

Governance, Audit, Risk Management and Standards Committee **AGENDA**

DATE: Tuesday 6 December 2016

TIME: 7.30 pm

VENUE: Committee Room 5,
Harrow Civic Centre

MEMBERSHIP (Quorum 3)

Chair: Councillor Antonio Weiss

Councillors:

Ghazanfar Ali
Mrs Chika Amadi
Margaret Davine

Barry Macleod-Cullinane (VC)
Amir Moshenson
Bharat Thakker

Reserve Members:

- | | |
|---------------------------|------------------|
| 1. Barry Kendler | 1. Kanti Rabadia |
| 2. Kairul Kareema Marikar | 2. Pritesh Patel |
| 3. Jeff Anderson | 3. Chris Mote |
| 4. Nitin Parekh | |

Contact: Frankie Belloli, Senior Democratic Services Officer
Tel: 020 8424 1263 E-mail: frankie.belloli@harrow.gov.uk

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 whole 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 - 10)

That the minutes of the meeting held on 8 September 2016 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, Thursday 1 December 2016. 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. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY: MID-YEAR REVIEW 2016-17 (Pages 11 - 28)

Report of the Director of Finance

9. INFORMATION REPORT - REPORT DETAILING THE REVIEW OF THE CORPORATE ANTI-FRAUD AND CORRUPTION STRATEGY (Pages 29 - 56)

Report of the Corporate Director of Resources and Commercial

10. INFORMATION REPORT- ANNUAL AUDIT LETTER 2015/16 (Pages 57 - 70)

Report of the Director of Finance

11. INFORMATION REPORT - CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS (Pages 71 - 100)

Report of the Director of Finance

12. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

13. EXCLUSION OF PRESS AND PUBLIC

To resolve that the press and public be excluded from the meeting for the following items 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:

<u>Agenda Item No</u>	<u>Title</u>	<u>Description of Exempt Information</u>
14.	Information Report – Corporate Risk Register: Quarter 2, 2016/17	Information under paragraph 1 (contains information relating to any individuals).
15.	Information Report – Internal Audit/ Corporate Anti-Fraud Team Update: Oral Report	Information under paragraphs 1 (contains information relating to any individuals) and 3 (information relating to financial and business affairs of any particular person (including the authority holding that information)).

AGENDA - PART II

14. INFORMATION REPORT - CORPORATE RISK REGISTER: QUARTER 2, 2016/17 (Pages 101 - 134)

Report of the Corporate Director of Resources and Commercial

15. INFORMATION REPORT - INTERNAL AUDIT/CORPORATE ANTI-FRAUD TEAM UPDATE: ORAL REPORT

Report of the Corporate Director of Resources and Commercial

*** 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

8 SEPTEMBER 2016

Chair: * Councillor Antonio Weiss

Councillors: * Ghazanfar Ali * Barry Macleod-Cullinane
* Mrs Chika Amadi * Amir Moshenson
* Barry Kendler (1) * Kanti Rabadia (1)

* Denotes Member present
(1) Denotes category of Reserve Members

139. Attendance by Reserve Members

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

Ordinary Member

Councillor Margaret Davine
Councillor Bharat Thakker

Reserve Member

Councillor Barry Kendler
Councillor Kanti Rabadia

140. Declarations of Interest

RESOLVED: To note that the following interests were declared:

Agenda Item 8 – Statement of Accounts 2015/16

Councillor Barry Macleod-Cullinane declared a non pecuniary interest in that by virtue of his previous employment at London Councils' Ltd he was a member of the Local Government Pension Scheme. Further he was on the

Resources Board of the Local Government Association. He would remain in the room whilst the matter was considered and voted upon.

Councillor Kanti Rabadia declared a non pecuniary interest in that he was a member of the Local Government Pension Scheme. He would remain in the room whilst the matter was considered and voted upon.

141. Minutes

RESOLVED: That the minutes of the meeting held on 19 July 2016 be taken as read and signed as a correct record.

142. Public Questions

RESOLVED: To note that no public questions were received.

143. Petitions

RESOLVED: To note that no petitions had been received.

