud: responsibilities and representations (continued)
## We will make inquiries and obtain representations regarding fraud

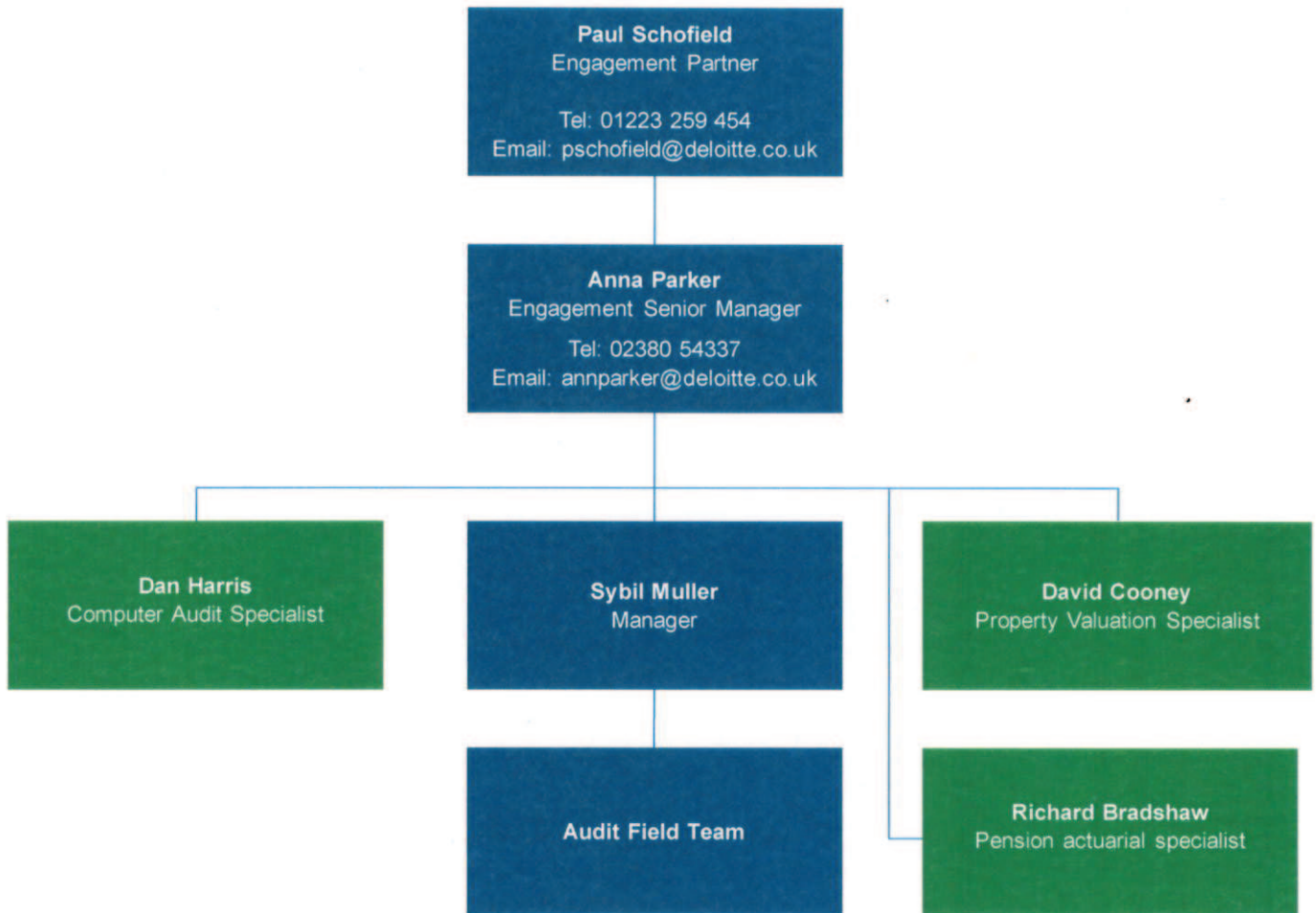We will make the following inquiries regarding fraud:

| Management | Internal Audit | Those charged with governance |
|---|---|---|
| Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments<br><br>Management's process for identifying and responding to the risks of fraud in the entity<br><br>Management's communication to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity<br><br>Management's communication, if any, to employees regarding its views on business practices and ethical behaviour<br><br>Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity | Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud | How those charged with governance exercise oversight of managements processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks<br><br>Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity |

We will request the following to be stated in the representation letter signed on behalf of the Council:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and] that affects the entity or group and involves:

(i) management;

(ii) employees who have significant roles in internal control; or

(iii) others where the fraud could have a material effect on the financial statements.

- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
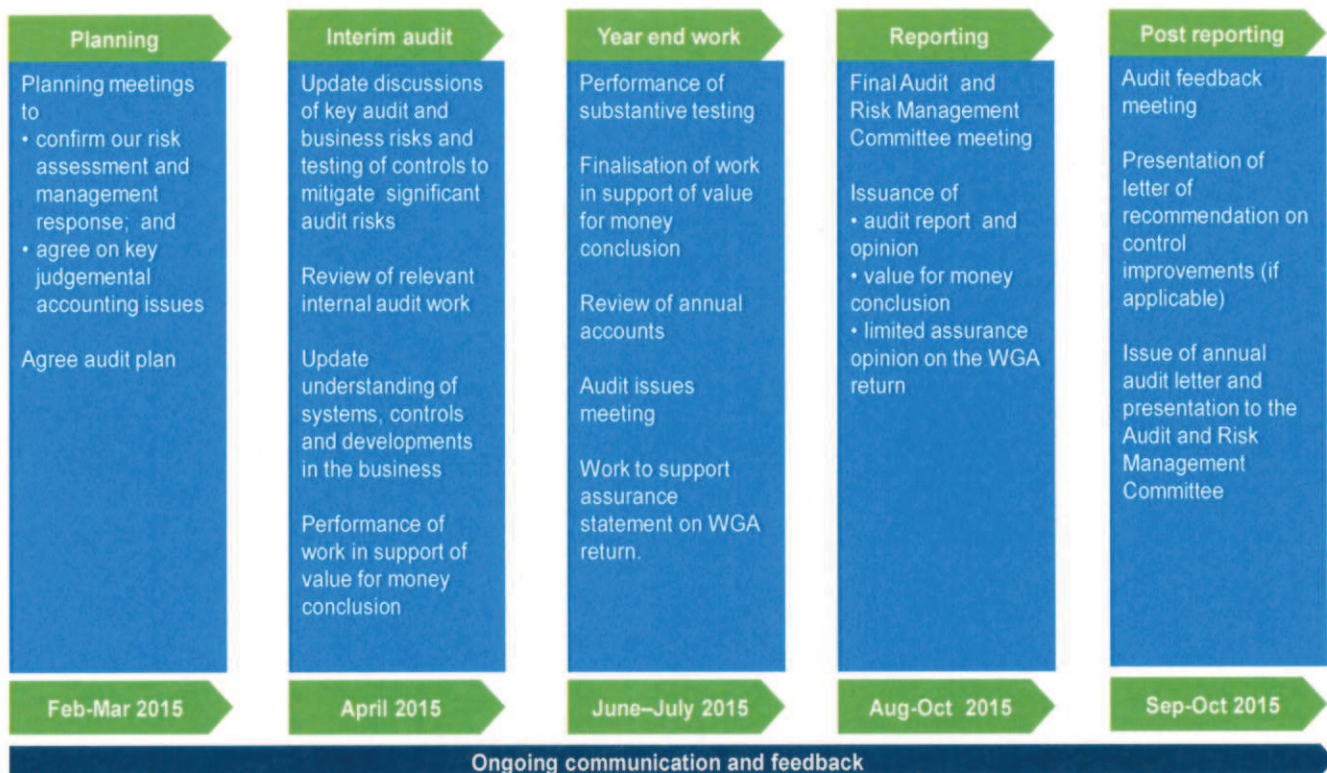
# Appendix 4: Your audit team
## We set out key members of your audit team

**Paul Schofield**
Engagement Partner

Tel: 01223 259 454
Email: pschofield@deloitte.co.uk

**Anna Parker**
Engagement Senior Manager

Tel: 02380 54337
Email: annparker@deloitte.co.uk

**Dan Harris**
Computer Audit Specialist

**Sybil Muller**
Manager

**David Cooney**
Property Valuation Specialist

**Audit Field Team**

**Richard Bradshaw**
Pension actuarial specialist

# Appendix 5: Timetable
## We summarise the timing of the key phases of the audit

Set out below is the approximate expected timing of our reporting and communication with you.

| Planning | Interim audit | Year end work | Reporting | Post reporting |
|---|---|---|---|---|
| Planning meetings to<br>• confirm our risk assessment and management response; and<br>• agree on key judgemental accounting issues<br><br>Agree audit plan | Update discussions of key audit and business risks and testing of controls to mitigate significant audit risks<br><br>Review of relevant internal audit work<br><br>Update understanding of systems, controls and developments in the business<br><br>Performance of work in support of value for money conclusion | Performance of substantive testing<br><br>Finalisation of work in support of value for money conclusion<br><br>Review of annual accounts<br><br>Audit issues meeting<br><br>Work to support assurance statement on WGA return. | Final Audit and Risk Management Committee meeting<br><br>Issuance of<br>• audit report and opinion<br>• value for money conclusion<br>• limited assurance opinion on the WGA return | Audit feedback meeting<br><br>Presentation of letter of recommendation on control improvements (if applicable)<br><br>Issue of annual audit letter and presentation to the Audit and Risk Management Committee |
| Feb-Mar 2015 | April 2015 | June–July 2015 | Aug-Oct 2015 | Sep-Oct 2015 |

**Ongoing communication and feedback**

Our interim work will be carried out over one week, commencing 6 April 2015.

Our final audit visit will commence on 29 June 2015 and run through to completion of the fieldwork expected at the end of August 2015.

The work to support our limited assurance report on the WGA return will take place in September 2015 and we expect to issue our assurance report at the end of September 2015.

We expect to issue our annual audit letter in October 2015.

# Deloitte.

London Borough of Harrow Pension Fund

Planning Report to the Governance, Audit,
Risk Management and Standards Committee

Year ending 31 March 2015

the
Distinctive
audit

# Contents

*I am delighted to present this planning report for the 2014/15 audit of the London Borough of Harrow Pension Fund. The report sets out our audit approach and the more significant areas where we will focus our attention this year.*

*Paul Schofield, Engagement Partner, March 2015*

| Delivering informed challenge | Providing intelligent insight |
| --- | --- |
| Growing stakeholder confidence | Building trust in the profession |

# The Big Picture

# The Big Picture

We have set out below an overview of the key developments in the pension Fund and the more significant matters we have considered in developing this Audit Plan. We consider these matters as part of our audit risk assessment and this determines where we will focus our work. Details of the impact of these matters on our approach are set out in this Audit Plan.

**Key developments in your Fund and sector**

- There are no significant changes to the Fund rules or other arrangements other than the change to career average basis for calculation of benefits from 1 April 2014.
- New Schedule of Contribution rates apply for 2014/15.
- The Pensions Regulator is taking on the role of regulator of Local Authority Pension Schemes from 1 April 2015.
- Additional governance arrangements will be applied from 1 April 2015 as required by Public Sector Pensions Act 2013.
- There are no significant changes to the financial reporting framework.
- There have been several key changes in the portfolio of investment managers employed by the Fund.

**Key developments in our audit**

- No changes to the overall scope of the audit.
- Contributions were £25.5 million in 2013/14 and remain a risk in view of the complexity arising from the participation of different admitted bodies within the Fund, together with the fact that members pay different rates depending on their pensionable pay.
- Benefits in retirement and ill health remain risks in view of complexities around their calculation. Benefits payable were £31.3 million in 2013/14.
- The pension scheme in the past has made some use of investments in unquoted investment vehicles and derivatives which can give rise to complexities in accounting, disclosure and measurement and therefore this area remains a risk. At 31 March 2014 unlisted investments held totalled £283.2 million.
- Risk of management override of controls, is presumed by auditing standards to be a risk due to the unique position management are in to override controls present. This risk is focussed around the use of journals, accounting estimates and unusual transactions outside of the normal course of business.

**Significant audit risks**

- Contributions
- Benefits
- Investments – unquoted holdings
- Management override of controls

| **Fund net assets** | **Contributions** | **Benefits** | **Materiality** |
|---|---|---|---|
| 2014: £590.8m | 2014: £25.5m | 2014: £31.3m | 2015: £6.6m (est.) |
| 2013: £552.2m | 2013: £25.4m | 2013: £26.7m | 2014: £5.9m |

# Scope of work and approach

This section sets out our planned scoping for the audit of the financial statements. We discuss our determined materiality and confirm the level of unadjusted misstatements which we will report to you. We confirm the extent to which reliance will be placed on internal controls and how this decision has been reached.

3

# Scope of work and approach

## Areas of responsibility under the Audit Commission's Code of Audit Practice

### Responsibilities related to the accounts

Based on guidance issued by the Audit Commission, auditors are again asked, for audit purposes, to treat the Local Government Pension Scheme (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance.

LGPS funds administered by administering authorities are not statutory bodies in their own right. Therefore, it is not possible for separate audit appointments to be made for LGPS audits. We are therefore appointed to the audit of the LGPS through the existing Audit Commission appointment arrangements.

Our audit of the pension fund is planned in accordance with the Code of Audit Practice issued by the Audit Commission and in accordance with additional guidance issued by the Commission in relation to the audit of pension schemes. However, this only extends to the audit of the accounts and there is no requirement for a value for money conclusion on the pension scheme accounts specifically. Aspects of the use of resources framework will inform the value for money conclusion for the Authority and cover issues relating to the pension fund.

The audit opinion we intend to issue as part of our audit report on the Authority's financial statements will reflect the financial reporting framework adopted by the pension fund. This is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the "Code of Practice").

The Audit Commission has also determined that auditors should give an opinion in accordance with auditing standards on the financial statements included in the pension fund annual report. This entails the following additional work over and above giving an opinion on the pension scheme accounts included in the statement of accounts:

- comparing the accounts to be included in the pension scheme annual report with those included in the statement of accounts;
- reading the other information published within the pension scheme annual report for consistency with the pension scheme accounts; and
- where the pension scheme annual report is not available until after the auditor reports on the financial statements, undertaking appropriate procedures to confirm that there are no material post-balance sheet events arising after giving the opinion on the pension scheme accounts included in the financial statements.

The financial statements included in the pension scheme annual report are prepared on the basis of the same proper practices - the Code of Practice - as the financial statements included in the statement of accounts.

# Scope of work and approach (continued)
## Approach to controls testing

As set out in "Briefing on audit matters" previously circulated to you, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

### Liaison with internal audit

ISA (UK and Ireland) 610 "Using the work of internal auditors", issued by the Auditing Standards Board, prohibits the use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

The audit team, following an assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit provider, will review the findings of internal audit and adjust the audit approach as is deemed appropriate. This normally takes a number of forms:

- assessment of the control environment;
- discussion of the work plan for internal audit; and
- where internal audit identifies specific material deficiencies in the control environment, we consider adjusting our testing so that the audit risk is covered by our work.

# Materiality and error reporting threshold

We calculate materiality on the basis of the net assets of the scheme. We estimate materiality for the year to be £6.6 million (2014: £5.9 million). We will report to the Governance, Audit, Risk Management & Standards Committee on all unadjusted misstatements greater than £298,000 (2014: £295,400) and other adjustments that are qualitatively material.

We will update our assessment during the planning and interim visit based on latest outturn expectations.

Further details on the basis used for the calculation of materiality are given in our audit plan for the audit of the Authority's financial statements.

# Significant audit risks

This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks will be addressed by our audit work and any related presentational and/ or disclosure matters within the financial statements.

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

# Significant audit risks

# 1. Contributions

## There are complexities around the calculation of contributions.

### Nature of risk

Unlike the position in the private sector, we are not required to issue a statement about contributions in respect of the LGPS.

Contributions for the year ended 31 March 2014 were £25.5 million, showing that this is a material income stream for the pension Fund. This is expected to continue in the current period with the continued active membership paying contributions. Due to the complexity introduced by the participation of more than one employer in the Fund, together with the past introduction of a tiered contribution rates; we have identified contributions as a specific risk.

### Our planned audit challenge

We will evaluate the design and implementation of the Authority's arrangements and perform substantive audit testing in this area. This will include completing procedures to ascertain whether employer and employee contributions have been calculated and deducted correctly. Further procedures will be completed surrounding the completeness of the scheduled payments and the accuracy of the receipts against that schedule. This is especially important given the new Schedule in place for 2014/15.

# 2. Benefits

## There are complexities surrounding the calculation of both benefits in retirement and ill health and death benefits.

### Nature of risk

The complexities surrounding the calculation of both benefits in retirement and ill health and death benefits remains a key area of audit risk.

In respect of benefits in retirement, from 1 April 2014 benefits are accumulated on a career average basis instead of two different bases for service pre and post 1 April 2008. This adds further complexity to the calculation of benefits. The calculation of benefits depends on a number of factors including pensionable pay and member choice. Furthermore, it is noted that some employers may not have retained the necessary records to enable these calculations to be undertaken by the Fund.

In respect of ill health and death benefits, the calculation of the pensionable pay on which benefits will depend may be varied by the same options as discussed above.

In the year ended 31 March 2014, total benefits paid were £31.3 million. The quantity of individual calculations and complexity of these calculations results in a risk of material misstatement.

### Our planned audit challenge

We will review the design and implementation of controls present at the scheme for ensuring the accuracy, completeness and validity of benefits through discussion with the pensions team and testing that controls were in force during the year under review. We will also:

- Obtain a schedule of benefits paid and select a sample of benefits for detailed testing through agreement to supporting documentation, and review of the calculation, by reference to the qualifying service, scheme rules and benefit choices made by the member;

- Consider on a sample basis whether any changes in benefits rates arising from the Pensions Increases Act are correctly calculated and applied in a timely manner; and

- Develop an expectation based on the prior year balance, adjusted for changes in membership numbers and pension increases to analytically review the pension benefits paid in the year.

# 3. Investments

## There are areas of judgement involved in the valuation of investment, including private equity, managed funds and derivatives.

### Nature of risk

The scheme had investments of £585m as at 31 March 2014 and therefore a small degree of error in their valuation represents a significant risk of material misstatement.

This risk is compounded by several factors. The first of these is the use of investments in unquoted investment vehicles, like private equity houses, and the use of derivatives within the scheme. The other is the significant changes to the portfolio of investment managers.

Private equity funds are complex to value and include an element of judgement on the part of the investment manager. In addition, further amounts are invested in managed funds which are complex to value due to the difficulty in visibility of the underlying investments.

### Our planned audit challenge

We will review the design and implementation of controls present at the scheme for ensuring the accurate recording of investments through discussion with the pensions team and testing that controls were in force during the year under review.  We will also:

- vouch the underlying fund manager portfolio valuations received directly to Deloitte to those reconciliations prepared for the scheme as at 31 March 2015;

- perform analytical review procedures to assess the reasonableness of the change in market value of investments;

- confirm the completeness of fund transfers between investment managers;

- use our treasury specialists to obtain confirmation of year end positions of derivatives; and

- for a sample of investments where independent prices are available, we will confirm the prices quoted by the investment managers to independent pricing sources. Where such prices will not be available, we will perform alternative procedures such as reviewing transactions around year end and obtaining audited accounts for private equity balances.

# 4. Management override of controls

## We will focus on the testing of journals, significant accounting estimates, and any unusual transactions in the year.

**Nature of risk**

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

**The key judgement areas and our planned audit challenge**

Our audit work will include:

- Reviewing a sample of journal entries that characteristics that may be indicative of potential fraud and management override of controls;
- Reviewing analysis and supporting documentation of key estimates and judgements;
- Performing substantive testing on journal entries to confirm that they have a genuine, supportable rationale;
- Reviewing ledgers for unusual items and on a test basis investigated the rationale of any such postings;
- Reviewing significant management estimates and judgements such as year end accruals and valuation of investments and consider whether they are reasonable; and
- Making enquiries of those charged with governance as part of our planning and detailed audit processes.

# Responsibility statement

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to establish our respective responsibilities in relation to the financial statement audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope and timing of our audit; and

- Key regulatory and corporate governance updates, relevant to you.

### What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Governance, Audit, Risk Management & Standards Committee.

- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" previously circulated to you and available on request; and

- We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

*Deloitte LLP*

**Deloitte LLP**
Chartered Accountants

Cambridge
16 March 2015

This report has been prepared for the Governance, Audit, Risk Management and Standards Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

# Appendices

# Appendix 1: Independence and fees

## We confirm we are independent of the London Borough of Harrow Council

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Audit Commission's Code of Audit Practice, we are required to report to you on the matters listed below:

| | |
|---|---|
| **Independence confirmation** | We confirm we are independent of the London Borough of Harrow Council and will reconfirm our independence and objectivity to the Governance, Audit, Risk Management & Standards Committee for the year ending 31 March 2015 in our final report to the Governance, Audit, Risk Management and Standards Committee. |
| **Fees** | Details of any non-audit services fees proposed for the period have been presented separately on the next page. The fee for the current year audit is in line with the scale fee. |
| **Non-audit services** | In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. |

We summarise our relationships with the Authority and explain our assessment of threats to auditor independence and safeguards in the Council audit plan document.

# Appendix 1: Independence and fees (continued)

## We summarise earned or proposed audit fees for the year

The professional fees earned or proposed by Deloitte in the period from 1 April 2014 to 31 March 2015 are as follows:

| | Current year £000 | Prior year £000 |
|---|---|---|
| **Audit of the London Borough of Harrow Pension Fund** | 21 | 21 |

There are no non audit services provided or proposed to the London Borough of Harrow Pension Fund for the period from 1 April 2014 to 31 March 2015.

Professional fees earned or proposed by Deloitte for services in the period from 1 April 2014 to 31 March 2015 in respect of other funds of the Authority and other entities controlled by the Authority are set out in our audit plan for the Council.

# Appendix 2: Fraud responsibilities and representations

## We summarise our respective responsibilities regarding fraud

| Characteristics | |
|---|---|
| | • Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. |
| | • Two types of intentional misstatements are relevant us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. |

| Responsibilities | Your responsibilities | Our responsibilities |
|---|---|---|
| | • The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. | • We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.<br><br>• As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.<br><br>• As set out in the significant risk section of this document we have identified the risk of fraud in management override of controls as a key audit risk for your organisation. |

# Appendix 2: Fraud responsibilities and representations (continued)

## We will make inquiries and obtain representations regarding fraud

We will make the following inquiries regarding fraud:

| Management | Internal Audit | Those charged with governance |
|---|---|---|
| Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments. Managements process for identifying and responding to the risks of fraud in the entity. Managements communication to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity. Managements communication, if any, to employees regarding its views on business practices and ethical behaviour. Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity. | Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud. | How those charged with governance exercise oversight of managements processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity. |

We will request the following to be stated in the representation letter signed on behalf of the Authority:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- [We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and] that affects the entity or group and involves:
  (i) management;
  (ii) employees who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

# Appendix 3: Operational arrangements

## We set out key members of your audit team and other operational information

The work will be led by Paul Schofield, supported by Rimit Shah as audit manager.

Our work will be closely co-ordinated with the work carried out on other parts of main audit of the London Borough of Harrow. Details of our timetable for that work are included in the London Borough of Harrow audit plan.

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**Deloitte.**

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London Borough of Harrow

Report to the Audit Committee
on the year ended 31 March 2014
Certification work

Final Report

# Contents

# 1. Executive summary

We have pleasure in setting out in this document our key findings from our claims and returns certification work of the London Borough of Harrow ("the Authority") for the year ended 31 March 2014. This report is not intended to be exhaustive but highlights the most significant matters that have come to our attention.

| Certification deadlines | We have certified both claims and returns required under our contract with the Audit Commission (see Section 4 for details) for the year ended 31 March 2014. Both claims and returns we reported on were certified by the original required deadline. |
| --- | --- |

| Results of our claims and returns certification work | We have summarised the number of adjustments identified and our conclusion on whether we were able to certify without a qualification letter in the table below. We have included additional comments below the table where we issued a qualification letter in 2013/14: |
| --- | --- |

| Claims/returns | Value of claim £ | Number of cells adjusted | Financial impact Increase/ (Decrease) £ | Qualified in 2013/14 | Qualified in 2012/13 |
| --- | --- | --- | --- | --- | --- |
| Pooling of Housing Capital Receipts ("CFB06") | £4,278,728 | - | - | NO | NO |
| Housing and Council Tax Benefit Subsidy ("BEN01") | £146,208,266 | - | - | YES | YES |

**Summary of qualification letters**

*Housing and Council Tax Benefit Subsidy ("BEN01")*

Our initial sample testing of 60 cases on this claim identified 4 errors. In addition, as a result of these and prior year errors, additional testing of 120 cases highlighted 10 errors. We have included details of all errors in our qualification letter. The subsidy claim was not amended for these errors.

See Section 3 for more details.

| Fees | Total fees charged in respect of the work performed on the 2 claims and returns (2013: 4) certified by Deloitte LLP were £40,260 (2013: £42,700).

Section 4 of this report sets out the fees charged on each of the 2 claims and returns we certified. |
| --- | --- |

# 2. Introduction

## Purpose of this report

This letter is addressed to the Audit Committee of the Authority and is intended to communicate key issues arising from our 2013/14 certification work. This Letter will be published on the Authority's website.

## Our responsibilities

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any Minister of the Crown or a Public Authority to a Local Authority. The Commission, rather than its appointed auditors, has the responsibility for making certification arrangements. The appointed auditor carries out work on individual claims as an agent of the Commission under certification arrangements made by the Commission which comprise certification instructions which the auditor must follow.

The respective responsibilities of the audited grant paying body, authorities, the Audit Commission and appointed auditors in relation to claims and returns are set out in the 'General Certification Instructions' produced by the Audit Commission.

Auditors presented with any claim or return that is not covered by a certification instruction should refer the matter to the Audit Commission for advice. If the Audit Commission has formally declined to make certification arrangements for a scheme, an auditor cannot act in any capacity. However, if the Audit Commission has not formally declined to make arrangements, the auditor can decide to act as a reporting accountant.

## The scope of our work

Auditors appointed by the Audit Commission are required to:
- review the information contained in a claim or return and to express a conclusion whether the claim or return is: i) in accordance with the underlying records; or ii) is fairly stated and in accordance with the relevant terms and conditions;
- examine the claim or return and related accounts and records of the Local Authority in accordance with the specific grant certification instructions;
- direct our work to those matters that, in the appointed auditor's view, significantly affect the claim or return;
- plan and complete our work in a timely fashion so that deadlines are met; and
- complete the appointed auditor's certificate, qualified as necessary, in accordance with the general guidance in the grant certification instructions.

These responsibilities do not place on the appointed auditor a responsibility to either:
- identify every error in a claim or return; or
- maximise the authority's entitlement to income under it.

We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the certification procedures. Our aim is to deliver a high standard of service which makes a positive and practical contribution which supports the Authority's own agenda. We recognise the value of your cooperation and support.

# 3. Results of our claims and returns certification work

**Claims and returns certified without adjustment or a qualification letter**

We were able to certify the following claim/return without adjustment or a qualification letter:

- Pooling of Housing Capital Receipts (CFB06)

**Claims and returns certified without adjustment but with a qualification letter**

The Housing benefit subsidy ("BEN01") was certified with a qualification letter but was not subject to amendment.

In 2013/14 we identified 30 errors on 14 cases (2012/13: 15 cases). We were able to group similar errors types together across the 14 cases to give a total of 2 different error types: incorrectly classified expenditure and overpaid benefit. Both of these errors resulted in an overstatement of an individual's benefit entitlement or subsidy or both.

We identified 4 errors in our initial testing and hence in 2013/14 we were required to undertake prescriptive additional testing of 120 cases.

As a result of errors noted in the prior year, additional testing of 120 cases was performed. Testing of the additional cases was undertaken by the Authority and reviewed by us. We were not able to conclude that the errors identified in this work were isolated and hence we could not conclude that the claim was fairly stated. Accordingly, we were required to include in our qualification letter extrapolation calculations for the remaining unadjusted errors (all of the overpaid or overstated errors where we did not test 100% of the population).

Given the nature of the population and the variation in the errors found, it is unlikely that additional work would have resulted in amendments to the BEN01 subsidy claim that would have allowed us to conclude that it was fairly stated. We have set out a summary of our findings in the table overleaf:

# 3. Results of our claims and returns certification work (continued)

| BEN01 – Housing and council tax benefit subsidy | |
|---|---|
| **Qualification details** | **Rent Allowances (cell 94)**<br>**Total expenditure £124,007,059**<br><br>There was a prior year qualification within this cell or other related cells, therefore the authority was required to complete testing in line with Cumulative Audit Knowledge and Experience (CAKE) guidance. This testing identified 10 errors within the claim. Testing of the initial sample identified no errors. The following errors were identified:<br><br>• No cases within our initial sample and 5 within CAKE testing had underpaid benefit as a result of miscalculating the claimant's weekly income.<br>• No cases within our initial sample and 5 cases within CAKE testing had overpaid benefit as a result of miscalculating the claimant's weekly income. |
| | **Rent rebates (cell 055)**<br>**Total expenditure £18,750,580**<br><br>There was a prior year qualification within this cell or other related cells, therefore the authority was required to complete testing in line with Cumulative Audit Knowledge and Experience (CAKE) guidance. This testing identified 6 errors within the claim. Testing of the initial sample identified 1 error, with a further 6 errors identified as part of the following extended 40+ sample.<br><br>The following errors were identified:<br>• 1 case within the initial testing had overpaid benefit as a result of miscalculating the claimant's private pension<br><br>• 3 cases within CAKE testing had underpaid benefit as a result of miscalculating the claimant's earned income.<br>• 3 cases within CAKE testing had overpaid benefit as a result of miscalculating the claimant's earned income.<br><br>The 6 errors noted on CAKE testing are broken down in to further detail as follows:<br><br>• 5 cases within the 40+ extended sample had underpaid benefit as a result of miscalculating the claimant's private pension<br>• 1 case within the 40+ extended sample had overpaid benefit as a result of miscalculating the claimant's private pension |

# 3. Results of our claims and returns certification work (continued)

| BEN01 – Housing and council tax benefit subsidy | |
|---|---|
| **Qualification details (continued)** | **Rent Rebates (cell 11)**<br>**Total expenditure £3,614,274**<br><br>Testing of the initial sample identified 2 errors, with a further 4 errors identified as part of the following extended 40+ sample.<br><br>The following errors were identified:<br>• 2 cases from the initial sample where Local Authority (LA) delay overpayments had been incorrectly classified as eligible overpayments<br>• 4 cases from the extended 40+ sample where LA delay overpayments had been incorrectly classified as eligible overpayments |

Since certifying the claim form we have provided management with a summary of the errors found to allow early planning for next year's testing.

We do not have any specific control recommendations as a result of the work performed for the 2013/14 claim.

# 4. Certification information

Our certification work on Authority's claims and returns for the year ended 31 March 2014 is now complete and the table below summarises the results of this work and our fees by claims and returns.

From 2012/13 onwards, the Audit Commission has replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work.

| Certification instruction | Within Audit Commission framework | Claim/ return | 2014 value of claim (£) | 2014 results of audit work | 2014 audit fee (£) | 2013 audit fee (£) |
|---|---|---|---|---|---|---|
| BEN01 | Yes | Housing and council tax benefits subsidy | 146,208,266 | Qualified | 36,980 | 30,944 |
| CFB06 | Yes | Housing Capital Receipts | 4,278,728 | Satisfactory | 3,280 | 3,278 |
| LA01 | No | National non-domestic rate return | N/A | N/A | N/A | 5,827 |
| PEN05 | No | Teachers' pension return | N/A | N/A | N/A | 2,651 |
| TOTAL | | | | | 40,260 | 42,270 |

# 5. Responsibility statement

The Statement of Responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns, issued by the Audit Commission, sets out the respective responsibilities of these parties, and the limitations of our responsibilities as appointed auditors and this report is prepared on the basis of, and the grant certification procedures are carried out, in accordance with that statement.

The matters raised in this report are only those that came to our attention during our certification procedures and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented.

This report sets out those matters of interest which came to our attention during the certification procedures. Our work was not designed to identify all matters that may be relevant to the Members and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

*Deloitte LLP*

**Deloitte LLP**

Chartered Accountants

St Albans

27 February 2015

REPORT FOR:    GOVERNANCE, AUᴅɪᴛ,
RISK MANAGEMENT
AND STANDARDS
COMMITTEE

| | |
|---|---|
| **Date of Meeting:** | 1ˢᵗ April 2015 |
| **Subject:** | **Corporate Anti-Fraud Team Draft Expected Fraud Code Implementation Outcomes 2015-16** |
| **Responsible Officer:** | Simon George – Director of Finance & Assurance |
| **Exempt:** | No |
| **Enclosures:** | Appendix 1 – Draft Expected Fraud Code Implementation Outcomes 2015/16<br>Appendix 2 – CIPFA Code of Practice Guidance notes on Managing the Risk of Fraud and Corruption |

## Section 1 – Summary

This report sets out the draft expected fraud code implementation outcomes for 2015/16 and the suggested approach

**Recommendations:**
The Committee is requested to:

a) Adopt the CIPFA code of practice on Managing the Risk of Fraud and Corruption
b) Consider and comment on the self assessment against the Code and draft expected fraud code implementation outcomes for 2015/16
c) Provide comment on how best engagement with Members could be achieved with regards to managing fraud and corruption risks

# Section 2 – Report

## Background

2.0 On 1st October 2014, as a result of the Government's Welfare Reform Agenda, housing benefit fraud investigation work undertaken by the authority transferred to the Department for Work & Pensions, Single Fraud Investigation Service (SFIS), along with 2 FTE posts from the Corporate Anti-Fraud Team (CAFT). The result of this has meant the type and composition of the work undertaken by the team and how the organisation manages fraud and corruptions risks will change moving forward and it is likely to encompass greater prevention and awareness work corporately, in addition to responding to fraud allegations.

2.1 Since the transfer date the CAFT have been focusing their resources on corporate investigation work mainly involving Council Tax Support, Housing Management, Housing Assessment, Social Care, Blue Badges and co-ordination of the National Fraud Initiative (NFI) exercise. A number of recent investigations involving school admissions allegations and disabled facility grants have also commenced. This investigation work will continue reactively and proactively into high risks areas such as previously mentioned throughout 2015/16 and will continue to feature as part of a much broader piece of work during 2015/16.

2.2 On 1st December 2014 the CAFT Mid Year Report was presented to the Committee inviting their views on where they believed the authority ought to be targeting their resources in terms of managing the risk of fraud and corruption. It also informed that CIPFA had recently published their code of practice on *Managing the Risk of Fraud & Corruption*. This report recommends the adoption of this code.

2.3 It was also suggested by the Committee that a joint letter from The Chair, Vice Chair and Director of Finance be penned to all Elected Members canvassing their opinion given the changes in the fraud risk landscape and the challenges presented by achieving compliance with the code.

2.4 This letter went to Elected Members on or around 29th January 2015 and it also invited them to attend one of two Fraud Awareness Briefings being delivered by the Corporate Anti-Fraud Team on 10th & 12th February 2015. Take up of the awareness session was unfortunately low and only one Member responded in writing providing their opinion. The Committee is therefore asked for its views on how best to engage more effectively with Members during 2015/16.

2.5 A paper was presented to CSB on 11th February 2015 giving a background of fraud risks faced by the organisation and the challenges of meeting the demands of the CIPFA code.

2.6 The Corporate Anti-Fraud Service Manager accompanied the Head of Internal Audit recently in attending the directorate departmental management team meetings to inform about the code and the work required ahead and to obtain an idea about where they felt their fraud risks lay within their own areas.

## CIPFA Code of Practice

2.7    In December 2014 CIPFA published its guidance underpinning the code of practice (Appendix 2) and they are also due to publish a check list in the coming months providing organisations with greater detail about the compliance expectations for each principle.

2.8    The sheer scale and level of detail demanded by the code is such that only a collaborative effort across the authority will ensure that the code is satisfied.  It is vital that skills and expertise across a number of groups and departments such as corporate anti-fraud, risk management, internal audit, the authorities' leadership team, elected members and the directorates themselves all work together to achieve compliance.

2.9    Within the code itself there are five key principles and a number of elements within each principle which the authority needs to satisfy in order to achieve compliance with the code.

2.10   The five key principles in the code are:-

a)  Acknowledge the responsibility of the governing body for countering fraud and corruption

b)  Identify the fraud and corruption risks

c)  Develop an appropriate counter fraud and corruption strategy

d)  Provide resources to implement the strategy

e)  Take action in response to fraud and corruption

2.11   Within the five key principles there are twenty one (21) criteria which provide more detail about what is expected for an organisation to meet the code.

2.12   Whilst the code is voluntary, assessment against the code will feed into the Annual Governance Statement work undertaken by Internal Audit.  A formal assessment will be undertaken at the end of 2015/16 to assess the organisation against the code and this will be reported in the Annual Governance Statement.

2.13   Failure to adopt the code will have an adverse affect upon the authorities' framework of governance, risk management and control and its resilience to fraud and corruption.

2.14   The challenge ahead to satisfy the code will be a corporate challenge and not the responsibility of one individual or department.  Fraud and corruption risks should be considered as business risks and managed as part of the organisation's risk management framework, not in isolation, nor as a one off exercise.

**Suggested approach**

2.15 Appendix 1 illustrates the draft expected fraud code implementation outcomes being sought. It is recommended to the Committee that an initial self assessment be undertaken against the code to establish a baseline of where the authority currently lies. This work of course is dependent upon the authority adopting the code.

2.16 It is envisaged that the authority will meet fully or partially some criteria but may not meet others. This assessment will establish a gap analysis and inform the development of a Corporate Anti-Fraud Team Counter Fraud Service Plan/Action Plan for 2015/16 with details of how any gaps will be bridged over the coming 12 months.

2.17 This self assessment will be undertaken early in quarter 1 in 2015/16 so that the action plan can be developed and presented to the Committee on 22nd July 2015.

2.18 Compliance with the code is vitally important to ensuring that the authority minimises or reduces the risk of fraud and corruption which could have a detrimental effect on its ability to meet its corporate objectives.

# Section 3 – Further Information

None

# Section 4 – Financial Implications

The financial implications have been shown where relevant, in the report.

# Section 5 - Equalities implications

None

# Section 6 – Corporate Priorities

Effective management of the risk of fraud and corruption is an integral part to the organisation meeting its corporate objectives.

Name: Simon George      [X]    Chief Financial Officer

Date: 20/03/15

Name: Linda Cohen      X    On behalf of the Monitoring Officer

Date: 20/0315

## Section 7 - Contact Details and Background Papers

**Contact:** Justin Phillips, Corporate Anti-Fraud Manager

**Background Papers: None**

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# CORPORATE ANTI-FRAUD TEAM

## DRAFT EXPECTED FRAUD CODE IMPLEMENTATION

## OUTCOMES 2015-16

| Project Number, Name & Description | Expected Outcomes | Performance Measures/Milestones | Priority Action? | By Whom (Lead) | By When | Transformation Link | Risk/ Dependency | Workforce Implications | Service L&D Implications |
|---|---|---|---|---|---|---|---|---|---|
| **A. ACKNOWLEDGE RESPONSIBILITY FOR TACKLING FRAUD**<br><br>The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud & corruption are managed effectively across all parts of the organisation | **A1.** The organisation's leadership team acknowledge the threats of fraud and corruption, and the harm they can cause to the organisation, its aims and objectives and to its service users | Adherence with action plan to be developed following self assessment against the code of practice | | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | | Corporate commitment & appetite to satisfy code | None | None |
| | **A2.** The organisation's leadership team acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the principles of good governance | Adherence with action plan to be developed following self assessment against the code of practice | | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | | Corporate commitment & appetite to satisfy code | None | None |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **A3.** The governing body acknowledges its responsibility for ensuring the management of its fraud and corruption risks and will be accountable for the actions it takes through its governance reports | Adherence with action plan to be developed following self assessment against the code of practice | | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | | Corporate commitment & appetite to satisfy code | None | None |
| | **A4.** The governing body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption and explores opportunities for financial savings from enhanced fraud detection and prevention | Adherence with action plan to be developed following self assessment against the code of practice | | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | | Corporate commitment & appetite to satisfy code | None | None |

| Project Number, Name & Description | Expected Outcomes | Performance Measures/Milestones | Priority Action? | By Whom (Lead) | By When | Transformation Link | Risk/ Dependency | Workforce Implications | Service L&D Implications |
|---|---|---|---|---|---|---|---|---|---|
| **B. IDENTIFY FRAUD RISKS**<br><br>Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users | **B1.** Fraud risks are routinely considered as part of the organisation's risk management arrangements | Adherence with action plan to be developed following self assessment against the code of practice | | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | | Corporate commitment & appetite to satisfy the code | None | None |
| | **B2.** The organisation identifies the risks of corruption and the importance of behaving with integrity in its governance framework | Adherence with action plan to be developed following self assessment against the code of practice | | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | | Corporate commitment & appetite to satisfy the code | None | None |
| | **B3.** The organisation uses published estimates of fraud loss, and where appropriate its own measurement exercises, to aid its evaluation of fraud risk exposures | Adherence with action plan to be developed following self assessment against the code of practice | | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | | Corporate commitment & appetite to satisfy the code | None | None |

| | | | | | | |
|---|---|---|---|---|---|---|
| **B4.** The organisation evaluates the harm to its aims and objectives and service users that different fraud risks can cause | Adherence with action plan to be developed following self assessment against the code of practice | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | Corporate commitment & appetite to satisfy the code | None | None |

| Project Number, Name & Description | Expected Outcomes | Performance Measures/Milestones | Priority Action? | By Whom (Lead) | By When | Transformation Link | Risk/Dependency | Workforce Implications | Service L&D Implications |
|---|---|---|---|---|---|---|---|---|---|
| **C. DEVELOP A FRAUD STRATEGY**<br><br>An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action | **C1.** The governing body formally adopts a counter fraud and corruption strategy to address the identified risks and align with the organisation's acknowledged responsibilities and goals | Adherence with action plan to be developed following self assessment against the code of practice | | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | | Corporate commitment & appetite to satisfy the code | None | None |
| | **C2.** The strategy includes the organisation's use of joint working or partnership approaches to managing its risks, where appropriate | Adherence with action plan to be developed following self assessment against the code of practice | | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | | Corporate commitment & appetite to satisfy the code | None | None |
| | **C3.** The strategy includes both proactive and responsive approaches that are best suited to the organisation's fraud and corruption risks. Proactive and responsive components of a good practice response to fraud risk management are set out below | Adherence with action plan to be developed following self assessment against the code of practice | | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | | Corporate commitment & appetite to satisfy the code | None | None |

| C4. The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight | Adherence with action plan to be developed following self assessment against the code of practice | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | Corporate commitment & appetite to satisfy the code | None | None |
|---|---|---|---|---|---|---|

| Project Number, Name & Description | Expected Outcomes | Performance Measures/Milestones | Priority Action? | By Whom (Lead) | By When | Transformation Link | Risk/ Dependency | Workforce Implications | Service L&D Implications |
|---|---|---|---|---|---|---|---|---|---|
| **D. PROVIDE RESOURCES TO SUPPORT THE STRATEGY**<br><br>The organisation should make arrangements for appropriate resources to support the counter fraud strategy | **D1.** An annual assessment of whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk | Adherence with action plan to be developed following self assessment against the code of practice | | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | | Corporate commitment & appetite to satisfy the code | None | None |
| | **D2.** The organisation utilises an appropriate mix of experienced and skilled staff, including access to counter fraud staff with professional accreditation | Adherence with action plan to be developed following self assessment against the code of practice | | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | | Corporate commitment & appetite to satisfy the code | None | None |
| | **D3.** The organisation grants counter fraud staff unhindered access to its employees, information and other resources as required for investigation purposes | Adherence with action plan to be developed following self assessment against the code of practice | | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | | Corporate commitment & appetite to satisfy the code | None | None |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **D4.** The organisation has protocols in place to facilitate joint working and data and intelligence sharing to support counter fraud activity | Adherence with action plan to be developed following self assessment against the code of practice | | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | | Corporate commitment & appetite to satisfy the code | None | None |

| Project Number, Name & Description | Expected Outcomes | Performance Measures/Milestones | Priority Action? | By Whom (Lead) | By When | Transformation Link | Risk/ Dependency | Workforce Implications | Service L&D Implications |
|---|---|---|---|---|---|---|---|---|---|
| **E. TAKE ACTION TO TACKLE FRAUD**<br><br>The organisation has put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud | **E1.** The organisation has put in place a policy framework which supports the implementation of the counter fraud strategy. As a minimum the framework includes<br><br>• Counter fraud policy<br>• Whistleblowing policy<br>• Anti-money laundering policy<br>• Anti-bribery policy<br>• Anti-corruption policy<br>• Gifts and hospitality policy & register<br>• Pecuniary interest and conflicts of interest policies and register<br>• Code of conduct and ethics<br>• Information security policy<br>• Cyber security policy | Adherence with action plan to be developed following self assessment against the code of practice | | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | | Corporate commitment & appetite to satisfy the code | None | None |

| | | | | | | |
|---|---|---|---|---|---|---|
| **E2.** Plans and operations are aligned to the strategy and contribute to the achievement of the organisation's overall goal of maintaining resilience to fraud and corruption | Adherence with action plan to be developed following self assessment against the code of practice | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | Corporate commitment & appetite to satisfy the code | None | None |
| **E3.** Making effective use of national or sectoral initiatives to detect fraud or prevent fraud, such as data matching or intelligence sharing | Adherence with action plan to be developed following self assessment against the code of practice | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | Corporate commitment & appetite to satisfy the code | None | None |
| **E4.** Providing for independent assurance over fraud risk management, strategy and activities | Adherence with action plan to be developed following self assessment against the code of practice | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | Corporate commitment & appetite to satisfy the code | None | None |
| **E5.** There is a report to the governing body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy from the lead person(s) designated in the strategy. Conclusions are featured in the annual governance report | Adherence with action plan to be developed following self assessment against the code of practice | CAFT to lead with input from Internal Audit / CSB / Risk Mgmt / DMT's | April 2016 (subject to action plan) | Corporate commitment & appetite to satisfy the code | None | None |

**CIPFA**

Code of practice on

# managing the risk of fraud and corruption

Guidance notes

CIPFA **COUNTER FRAUD** CENTRE

Acknowledge Responsibility

Develop Strategy

Identify Risks

Provide Resources

Take Action

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

**CIPFA** values all feedback it receives on any aspects of its publications and publishing programme. Please send your comments to publications@cipfa.org

Our range of high quality advisory, information and consultancy services help public bodies – from small councils to large central government departments – to deal with the issues that matter today. And our monthly magazine, *Public Finance*, is the most influential and widely read periodical in the field.