144. Deputations

RESOLVED: To note that no deputations were received at the meeting under the provisions of Committee Procedure Rule 16.

145. References from Council and other Committees/Panels

RESOLVED: To note that no references were received.

RESOLVED ITEMS

146. Statement of Accounts 2015-16

Members received a report which presented the audited Statement of Accounts for 2015-16 and welcomed the Auditors, Andrew Sayers and Emma Larcombe, KPMG, to the meeting.

The Auditor reported that the Accounts would be unqualified as would the Pension Fund Statement of Accounts. Audit adjustments had been included in the report and he asked Members to confirm their agreement to the adjustments to the Accounts. The Auditor advised that although a number of recommendations had been made this was not unusual when there was a change in auditor. Overall it had been a smooth audit and the Council's finance team had been responsive to requests for information and he had no concerns.

In welcoming the narrative in terms of the Medium Term Financial Strategy and the savings target, a Member questioned the robustness of the planned income generation. The Auditor advised that whilst savings and commercialisation plans were considered he could not comment as to whether these would work or had substance. There was, however,

recognition from the Executive that not all of the plans may be achievable and, if one off actions had been identified to cover in year, such actions should not be lost as potential additional savings in future years. There would need to be close monitoring and scrutiny.

A Member questioned the reported deficiencies in relation to journal transfers and was advised that authorisations had not been carried out by the appropriate officer. Further, once authorised there was no one overseeing the inputs team and although there were no concerns when the checks were carried out, the Auditor had recommended sample checks.

In terms of the materiality of asset qualification, the Auditor advised that those over £300,000 would be reported. Two items had been omitted from the fixed assets valuation review but this had been due to an oversight.

A Member asked a series of questions which were responded to as follows:

- the savings target was £53m over 3 years but had subsequently been revised to include an additional year which had resulted in a savings target of £83m;
- there were no errors found during the substantive testing of the Housing Revenue Account;
- the Auditors had considered the asset valuations carried out by experts in their field. The Auditors had been satisfied that there had been an oversight following conversations with their valuers and the issue had related to the Service Level Agreement in that it had not been signed;
- the Auditor indicated that if Members had concerns in relation to the lack of inclusion of certain related parties to advise him accordingly;
- Members would be provided with the criteria for disclosure;
- the Auditor had made a recommendation in terms of the requirement for the Pension Fund to have a dedicated bank account as there were some concerns as to this money flowing through the Authority's bank account. The Auditor indicated that he would encourage that this be kept under review particularly if the SAP system was reviewed.

In response to a Member's comments in relation to the policy context the Council was operating, the Auditor commented that all authorities had challenging savings targets and had a large number of initiatives which might succeed or fail. These initiatives would be monitored. He acknowledged the Member's comment that there were inevitably risks associated with being entrepreneurial as managers were not trained to be commercial and that a different skills set was required.

A Member expressed the view that valuation of the Council's stock was not carried out correctly and that certain assets had been incorrectly disposed of. The Auditor advised that the process for the disposal of fixed assets were

considered and testing carried out. Valuers have considered the stock condition.

The Auditor stated that it was not his role to advise on the correct level of reserves and that the comments in the report related to looking at the level compared to other London Boroughs. He undertook to provide Members the median level of reserves.

The Chair thanked the Auditors for their attendance and responses and the finance team for their work in assisting the Auditor.

RESOLVED: That

- (1) the reports of the External Auditor on matters arising from the Statement of Accounts 2015-16 and the Pension Fund Annual Report 2015-16 be noted;
- (2) the audited Statement of Accounts 2015-16 be approved and the Pension Fund Annual Report 2015-16 be noted and the signing thereof by the Chair of the Committee be authorised;
- (3) the Director of Finance be authorised, following consultation with the Chair of the Committee, to make any amendments to the Accounts and Pension Fund Annual Report arising from the external audit prior to the signing of the accounts by the Auditor; and
- (4) the summary Statement of Accounts 2015-16 be noted.

147. Information Report - Treasury Management - Prudential Indicators

Members received a report which had been prepared in response to a request at the last meeting of the Committee. The report expanded on the information previously provided in respect of borrowing, the capital programme and prudential indicators.