Here is just a taste of what we provide:

- TISonline – online financial management guidance
- Benchmarking
- Advisory services
- Professional networks
- Property and asset management services

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**Environmental Information**

# CIPFA

The Chartered Institute of
Public Finance & Accountancy

Code of practice on

# \ managing the risk
of fraud and corruption

Guidance notes

**CIPFA COUNTER FRAUD** CENTRE

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# Introduction

Fraud and corruption are ever present risks to all organisations, be they public, private or not-for-profit. Fraud and corruption can have a significant negative impact on organisations through disruption to their services or undermining the achievement of their objectives. Official estimates[1] have assessed the value of fraud loss in the public sector to be significant. Despite the risk, identifying adequate resource to manage the risk is a challenge for many across the public services.

To help organisations recognise and address their fraud risks, CIPFA has produced a Code of Practice on Managing the Risk of Fraud and Corruption ("the Code") which consists of five principles:

- Acknowledge the responsibility of the governing body for countering fraud and corruption.
- Identify the fraud and corruption risks.
- Develop an appropriate counter fraud and corruption strategy.
- Provide resources to implement the strategy.
- Take action in response to fraud and corruption.

CIPFA has built on its previous guidance, *Managing the Risk of Fraud, Actions to Counter Fraud and Corruption (Red Book)* (2008), to establish a high level set of principles that can be applied to any public service organisation. The Code together with these guidance notes replace CIPFA's previous guidance.

These guidelines are designed to assist organisations in the implementation of the Code. CIPFA considers it important that organisations tailor their approach to implementing the principles, reflecting different fraud risks and challenges and the governance requirements of their sector. Ultimately, however, all public service organisations share common goals of protecting public assets, acting in the public interest and making best use of their resources to achieve their intended outcomes. This is why CIPFA believes a common set of principles across the public services is a step forward in improving counter fraud practice.

These guidance notes provide the opportunity to consider a range of approaches to implementing the Code and to share examples of good practice. In addition, each principle has a sector interpretation to highlight where different circumstances, governance or accountabilities might need to be taken into account when planning the implementation of the Code. The guidance notes are written to support organisations putting in place counter fraud arrangements for the first time but will also be of benefit to practitioners seeking to review or refresh their existing arrangements.

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1. The National Fraud Authority's Annual Fraud Indicator (2013) estimated the fraud loss in the public sector at around £20bn.

The guidance notes contain the Code, followed by five chapters, each one dealing with one of the principles from the Code. The chapters first establish the context, providing an explanation of the importance of the Code principle. Each chapter then provides sector interpretation, including pointers to relevant sector guidance or requirements. Finally there is more detailed guidance on how to apply each principle of the Code in practice. This includes examples and suggestions of good practice approaches.

There has been a period of significant change affecting the national guidance and resources to counter fraud. CIPFA will continue to provide support for counter fraud practitioners through the Counter Fraud Centre, which will include an assessment tool based on the Code.

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

## CODE OF PRACTICE PRINCIPLES

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

The five key principles of the Code are to:

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

### A    Acknowledge responsibility

The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.

Specific steps should include:

A1    The organisation's leadership team acknowledge the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users.

A2    The organisation's leadership team acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the principles of good governance.

A3    The governing body acknowledges its responsibility for ensuring the management of its fraud and corruption risks and will be accountable for the actions it takes through its governance reports.

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A4   The governing body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption and explores opportunities for financial savings from enhanced fraud detection and prevention.

## B   Identify risks

Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.

Specific steps should include:

B1   Fraud risks are routinely considered as part of the organisation's risk management arrangements.

B2   The organisation identifies the risks of corruption and the importance of behaving with integrity in its governance framework.

B3   The organisation uses published estimates of fraud loss, and where appropriate its own measurement exercises, to aid its evaluation of fraud risk exposures.

B4   The organisation evaluates the harm to its aims and objectives and service users that different fraud risks can cause.

## C   Develop a strategy

An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.

Specific steps should include:

C1   The governing body formally adopts a counter fraud and corruption strategy to address the identified risks and align with the organisation's acknowledged responsibilities and goals.

C2   The strategy includes the organisation's use of joint working or partnership approaches to managing its risks, where appropriate.

C3   The strategy includes both proactive and responsive approaches that are best suited to the organisation's fraud and corruption risks. Proactive and responsive components of a good practice response to fraud risk management are set out below.

**Proactive**
−   Developing a counter fraud culture to increase resilience to fraud.
−   Preventing fraud through the implementation of appropriate and robust controls and security measures.
−   Using techniques such as data matching to validate data.
−   Deterring fraud attempts by publicising the organisation's anti-fraud and corruption stance and the actions it takes against fraudsters.

**Responsive**
−   Detecting fraud through data and intelligence analysis.
−   Implementing effective whistleblowing arrangements.
−   Investigating fraud referrals.

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- Applying sanctions, including internal, disciplinary, regulatory and criminal.
- Seeking redress, including the recovery of assets and money where possible.

C4  The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight.

## D    Provide resources

The organisation should make arrangements for appropriate resources to support the counter fraud strategy.

Specific steps should include:

D1  An annual assessment of whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk.

D2  The organisation utilises an appropriate mix of experienced and skilled staff, including access to counter fraud staff with professional accreditation.

D3  The organisation grants counter fraud staff unhindered access to its employees, information and other resources as required for investigation purposes.

D4  The organisation has protocols in place to facilitate joint working and data and intelligence sharing to support counter fraud activity.

## E    Take action

The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud.

Specific steps should include:

E1  The organisation has put in place a policy framework which supports the implementation of the counter fraud strategy. As a minimum the framework includes:
- Counter fraud policy
- Whistleblowing policy
- Anti-money laundering policy
- Anti-bribery policy
- Anti-corruption policy
- Gifts and hospitality policy and register
- Pecuniary interest and conflicts of interest policies and register
- Codes of conduct and ethics
- Information security policy
- Cyber security policy.

E2  Plans and operations are aligned to the strategy and contribute to the achievement of the organisation's overall goal of maintaining resilience to fraud and corruption.

E3  Making effective use of national or sectoral initiatives to detect fraud or prevent fraud, such as data matching or intelligence sharing.

E4  Providing for independent assurance over fraud risk management, strategy and activities.

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E5   There is a report to the governing body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy from the lead person(s) designated in the strategy. Conclusions are featured in the annual governance report.

## Applying the code in practice

Where organisations are making a statement in an annual governance report about their adherence to this code, one of the following statements should be approved according to whether the organisation conforms with the code or needs to take further action. The statement should be approved by the governing body and signed by the person responsible for signing the annual governance report.

### Statement 1

Having considered all the principles, I am satisfied that the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Or

### Statement 2

Having considered all the principles, I am satisfied that, subject to the actions identified below, the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

**Actions to be taken to manage the risk of fraud:**

| Action: | Responsibility: | Target date: |
|---------|-----------------|--------------|
|         |                 |              |

# Acknowledge Responsibility

> **CIPFA CODE OF PRACTICE PRINCIPLE A**
>
> The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.

## CONTEXT

This section looks at the important role the governing body and senior executives have in establishing an effective response to the risks of fraud. CIPFA considers it essential for an organisation to acknowledge responsibility for protecting itself and its services from the harm caused by fraud and corruption.

The leaders of an organisation should formally accept this responsibility and publicise this to demonstrate their leadership. This helps to build confidence among staff, stakeholders and the general public that fraud risks are taken seriously and action will be taken to address them. The organisation's leaders will be members of the governing body or the organisation's executive management team, examples include cabinet members, chair of the board, accounting officer, chief executive, executive directors, vice-chancellor, principal or headteacher. Acknowledging responsibility also provides both management and counter fraud professionals with the authority to ensure that fraud and corruption risks are identified and managed correctly.

In addition to the governing body providing a high level of support to counter fraud activity, it is also recommended that there should be four levels of authority within an organisation with respect to fraud and corruption risk management:

1.  **Chief executive and senior management level**

    Leadership from the very top is essential if fraud and corruption risk management is going to be taken seriously by the whole organisation. "Top level buy-in" needs to be explicit and disseminated throughout the organisation.

2.  **Accountable person**

    This position should oversee the implementation of the counter fraud and corruption strategy and ensure that it is put into practice. It is essential that this position is able to have delegated authority for decisions. Appendix D includes a suggested list for most organisation types in the public services.

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3. **Counter fraud team**

This may be large or small according to the size of the organisation and may be outsourced. It may also be a stand-alone team or possibly a role combined with other advisory functions, such as internal audit, particularly for preventative actions. Increasingly the counter fraud activity is being shared between organisations.

4. **Independent review and compliance**

This could be achieved by an internal audit review reporting to the audit committee and also by external auditors and regulators. The audit committee is likely to include responsibilities in relation to counter fraud in its terms of reference.

There is a strong relationship between good governance and counter fraud and corruption. At its most basic level most people would recognise the need for appropriate policies and procedures to prevent or investigate fraud and corruption as part of an organisation's governance arrangements. There is also a clear link to ethical standards and codes of conduct, as articulated in the Seven Principles of Public Life (the Nolan Principles). The Seven Principles were originally established by the Committee on Standards in Public Life in its first report published in 1995. The current definition of the principles can be found in Committee on Standards in Public Life – A Review of Best Practice in Promoting Good Behaviour in Public Life (2013).

A framework of good governance means more than having the right policies and procedures in place. Likewise an effective counter fraud and corruption approach requires more than policies and procedures to be successful. The Code aims to align its principles of good counter fraud and corruption practice with the principles of good governance. It should therefore be easier to communicate and embed the principles of the Code alongside other guidance.

Across the public services there are a number of codes of corporate governance. The most up-to-date thinking on good governance for the public sector is the new International Framework: Good Governance in the Public Sector (2014), developed jointly by CIPFA and the International Federation of Accountants (IFAC). This builds on The Good Governance Standard for Public Services developed in 2004 by CIPFA and the Office for Public Management (OPM), with support from the Joseph Rowntree Foundation. Sector specific codes are also important, as is the UK Corporate Governance Code, issued by the Financial Reporting Council for listed companies.

It is in the new International Framework that there are the clearest links to the principles in the Code. The International Framework states:

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

*The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times.*

*Good governance is characterized by robust scrutiny, which places important pressures on improving public sector performance and tackling corruption.*

When considering the Code against the International Framework there are two clear messages: the importance of achieving intended outcomes and acting in the public interest

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and being seen to do so. It is clear from the outset that good governance cannot be achieved if the fraud and corruption risks faced by the entity are unacknowledged or inadequately addressed.

> **Example:**
>
> The intended outcome of providing social housing is that it provides an affordable home to a family in need. If fraud takes place, for example a unit is sub-let to someone else, then the opportunity to use that house to meet another's housing need is lost.

Appendix B contains a detailed mapping of the links between the principles in the Code and the governance principles in the International Framework.

Governance reports, such as the governance statement, are used to:

- demonstrate how the organisation has put in place robust governance arrangements and assess how well they have operated over the previous year

- set out plans for future improvement.

CIPFA's Delivering Good Governance in Local Government: Framework (Addendum) (2012), which provides guidance on annual governance statements in local government, clearly points to the review of counter fraud arrangements as part of this annual review. Going forward CIPFA would recommend that the Code is used as a basis for assessment and for reporting in the governance statement. CIPFA will take account of this in future reviews and updates to its guidance on governance statements.

## SECTOR INTERPRETATION

The framework of good governance adopted by the organisation should support the Code, and it should be possible to make clear linkages between the two. Appendix C includes a map of the counter fraud code against leading governance codes currently in use in the public services. This resource should enable linkages to be made to an organisation's current code of governance. A review of Appendix C will highlight that counter fraud and corruption is not always clearly identified within existing governance codes. CIPFA recommends that the appropriate regulators should consider the alignment when updating or replacing the current governance codes.

Codes of conduct usually set out the responsibilities of the employee or member of the governing body to behave in accordance with ethical standards, such as the Standards in Public Life, and to exercise stewardship over public money, assets and data. Thus all public service employees and governors have a responsibility for the prevention, detection and reporting of fraud and corruption. Examples are given below:

- In the NHS, all managers aim to ensure all NHS officers are aware of fraud, bribery and corruption (economic crime) risks and NHS officers are required to report any suspicions of economic crime as soon as they become aware of them. For more information see NHS Protect's Standards for Providers 2014/15: Fraud, Bribery and Corruption.

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- Within charities, the Charity Commission's Compliance Toolkit states that 'staff and volunteers should know how to report their concerns within the organisation, including concerns about the conduct of trustees or senior managers'.

- Other public sector organisations have similar requirements. For example, Transport for London's *Anti-Fraud and Corruption Policy* states 'every member of staff has a responsibility to report details immediately to their employing manager if they suspect that fraud or corruption has been, is being or may be committed'. Many local authorities have similar wording in their policies.

Different sectors will have differing forms of governance and governing bodies.  Thus the terms governing body, board or audit committee may have different meanings to various organisations. In general, leaders of an organisation will be members of the governing body or the organisation's executive management team. Examples include cabinet members, chair of the board, accounting officer, chief executive, executive directors, vice-chancellor, principal or headteacher.

Appendix D includes a list of public service organisations and suggested governing bodies and accountable officers. In some cases responsibility is clearly identified in existing guidance. For example, Managing Public Money (HM Treasury, 2013) identifies the accounting officer as responsible for managing the organisations' risks, including fraud risks. Those organisations that need to abide by *Managing Public Money*, including central government departments, agencies and academies, will identify their accounting officer as the accountable officer. In higher education the principal or vice-chancellor is designated accountable officer, which is a mandatory requirement. The CIPFA Statement on the Role of the Chief Financial Officer in Local Government identifies the core responsibilities of the chief financial officer and this includes implementing appropriate measures to prevent and detect fraud and corruption.

Whatever the sector, the governing body and those with counter fraud responsibilities should be clearly identified and defined.

## GOOD PRACTICE GUIDANCE

### CIPFA CODE OF PRACTICE PRINCIPLE A1

The organisation's leadership team acknowledge the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users.

An organisation's leadership needs to fully understand and acknowledge the threats of fraud and corruption faced, and the harm they can cause to their organisation. For example this acknowledgement could be highlighted in public documents such as policy statements, strategies and annual reports.

An effective organisation will have a counter fraud and corruption strategy and policy which is approved and supported by the organisation's leadership team and which is communicated effectively. There are many ways to ensure wide distribution of polices such as including them in induction training, regular referrals at team meetings or including in leadership briefings.

It is good practice for the responsibilities for managing the risk of fraud and corruption to be included in the organisation's scheme of delegation or terms of reference.

> **Example:**
>
> A local council appointed one councillor as an "Anti-fraud Tsar". This provided senior political leadership for an authority wide, integrated and co-ordinated response across all cabinet portfolios. This provided a conduit for front line services to decision makers as part of a joined-up approach to countering fraud. The first initiative under this scheme detected over £200,000 of housing benefit fraud.

### CIPFA CODE OF PRACTICE PRINCIPLE A2

*The organisation's leadership team acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the principles of good governance.*

There are a number of ways that the organisation's leadership team can support a counter fraud culture:

- Providing visible support for counter fraud and corruption activity.
- Recognising the risk of fraud and corruption and the harm it can cause to the organisation and to those the organisation helps and/or protects.
- Including reference to counter fraud and corruption activities in the principles of good governance and standards of conduct adopted by the organisation. In order to assist this, Appendix C provides guidance on the alignment of the Code against current governance frameworks in use in the public services.
- Ensuring the organisation is responsive to new fraud and corruption risks.
- Embedding strong counter fraud controls and systems within the organisation.
- Providing visible support and resourcing for fraud awareness activity.
- Supporting counter fraud and corruption training throughout the organisation and at all levels. The adoption of the Code could be publicised as part of this training.
- Ensuring that other governance papers, strategies and policies include fraud and corruption risks wherever relevant.

### CIPFA CODE OF PRACTICE PRINCIPLE A3

*The governing body acknowledges its responsibility for ensuring the management of its fraud and corruption risks and will be accountable for the actions it takes through its governance reports.*

Formal adoption of this Code by the organisation will be a robust commitment by the governing body to the management of its fraud and corruption risks. The governing body should ensure that there is a clear programme of work in accordance with the Code to manage the risk of fraud and corruption.

The organisation's leadership team can also provide strong and genuine support by delegating appropriate authority to counter fraud professionals. The leadership team can also acknowledge these threats by providing their support to counter fraud and corruption

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measures, by providing resources appropriate to the risks and by reporting on the management of the risks to the governing body or audit committee.

This support, however, needs to be clearly laid out along with the expected outcomes in the organisation's strategies, policies and procedures. All senior managers in an organisation can be given a responsibility for fraud risk management in their particular area of the organisation and this could be included in their job description.

The governing body should also identify how accountability will be demonstrated. For example the publication of annual governance reports could include a statement about the level of adherence to the Code. The review can also report on whether this work is being effectively and efficiently implemented and how the organisation is benefiting from successful fraud and corruption risk management.

## CIPFA CODE OF PRACTICE PRINCIPLE A4

The governing body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption and explores opportunities for financial savings from enhanced fraud detection and prevention.

This can be achieved by the organisation having a clear programme of work to manage fraud and corruption risks with specific goals as set out in a counter fraud and corruption strategy (see Section C of the Code and Chapter 5 of the Guidance Notes).

The programme of work will be proportionate to the size of the organisation and the risk it faces but could include:

- a formal fraud risk management process
- the production, maintenance and review of a fraud strategy
- formal fraud awareness activity and
- clear directions on actions to be taken if fraud or corruption is discovered.

The programme of work should be regularly reviewed to focus on new or increasing fraud risks identified as part of the organisation's risk management work. Where fraud prevention or detection opportunities are identified that could result in financial savings, then the benefits should be evaluated.

# Identify Risks

> **CIPFA CODE OF PRACTICE PRINCIPLE B**
>
> Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.

## CONTEXT

Fraud and corruption risks should be considered as business risks and managed as part of the organisation's risk management process. ISO 31000:2009 – Risk Management Principles and Guidelines defines risk management as 'coordinated activities to direct and control an organisation with regard to risk'. The systematic process of understanding, evaluating and addressing risks maximises the chances of objectives being achieved and helps organisations ensure they are sustainable.

Effective risk management requires an informed understanding of relevant risks, an assessment of their relative priority and a rigorous approach to monitoring and controlling them. To be effective, risk management needs be proportionate to the size and nature of an organisation.

Fraud and corruption risk management is an important part of planning for all organisations. The process of risk management is designed to reduce or eliminate the risk of fraud and corruption happening or having a detrimental impact on the business. Successful fraud and corruption risk management will help an organisation focus on three objectives to reduce the harm and effect that fraud and corruption have on an organisation and those it is there to help. These objectives are as follows:

1. **Prevention and deterrence**
   Risk management will help you to target the organisation's resources at the right areas to prevent fraud occurring.

2. **Detection**
   Risk management will highlight those areas prone to fraud and corruption risks and again help you target your detection resources at the right areas.

3. **Response**
   Using a proactive risk management methodology means that if a fraud does occur, you can take corrective action, minimise losses and help prevent further frauds.

Unless an effective risk management methodology is used, an organisation will not be able to identify its areas of vulnerability and valuable resources and time may be used in the wrong areas.

External auditors are required to obtain an understanding of the entity they are auditing, including its internal controls. To meet international auditing standards external auditors will consider the extent of management's own assessment of the risk of fraud and the controls in place to prevent and detect it. Guidance on the responsibilities of external auditors is available in the International Standard on Auditing (UK and Ireland) 240 (Financial Reporting Council).

## SECTOR INTERPRETATION

An organisation's risk management approach should take into account any recommended approaches for the sector or any regulatory requirements. Public bodies that need to adhere to Managing Public Money (HM Treasury, 2013) should take account of its Annex 4.9. This states that fraud should always be considered as a risk for the department's risk register. Further links to HM Treasury publications are included in Appendix E.

The approach to risk identification must be proportionate to its size and should also take account of the activities of the organisation. There are however many fraud risks which are generally applicable. CIPFA has produced a list of generic fraud types which can be used as a starting point for organisations that have not yet undertaken a fraud risk identification exercise. This is available to download from the CIPFA website.

To identify other fraud types that might be specific to a sector or organisation type, Appendix E includes resources that will facilitate this. For example, to some organisations procurement fraud will be a greater risk than to others and some fraud types may only be applicable to some organisation types.

An organisation needs to consider all risks and through this process can make an informed decision to accept a certain level of risk. For example, within charities fraud and financial crime can occur at any point within the charity's operations from income generation to the disbursements of funds. The types and levels of fraud will differ between charities so they need to be aware of the risks to which they individually may be vulnerable through a thorough risk assessment.

## GOOD PRACTICE GUIDANCE

The starting point for risk identification is to adopt a clear definition of fraud and corruption. There are many definitions of fraud but the Serious Fraud Office states that:

*Fraud is a type of criminal activity, defined as an abuse of position, or false representation, or prejudicing someone's rights for personal gain. Put simply, fraud is an act of deception intended for personal gain or to cause a loss to another party.*

The many definitions of fraud all include reference to an act of "deception" and the Fraud Act 2006 (while not providing a clear definition of the term fraud) states that, for there to be fraud, the fraudster must intend to 'make a gain for himself or another, or cause loss to another or to expose another to a risk of loss'. The 2006 Act further states that this must be conducted in a dishonest way.

Corruption also has a number of definitions. Transparency International states that corruption is 'the abuse of entrusted power for private gain'. The Bribery Act 2010: Quick Start Guide (Ministry of Justice) defines bribery as 'giving someone a financial or other advantage to encourage that person to perform their functions or activities improperly or to reward that person for having already done so. So this could cover seeking to influence a decision-maker by giving some kind of extra benefit to that decision maker rather than by what can legitimately be offered as part of a tender process'. The World Bank defines corruption simply as 'the abuse of public office for private gain'. Organisations should adopt clear and concise definitions of fraud and corruption and ensure these are included in all appropriate documentation.

**CIPFA CODE OF PRACTICE PRINCIPLE B1**

Fraud risks are routinely considered as part of the organisation's risk management arrangements.

Fraud risks can be integrated into the organisation's risk management arrangements, allowing them to be owned in the same way as other risks. Risk owners should be supported by the nominated counter fraud person/team.

Fraud risk identification can be achieved in a number of ways, including the following:

- Compare your identified risks with other similar organisations.

- Conduct fraud risk workshops within departments. This approach can make best use of the detailed knowledge of the staff operating policies and processes.

- Use internal auditors, external auditors or a specialist consultant to conduct a fraud risk review.

- Use external reference material that identifies current risks experienced by a particular sector. For example, the Audit Commission's Protecting the Public Purse reports identify the frauds experienced by local authorities in England.

> **Example:**
>
> A local council's internal audit department conduct an annual fraud risk assessment which is governed by a formal risk methodology. The assessment covers all of the operations of the council to identify inherent fraud risks. An assessment is then undertaken to identify the likelihood and significance of each inherent fraud risk as well as the existing control environment to highlight any residual risks.
>
> Audit activity is focused on those areas where residual risks have been identified and is included in the council's counter fraud work plan. Follow-up reviews are carried out to ensure that all control weaknesses have been addressed. The counter fraud work plan may be changed in year to focus on new or emerging fraud threats identified as part of information sharing and intelligence.

Fraud and corruption risk management needs to address the following:

- Identify each fraud and corruption risk. This includes defining the risk type and its source. This could include third party risks if they are significant. For example, a fraud experienced by a key supplier could impact on their ability to deliver essential services on your behalf or result in harm to your service users.

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- Identify any enablers that may not be fraud and corruption risks in their own right but can assist in the perpetration of fraud. An example may be the failure to fully implement and maintain access controls in an ICT system. This could assist a fraudster in gaining unauthorised access to a system and enable them to commit fraud. Ensure that new processes and procedures cannot be used by criminals as enablers to fraud and corruption.

- Identify the risk owner:
  - It is best if this is within the department responsible for that particular process, eg HR, procurement, finance.
  - The risk owner needs to have the knowledge and the authority to manage the risk effectively.
  - Ensure that there are no gaps in the management of the risks.

- Analyse the risk:
  - Risks can then be prioritised taking into account both likelihood and potential impact.
  - It may be possible to group risks into specific categories which may make the management of these risks easier. For example, analysis may identify links between procurement and finance risks in a specific function.

- Identify mitigations and controls:
  - Analysing mitigations and controls can identify gaps in an organisation's processes.
  - This can aid proactive detection work through data analytics and continuous auditing.
  - It is possible that mitigations for a risk may not be in the same department as the risk owner and thus internal departmental co-operation is vital.

- Have an action plan and responsible person, with specific timelines and reporting processes:
  - The risk register should identify what action is to be taken, by whom and by when.
  - The risk register can be used as a reference document by the risk owner to ensure the right action is being taken.
  - The risk register can also be used by other staff to identify the risk owner if they identify fraud and corruption issues.

- Follow up with regular risk management meetings. The risk register should be regularly reviewed, risk owners called to account and any problems with implementing the action plan identified. A collaborative approach to fraud risk management should be encouraged.

Additional guidance on conducting fraud risk assessments can be found in Fighting Fraud Locally – A Good Practice Guide for Assessing Fraud Risks.

### CIPFA CODE OF PRACTICE PRINCIPLE B2

The organisation identifies the risks of corruption and the importance of behaving with integrity in its governance framework.

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There should be specific links between counter fraud and corruption policies and other ethical policies, such as codes of conduct and gifts and hospitality policies. These would normally be applicable to all staff as well as contractors, consultants and agency staff. Members of the governing body will also have codes covering ethical conduct and these should also include links to counter fraud and corruption policies.

It should be stressed in any policies that the management of fraud and corruption risks is the responsibility of the whole organisation and not just the counter fraud and corruption team.

## CIPFA CODE OF PRACTICE PRINCIPLE B3

The organisation uses published estimates of fraud loss, and where appropriate its own measurement exercises, to aid its evaluation of fraud risk exposures.

A number of organisations publish estimates of fraud losses on a regular basis, some of which are specific to the public sector or focus on a particular fraud type. While these estimates can never be wholly accurate they do help understanding of the scale of the fraud risk and can identify trends in different types of fraud exposures. The organisation can use these estimates of fraud loss and any measurement exercises to quantify the potential losses that different fraud risks cause.

Clear identification of a fraud and corruption risk can:

- identify the financial loss should that risk not be managed correctly

- assist in the calculation of potential savings through preventative work

- provide a method of calculating the monetary equivalent of frauds identified where it is not easily apparent, for example the loss estimated for social housing fraud is based on the additional costs of using temporary accommodation.

If an organisation has clear definitions of fraud and corruption and risks have been identified, an organisation can consider adopting a method of fraud loss measurement. Loss measurement can be difficult and is not an exact science. For fraud losses, some organisations simply extrapolate known losses for a certain period and calculate what the cost would be for a particular period of time if the fraud had not been identified. For fraud prevention, it may be possible to compare your organisation's losses against other similar organisations. Whatever process or type of calculation is chosen, this needs to be approved and used consistently so that effective year on year comparisons can be made. Thus it is essential that a robust and accurate methodology is selected.

Fraud risk management can be helped and supported by use of the following:

- **Data analytics**

  Data analytics provide a capability where an organisation can extract, analyse, interpret and transform its data to not only detect potential instances of fraud but also to identify specific risks. Data analytics can then also be used to implement effective fraud risk monitoring programmes.

- **Specific fraud audits**

  Specific audits to identify fraud risks and examine the mitigations in place can help not only to prevent but also to detect fraudulent activity. Examples of such audits could be a

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review of the segregation of duties when an organisation has undergone a reorganisation or reduced staffing levels.

■ **Continuous auditing**

Continuous auditing uses automation to perform control and risk assessments on a more frequent basis. Technology plays a key role in continuous audit activities by helping to automate the identification of exceptions or anomalies, analyse patterns within the digits of key numeric fields, review trends and test controls. Continuous auditing is a valuable tool in the management of fraud risks as it can automatically highlight exceptions which could be early indicators of fraudulent activity.

■ **Compliance audits**

These are audits to ensure that the organisation is following regulations and processes which include preventative controls, such as financial regulations. They can be used to assess whether the organisation is exposing itself to fraud and corruption risks by not following such regulations.

■ **Targeted awareness campaigns**

Through a robust risk assessment process or following an investigation, an organisation can identify areas of concern and target those specific areas for awareness campaigns; examples could be the finance department following an account mandate fraud or the procurement department if there is to be a planned increase in spend on a major project. Through such targeted campaigns, awareness of staff will be increased and greater emphasis will be placed on fraud prevention and risk identification.

■ **Counter fraud tests exercises**

As new technology and practices come into place, it is essential that they are "fraud tested" to ensure that they do not pose an additional threat and, if so, ensure mitigations are in place before implementation. Just as there is "security by design", think how fraud can be "designed out" of organisations' processes. This is also applicable to third party suppliers who may have access to an organisation's systems and processes, such as payroll processing or ICT system support.

### CIPFA CODE OF PRACTICE PRINCIPLE B4

The organisation evaluates the harm to its aims and objectives and service users that different fraud risks can cause.

Published reports on detected fraud may provide examples of the harm that fraud could cause. Harm can be identified in a number of ways. There could be reputational damage to the organisation or individuals, potentially resulting in a loss of confidence in the organisation among the public or stakeholders. Harm can also be identified as damage to specific service objectives. For example, if disabled parking permits are perceived to be regularly abused, it could lead to further abuse of disabled parking places, thus further undermining the effectiveness of the permit policy objectives.

There is also likely to be an adverse effect on staff morale and their commitment to good counter fraud practice. If staff see that a fraud risk is not managed correctly, this will do little to cultivate a good counter fraud ethos in an organisation.

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# Develop a Strategy

> **CIPFA CODE OF PRACTICE PRINCIPLE C**
>
> An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.

## INTRODUCTION

Most organisations will have strategies in place to help them achieve their business objectives. The value of a specific counter fraud strategy is that it helps the organisation to focus on the management of fraud risks and ensures the actions have the support of the leadership team.

A clearly defined strategy, approved at the highest level and focused on outcomes, is essential if the risk of fraud and corruption is to be taken seriously in an organisation. A strategic plan is a key part of establishing a counter fraud and corruption culture within an organisation. It provides the opportunity to be explicit about the organisation's approach and makes clear the support of the leadership team.

Where an organisation has set an overall goal to improve its resilience to fraud, as recommended by A4 of the Code, the strategy sets out how the organisation plans to achieve this goal. A strategy can also set specific aims and goals and these can then be measured by the organisation to see how effective its fraud and corruption risk management processes are, and whether the harm and losses caused by fraud are being reduced.

Without such a strategy, there may not be clear direction to all staff including leaders, senior management, staff and indeed the counter fraud team. Thus, a strategy can help an organisation to identify risks, prioritise resources and help to measure the effectiveness of controls.

## SECTOR INTERPRETATION

The level and detail of a counter fraud and corruption strategy should be proportionate to the size and activities of an organisation and the risks it faces. There will be some generic aspects such as:

- responsibility
- aims and objectives
- action plan for awareness, prevention and investigation

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■   review and assessment.

Use of national or sector strategies can help the organisation to establish its own aims or prioritise its actions. For example, local government organisations in England can refer to Fighting Fraud Locally: The Local Government Fraud Strategy (National Fraud Authority, 2012), while in Scotland there is the Scottish Government Counter Fraud Strategy (2012). For charities, the Charity Commission has produced a Summary Strategy for Dealing with Fraud, Financial Crime and Financial Abuse of the Charity Sector as well as a Compliance Toolkit.

In the local government and health sectors data matching has become a key part of an organisation's counter fraud strategy. Participation in the National Fraud Initiative (NFI) has been mandatory for bodies in England under the Audit Commission Act 1998, and the Local Audit and Accountability Act 2014 has made provision for the continuation of the NFI going forward, with the Cabinet Office taking the lead. In Scotland the initiative is led by Audit Scotland under powers granted by the Criminal Justice and Licensing (Scotland) Act 2010. The Wales Audit Office has powers under the Public Audit (Wales) Act 2004 and in Northern Ireland under the Audit and Accountability (Northern Ireland) Order 2003. The NFI already includes participation from other parts of the public services, including several government departments and housing associations, but this is on a voluntary basis.

The British Universities Finance Directors Group (BUFDG) Fraud Working Group has produced a self-assessment checklist for finance managers that can be used in a number of ways to strengthen an institution's counter fraud measures. For education institutions, there is Fraud Indicators – A Generic Checklist for Learning Institutions (Education Funding Agency, 2013) and also the Schools Fraud Healthcheck (2014) developed by Mazars to support Fighting Fraud Locally. Both of these can be helpful in producing a counter fraud strategy in educational institutions.

## GOOD PRACTICE GUIDANCE

### CIPFA CODE OF PRACTICE PRINCIPLE C1

The governing body formally adopts a counter fraud and corruption strategy to address the identified risks and align with the organisation's acknowledged responsibilities and goals.

A strategy is a plan of action designed to achieve a long-term or overall aim. It should therefore have the following key elements:

■   Aims should be clearly linked to the organisation's overall strategic objectives and show how the counter fraud strategy intends to help achieve these strategic objectives.

> **Example:**
>
> We aim to take a firm stance against fraud in social housing and where it is identified we will endeavour to recover the property. This will help us to ensure that social housing is used for those most in need and help to reduce waiting lists and use of temporary accommodation.

■   The strategy needs to include all proactive counter fraud work including prevention and awareness, detection, investigation, the organisation's response to fraud and the action to be taken.

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- Expected objectives, again aligned to the aims of the organisation. A specific link to the organisation's framework of good governance may be helpful here.

- Timelines which include target date for objectives, frequency of reviews and revision dates.

- How the success of the strategy is to be measured and by whom.

For the strategy to be relevant and up to date it needs to be regularly reviewed, revised and used to define success or failure. A strategy need not be lengthy and must be available to all in an organisation and not open to different interpretations.

The strategy should be linked to both fraud policies and procedures as well as other strategies, policies and procedures that may be relevant, eg pre-employment screening, procurement policies etc.

A strategy should be time limited, ie cover a period of time and:

- explain where the organisation is now

- where it is hoping to be at the end of the time agreed

- how the organisation is going to get there.

To ensure that the strategy has appropriate status and authority it should be approved by the appropriate decision making body such as the leadership team.

## CIPFA CODE OF PRACTICE PRINCIPLE C2

The strategy includes the organisation's use of joint working or partnership approaches to managing its risks, where appropriate.

Working with other organisations and agencies is becoming increasingly relevant in times of budgetary and resource constraints. A governing body can therefore seek ways of improving the efficiency and effectiveness of counter fraud and corruption risk management through joint working with other organisations and agencies. Joint working is also a necessary response to the risks from organised crime which can commit fraud across a range of public service organisations.

The type of joint working may differ according to the size of the organisation and the risks it faces. However, some basic principles apply as follows:

- The aims and objectives, aligned to the organisations' overall aims and objectives are agreed and recorded.

- The governing bodies agree on the joint work to be undertaken.

- The joint work is recorded and responsibilities of each organisation are noted. This could include the identification of key staff.

- A review process is agreed. Will this be the responsibility of one organisation, both individually or a joint review team established?

- Policies, procedures and protocols are agreed in advance and any legal and employee issues considered, agreed and recorded.

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**CIPFA CODE OF PRACTICE PRINCIPLE C3**

The strategy includes both proactive and responsive approaches that are best suited to the organisation's fraud and corruption risks.

Proactive and responsive components of a good practice response to fraud risk management include the following:

## Proactive

- Developing a counter fraud culture to increase resilience to fraud:
  - A clear statement of intent, such as suggested under A1 of the Code, will send the right message to the whole organisation that fraud and corruption are being taken seriously and will help embed the counter fraud culture.
  - Other methods to support the development of a counter fraud culture include regular briefings or newsletters, recognition and praise for fraud prevention, detection, investigation and recovery activities and positive publicity of outcomes.

- Preventing fraud through the implementation of appropriate and robust internal control measures:
  - Counter fraud and corruption controls should be appropriate and robust. If they are not appropriate, time and resources will be wasted and if they are not robust, then they will be ineffective and could be by-passed. Having such controls not only deters potential fraudsters but also helps to raise the awareness of staff.

- Using techniques such as data matching to validate data:
  - Organisations should consider data matching and information/intelligence sharing, such as the National Fraud Initiative. Data matching can help to validate an organisation's risk identification process by comparing its results with similar organisations. Information/intelligence sharing can help to highlight fraud and corruption threats, including enablers to fraud that the organisation may not have considered or identified. Fraud alerts, such as those from the National Fraud Intelligence Bureau, the Metropolitan Police Service – Operation Sterling or the National Anti-Fraud Network (NAFN), are other useful sources of information.

- Deterring fraud attempts by publicising the organisation's counter fraud and corruption policy and the actions it takes against fraudsters:
  - For example, positive publicity about the successful detection or prevention of a fraud may help to deter others.

## Responsive

- Detecting fraud through data and intelligence analysis:
  - If an organisation has effective prevention controls in place, it is imperative that it has an effective detection capability should these controls fail. Data analytics can help in this area and can aid in the identification of control failings.

- Implementing effective referral and confidential reporting and whistleblowing arrangements:

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- Staff must feel able to report their concerns and an organisation should consider the most appropriate reporting route. There should be trusted routes open to staff to report their concerns, for example via their managers or to the counter fraud team.
- Organisations should also implement confidential reporting or whistleblowing arrangements. Effective arrangements will help there to be greater confidence in reporting concerns about fraud. Further useful advice on whistleblowing and the legal requirements of the Public Interest Disclosure Act 1998 (PIDA) can be found in the Public Concern at Work Whistleblowing Commission's Report on the Effectiveness of Existing Arrangements for Workplace Whistleblowing in the UK (2013) and their recommended Code of Practice.

■ Investigating fraud referrals:

- The strategy needs to include the general aims of any investigation, the reporting process and involvement of law enforcement. The organisation needs to have clear reporting and investigation procedures and a clear and stated policy on what investigative action will be taken.

> **Example:**
>
> The fraud team and internal audit will report the facts revealed during their investigations to management. Where initial investigations identify evidence of criminality, the matter will be reported to the relevant law enforcement agency.

■ Applying sanctions, including internal, disciplinary, regulatory and criminal. The strategy should clearly state what the organisation will do if fraud is proven. This will provide further deterrence to potential fraudsters.

> **Example:**
>
> Where investigations reveal evidence of fraudulent or dishonest behaviour, corrupt practice or other culpable acts, the organisation will take appropriate steps which may include disciplinary and/or legal action whether the persons are members of staff or external to the organisation.

■ Seeking redress, including the recovery of assets and money where possible. Recovery can be done using either in-house or police financial investigators who have powers under the Proceeds of Crime Act 2002 to conduct such activity as confiscation and seizure. Civil debt recovery may also be initiated for overpayments resulting from fraud.

> **Example:**
>
> Steps will also be taken to recover losses resulting from the fraud and a civil action against the perpetrator may be appropriate.

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**CIPFA CODE OF PRACTICE PRINCIPLE C4**

The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight.

The strategy should be the base document for the measurement of success or failure for the aims defined in C1 above. This will help all staff to understand the purpose of the counter fraud strategy and counter fraud work.

The strategy needs to identify the key fraud and corruption risks and the management and accountability for these risks. This is vital to ensure that the right resources are in place and the correct action is taken to reduce the harm caused by fraud and corruption.

The audit committee should have oversight of the organisation's strategy to assess whether it meets recommended practice and governance standards and it complies with legislation.[2] Oversight of the counter fraud strategy will support the audit committee's understanding of governance activities during the year.

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2.    See Chapter 4 (s4.32) of Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013).

# Provide Resources

> **CIPFA CODE OF PRACTICE PRINCIPLE D**
>
> The organisation should make arrangements for appropriate resources to support the counter fraud strategy.

## CONTEXT

A commitment to reduce the risk of fraud and corruption is clearly demonstrated by the overall investment and the application of resources within an organisation.

The resource should include the requirements to fulfil the strategy, including:

- deterrence
- awareness and prevention work
- detection
- investigation
- follow-up action
- training of counter fraud and other staff.

Not all the resources need to be dedicated counter fraud professionals and in some organisations the resource may be provided by third party suppliers or through a joint working arrangement.

Organisations should also ensure that there is co-operation between the counter fraud team and other departments. This includes internal audit, the ICT department, HR, finance and procurement. Through such co-operation, the counter fraud team can have access to vital internal information and intelligence such as details of attacks (successful and unsuccessful) against the ICT system. This may indicate fraudsters attempting to access the organisation's records. Joint internal working between HR, procurement and the counter fraud team may highlight potential conflicts of interest.

There should also be well established relationships with external partners such as law enforcement agencies (including HMRC), professional bodies (eg CIPFA), and other government departments such as the Department for Work and Pensions (DWP).

## SECTOR INTERPRETATION

Larger organisations may have a dedicated fraud team, access to ICT tools and specialists such as a financial investigator. Others have established their resources through collaborative arrangements.

Smaller organisations such as schools, charities and housing trusts often have limited in-house counter fraud capability, some rely on outsource agreements while unfortunately some have no access to counter fraud and corruption capability at all. In such cases, it is even more important that the organisation's leadership team provide the right message and the staff of these organisations are used as the first line of defence in counter fraud and corruption.

## GOOD PRACTICE GUIDANCE

### CIPFA CODE OF PRACTICE PRINCIPLE D1

An annual assessment of whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk.

An annual assessment should be conducted to review whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk. This should be part of the overall counter fraud and corruption strategy and be linked to the annual review of the strategy by the nominated body.

The organisation should identify who should be responsible for this assessment in their counter fraud and corruption strategy and in most cases this is likely to be the accountable person. Approval of the strategy and the associated resources will lie with the governing body, but the adequacy of the available resource to support the strategy should also be considered by the audit committee. The assessment can also be subject to independent review and assurance from internal audit, which is again likely to be reported to the audit committee.

Section 2120 A2 of the Public Sector Internal Audit Standards (PSIAS) states that internal audit must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk. As part of this review internal audit is likely to consider the available capacity of the organisation to identify fraud risks, prevent and detect fraud and take appropriate action.

### CIPFA CODE OF PRACTICE PRINCIPLE D2

The organisation utilises an appropriate mix of experienced and skilled staff, including access to counter fraud staff with professional accreditation.

Training needs to be provided to ensure that counter fraud staff have the skills, experience and accreditation to conduct their work. This is of particular importance for the conduct of fraud investigations which might lead to criminal prosecutions. In these cases the collection of evidence must meet legal standards to be admissible in a court of law. In addition, some larger organisations may decide to conduct their own financial investigations, which would require staff to be trained and accredited as a financial investigator in order to obtain direct

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access to banking and other financial records without having to rely on law enforcement agencies.

Organisations should consider implementing a personal development process to help identify skills gaps and support continuous professional development.

In times of financial restraint it is often very difficult to make a case for an increase in staff but one example where this did occur is as follows:

**Example:**

A council needed to make the case for expanding the counter fraud team's focus from predominantly a benefits fraud team to a corporate-wide approach to tackling fraud across the council and its departments, and needed senior management buy-in. Having established a corporate team, decisions were taken to establish partnerships with various service areas, including internal audit, with the common aim of tackling fraud.

At the same time they created a technology infrastructure, including anti-fraud software which drew on data from different parts of the organisation giving the team access to real time intelligence. It allowed the team to look across investigations that ordinarily would have been missed. The team is now able to do comparisons across departments while respecting Data Protection Act protocols – they only share data that is critical to making a case.

Guidance on establishing a corporate fraud team is available in CIPFA's Developing Corporate Anti-Fraud Capability in the Public Services (2012).

The behaviours of counter fraud staff must be beyond reproach. Their activities should be governed by a code of conduct/ethical framework. Some counter fraud staff may be governed by the ethical standards of their professional bodies, such as accounting or auditing institutes, the Institute of Counter Fraud Specialists or the Association of Certified Fraud Examiners. Organisations may wish to apply their own code on investigators which should include statements on integrity, objectivity, confidentiality and competency. This code should be produced alongside the organisation's code of ethics to ensure consistency.

Where the organisation has identified "counter fraud champions" to promote awareness and act as focal point in departments, then ongoing training may be required to ensure they are aware of new risks or other developments.

Raising the awareness of all staff is also an essential part of fraud prevention. Even large organisations have a limited number of staff dedicated to counter fraud and corruption work. Thus staff can be used as the first line of defence against fraud and corruption. Staff on the "front line" are more likely to understand if something is out of the ordinary and may indicate fraudulent activity. Organisations should recruit and train and actively encourage those who can fight fraud and corruption effectively, ie their employees.

There are several methods for training staff:

- **Formal subject specific counter fraud presentations**
  While these can be customised to the audience and provide detailed input to staff, they can be time consuming for both the trainer and staff.

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- **"E-learning" tools**
  Such tools can reach a far larger audience in a more cost effective manner than formal presentations but are limited in what they can deliver and limited to those who have access to the necessary technology. It can also be expensive to regularly update the presentation.

- **Regular counter fraud briefings as an input to routine generic team meetings**
  This can be a very effective way of getting short, sharp messages across the teams and can be tailored to the audience. For example, a talk on personnel type frauds can be given to the HR team. This type of training, however, is often limited in what can be included and many departments can be reluctant to allow the counter fraud team to use up valuable team talk time.

However, any investment in training will greatly improve the awareness of staff and increase and improve fraud prevention and deterrence. It is also important to evaluate the effectiveness of such training.

### CIPFA CODE OF PRACTICE PRINCIPLE D3

The organisation grants counter fraud staff unhindered access to its employees, information and other resources as required for investigation purposes.

The job of the counter fraud professional is to put into practice the counter fraud and corruption strategy. Achieving this remit requires sufficient power and authority (for example, access to staff records, documents and meetings). The organisation needs to make clear this authority in documents such as standing financial instructions and partnership agreements.

Access to the organisation's records and staff personnel files and other records is an action that has to be clearly regulated with sufficient oversight to ensure that it is not abused. Whenever access to sensitive records is required, such as personnel records, this should be recorded by the investigator and approved by a superior. For example, the request could be submitted to an appropriate senior HR manager to arrange for the records to be provided. An independent audit of this access can be conducted to provide assurance to the organisation's leadership and to staff that this access is used appropriately.

If the counter fraud team is externally provided or via a joint working agreement, access to sensitive records should be agreed in advance in any agreement or contract. Consideration should be given to having a single point of contact within the organisation for any external provider who will access the records on behalf of the third party.

A counter fraud team is increasingly reliant on technical tools to assist in fraud prevention and detection. Sufficient investment may need to be made to ensure that any gaps identified in the risk management process can be monitored and identified quickly. Such tools could include continuous auditing capability to not only highlight risks but also to provide an early warning of potential fraudulent acts.

Similarly, intelligence software will be able to provide indicators of areas susceptible to fraud and corruption that may not have been highlighted during other risk assessments. This will help to target the organisation's resources at the most vulnerable areas. Additionally, a team may require specialist investigation, case management or intelligence software. A

collaborative team should use common tools and software to ensure an accurate and clear flow of information and intelligence.

**CIPFA CODE OF PRACTICE PRINCIPLE D4**

The organisation has protocols in place to facilitate joint working and data and intelligence sharing to support counter fraud activity.

Joint working with other organisations and agencies is becoming more common to reduce the need for resources in single organisations. If this is the case, frameworks can be put in place with other organisations and law enforcement agencies. Relationships need to be agreed in advance and issues clarified such as responsibilities, obligations, exchange of information, liaison, communications, meetings with key personnel and media strategies. This can be achieved through framework agreements, memorandums of understanding and service level agreements.

These agreements need to concentrate on issues that support operational co-operation, such as areas of mutual interest, joint planning and co-ordinated action. They need to be viable and have helpful arrangements in place to deliver work in line with objectives and goals.

The governance arrangements must be kept up to date and relevant. There need to be regular meetings not just between counter fraud staff but with senior management and joint reviews should be undertaken.

There are many examples of good practice in the use and sharing of resources. They include memorandums of understanding between agencies, particularly with law enforcement organisations. There are good examples of local partnerships for either general counter fraud activity or to address a specific fraud issue. For example, a council may co-operate with local housing associations to address tenancy fraud risks.

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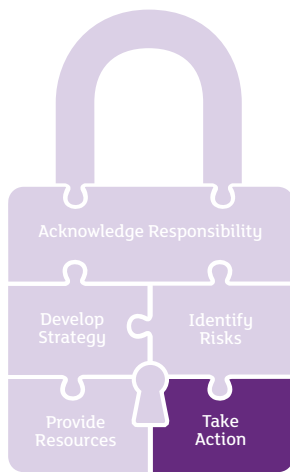
# Take Action

**CIPFA CODE OF PRACTICE PRINCIPLE E**

The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud.

## CONTEXT

The action needed can vary from organisation to organisation and can be dependent upon size, function, activity and governance arrangements.  All organisations, however, should have an action plan linked to the risk register and the overall counter fraud and corruption strategy. The action plan should be comprehensive and include:

- a fraud prevention and deterrence plan

- proactive detection (data analytics/fraud audits)

- investigation

- sanctions

- redress

- reporting.

Taking the proper and appropriate action is essential if organisations are to reduce the harm and losses caused by fraud and corruption. Such action, well publicised and adhered to, will send the right message to staff, foster a counter fraud and corruption culture and help to deter fraudsters. Furthermore, a fraud action plan can also help to reduce the impact should a fraud be discovered.

> **Example:**
> A substantial part of our fraud took place over an eight week period between two board meetings. If it had continued at the same rate for another eight weeks before the trustees detected and dealt with the breach in financial procedures, the charity would not now be here. Still, the devastation for this small charity has been immense. There remains a profound sense of shock that over twenty years' work and a national reputation came so close to being wiped out within such a short time-scale.
>
> Source: Charity Commission Compliance Toolkit.

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## SECTOR INTERPRETATION

The ability to take action will be dependent upon the size and nature of an organisation and the size of its counter fraud capacity. Irrespective of the size of activities of an organisation, however, the organisation needs to take appropriate action and report on that action to its governing body.

Accounts and Audit Regulations require the responsible financial officer in local authorities and police bodies in England, Wales and Northern Ireland to determine accounting control systems. These must include measures to enable the prevention and detection of inaccuracies and fraud.[3]

In central government, Managing Public Money (HM Treasury, 2013) states that 'the organisation's response to fraud risk should be customised to the risks it faces'. Suggested actions include:

■  establishing cost-effective internal systems of control to prevent and detect fraud

■  responding quickly and effectively to fraud when it arises

■  establishing systems for investigations into allegations of fraud.

When frauds are identified some public service organisations are required to inform those bodies with regulatory oversight. *Managing Public Money* requires relevant organisations to retain a record of the fraud and to consider informing the National Audit Office. Academies are required to inform the Education Funding Agency of all frauds in excess of £5000 either individually or cumulatively over the year. For more information see the Academies Financial Handbook (Education Funding Agency, 2014).

The Homes and Communities Agency (HCA) requires registered providers to provide an annual report on net losses from fraudulent activity; see the Regulatory Framework for Social Housing in England (HCA, 2012).

Charities should refer to Chapter 3 of the Charity Commission's Compliance Toolkit, which states that all charities must, as a minimum:

■  have some form of appropriate internal and financial controls in place to ensure that all their funds are fully accounted for and are spent in a manner that is consistent with the purpose of the charity; what those controls and measures are and what is appropriate will depend on the risks and the charity

■  keep proper and adequate financial records for both the receipt and use of all funds together with audit trails of decisions made. Records of both domestic and international transactions must be sufficiently detailed to verify that funds have been spent properly as intended and in a manner consistent with the purpose and objectives of the organisation

■  give careful consideration to what other practical measures they may need to consider to ensure they take reasonable steps to protect the charity's funds and the trustees meet their legal duties

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3.  Accounts and Audit Regulations 2011. See also the Accounts and Audit Regulations (Wales) 2005 and the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006. The latest Scottish regulations, the Local Authority Accounts (Scotland) Regulations 2014, do not include a reference to fraud.

- deal responsibly with incidents when they occur, including prompt reporting to the relevant authorities and ensuring the charity's funds are secure.

The Local Government Transparency Code 2014 requires local authorities in England to publish statistics each year, including the total number of fraud cases investigated.

Within the health sector, NHS England's Tackling Fraud, Bribery and Corruption: Policy and Corporate Procedures (2013) states that activities to tackle economic crime will be carried out within three key principles for action:

1. Inform and involve.

2. Prevent and deter.

3. Hold to account.

In addition, the NHS Protect service has produced Standards for Providers 2014/15 – Fraud, Bribery and Corruption, which gives information to providers of NHS services on the anti-fraud clauses in the NHS Standard Contract and explains what providers need to do to comply with them. There is a requirement for all providers (except "small providers") to complete an "organisation crime profile" within one month of the NHS Standard Contract coming into effect.

## GOOD PRACTICE GUIDANCE

### CODE OF PRACTICE PRINCIPLE E1

The organisation has put in place a policy framework which supports the implementation of the counter fraud strategy.

Having such a framework and ensuring that all policies are mutually supportive and cross referenced will encourage and raise awareness of all staff to the fraud and corruption risks. Increased awareness aids prevention and detection.

As a minimum the framework should include the following:

- **Counter fraud policy**
  This should be linked to the strategy and include prevention, detection, investigation and reporting processes and those responsible for each activity.

- **Whistleblowing policy**
  This should include the aims of the policy, what is covered, how to raise a concern, the process, safeguards and confidentiality.

- **Anti-money laundering policy**
  This may not be applicable to all organisations. The exact contents of your policy will depend on the organisation but, as advised by HMRC[4], should include:
  - details of your approach to preventing money laundering, including named individuals and their responsibilities
  - details of your procedures for identifying and verifying customers, and your customer due diligence measures and monitoring checks

4. See also Combating Financial Crime: Further Guidance on Anti-money Laundering in Public Service Organisations (CIPFA, 2015).

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- a commitment to training employees so they are aware of their responsibilities
- a summary of the monitoring controls that are in place to make sure your policies and procedures are being carried out
- recognition of the importance of staff promptly reporting any suspicious activity to the nominated officer.

■ **Anti-bribery and corruption policy**

You should have an anti-bribery policy if there is a risk that someone who works for you or on your behalf might be exposed to bribery. The policy should be proportionate to the risk and include:

- your approach to reducing and controlling the risks of bribery
- rules about accepting gifts, hospitality or donations
- guidance on how to conduct your business, eg negotiating contracts
- rules on avoiding or stopping conflicts of interest.

■ **Gifts and hospitality policy and register**

This policy should include a full list of those to whom it applies, eg governing body members, full and part time staff, contractors, consultants and agency staff. It should also define what is meant by gifts and hospitality, clearly stating what is and what is not acceptable. The policy should also detail the reporting processes, the registration process and compliance checks.

■ **Pecuniary and conflict of interest policies**

It is essential that an organisation has a policy that covers any potential conflict of interest that employees may face due to their association or relationship with other organisations. The policy must clearly detail what is and what is not acceptable and the need to be fully open and transparent about one's business activities outside of the organisation. This will promote honesty and openness and also assist in any investigation into conflicts of interest and potential fraudulent behaviour.

■ **Codes of conduct and ethics**

Organisations should expect the highest standards from all staff adhering to the Seven Principles in Public Life (the "Nolan Principles") of:

1. selflessness
2. integrity
3. objectivity
4. accountability
5. openness
6. honesty
7. leadership.

Adherence to such principles will minimise the organisation's exposure to the risk of fraud committed by staff.

■ **Information security policy**

The security of information is essential to good management and public confidence. To operate effectively, organisations must maintain the confidentiality, integrity and

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availability of its information; for more information see the government's Security Policy Framework (2014). This will also ensure that information is protected against unauthorised access by fraudsters.

- **Cyber security policy**

  Many frauds today are increasingly perpetrated via the internet, using digital technologies, devices and social media. Organisations should follow the government's Cyber Security Guidance (2012), which details how a clear and easily understood cyber security policy can be used by organisations to strengthen their resilience to cyber risk and tackle cyber crime. The policy, while having clearly defined reporting processes and aims, should also stress that cyber risk management is the responsibility of every employee.

These policies need to be mutually supportive and cross referenced. Specific care should be taken to ensure that they are not contradictory and are easily followed by all staff. Where possible a single department such as HR or corporate governance should be responsible for ensuring this occurs. They should be regularly reviewed to ensure they are up to date and fit for purpose. There should be regular communications to all staff especially whenever a policy is amended or replaced. All policies should be signed off and supported at the highest level within an organisation.

**CIPFA CODE OF PRACTICE PRINCIPLE E2**

Plans and operations are aligned to the strategy and contribute to the achievement of the organisation's overall goal of maintaining resilience to fraud and corruption.

## PROACTIVE DETECTION

A proactive plan can be developed to achieve early detection of fraud and corruption. The plan needs to include any audits that may assist in this detection or specify any activity by the dedicated counter fraud team. The counter fraud team or person responsible for fraud risk management can liaise with the internal auditors at the audit planning stage to give ideas and direction concerning the fraud risk.

Specific fraud detection audits can be conducted.

> **Example:**
>
> An organisation conducted a real time audit of financial authority approvals during a specific period when large numbers of staff were engaged on non-routine duties and when the normal segregation of duties system may not have been fully in place.

Data analytics can also be used to detect fraud in a proactive manner.

> **Example:**
>
> An organisation had in place a level of self-authorisation for spends. Data analytics were used to review whether this level was being abused by looking at:
>
> - multiple spends with particular suppliers at just below the authorised spend limit
> - separate purchases being made with one supplier to bypass OJEU regulations
> - excessive use of the self-authorisation by any particular members of staff.

<div align="center">131</div>

# INVESTIGATION

If a fraud or corruption case is identified, all organisations need a clear fraud response plan. Those involved need to be aware of the immediate actions to be taken, the aims of any investigation and to whom they should go to for help and advice. This will ensure that investigations are correctly managed, evidence is secured, the investigation remains confidential and losses are minimised. The initial detection of fraud and corruption is often the most critical time in an investigation and decisions must be made quickly to secure evidence, mitigate losses and ensure a legal and effective investigation.

The aims of any investigation should be clearly defined in the counter fraud and corruption strategy and these aims adhered to during the investigation. If a third party investigative organisation is being used, it should adhere to these aims and follow the organisation's laid down procedures.

Investigations should ensure that they comply with current legislation (criminal and employment) and procedures. As such, legal advice should be sought in the early stages of an investigation.

An organisation needs to be aware of any regulatory reporting requirements for its sector or the need to inform other external parties of fraud and fraud losses, for example external auditors or the organisation's insurer.

If an organisation has a policy of reporting frauds to law enforcement agencies, there needs to be clear criteria and reporting methodology in place. For example, when does this happen, who is responsible and what method of reporting will be used?

Following the conclusion of the investigation the report should not only detail the investigation and conclusion but should also cover:

- identification of any weaknesses in any defences used by the organisation
- improvement opportunities both in risk management, fraud prevention, detection and investigation
- identification of strengths and best practice procedures
- a review of responsibilities and risk ownership
- a review of the resource plan including technical resources and training requirements.

Investigation reports have the most impact if they are circulated to the organisation's leadership team as well as the risk owners.

### CIPFA CODE OF PRACTICE PRINCIPLE E3

Making effective use of national or sectoral initiatives to detect fraud or prevent fraud, such as data matching or intelligence sharing.

The prime example of this is the National Fraud Initiative. This exercise has shown that data matching and the sharing of information and intelligence can help to identify fraud. Regional or joint initiatives may also be possible.

**CIPFA CODE OF PRACTICE PRINCIPLE E4**

Providing for independent assurance over fraud risk management, strategy and activities.

As stated in Section A4 of the Code, the organisation needs to have a clear programme of work to manage fraud and corruption risks with specific goals as set out in a counter fraud and corruption strategy. The governing body can assess whether this plan of work is achieving its aims by implementing an independent review of compliance, goals and resources.

This independent review can be conducted by internal auditors and will support internal audit conformance with Section 2120 A2 of the Public Sector Internal Audit Standards. Additionally as stated in Section C4 above, the audit committee should have an independent oversight of the organisation's strategy to assess whether it meets recommended practice and governance standards and it complies with legislation.

## REPORTING

**CIPFA CODE OF PRACTICE PRINCIPLE E5**

There is a report to the governing body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy from the lead person(s) designated in the strategy. Conclusions are featured in the annual governance report.

There also needs to be a robust reporting, compliance and governance process, including the following:

■ The independent view of compliance, goals and resources (see E4 of the Code).

■ A report to the governing body at least annually on:
  – performance against the counter fraud strategy from the lead person(s) designated in the strategy
  – the impact and cost effectiveness of its counter fraud activities; loss measurement should not solely be in terms of monetary loss but also reputation, effects on staff and morale and costs of investigations

■ Conclusions should feature in the annual governance report.

## ANNUAL STATEMENTS

The Code states that where organisations are making a statement in an annual governance report about their adherence to this Code, they should assess their level of conformance with the Code. Following this the most appropriate statement should be approved by the governing body and signed by the person responsible for signing the annual governance report.

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**STATEMENT 1**

Having considered all the principles, I am satisfied that the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Or

**STATEMENT 2**

Having considered all the principles, I am satisfied that, subject to the actions identified below, the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

**Actions to be taken to manage the risk of fraud:**

| Action: | Responsibility: | Target date: |
|---------|-----------------|--------------|
|         |                 |              |

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# Glossary

| | |
|---|---|
| **Annual Fraud Indicator (AFI)** | A compendium of fraud loss indicators which strives to provide a best estimate of the scale of the problem and raise awareness. |
| **Annual governance report** | The mechanism by which an organisation publicly reports on its governance arrangements each year. |
| **Audit committee** | The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. |
| **Bribery Act 2010** | Provides for a consolidated scheme of bribery offences to cover bribery both in the UK and abroad. |
| **Charity Commission** | The independent government department which registers and regulates charities in England and Wales. |
| **Chief financial officer (CFO)** | The organisation's most senior executive role charged with leading and directing financial strategy and operations. |
| **Cyber security** | The protection of systems, networks and data in cyber space. This is a critical issue for all businesses. |
| **Economic Crime Command** | Part of the National Crime Agency (NCA) whose role is to fight economic crime by undermining criminals and educating those most at risk of attack by sharing intelligence and knowledge with partners, disrupting criminal activity and seizing assets. |
| **Fighting Fraud Locally (FFL)** | A strategic approach developed by local government for local government, addressing the need for greater prevention and smarter enforcement. |
| **Fraud Act 2006** | An Act of Parliament creating a general offence of fraud with a maximum custodial sentence of ten years; replacing all previous deception offences as detailed under the Theft Acts 1968-1996. |
| **Governance** | Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved, includes political, economic, social, environmental, administrative, legal, and other arrangements. |

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| **Governing body** | The person(s) or group with primary responsibility for overseeing an entity's strategic direction, operations, and accountability. |
| **Information security** | The practice of defending information from unauthorised access, use, disclosure, disruption, modification, perusal, inspection, recording or destruction. |
| **Intelligence** | Information that has been collected, analysed and evaluated. |
| **Internal audit** | An assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. |
| **International Federation of Accountants (IFAC)** | The global organisation for the accountancy profession. |
| **Leadership team** | Comprises the governing body and management team. |
| **Management team** | The group of executive staff comprising the senior management charged with the execution of strategy. |
| **Managers** | The staff responsible for the achievement of the organisation's purpose through services/businesses and delivery to its clients/customers. |
| **National Crime Agency (NCA)** | A UK law enforcement agency with national and international reach and the mandate and powers to work in partnership with other law enforcement organisations to address serious and organised crime. |
| **National Fraud Initiative (NFI)** | An exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. |
| **Protecting the Public Purse (PPP)** | Annual reports which give details on amounts of detected fraud, warn of fraud risks and promote best practice in local government. |
| **Public Interest Disclosure Act 1998** | An Act of Parliament that protects whistleblowers from detrimental treatment by their employer. |
| **Public service organisation** | One or more legal bodies managed as a coherent operational entity with the primary objective of providing goods or services that deliver social benefits for civic society, are not privately owned, and receive public and/or charitable funding. |
| **Risk management** | The systematic process of understanding, evaluating and addressing risks to maximise the chances of objectives being achieved and ensuring organisations are sustainable. |

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| **Seven Principles of Public Life** | Seven principles established by the Committee on Standards in public Life, which are: selflessness, integrity, objectivity, accountability, openness, honesty and leadership. Used as the basis for many ethical governance frameworks. |
| **Single Fraud Investigation Service (SFIS)** | An organisation operating under a single policy and one set of operational procedures for investigating all welfare, benefit and tax credit fraud. |
| **The Code** | CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. |
| **Whistleblowing** | When a worker reports suspected wrongdoing at work. Officially this is called "making a disclosure in the public interest". |

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# The Relationship of the Code of Practice to the International Framework

Seven principles underpin good governance in the International Framework. These are outlined in the following diagram:

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

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

B. Ensuring openness and comprehensive stakeholder engagement

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

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

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

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

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

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While there are linkages that can be made between the Code and each of the principles, two in particular stand out:

*Acting in the public interest requires:*

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

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

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## Comparison of the Code against the International Framework: Good Governance in the Public Sector

| Code Principle | International Framework (IFAC/CIPFA) |
|---|---|
| **Acknowledge responsibility**<br><br>The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation. | Acting in the public interest requires:<br><br>A.  Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law. |
| **Identify risks**<br><br>Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users. | F.  Managing risks and performance through robust internal control and strong public financial management:<br><br>–  regularly reviewing key strategic, operational, financial, reputational, and fraud risks and then devising responses consistent with achieving the entity's objectives and intended outcomes. (p.27) |
| **Develop a strategy**<br><br>An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action. | D.  Determining the interventions necessary to optimize the achievement of the intended outcomes.<br><br>F.  Managing risks and performance through robust internal control and strong public financial management.<br><br>–  regularly reviewing key strategic, operational, financial, reputational, and fraud risks and then devising responses consistent with achieving the entity's objectives and intended outcomes. (p.27)<br><br>–  role of the audit committee – helping the entity to embed the values of ethical governance, including effective arrangements for countering fraud and corruption. (p.30) |
| **Provide resources**<br><br>The organisation should make arrangements for appropriate resources to support the counter fraud strategy. | E.  Developing the entity's capacity, including the capability of its leadership and the individuals within it. |

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| Code Principle | International Framework (IFAC/CIPFA) |
|---|---|
| **Take action**<br><br>The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud. | F.  Managing risks and performance through robust internal control and strong public financial management:<br><br>  –  safeguarding the entity's resources against loss, fraud, misuse, and damage. (p.29)<br><br>  –  internal audit reviews can cover a wide range of topics, including those relating to the achievement of value for money and the prevention and detection of fraud and corruption. (p.29)<br><br>G.  Implementing good practices in transparency, reporting, and audit, to deliver effective accountability. |

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# Mapping of the Code to Governance Frameworks in use in the Public Services

A number of governance frameworks operate across the public services. There is a greater synergy of the Code with some more than others. The following table shows the mapping of the principles in the Code to the most relevant parts of each sectoral code. Understanding the linkage to the governance framework will help those implementing the Code to link it to the organisation's objectives.

| Code Principle | Delivering Good Governance in Local Government CIPFA/SOLACE 2007[5] | Corporate Governance in Central Government Departments: Code of Good Practice 2011 | Excellence in Governance National Housing Federation 2010 |
|---|---|---|---|
| **Acknowledge responsibility**<br><br>The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation. | Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour:<br><br>■ ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance<br><br>■ ensuring that organisational values are put into practice and are effective. | 3.8 The Accounting Officer should establish and document a clear allocation of responsibilities amongst officials in the department, but he or she retains overall personal responsibility and accountability to parliament for propriety and regularity.<br><br>4.10 Board members should act in the public interest in keeping with the Nolan Principles of Public Life. | A. The board must be effective in leading and controlling the organisation and acting in its best interest. Board members must ensure that the interests of the organisation are placed before any personal interests.<br><br>L. Organisations must maintain the highest standards of probity and conduct. |
| **Identify risks**<br><br>Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users. | Taking informed and transparent decisions which are subject to effective scrutiny and managing risk:<br><br>■ ensuring that an effective risk management system is in place. | 6.1 The board should ensure that there are effective arrangements for governance, risk management and internal control for the whole departmental family. | B2. The core responsibilities of the board include:<br><br>■ establishing and overseeing a risk management framework in order to safeguard the assets of the organisation. |
| **Develop a strategy**<br><br>An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action. | | | |

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5.   The Framework is to be revised in 2015.

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|---|---|---|
| **Provide resources**<br><br>The organisation should make arrangements for appropriate resources to support the counter fraud strategy. | Developing the capacity and capability of members and officers to be effective:<br><br>■ making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles. | K. The board must establish a formal and transparent arrangement for considering how the organisation ensures financial viability, maintains a sound system of internal controls, manages risk and maintains an appropriate relationship with external auditors.<br><br>K1. Every organisation must have effective internal controls. |
| **Take action**<br><br>The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud. | 6.1 The board should ensure that there are effective arrangements for governance, risk management and internal control for the whole departmental family. | |
| **Requirements to consider adequacy of counter fraud and anti-corruption arrangements as part of annual governance reports**<br><br>Code E5 | Addendum 2012:<br><br>Key elements of an authority's governance should include arrangements for:<br><br>ensuring effective counter fraud and anti-corruption arrangements are developed and maintained. | |

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| Code Principle | The NHS Foundation Trust Code of Governance Monitor 2014 | Clinical Commissioning Groups, NHS England recommend following the principles of the Good Governance Standard for the Public Services | Governance Code of Practice and General Principles, Committee of University Chairs 2009 (CUC)[6] Memorandum of assurance and accountability Higher Education Funding Council 2014 (HEFCE) |
|---|---|---|---|
| **Acknowledge responsibility**<br><br>The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation. | A.1.8 The board of directors should establish the constitution and standards of conduct for the NHS foundation trust and its staff in accordance with NHS values and accepted standards of behaviour in public life, which includes the principles of selflessness, integrity, objectivity, accountability, openness, honesty and leadership (The Nolan Principles).<br><br>A5b The council of governors is responsible for representing the interests of NHS foundation trust members and the public and staff in the governance of the NHS foundation trust. Governors must act in the best interests of the NHS foundation trust and should adhere to its values and code of conduct. | 3. Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour. The governing body should take the lead in establishing and promoting values for the organisation and its staff. These values should be over and above legal requirements (for example, anti-discrimination, equal opportunities and freedom of information legislation) and should build on the Nolan principles. They should reflect public expectations about the conduct and behaviour of individuals and groups who control public services. | Role of the Governing Body<br><br>1.2 Individual members and governing bodies themselves should at all times conduct themselves in accordance with accepted standards of behaviour in public life which embrace selflessness, integrity, objectivity, accountability, openness, honesty and leadership. (CUC) |

6.    Currently under review.

| | | | |
|---|---|---|---|
| **Identify risks**<br>Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users. | C.2.a The board of directors is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management systems. | 4. Good governance means taking informed, transparent decisions and managing risk.<br>A risk management system should consider the full range of the organisation's activities and responsibilities, and continuously check that various good management disciplines are in place, including:<br>■ laws and regulations are complied with<br>■ financial resources are managed efficiently and effectively and are safeguarded. | 2.35 Higher Education Institutions are expected to identify and actively manage risks, having particular regard at governing body level to risks which could threaten the existence of the institution. (CUC) |
| **Develop a strategy**<br>An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action. | | | |
| **Provide resources**<br>The organisation should make arrangements for appropriate resources to support the counter fraud strategy. | | | |

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|---|---|---|---|
| **Take action**<br><br>The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud. | C.2.b The board of directors should maintain a sound system of internal control to safeguard patient safety, public and private investment, the NHS foundation trust's assets, and service quality. | Principle 6:<br><br>Governing bodies have robust and effective processes for decision-making, as outlined in their constitution, that support and maintain transparency and accountability at every level.<br><br>Complying with laws against bribery, including implementing clear guidance on gifts and hospitality. | 29 In accordance with the HEI's own statutes and constitution, there should be effective arrangements for providing assurance to the governing body that the HEI:<br><br>a. Has a robust and comprehensive system of risk management, control and corporate governance. This should include the prevention and detection of corruption, fraud, bribery and irregularities. (HEFCE) |
| **Requirements to consider adequacy of counter fraud and anti-corruption arrangements as part of annual governance reports**<br><br>Code E5 | C.2.b The board should report on internal control through the Annual Governance Statement (formerly the Statement on Internal Control) in the annual report. | | Corporate Governance Statement Appendix A2<br><br>Consider responsibilities in respect of: maintaining proper accounting records, compliance with institution's charter or statutes, compliance with the SORP (Statement of Recommended Practice) and Funding Council Financial Memorandum, safeguarding assets and prevention and detection of fraud. (CUC) |

# Public Service Organisations – Governing Bodies and Accountable Officer

| Organisation Type | Governing Body | Mandated or Suggested Accountable Officer |
|---|---|---|
| **Central Government[7]** | | |
| Devolved Administrations: | | |
| ■ Scottish Government | Strategic board | Principal accounting officer |
| ■ Welsh Government | Board | Accounting officer |
| ■ Northern Ireland Assembly | Department board | Accounting officer |
| Government Departments: | | |
| ■ Ministerial Government Departments | Department board | Accounting officer |
| ■ Non Ministerial Government Departments | | |
| Government Agencies and Public Bodies (including Non Departmental Public Bodies[8]: | Agency board[9] | Chief executive officer |
| High Profile Groups | Strategic board | Accounting officer |
| Public Corporations | Board | |
| | Departmental board | |

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7.  www.gov.uk/government/organisations

8.  NDPBs are further analysed into Advisory, Executive, Tribunal and Other and are subject to review and rationalisation under the Cabinet Office Public Bodies Act review. www.gov.uk/government/publications/public-bodies-2014  Categories of Public Bodies: A Guide for Departments https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80075/Categories_of_public_bodies_Dec12.pdf

9.  www.gov.uk/government/uploads/system/uploads/attachment_data/file/80076/exec_agencies_guidance_oct06_0.pdf para 14

| **Local Government** | | |
|---|---|---|
| Local authorities | Council | Chief finance officer |
| Police | Police and crime commissioner | Chief finance officer |
| | Chief constable | Chief finance officer |
| Fire | Fire authority | Chief finance officer |
| **Health** | | |
| NHS England | Board | Chief finance officer |
| NHS foundation trusts | Board | Chief finance officer |
| NHS trusts | Board | Chief finance officer |
| Ambulance trusts | Board | Chief finance officer |
| Clinical commissioning groups | CCG governing body | Chief finance officer |
| Special health authorities | Board | Chief finance officer |
| Community interest companies | Board | Chief finance officer |
| **Education** | | |
| Higher education | University council or board of governors | Vice-chancellor or principal |
| Further education colleges | Board or corporation | Principal |
| Schools, including academies | Governing body | Headteacher |
| **Not for Profit and Charitable Bodies** | | |
| Charities | Board council | Chief finance officer, chief operating officer |
| Housing associations | Board | Chief finance officer |

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# Further Guidance and Useful Resources

## RESOURCES FROM CIPFA

### CIPFA Counter Fraud Centre

The CIPFA Counter Fraud Centre (CCFC) brings together collaboration, strong leadership and 125 years of expertise in public finance and governance to support organisations. The CCFC provides a "one stop shop" for fighting fraud, including tools, training and the ideas to shape the future of counter fraud.

CIPFA is working with the Home Office and the National Crime Agency on the government's response to anti-corruption, procurement fraud and threats, and will be providing tools and resources in this area.

### CIPFA Better Governance Forum

The CIPFA Better Governance Forum is a network for governance practitioners covering governance, internal audit, risk management, counter fraud and audit committees.

### International Framework: Good Governance in the Public Sector (CIPFA/IFAC)

The aim of the International Framework is to encourage better service delivery and improved accountability by establishing a benchmark for aspects of good governance in the public sector.

### CIPFA's TISonline Risk Management and Counter Fraud Information Stream

The TISonline Risk Management and Counter Fraud information stream outlines the major issues to consider when developing an integrated risk management framework. It also identifies the main areas where local authorities face significant losses due to fraudulent activity and provides guidance to help create an effective counter fraud culture.

## OTHER RESOURCES

### Fighting Fraud Locally

Fighting Fraud Locally: The Local Government Strategy (NFA, 2012) is a strategic approach developed by local government for local government and addresses the need for greater

prevention and smarter enforcement. Further Fighting Fraud Locally resources can be found on the CIPFA Counter Fraud Centre.

**Audit Commission**

**Protecting the Public Purse**

The Protecting the Public Purse reports describe what has happened in the field of fraud detection and prevention and identify fraud risks. They also describe the action taken by some councils to tackle fraud and provide links to tools to help councils improve their counter fraud defences.

**National Fraud Initiative**

Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. This includes police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.

**Cabinet Office**

Tackling Fraud and Error in Government: A Report of the Fraud, Error and Debt Taskforce (2012) sets out an ambitious but focused delivery programme that seeks to reduce levels of fraud and error across government.

**Department for Communities and Local Government**

Government Response to Social Housing Fraud – Presentation.

**Financial Reporting Council**

International Standard on Auditing (UK and Ireland) 240 establishes standards and provides guidance on the auditor's responsibility to consider fraud in an audit of financial statements.

**HM Treasury**

Managing Public Money (2013) offers guidance on how to handle public funds.

**London Public Sector Counter Fraud Partnership**

The London Public Sector Counter Fraud Partnership (LPSCFP) has been in existence since 2000. It was formed in response to the Crime and Disorder Act 1998 and is a partnership between the Metropolitan Police and the other counter fraud public sector agencies and teams in London. Its aim is to combat fraud by working in partnership across London.

**British Universities Finance Directors Group**

*Managing Fraud and Risks in Construction Projects* is available to members of the British Universities Finance Directors Group (BUFDG). See their website for more information.

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**NHS England**

Tackling Fraud, Bribery and Corruption: Policy and Corporate Procedures (2013) aims to explain how NHS England intends to tackle economic crime, provides guidance to officers and ensures officers are able recognise economic crime and understand the correct reporting requirements.

**NHS Protect**

Standards for Providers 2014/15 – Fraud, Bribery and Corruption aims to provide information on the anti-fraud and security management clauses in the 2014/15 NHS Standard Contract, and explain what providers need to do to comply with them.

**National Audit Office**

The National Audit Office's fraud website contains a number of reports covering areas such as whistleblowing, tax credits error and fraud and good practice in tackling external fraud.

**National Crime Agency**

The National Strategic Assessment of Serious and Organised Crime 2014 provides a single, comprehensive picture of serious and organised crime affecting the UK and is a key document in the reporting and priority setting cycle.

**Metropolitan Police Service**

The Little Book of Big Scams is a general guide to many of the scams currently operating in the UK.

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**CIPFA** \ The Chartered Institute of
Public Finance & Accountancy

INVESTORS
IN PEOPLE

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| REPORT FOR: | **Governance, Audit, Risk Management and Standards Committee** |
|---|---|
| **Date of Meeting:** | 1 April 2015 |
| **Subject:** | **INFORMATION REPORT – Risk Based Verification** |
| **Responsible Officer:** | Tom Whiting, Corporate Director of Resources |
| **Exempt:** | No, except Appendix A, Risk Based Verification Policy – Para 7 Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime |
| **Enclosures:** | Risk Based Verification Policy Appendix A<br>Equality Impact Assessment Appendix B |

## Section 1 – Summary

Risk Based Verification policy is being brought to GARM Committee to:

- To consider and comment on the Risk Based Verification Policy to take effect from April 2015

The policy is held in Appendix A to this report

**FOR INFORMATION**

## Section 2 – Report

2.1 Risk Based Verification is a tool that forms part of the verification process in administration of Housing Benefit and Council Tax Support. The system allows targeting of higher levels of verification to those at greater risk of fraud or error, hence requiring less resource than needed to verify all cases at the same standard.

2.2 Risk Based Verification is technology that changes the evidence requirements as it risk assesses new claims and changes in circumstance at the point of claiming/notifying a change. Claims will be categorised as low, medium or high. Levels of verification against each risk category are detailed in the restricted Risk Based Verification Policy at Appendix A. Classification of claims allows resources from low risk cases to be channelled towards high risk cases and prevent fraud and error from entering the system.

2.3 The initial Risk Based Verification policy was brought to GARM in April 2014 along with the electronic claims policy as the two are interlinked. Following identification of new functionality by the Council's electronic claim supplier, it was decided to delay implementation of these new processes to ensure the system would be future proofed. This will result in an end to end automated process for new claims including integration with both the assessment and workflow systems, reducing the need for manual input and reducing costs.

2.4 The system has also been amended by introducing different verification standards as per appendix A to the policy. Original documentation will now only be required on high risk cases, with either originals or copies acceptable on medium risk with the exception of identity proof which under statute must be original proofs. Removing the need for original documents on medium risk cases will reduce the level of customer contact at Access Harrow as customers will not need their proofs verified by an officer and they will be able to send documents electronically. The process will alsoreduce the demand on the Scanning and Indexing Department as less original documents are returned to customers by post and electronic documents do not require scanning.

2.5 Risk Based Verification works on the premise that the same level of fraud and error will be found using the existing standards of verification as will be identified under the Risk Based Verification system. It should be recognised that by reducing the level of evidence required against medium risk cases the level of fraud within the system is likely to increase as it is easier to manipulate photocopied or electronic documents. . This risk is largely carried by the Department of Work and Pensions who pay 100% subsidy to the local authority for Housing Benefit paid, and needs to be considered in the context of reduced resources in Access Harrow, Benefit Assessments and the Business Support hub while managing increased demand due to welfare reform and DWP savings programmes. There is a risk to the local authority if fraud is identified at a later point and overpayments raised at a reduced subsidy rate.

2.6 This risk will be monitored by reviewing overpayments raised through various channels including fraud referrals and DWP/HMRC change notifications. Furthermore the Housing Benefit service matches its data with multiple data bases including council tax, HMRC (earnings and private pensions), student finance, DWP benefits and capital which assists in the identification of undeclared income/capital/residency. The outcomes of these data matches will be reviewed to identify the extent of any new fraud entering the system as a result of the reduced verification standard within Risk Based Verification.

2.7 Internal Audit and the Corporate Anti-Fraud Team have been consulted in the development of the changes to the Risk Based Verification Policy and their concerns regarding the likelihood of increased fraud and how this will be monitored and actioned have been  incorporated into this report.

2.8 It is proposed that new claims will go live with Risk Based Verification in April 2015, using a dual verification process with Risk Based Verification and existing systems for the first four months.  Changes in circumstance are planned to be implemented later in 2015.

2.9 GARM Committee is being asked to consider and comment on the Risk Based Verification Policy from April 2015.  The comments of this committee will be reflected in the April 2015 Risk Based Verification Cabinet report.

## Section 3 – Further Information

3.1 Harrow processes approximately 4,000 Housing Benefit/Council Tax Support new claims a year and 15,000 changes in circumstance of which approximately 25% will fall in to the medium risk category.  The assessment process has been reviewed to identify efficiencies without negatively impacting customer service.  Reducing the level of risk on medium risk cases will help alleviate pressure on resources in Access Harrow and the Business Support hub.

3.2 The introduction of Risk Based Verification into the electronic changes in circumstance process will help residents to self-serve, whilst ensuring they provide the required information relating to their change in circumstance.  Partner organisations have agreed to support this new process for example Registered Social Landlords submitting electronic forms and uploading scanned copies of evidence to speed up the claim turnaround times.

3.3 With external agencies supporting the claim process, the local authority will see further reductions in demands on council services including Access Harrow, Housing Benefit Assessments and Scanning & Indexing.

3.6 DWP has laid out the procedure for local authorities to meet in their Risk Based Verification policy in circular HB/CTB S11/2011 to mitigate risk to the subsidy claim. This includes the requirement that the Risk Based Verification Policy should not be amended in-year.  While Cabinet agreed a Risk Based Verification Policy in February 2014, that policy is deemed to be null and void as the process has not gone live.  Risk Based Verification will not have been used in Harrow until after this revised policy has been approved by Cabinet in April 2015.  The local authority must meet these requirements to ensure the £150m annual subsidy claim is not put at risk.

3.7 Risk Based Verification has been piloted in other local authorities, and was rolled out nationally from November 2011.  Housing Benefit/Council Tax Support Services use different verification systems and standards.  The verification levels laid out in Harrow's Risk Based Verification policy is common practice and has been live in other local

authorities who have not had their subsidy claims challenged in this respect during their annual audit.

## Section 4 – Financial Implications

4.1 Cabinet and GARM have already been informed that Revenue costs are £15,000 pa, which are being financed from the deletion of a 0.5 Full Time Equivalent (FTE) G6 Financial Assessment post which equates to £15,000 pa. On-going costs are therefore contained within existing budgets. However, additional financial savings were made in Access Harrow to the value of 1 FTE AH Advisor @£32,000. Whilst the policy of Risk Based Verification and electronic claiming will reduce service costs and support our efficiency drive, fundamentally it also underpins the validation of our Housing Benefit Subsidy audit by ensuring DWP approved processes are used to de-risk qualifications to our Housing Benefit subsidy claim and therefore reducing the risk of benefit clawback by the DWP which could cost the general fund hundreds, if not millions of pounds in lost benefit should auditors not find our processes compliant and robust .

## Section 5 – Equalities Implications

5.1 Pursuant to the Equality Act 2010 ("the Act"), the council, in the exercise of its functions, has to have 'due regard' to (i) eliminating discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; (ii) advancing equality of opportunity between those with a relevant protected characteristic and those without; and (iii) fostering good relations between those with a relevant protected characteristic and those without. The relevant protected characteristics are age, race, disability, gender reassignment, pregnancy and maternity, religion or belief, sex and sexual orientation. The duty also covers marriage and civil partnership, but to a limited extent.

5.2 When Risk Based Verification and the Electronic Claiming Policy were taken to Cabinet and GARM in 2014, an Equalities Impact Assessment screening was conducted and can be viewed at Appendix B. The Equality Impact Assessment screening concluded that the implementation of the policy would not have an adverse impact on residents from any of the protected groups, however actions have been put in place to ensure all groups within the protected characteristics have access to the appropriate support to enable them to transact electronically. That Equalities Impact Assessment remains relevant to the changes detailed in this report, and the actions that came out of the Assessment will continue to be implemented and monitored.

## Section 6 – Priorities

6.1 The Risk Based Verification policy assists the council in meeting two of the administration's priorities:

- Making a difference for the most vulnerable
- Making a difference for families

## Section 7 – Monitoring

7.1 A progress report will be brought to GARM after the first six months of new claims running and will include information from the initial four month pilot when dual processes will be run. The service will stop using existing verification processes on Risk Based Verification cases after the four month trial if the levels of fraud and error identified are the same or more than the baseline.  The percentage of fraud and error identified will be monitored by the service on a monthly basis.

7.2 Interventions and fraud outcomes will also be monitored to manage the risk of any additional fraud entering the system as detailed in 2.6 above.

7.2 Should the level of fraud and error entering the system be found to be a cause for concern, then the system will be reviewed.  If a solution cannot be identified then consideration will be given to either revising the Risk Based Verification Policy or stopping the use of the system within the Benefits assessment process.

| | | |
|---|---|---|
| Name: Dawn Calvert | X | on behalf of the Chief Financial Officer |
| Date: 24th March 2015 | | |

| | | |
|---|---|---|
| Name: Sarah Wilson | X | on behalf of the Monitoring Officer |
| Date: 23rd March 2015 | | |

## Section 8 - Contact Details

**Contact:  Fern Silverio, Head of Collections and Benefits**

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# Equality Impact Assessment Template

The Council has revised and simplified its Equality Impact Assessment process. There is now just one Template. Project Managers will need to complete **Stages 1-3** to determine whether a full EqIA is required and the need to complete the whole template.

Complete Stages 1-3 for all project proposals, new policy, policy review, service review, deletion of service, restructure etc

Stage 3
Question 6

**YES**

Continue with Stage 4 and complete the whole template for a full EqIA

**No**

Go to Stage 6 and complete the rest of the template
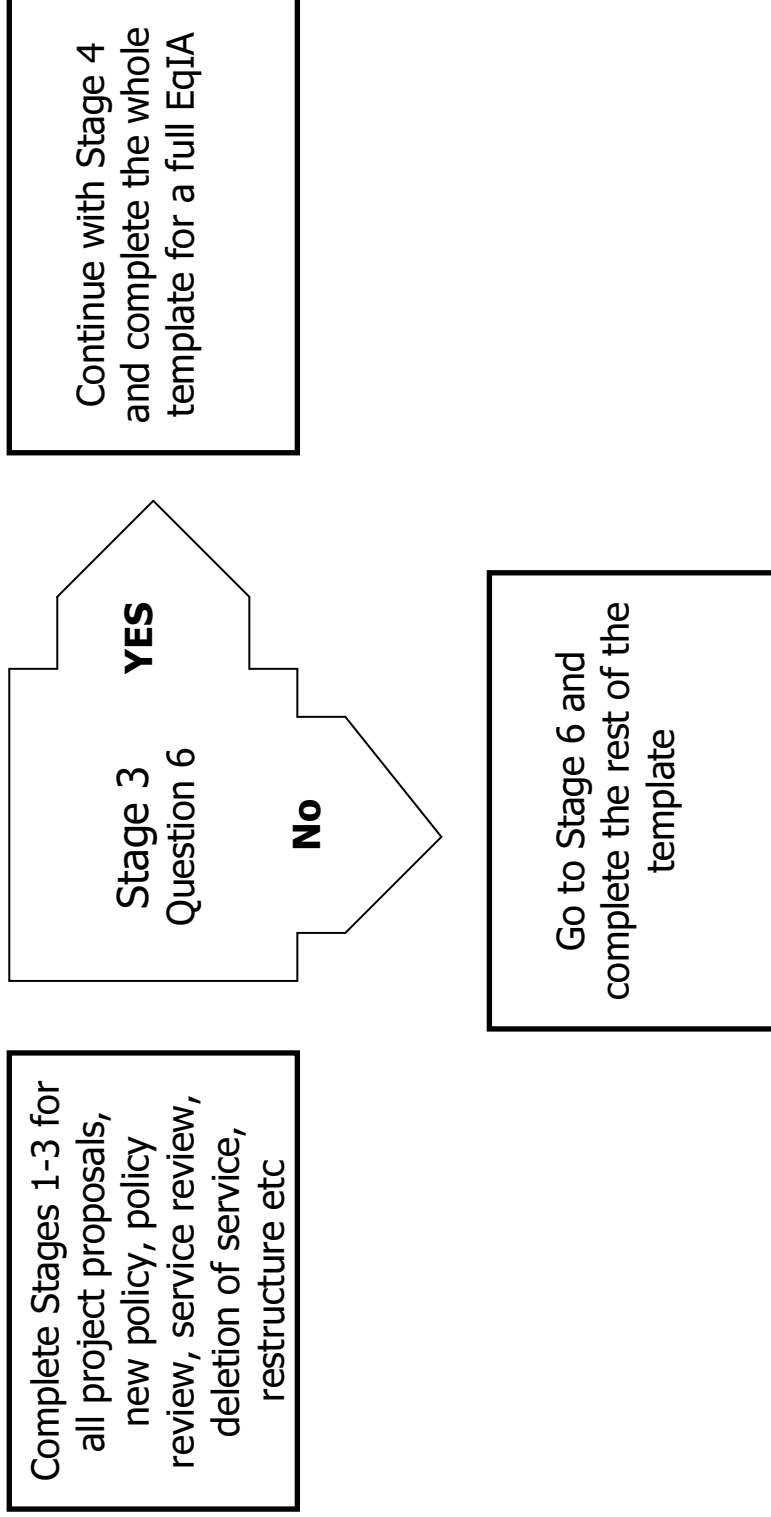
# Equality Impact Assessment (EqIA) Template

In order to carry out this assessment, it is important that you have completed the EqIA E-learning Module and read the Corporate Guidelines on EqIAs. Please refer to these to assist you in completing this assessment.

It will also help you to look at the EqIA Template with Guidance Notes to assist you in completing the EqIA.

| Type of Project / Proposal: | Tick ✓ | Type of Decision: | Tick ✓ |
|---|---|---|---|
| Transformation | | Cabinet | ✓ |
| Capital | | Portfolio Holder | |
| Service Plan | ✓ | Corporate Strategic Board | |
| Other | | Other | |

| | |
|---|---|
| Title of Project: | Implementation of Risk Based Verification (RBV) and Electronic Claims Policies for Housing Benefit and Council Tax Support Assessments |
| Directorate / Service responsible: | Collections and Housing Benefits, Resources Directorate |
| Name and job title of lead officer: | Fern Silverio, Head of Service, Collections and Housing Benefits |
| ...me & contact details of the other persons involved in the ...sessment: | Jennifer Townsley, Service Manager, Housing Benefits  Ben Jones, Senior Project Manager, Customer Services |
| Date of assessment: | 2nd January 2014 |

## Stage 1: Overview

| | |
|---|---|
| | The implementation of a Risk Based Verification (RBV) and Electronic Claims policies for Housing Benefit and Council Tax Support Assessments. |
| **1.** What are you trying to do?  (Explain proposals e.g. introduction of a new service or policy, policy review, changing criteria, reduction / removal of service, restructure, deletion of posts etc) | The RBV policy puts in place an IT system that reduces the need for low risk Housing Benefit and Council Tax Support applicants/claimants to provide original documents to support their claim. The policy will allow targeting of resources from low risk cases to those cases that are at higher risk of potential fraud and error. It is not possible, in advance of the policy being implemented, to identify the groups of people that fall within low, medium or high risk categories. Implementation of the policy will be monitored. |

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The Electronic Claims policy enables Housing Benefit and Council Tax Support claimants to apply and notify a change of circumstance electronically. This change in process supports identification of savings within the Resources Directorate within the Channel Migration strategy.

Both policies will apply to all new claims initially and will extend to change of circumstances.

The Department of Work and Pensions (DWP) permits RBV as a method of verification in Circular HB/CTB S11/2011. Electronic claims are allowed under legislation as detailed in DWP Circular A18/2006 and the Direction of the Acting Head of Paid Services.

The implementation of these policies will result in a reduction in processes and expensive channels for customers to contact the Benefit service, and therefore allow savings to be realised within the Resources Directorate. Whilst implementation will cost £15,000 to the Local Authority the savings will be equivalent to 1.5 FTE within the Resources Directorate resulting from a reduction in customer contact and requests for information.

**2.** Who are the main people / Protected Characteristics that may be affected by your proposals? (✓ all that apply)

| | Residents / Service Users | | Partners | | Stakeholders |
|---|---|---|---|---|---|
| ✓ | Staff | ✓ | Age | ✓ | Disability |
| ✓ | Gender Reassignment | ✓ | Marriage and Civil Partnership | ✓ | Pregnancy and Maternity |
| ✓ | Race | ✓ | Religion or Belief | ✓ | Sex |
| ✓ | Sexual Orientation | ✓ | Other | | |

**3.** Is the responsibility shared with another directorate, authority or organisation? If so:
- Who are the partners?
- Who has the overall responsibility?
- How have they been involved in the assessment?

Housing Benefit is administered by the Local Authority on behalf of DWP and therefore is adhering to DWP guidance in respect to delivery which will reduce any risk to the subsidy claim.

The implementation of the RBV and Electronic Claims policies are the responsibility of the Resources Directorate.

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## Stage 2: Evidence / Data Collation

**4.** What evidence / data have you reviewed to assess the potential impact of your proposals? Include the actual data, statistics reviewed in the section below. This can include census data, borough profile, profile of service users, workforce profiles, results from consultations and the involvement tracker, customer satisfaction surveys, focus groups, research interviews, staff surveys; complaints etc. Where possible include data on the nine Protected Characteristics.

(Where you have gaps (data is not available/being collated), you may need to include this as an action to address in your Improvement Action Plan at Stage 7)

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|---|---|
| | **Harrow profile**: 20 per cent of Harrow's residents are aged under 16 (48,200). 65.9 per cent (158,400) of Harrow's population fall within the working age bracket (16 to 64) and 14.1 per cent (33,900) of Harrow's residents are 65 years of age and older. The average (median) age in Harrow is approximately 36 years, which ranks Harrow 284th out of 348 local or unitary authorities for age, depicting a younger average than the majority of local authorities. |
| | The Housing Benefit /Council Tax Support caseload is made up of 15,032 (73%) working age households and 5,652 (27%) pensioner. |
| | An average of 5,500 new claims are made every year of which 85% are made by working age households, and 15% by pensioners. |
| Age (including carers of young/older people) | It is not known which RBV category this group will fall within, nor is there is any evidence to indicate that people within this protected characteristic will be detrimentally impacted by the introduction of RBV or electronic claiming. |
| | Risk Based Verification (RBV) |
| | As pensioners are less likely to have a change in their circumstance that results in the need to make a new claim, they are less likely to be affected by the introduction of RBV |
| | The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim. |
| | Medium risk applicants will remain the same. |
| | High risk applicants/claimants will be required to produce the same information as they currently produce in |

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|---|---|
| | support of their claim however the authority will carry out additional checks such as credit reference to determine any discrepancies to the application form. |
| | **Electronic claims** |
| | Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance. |
| | Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A. |
| | Liaison with stakeholders will be carried out to ensure that agencies are in a position to support clients in making an application on line. This will include identification of and signposting to IT literacy training for residents to help them develop the required skills to transact online. |
| | Assistance will be available in Access Harrow to support residents using the self-service terminals. |
| | A stock of hard copy claim forms will be retained for any circumstances that cannot be addressed by the above methods. |
| | **Harrow profile**: 17.3% of Harrow's working age population (16-64) classified themselves as disabled within the 2011-12 period (July to June), a total of 26,600 individuals. This signifies a decrease of 4.6% for the same period in 2010-11. 13,800 (17.3%) are men and 12,900 (17.7%) are women |
| Disability (including carers of disabled people) | Housing Benefit/Council Tax Support claimants in receipt of Disability Living Allowance, Severe Disablement Allowance or Employment Support Allowance (Support Component) are classified disabled under the regulations. 4,826 households fall under this category. |
| | It is not known which RBV category this group will fall within, nor is there is any evidence to indicate that people within this protected characteristic will be detrimentally impacted by the introduction of RBV or electronic claiming. |

Risk Based Verification

The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim.

Medium risk applicants will remain the same.

High risk applicants/claimants will be required to produce the same information as they currently produce in support of their claim however the authority will carry out additional checks such as credit reference to determine any discrepancies to the application form.

Electronic claims

Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance.

Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A.

Liaison with stakeholders will be carried out to ensure that agencies are in a position to support clients in making an application on line. This will include identification of and signposting to IT literacy training for residents to help them develop the required skills to transact online.

Assistance will be available in Access Harrow to support residents using the self-service terminals.

A stock of hard copy claim forms will be retained for any circumstances that cannot be addressed by the above methods.

| Gender Reassignment | This data is not currently available for the Harrow profile or claimants of Council Tax Support and Housing Benefit. |

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It is not known which RBV category this group will fall within, nor is there is any evidence to indicate that people within this protected characteristic will be detrimentally impacted by the introduction of RBV or electronic claiming.

Risk Based Verification

The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim.

Medium risk applicants will remain the same.

High risk applicants/claimants will be required to produce the same information as they currently produce in support of their claim however the authority will carry out additional checks such as credit reference to determine any discrepancies to the application form.

Electronic claims

Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance.

Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A.

Liaison with stakeholders will be carried out to ensure that agencies are in a position to support clients in making an application on line. This will include identification of and signposting to IT literacy training for residents to help them develop the required skills to transact online.

Assistance will be available in Access Harrow to support residents using the self-service terminals.

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A stock of hard copy claim forms will be retained for any circumstances that cannot be addressed by the above methods.

This data is not currently available for the Harrow profile or claimants of Council Tax Support and Housing Benefit

It is not known which RBV category this group will fall within, nor is there is any evidence to indicate that people within this protected characteristic will be detrimentally impacted by the introduction of RBV or electronic claiming.

Risk Based Verification

The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim.

Medium risk applicants will remain the same.

High risk applicants/claimants will be required to produce the same information as they currently produce in support of their claim however the authority will carry out additional checks such as credit reference to determine any discrepancies to the application form.

Electronic claims

Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance.

Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A.

arriage / Civil Partnership

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| | Liaison with stakeholders will be carried out to ensure that agencies are in a position to support clients in making an application on line. This will include identification of and signposting to IT literacy training for residents to help them develop the required skills to transact online.<br><br>Assistance will be available in Access Harrow to support residents using the self-service terminals.<br><br>A stock of hard copy claim forms will be retained for any circumstances that cannot be addressed by the above methods. |
| | This data is not currently available for the Harrow profile or claimants of Council Tax Support and Housing Benefit<br><br>It is not known which RBV category this group will fall within, nor is there is any evidence to indicate that people within this protected characteristic will be detrimentally impacted by the introduction of RBV or electronic claiming.<br><br>Risk Based Verification<br><br>The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim.<br><br>Medium risk applicants will remain the same.<br><br>High risk applicants/claimants will be required to produce the same information as they currently produce in support of their claim however the authority will carry out additional checks such as credit reference to determine any discrepancies to the application form.<br><br>Electronic claims<br><br>Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance.<br><br>Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation |
| Pregnancy and Maternity | |

is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A.

Liaison with stakeholders will be carried out to ensure that agencies are in a position to support clients in making an application on line. This will include identification of and signposting to IT literacy training for residents to help them develop the required skills to transact online.

Assistance will be available in Access Harrow to support residents using the self-service terminals.

A stock of hard copy claim forms will be retained for any circumstances that cannot be addressed by the above methods.

| Race | **Harrow profile:** Harrow is one of the most diverse places in the country. At the time of 2001 Census 49.9% of Harrow residents were classified as White British. 2011 figures reveal that the White British category now includes only 30.9% of Harrow's population, 69.1% of residents are therefore classified as belonging to a minority ethnic group. The most significant minority ethnic group, at 26.4% is Asian/Asian British: Indian, ranking Harrow as second in England and Wales for its Indian population. Another significant group is classified as Asian/Asian British: Other Asian, making up 11.3% of residents and ranking Harrow 1st within this classification; this group is largely comprised of Sri Lankan community. All Asian/Asian British groups have increased since 2001.

White Other is another group which has grown, from 4.49% in 2001 to 8.2% in 2011. Within this group there are 3,868 residents who were born in Poland and 4,784 residents born in Romania, making it the largest Romanian community within England and Wales. Harrow still has a high Irish born population, ranked 7th in 2011. Whilst Black/African/Caribbean/Black British is not particularly dominant we have the highest number of Kenyan born residents (this can be attributed to a number of migrants from Kenya who are of Asian descent).

Of the 11,989 (58%) of the Housing Benefit/Council Tax Support caseload that have provided ethnicity data, 43% have classified themselves as White or White British and 40% as Asian or Asian British. The highest groups within these classifications are White British (20%) and Asian or British from any other background (13%). |

It is not known which RBV category this group will fall within, nor is there is any evidence to indicate that people within this protected characteristic will be detrimentally impacted by the introduction of RBV or electronic claiming.

Risk Based Verification

The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim.

Medium risk applicants will remain the same.

High risk applicants/claimants will be required to produce the same information as they currently produce in support of their claim however the authority will carry out additional checks such as credit reference to determine any discrepancies to the application form.

Electronic claims

Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance.

Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A.

Liaison with stakeholders will be carried out to ensure that agencies are in a position to support clients in making an application on line. This will include identification of and signposting to IT literacy training for residents to help them develop the required skills to transact online.

Assistance will be available in Access Harrow to support residents using the self-service terminals.

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| | A stock of hard copy claim forms will be retained for any circumstances that cannot be addressed by the above methods. |
| | **Harrow profile**: The 2001 Census showed that Harrow had the highest level of religious diversity of any local authority in England and Wales. This means that there is a 63 per cent chance that two people at random would be from different religious groups. We do not yet have comparative data for 2011, but the 2011 Census ranked Harrow 1st for persons of Hindu religion, Jain and Unification Church, 2nd for Zoroastrian and 6th for Jewish. Out of 348 areas in England and Wales Harrow has the 2nd lowest ranking of residents with no religion and 5th lowest for Christians (37.3%). Harrow is ranked 24th for Muslim faith residents, who account for 12.5% of the population |
| | This data is not currently available for claimants of Council Tax Support and Housing Benefit |
| | It is not known which RBV category this group will fall within, nor is there is any evidence to indicate that people within this protected characteristic will be detrimentally impacted by the introduction of RBV or electronic claiming. |
| Religion and Belief | Risk Based Verification |
| | The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim. |
| | Medium risk applicants will remain the same. |
| | High risk applicants/claimants will be required to produce the same information as they currently produce in support of their claim however the authority will carry out additional checks such as credit reference to determine any discrepancies to the application form. |
| | Electronic claims |
| | Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance. |

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Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A.

Liaison with stakeholders will be carried out to ensure that agencies are in a position to support clients in making an application on line. This will include identification of and signposting to IT literacy training for residents to help them develop the required skills to transact online.

Assistance will be available in Access Harrow to support residents using the self-service terminals.

A stock of hard copy claim forms will be retained for any circumstances that cannot be addressed by the above methods.

**Harrow profile:** Of Harrow's total population (240,500), 118,900 (49.4%) are male and 121,600 (50.6%) are female

Within the Housing Benefit and Council Tax Support caseload, 44% are male and 56% are female.

It is not known which RBV category this group will fall within, nor is there is any evidence to indicate that people within this protected characteristic will be detrimentally impacted by the introduction of RBV or electronic claiming.

Risk Based Verification

The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim.

Medium risk applicants will remain the same.

High risk applicants/claimants will be required to produce the same information as they currently produce in support of their claim however the authority will carry out additional checks such as credit reference to

Sex / Gender

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determine any discrepancies to the application form.

Electronic claims

Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance.

Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A.

Liaison with stakeholders will be carried out to ensure that agencies are in a position to support clients in making an application on line. This will include identification of and signposting to IT literacy training for residents to help them develop the required skills to transact online.

Assistance will be available in Access Harrow to support residents using the self-service terminals.

A stock of hard copy claim forms will be retained for any circumstances that cannot be addressed by the above methods.

| | |
|---|---|
| | **Harrow profile**: The 2011 census did not have a question on sexual orientation; however 306 persons declared living in a same sex couple, an increase of 84 couples. It is estimated that 6% of the UK population are lesbian, gay and bisexual (LGB), which would equate to approximately 14,430 of our residents belonging to the LGB community |
| Sexual Orientation | This data is not currently available for claimants of Council Tax Support and Housing Benefit |
| | It is not known which RBV category this group will fall within, nor is there any evidence to indicate that people within this protected characteristic will be detrimentally impacted by the introduction of RBV or electronic claiming. |

## Risk Based Verification

The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim.

Medium risk applicants will remain the same.

High risk applicants/claimants will be required to produce the same information as they currently produce in support of their claim however the authority will carry out additional checks such as credit reference to determine any discrepancies to the application form.

## Electronic claims

Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance.

Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A.

Liaison with stakeholders will be carried out to ensure that agencies are in a position to support clients in making an application on line. This will include identification of and signposting to IT literacy training for residents to help them develop the required skills to transact online.

Assistance will be available in Access Harrow to support residents using the self-service terminals.

A stock of hard copy claim forms will be retained for any circumstances that cannot be addressed by the above methods.

**Harrow profile**: In comparison to other areas Harrow was relatively less deprived in 2010 than it was in 2007. It is now ranked 203rd out of 354 boroughs in England (where 1 is the most deprived). In London, Harrow retains its position as 7th least deprived borough (out of 33). The indicator showing the most deprivation in Harrow is Barriers to Housing where it is ranked 54th most deprived nationally.

Claimants of Housing Benefit and Council Tax Support will by nature of the service be in low socio economic groups as they are in receipt of means tested benefits.

Risk Based Verification

The groups of people that will fall within the different categories under risk based verification are unknown.

The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim.

Medium risk applicants will remain the same.

High risk applicants/claimants will be required to produce the same information as they currently produce in support of their claim however the authority will carry out additional checks such as credit reference to determine any discrepancies to the application form.

Electronic claims

Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance.

Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A.

Liaison with stakeholders will be carried out to ensure that agencies are in a position to support clients in

Socio Economic

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making an application on line. This will include identification of and signposting to IT literacy training for residents to help them develop the required skills to transact online.

Assistance will be available in Access Harrow to support residents using the self-service terminals.

A stock of hard copy claim forms will be retained for any circumstances that cannot be addressed by the above methods.

The following information has helped to inform this EqIA:

Publishing Equalities Information Meeting the Public Sector Duty January 2013 Harrow Council Our Harrow Our Story – 2013 - http://www.harrow.gov.uk/info/200041/equality_and_diversity/863/public_sector_eq uality_duty

Housing Benefit and Council Tax Support data system

**5.** What other (local, regional, national research, reports, media) data sources that you have used to inform this assessment?

List the Title of reports / documents and websites here.

## Stage 3: Assessing Potential Disproportionate Impact

Based on the evidence you have considered so far, is there a risk that your proposals could potentially have a disproportionate adverse impact on any of the Protected Characteristics?

| | Age (including carers) | Disability (including carers) | Gender Reassignment | Marriage and Civil Partnership | Pregnancy and Maternity | Race | Religion and Belief | Sex | Sexual Orientation |
|---|---|---|---|---|---|---|---|---|---|
| Yes | | | | | | | | | |
| No | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

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**YES** - If there is a risk of disproportionate adverse Impact on any **ONE** of the Protected Characteristics, continue with the rest of the template.

- **Best Practice:** You may want to consider setting up a Working Group (including colleagues, partners, stakeholders, voluntary community sector organisations, service users and Unions) to develop the rest of the EqIA
- It will be useful to also collate further evidence (additional data, consultation with the relevant communities, stakeholder groups and service users directly affected by your proposals) to further assess the potential disproportionate impact identified and how this can be mitigated.

**NO** - If you have ticked 'No' to all of the above, then go to **Stage 6**

- Although the assessment may not have identified potential disproportionate impact, you may have identified actions which can be taken to advance equality of opportunity to make your proposals more inclusive. These actions should form your Improvement Action Plan at Stage 7

## Stage 4: Collating Additional data / Evidence

**7.** What additional data / evidence have you considered to further assess the potential disproportionate impact of your proposals? (include this evidence, including any data, statistics, titles of documents and website links here)

**8.** What consultation have you undertaken on your proposals?

| Who was consulted? | What consultation methods were used? | What do the results show about the impact on different groups / Protected Characteristics? | What actions have you taken to address the findings of the consultation? (This may include further consultation with the affected groups, revising your proposals). |
| --- | --- | --- | --- |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

## Stage 5: Assessing Impact and Analysis

**9.** What does your evidence tell you about the impact on different groups? Consider whether the evidence shows potential for differential impact, if so state whether this is an adverse or positive impact? How likely is this to happen? How you will mitigate/remove any adverse impact?

| Protected Characteristic | Adverse | Positive | Explain what this impact is, how likely it is to happen and the extent of impact if it was to occur. <br><br> Note – Positive impact can also be used to demonstrate how your proposals meet the aims of the PSED Stage 9 | What measures can you take to mitigate the impact or advance equality of opportunity? E.g. further consultation, research, implement equality monitoring etc (Also Include these in the Improvement Action Plan at Stage 7) |
|---|---|---|---|---|
| Age (including carers of young/older people) | ✓ | ✓ | | |
| Disability (including carers of disabled people) | | | | |
| Gender Reassignment | | | | |
| Marriage and Civil Partnership | | | | |

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| | | | | | |
|---|---|---|---|---|---|
| Pregnancy and Maternity | | | | | |
| Race | | | | | |
| Religion or Belief | | | | | |
| Sex | | | | | |
| Sexual orientation | | | | | |

**10. Cumulative Impact** – Considering what else is happening within the Council and Harrow as a whole, could your proposals have a cumulative impact on a particular Protected Characteristic?

| Yes | | No | |
|---|---|---|---|

If yes, which Protected Characteristics could be affected and what is the potential impact?

**10a. Any Other Impact** – Considering what else is happening within the Council and Harrow as a whole (for example national/local policy, austerity, welfare reform, unemployment levels, community tensions, levels of crime) could your proposals have an impact on individuals/service users socio economic, health or an impact on community cohesion?

| Yes | | No | |
|---|---|---|---|

If yes, what is the potential impact and how likely is to happen?

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**11.** Is there any evidence or concern that the potential adverse impact identified may result in a Protected Characteristic being disadvantaged? (Please refer to the Corporate Guidelines for guidance on the definitions of discrimination, harassment and victimisation and other prohibited conduct under the Equality Act) available on Harrow HUB/Equalities and Diversity/Policies and Legislation

| | Age (including carers) | Disability (including carers) | Gender Reassignment | Marriage and Civil Partnership | Pregnancy and Maternity | Race | Religion and Belief | Sex | Sexual Orientation |
|---|---|---|---|---|---|---|---|---|---|
| Yes | | | | | | | | | |
| No | | | | | | | | | |

If you have answered "yes" to any of the above, set out what justification there may be for this in Q12a below - link this to the aims of the proposal and whether the disadvantage is proportionate to the need to meet these aims. (You are encouraged to seek legal advice, if you are concerned that the proposal may breach the equality legislation or you are unsure whether there is objective justification for the proposal)

If the analysis shows the potential for serious adverse impact or disadvantage (or potential discrimination) but you have identified a potential justification for this, this information must be presented to the decision maker for a final decision to be made on whether the disadvantage is proportionate to achieve the aims of the proposal.

- If there are adverse effects that are not justified and cannot be mitigated, you should not proceed with the proposal. **(select outcome 4)**
- If the analysis shows unlawful conduct under the equalities legislation, you should not proceed with the proposal. **(select outcome 4)**

## age 6: Decision

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**12.** Please indicate which of the following statements best describes the outcome of your EqIA ( ✔ tick one box only)

| | |
|---|---|
| **Outcome 1 –** No change required: the EqIA has not identified any potential for unlawful conduct or disproportionate impact and all opportunities to advance equality are being addressed. | ✔ |
| **Outcome 2 –** Minor adjustments to remove / mitigate adverse impact or advance equality have been identified by the EqIA. *List the actions you propose to take to address this in the Improvement Action Plan at Stage 7* | |
| **Outcome 3 –** Continue with proposals despite having identified potential for adverse impact or missed opportunities to advance equality. In this case, the justification needs to be included in the EqIA and should be in line with the PSED to have 'due regard'. In some cases, compelling reasons will be needed. You should also consider whether there are sufficient plans to reduce the adverse impact and/or plans to monitor the impact. **(Explain this in 12a below)** | |
| **Outcome 4 –** Stop and rethink: when there is potential for serious adverse impact or disadvantage to one or more protected groups. (You are encouraged to seek Legal Advice about the potential for unlawful conduct under equalities legislation) | |

**12a.** If your EqIA is assessed as **outcome 3 or you have ticked 'yes' in Q11,** explain your justification with full reasoning to continue with your proposals.

## Stage 7: Improvement Action Plan

**13.** List below any actions you plan to take as a result of this Impact Assessment. This should include any actions identified throughout the EqIA.

| Area of potential adverse impact e.g. Race, Disability | Action required to mitigate | How will you know this is achieved? E.g. Performance Measure / Target | Target Date | Lead Officer | Date Action included in Service / Team Plan |
|---|---|---|---|---|---|
| | | | | | |

| | | | | |
|---|---|---|---|---|
| Ensure all groups within the protected characteristics have access to the appropriate support to enable them to transact electronically<br><br>Feedback has been provided that for ⁀sidents experiencing ⁀ental health problems those for whom English is not their first language, this may have detrimental impacts. | Planned publicity campaign, liaison with voluntary & community sector, working in partnership with internal services such as Housing and Childrens as well as external Housing Associations. Furthermore access to self-serve terminals with floating support will be made available and IT literacy training will be identified and publicised. A stock of hard copy forms will be retained should a resident be in the unforeseen position where any of above are not sufficient to enable them to transact online<br><br>Currently Access Harrow will continue to provide the same level of support to residents, including those experiencing mental health problems or where English is not their first language, plus the implementation of additional PC terminals in the one stop shop with floating support. It is expected that for some residents within these groups, the implementation of electronic claims will be positive as they will be able to access services remotely, potentially from home, and with the support of friends/family where this is currently relied upon. | Liaison with stakeholders to ensure no groups are prevented from accessing Housing Benefit/Council Tax Support | April 2015 | Fern Silverio/Jenny Townsley |
| It is unknown whether any specific groups within the protected characteristics will fall | Monitoring will be carried out to identify whether any groups within the protected characteristics fall within specific categories and if the need arises | Performance measure | | Fern Silverio/Jenny Townsley |

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| | |
|---|---|
| within the low, medium and high risk categories within the Risk Based Verification Policy | mitigations will be put in place. |

## Stage 8 – Monitoring
The full impact of the proposals may only be known after they have been implemented. It is therefore important to ensure effective monitoring measures are in place to assess the impact.

| | |
|---|---|
| | Random sampling will be employed to ensure that cases from the low and high risk categories are treated as medium risk thus requiring to test and refine the software assumptions. |
| **14.** How will you monitor the impact of the proposals once they have been implemented? What monitoring measures need to be introduced to ensure effective monitoring of your proposals? How often will you do this? *(Also Include in Improvement Action Plan at Stage 7)* | A baseline will be set against which the effectiveness of the RBV propensity modelling software will be monitored monthly. Monitoring will include the split of cases by per cent across each risk category and the levels of fraud and error detected in each.<br><br>The Housing Benefit and Council Tax Support caseload will be monitored to identify any changes in claim volumes following the implementation of electronic claims. |
| **15.** How will the results of any monitoring be analysed, reported and publicised? *(Also Include in Improvement Action Plan at Stage 7)* | Outcomes of the monitoring activity will be reported to the Housing Benefit Service Manager. |
| **16.** Have you received any complaints or compliments about the proposals being assessed? If so, provide details. | No |

## Stage 9: Public Sector Equality Duty

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**17.** How do your proposals contribute towards the Public Sector Equality Duty (PSED) which requires the Council to have due regard to eliminate discrimination, harassment and victimisation, advance equality of opportunity and foster good relations between different groups.

(Include all the positive actions of your proposals, for example literature will be available in large print, Braille and community languages, flexible working hours for parents/carers, IT equipment will be DDA compliant etc)

| Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010 | Advance equality of opportunity between people from different groups | Foster good relations between people from different groups |
|---|---|---|
| The implementation of the automated system would remove human intervention at the first point of claim and allows an automated risk assessment to target high risk claims.<br><br>Electronic claiming provides a new channel of access to the Housing Benefit and Council Tax Support service | Communications will be carried out with the relevant stakeholders. | Process will be in place to ensure public resources are targeted appropriately reducing the risk of fraud. |

**Page 10 – Organisational sign Off** (to be completed by Chair of Departmental Equalities Task Group) The completed EqIA needs to be sent to the chair of your Departmental Equalities Task Group (DETG) to be signed off.

| **18.** Which group or committee considered, reviewed and agreed the EqIA and the Improvement Action Plan? | |
|---|---|
| Signed: (Lead officer completing EqIA) | Fern Silverio |
| Date: | |
| Date EqIA presented at the EqIA Quality Assurance Group | |
| Signed: (Chair of DETG) | |
| Date: | |
| Signature of ETG Chair | |

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REPORT FOR:     GOVERNANCE, AUDIT
RISK MANAGEMENT &
STANDARDS
COMMITTEE

| | |
|---|---|
| **Date of Meeting:** | 1st April 2015 |
| **Subject:** | Draft Internal Audit Plan 2015/16 |
| **Responsible Officer:** | Simon George – Director of Finance and Assurance |
| **Exempt:** | No |
| **Enclosures:** | Appendix1: Draft Internal Audit Plan 2015/16 |

## Section 1 – Summary and Recommendations

This report sets out the draft Internal Audit plan for 2015/16

**Recommendations:**
The Committee is requested to:

(a) Note the process employed to develop the plan.

(b) Consider and comment on the draft plan, in particular to provide the Committee's view on risk to assist with prioritising and developing the final plan.

# Section 2 – Report

## Background

1.1 The Public Sector Internal Audit Standards (PSIAS) requires the 'chief audit executive' (HIA) to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.  The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the 'board' (GARMS Committee) must be considered in this process. The board are required to approve the final Internal Audit Plan.

## Plan Development

1.2 This report sets out the draft Internal Audit annual plan of work for 2015/16 (Appendix 1).

1.3 The initial draft plan was developed after consideration of the risk maturity of the organisation; a review of the Council's Corporate Plan 2015/16; review of the Final Revenue Budget 2015/16 and MTFS 2014/15 – 2016/17; a review of the current Corporate and Directorate Risk Registers; a review of previous Internal Audit work covering the Council's internal controls; identification of significant local and national issues and risks, including new legislation; review of Protecting the Public Purse 2014 (Audit Commission, November 2014); review of the External Audit plan; consultation with Finance Business Partners on key areas of financial risk; consultation with the Service Manager, Corporate Anti-Fraud Team on key areas of fraud prevention; and consultation with the Chief Executive, Corporate Directors and their senior management teams, the S151 Officer and key managers as appropriate.

1.4 The plan will be finalised following an audit risk assessment to rank the projects based on materiality and risk, as high, medium or low, with the final plan focusing on high risk areas.  Careful consideration will be given to the scope of each review and the audit approach to be taken as audit resources for 2015/16 are 300 days less than for 2014/15 due to MTFS savings (reduction of 1 post) and maternity leave.  Narrower scopes and different approaches e.g. moving to thematic reviews for schools, will be considered to ensure that the Internal Audit Team deliveries the highest amount of assurance possible with the resources available.

1.5 During 2014/15 the Internal Audit team have been working with five other London boroughs (Islington, Camden, Barnet, Enfield and Lambeth) to jointly develop our approach to internal audit, risk management and anti-fraud.  Many of the issues the boroughs face individually are common across other London Councils, and working more closely will allow us to share best practice, identify emerging issues, risks and opportunities for improvement.  This arrangement also provides us with access to a framework agreement with PWC to buy in

'specialist' audit skills for which we have a small budget. During 2015/16 we will continue to work with the other boroughs and PWC to strengthen our approach and enhance the level and quality of assurance that the in-house team currently provides.

## Plan Structure

1.6   The projects set out in the plan are grouped under the following headings:

- Reliance/Assurance Reviews
- New/Developing Risk Areas
- Fraud Risk – reviews of controls in place to prevent fraud
- IT Reviews
- Corporate Risk Based/Governance Reviews
- Directorate Risk Based Reviews
- Schools Reviews
- Support, Advice and Follow-up

1.7   Included under the Reliance/Assurance Reviews is the work undertaken on the Council's core financial systems which the council's external auditors, Deloitte LLP, rely on to inform their risk assessment that guides the external audit approach.

1.8   Reviews under the heading Fraud Risk/Fraud Prevention are areas that have been identified by the Audit Commission in their publication Protecting the Public Purse as high risk across all Local Authorities (and before inclusion in the final plan they will be specifically risk assessed for Harrow). These reviews will specifically concentrate on controls in place to mitigate the risk of fraud. Cipfa introduced a new Fraud Code in 2014 that will impact on the whole organisation, CAFT, Internal Audit and Risk Management and time has been included in the Internal Audit Plan to assist with the implementation of the Code.

1.9   Corporate Risk Based Reviews are reviews that will have impact across the Council and involve sample testing across the council with the aim of increasing transparency, consistency and compliance.

1.10  The group headed Directorate Risk Based Reviews covers suggested reviews specific to directorates. Although there are fewer specific reviews suggested for the Resources Directorate this is balanced by the fact that all the core financial systems work and the majority of the suggested fraud prevention work is based in the Resources Directorate.

1.11  And finally under the grouping Support, Advice and Follow-up a small allowance has been made for providing ad-hoc professional audit advice throughout the year, for investigating suspected irregularities and for following up the implementation of agreed audit recommendations.

1.12  Next to each risk based review on the draft plan is an indication of the main driver of the review identified in the planning process i.e. Internal Audit (based on cumulative audit knowledge); External Audit; Corporate Governance Group; Corporate Priority; the Corporate Risk Register;

Management; Finance; Protecting the Public Purse 2014; CAFT or a combination of these.

## Financial Implications

1.13 The functions of the Internal Audit service are delivered within the budget available.

## Risk Management Implications

1.14 The work of Internal Audit supports the management of risks across the council and the Internal Audit Annual Plan is developed from the review of the Corporate Risk Register and the Corporate Plan and risks identified by management.

## Equalities implications

1.15 None.

## Corporate Priorities

1.16 The work of Internal Audit supports the corporate priorities as described above.

# Section 3 - Statutory Officer Clearance

| | | |
|---|---|---|
| Name: Simon George <br><br> Date: 19/03/15 | √ | Chief Financial Officer |
| Name: Linda Cohen <br><br> Date: 19/03/15 | √ | On behalf of <br> Monitoring Officer |

# Section 4 - Contact Details and Background Papers

**Contact:** Susan Dixson – Head of Internal Audit ext. 2420

**Background Papers:**

If appropriate, does the report include the following considerations?

| 1. | Consultation | YES / NO |
|----|--------------|----------|
| 2. | Corporate Priorities | YES / NO |

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# DRAFT INTERNAL AUDIT PLAN 2015/16

# Background

Internal Audit is a statutory service. The Accounts and Audit Regulations 2011, which came into force on 31st March 2011 (previously the Accounts and Audit Regulations 2003 (as amended)[1], state that:

'A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'

'Proper practice' for internal audit is now contained within Public Sector Internal Audit Standards (PSIAS) which have been adopted and are being implemented by the Council's Internal Audit section.

The Internal Audit Service at Harrow Council is provided by a dedicated in-house team situated in the Resources Directorate.

# Annual Plan Process

Annually a plan of work is developed to reflect the Internal Audit Strategy and is supported by the Delivery Plan which outlines the key service activities/development projects and service performance indicators. The plan is designed to provide the GARM Committee, the Head of Paid Service, the S151 Officer, Corporate Directors and other senior managers with assurance on the Council's control environment. Internal Audit adds value to the organisation and contributes to its objectives and priorities by providing assurance on the organisation's control environment, alerting managers to weaknesses identified in the control environment, highlighting the risks of such weaknesses and instigating action to be taken by managers to improve the control environment via the implementation of audit recommendations/advice.

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[1] As amended by the Accounts and Audit (Amendment)[England] Regulations 2006

# How Internal Audit Links to the Corporate Vision and Priorities

The council vision for 2015/16 is **working together to make a difference for Harrow.**

The four council priorities are:

- Making a difference for the most vulnerable
- Making a difference for communities
- Making a difference for local businesses
- Making a difference for families

The Council's vision and the corporate priorities are taken into account when developing the Internal Audit annual operational plan of work. Where appropriate specific audit reviews will be scheduled to support individual priorities or related priority actions. In addition each year reviews are undertaken of systems that support the delivery of the corporate priorities.

## Draft Plan

The first draft of the plan is developed after:

- consideration of the risk maturity of the organisation;
- review of the Council's Corporate Plan/Priorities 2015/16;
- review of the Final Revenue Budget 2015/16 and MTFS 2014/15 – 2016/17
- review of the current Corporate and Directorate Risk Registers;
- review of the previous Internal Audit work covering the Council's internal controls (including an indicative audit risk rating);
- identification of significant local and national issues and risks, including new legislation;
- review of Protecting the Public Purse 2014 (Audit Commission, November 2014)
- review of the External Audit plan;
- consultation with Finance Business Partners on key areas of financial risk;
- consultation with the Service Manager, Corporate Anti-Fraud Team on key areas of fraud prevention;
- consultation with the Chief Executive, Corporate Directors, including the S151 Officer and key managers as appropriate.

The draft plan will be presented formally to CSB (on 18th March) and the GARM Committee (on 1st April) for review/comment.

# Final Plan

Once the consultation process is complete the final plan will be developed by undertaking a detailed audit risk assessment of all reviews contained in the draft plan to rank the projects on the plan, based on materiality and risk, as high, medium or low.

The number of audit days available for the 2015/16 plan will be determined via a detailed resource calculation for each auditor taking into account available days, actual days 2014/15 and allowances for annual leave, training etc. A realistic but challenging target will then be set for each member of the team and the combination of these targets will determine the days available for the Internal Audit Plan.

The internal audit resources required to undertake each proposed audit review, based on the suggested scope of each review, will be estimated and a final plan developed ensuring that, at a minimum, all high risk reviews are included.

Table 1 below shows the draft internal audit plan 2015/16 and includes:

- the type of review to be undertaken - Reliance/Assurance Reviews
  - Professional Advice - New /Developing Areas
  - Fraud Risk/Fraud Prevention – reviews of controls in place to prevent fraud
  - IT Reviews
  - Corporate Risk Based Reviews
  - Directorate Risk Based Reviews
  - Schools Reviews
  - Support, Advice & Follow-up

- the main driver for each review - KEY: IA - Internal Audit; EA - External Audit; CGG - Corporate Governance Group; CP - Corporate Priority; CR - Corporate Risk; M - Management and F - Finance; PPP – Protecting the Public Purse 2013; CAFT – Corporate Anti-fraud Team

- a summary of the proposed audit coverage – this will be refined before the start of each review

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**Table 1 – Draft Internal Audit Plan 2015/16**

| Draft Plan 2014/15 | Main driver | Reasoning for inclusion/risks | Proposed Audit Coverage |
|---|---|---|---|
| | | **Reliance/Assurance Reviews** | |
| Housing Rents | IA/EA | Three year cyclical plan agreed with External Auditors | Key Control Review, Walkthrough Test, Update of System Notes |
| Corporate Accounts Payable | IA/EA | Three year cyclical plan agreed with External Auditors | Key Control Review, Walkthrough Test, Update of System Notes |
| Corporate Accounts Relievable | IA/EA | Three year cyclical plan agreed with External Auditors | Key Control Review, Walkthrough Test, Update of System Notes |
| Housing Benefit | IA/EA | Three year cyclical plan agreed with External Auditors | Self-Assessment, Walkthrough Test, Update of System Notes |
| Business Rates | IA/EA | Three year cyclical plan agreed with External Auditors | Self-Assessment, Walkthrough Test, Update of System Notes |
| Capital Expenditure | IA/EA | Three year cyclical plan agreed with External Auditors | Self-Assessment, Walkthrough Test, Update of System Notes |
| Payroll | IA/EA | Three year cyclical plan agreed with External Auditors | Self- Assessment, Walkthrough Test, Update of System Notes |
| Treasury | IA/EA | Three year cyclical plan agreed with External Auditors | Self- Assessment, Walkthrough Test, Update of System Notes |
| Council Tax | IA/EA | Three year cyclical plan agreed with External Auditors | Self- Assessment, Walkthrough Test, Update of System Notes |
| | | **Professional Advice - New /Developing Areas** | |
| Information Governance Board (IGB) ongoing | IA/M | IIA on Board | To ensure that the Council has effective polices & management |
| | | **IT Reviews** | |
| Northgate Housing Repairs – Application Review | IA/F | Key system in Housing- Draft Plan 2013/14 & 2014/15 | Covering access controls, data entry, processing, output, interfaces, back-up and recovery |
| Council Tax Discounts & Exemptions | M | Risk of Incorrectly set parameters leading to income loss - Draft Plan 2013/14 & 2014/15 | Checking that system parameters are consistent with executive decisions |
| Public Health IT Compliance c/f 14/15 | IA/M | Unable to obtain adequate assurance during 2014/15 | Ensuring compliance with IT requirements (PSN) |
| Cloud Based systems – VERTO/ Occupational Health | M | Internet hosted systems - Draft Plan 2013/14 & 2014/15 | Access security, data recovery |
| IT Change Management | IA/F/CR | IA suggestion/S151 request following Payroll error 2013/14 – unable to | Review of system in place to manage IT change |

| | | | |
|---|---|---|---|
| SAP | IA | undertake 2014/15 due to issues with IT contractor<br>Not reviewed since introduced in 2006 | Targeted review of parameters |
| **Fraud Risk/Fraud Prevention** | | | |
| Purchase Invoice Fraud | PPP/CP | High risk across local authorities - Draft Plan 2013/14 & 2014/15 | A review of a sample of purchase invoices across the council to ensure that payment is only being made on bonafide invoices |
| Mandate Fraud Risk | PPP/CP | High risk across local authorities/redirection of payments intended for legitimate creditors (3 known attempts in recent months) - Draft Plan 2013/14 & 2014/15 | A review of controls in place to prevent fraud |
| Tenancy Changes | F | Fraud Risk | To ensure appropriate check undertaken when there is a change of tenancy |
| Help2Let | M | Recent fraud led to request from management to review system | Risk based systems review |
| **Corporate Risk Based/Governance Reviews** | | | |
| Debt Management | IA/F/M | Inconsistency of approach across Council leading to loss - Draft Plan 2013/14 & 2014/15 | To ensure that a joined up corporate approach is taken to debt management |
| Cabinet Decisions | IA | Decisions being made are becoming more sensitive and coming under closer public scrutiny | A review of the quality/robustness of information supplied in Cabinet reports to support key recommendations and ensure sound decisions |
| Appraisal System | IA | New process | Review of new system |
| CIPFA Fraud Code | IA/CAFT | New requirements impacting across the organisation with implications for Management, CAFT, Internal Audit and Risk Management | Input to the planning and implementation of the CIPFA Fraud Code |
| Corporate Governance | IA/CCG | Requirement under the Accounts & Audit Regulations 2011 | Co-ordination of the annual governance review, drafting of AGS |
| Management Assurance | IA/CCG | Requirement of the governance framework | Co-ordination of the annual management assurance exercise |
| Risk Management | IA | Internal Audit now responsible for co-ordination of the Corporate Risk Register | Co-ordination and update of Corporate Risk Register |
| Compliance Testing | M | To provide assurance on compliance with key policies/procedures | To be determined in consultation with management e.g. Travel Expenses; Allowances. CPRs |
| **Directorate Risk Based Reviews**<br>**Resources** | | | |
| E-invoicing | IA | New process | Post implementation review |
| Council Tax Base | M | Management request, high risk if | Audit check of basis and calculation |

| | | | |
|---|---|---|---|
| | | incorrect never been checked by IA | |
| Legal Services Company | M | New company & shared service set up to provide legal service | Review of governance, income and accounting arrangements |
| Pertemps Contract | IA | Large contract, consolidated PO, goods receipted by procurement | Contract Management |
| Blocked Invoices | IA | Too many | Identification/elimination of causes |
| Schools Formula Funding | IA | Large budget | Verification review |
| Casual Workforce | M | 'As and When' staff can gain employment rights unintentionally | Review of the use of 'As and When' staff and managers awareness of employment rights |
| HR Self-service | M | Potential risks around changes to payment details | Review of the controls in place to ensure changes to payment details are not open to fraud and error |
| **Community, Health & Wellbeing** | | | |
| Personal Budgets Monitoring (non MyCep) | IA | Previous IA work has highlighted this as a high risk area | To ensure adequate monitoring is taking place |
| MyCep - PayPal, Claw Back of Surpluses | M | My Community E Purse needs to be fit for purpose for commercialisation | To ensure adequacy, application and effectiveness of controls in place |
| Health Integration Section 75 | M | Concerns around Health (NHS) meeting performance targets linked to reduction in hospital admissions within the Better Care Fund | Reporting and governance arrangements to ensure no impact on local authority hosted pooled budget |
| Rent Refunds | F | Covers HB adjustments & end of tenancy refunds - Draft Plan 14/15 | Check of reasoning, accuracy and authorisation |
| Fixed Assets | F | Changes made due to Right to Buy sales, garage demolitions, change of use and new build housing | Ensure records on Northgate (Dwellings & Garages) and on SAP (Shops & Community Halls) are up to date and accurate |
| Homelessness Data on Northgate | F | Migration of Information | Information Security, data quality, information sharing |
| Programme/Project Assurance | IA | Risk to the achievement of objectives if key projects are not successful | Assurance on the timeliness, cost and quality of key projects |
| Community & Leisure – Libraries Contract (Carillion) | F | Draft plan 2014/15 £2.2m contract | Contract/performance management in light of proposed savings |
| Public Health Procurement | M/F | A number of contracts recently re-let/ due to re-let | Review of the procurement process and compliance with CPRs |
| **Children & Families** | | | |
| Schools | IA/M/F | A three year programme of school reviews to provide assurance on governance and control | Thematic Reviews covering HR Policies & Procedures; Procurement; Tenant Responsibilities + possibly others yet to be agreed + specific broader governance & control reviews as agreed (e.g. Whitchurch after amalgamation) |
| Families First (Troubled Families Grant) | F/CR | Grant funding arrangements and responsibilities. | Grant certification required |

| Item | Code | Description | Purpose |
|---|---|---|---|
| Cash Payments | F/CR | Difficulties identified with methods of payment for emergencies - Draft Plan 2014/15 | Review of cash payments made to identify alternative suitable methods where possible |
| SNT | F/CR | Frequent changes in suppliers - Draft Plan 14/15 | Contract Management Review – quality/procurement/savings |
| Schools Expansion Programme Phase 3 | IA/CR | Major project | Programme Management Assurance |
| Nursery Education Grant | F/CR | Grant to 3-4 year olds + selective 2 year olds £10m – Concern that process not sound | Review of process |
| Harrow School Improvement Partnership (HISP) | M/F/CR | An informal partnership between Harrow schools and the LA where the staff are directly employed by the LA | Review of financial arrangement & processes |
| Headteachers' Remuneration | M | Issues picked up during 2014/15 | Review of Headteachers' Remuneration across the borough |
| **Environment & Enterprise** | | | |
| Trading Standards - Income | F | Long standing arrangement with Brent, concerns that income provided is not supported – Draft Plan 2014/15 | Income review |
| Tree Contract | F | New Contract | Contract/Performance Management |
| Programme/Project Assurance | IA | Risk to the achievement of objectives if key projects are not successful | Assurance on the timeliness, cost and quality of key projects |
| Trade Waste | CAFT/F/IA | CAFT work undertaken 2012/13 + management review 2014/15 - Draft Plan 14/15 | Assurance re progress made to improve processes and reduce fraud risk |
| Facilities Management Contracts | F | New contracts covering Building maintenance, Cleaning & Security | Contract Management Review |
| Income Maximisation | F | Issue identified in 2014/15 indicates not all income may be being collected | Compliance check on billing for services and income collection |
| On the spot fines | F | New process | System review |
| Grants | F | Significant increase in grants | Compliance check on grant conditions |
| **Support, Advice & Follow-up** | | | |
| Suspected Financial Irregularities + Control Reviews | IA/M | Internal Audit required to maintain overview of SFIs and provide support to managers | Support & guidance to managers on investigations |
| Professional Advice | IA/M | Enables audit team to provide advice to managers on control and risk management on areas not specifically covered by plan | Advice on risk mitigation & control |
| Follow-up | IA | Provides assurance on the implementation of audit recommendations | Follow-up of Red, Red/Amber & Amber reports |

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|---|---|---|---|
| Liaison with External Audit | IA | Supply of information to EA to support their work for the Authority | On-going liaison throughout the year |
| Audit Management | IA | Necessary | Planning, GARM reporting etc. |

**Susan Dixson**
**12[h] March 2015**

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By virtue of paragraph(s) 7 of Part 1 of Schedule 12A
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