Members welcomed the report, its clarity and acknowledged the work that had gone into its preparation. One Member stated that it would have been useful, in terms of Regeneration, to also include the 3 years following 2018/19 and also the effect of Council Tax. He also questioned the proportion of Council Tax being allocated to debt repayment.

The Director of Finance undertook to include a further 3 years in the projections as well as the cumulative effect of Council Tax for future reports and to also circulate an updated document following the meeting. Further, in response to a question as to whether the capital receipts assumptions in terms of the Regeneration Programme had been reviewed post Brexit, the Director advised that the figures were reviewed on an ongoing basis but that she would circulate an update on the figure reported to Cabinet and included in this report to Members.

RESOLVED: That the report be noted.

148. Annual Governance Statement 2015/16

The Committee received a report which set out the Council's Annual Governance Statement (AGS) for 2015/16 and the Head of Internal Audit's opinion.

The Head of Internal Audit introduced the report and advised that she assessed the adequacy and effectiveness of the organisation's control environment for the 2015/16 financial year to be "good".

In response to a Member's concerns about the context in which the AGS had been prepared in terms of the financial environment, the changing demographics of the borough and the resultant risks to the Authority, the Head of Internal Audit advised that such issues would be addressed in the Corporate Risk Register. There was ongoing dialogue with senior managers in order to identify risks and Members of the Committee could raise any concerns at the meeting.

A Member questioned the overlap of duties in terms of Scrutiny and Audit and was advised that the CIPFA requirement was that the Audit Committee should be independent of both the Executive and Scrutiny. The Head of Internal Audit advised that she had agreed with the Leader that the aim should be to have no more than 50% overlap of Scrutiny and Audit Committee members. As the overlap was currently 71%, the Audit Committee was not independent of the scrutiny function but she did acknowledge that there could be some benefits to this overlap. The Member suggested that this issue be discussed on a cross party basis.

RESOLVED: That

- (1) the Annual Governance Statement for 2015/16 be approved;
 - (2) the Head of Internal Audit's Overall Opinion for 2015/16 be noted.
- (Note: The meeting, having commenced at 7.30 pm, closed at 9.07 pm).

(Signed) COUNCILLOR ANTONIO WEISS
Chair

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**REPORT FOR: GOVERNANCE, AUDIT,
RISK MANAGEMENT
AND STANDARDS
COMMITTEE**

Date of Meeting:	6 December 2016
Subject:	Treasury Management Strategy Statement and Annual Investment Strategy: Mid-year Review 2016-17
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosure:	Appendix A – Economic and Interest Rates Update

Section 1 – Summary and Recommendations

Summary

This report sets out the mid-year review of treasury management activities for 2016-17 and discusses the possibility of seeking increased returns via a peer-to-peer lending platform.

Recommendation

The Committee is asked to review the Treasury Management Mid-Year review for 2016-17 and provide comments for consideration by Cabinet at their meeting on 8 December.

Reasons

- (a) To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003, other relevant guidance and the Council's Financial Regulations.
- (b) To keep Members informed of Treasury Management activities and performance.

Section 2 – Report

Introduction

1. This report deals with treasury management activity which plays a significant part in supporting the delivery of all the Council's corporate priorities.
2. Cabinet will be considering this report at their meeting on 8 December and the views of the Committee will be passed on to them.

Background

3. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines Treasury Management as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The Council has adopted this definition.

4. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.
5. The first main function of the Treasury Management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. In line with the Treasury Management Strategy Statement surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
6. The second main function of the Treasury Management service is the funding of the Council's capital programme. This programme provides a guide to the borrowing need of the Council, essentially the longer term cashflow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.
7. The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' "The Prudential Code for Capital Finance in Local Authorities (2011 Edition)" [The Prudential Code] and the Treasury Management Code to set Treasury and Prudential Indicators for the next three years to ensure that the Council's capital investment programme is affordable, prudent and sustainable.
8. The CIPFA Treasury Management Code has been adopted by the Council.
9. The primary requirements of the Treasury Management Code are as follows:
 - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 - Receipt by the full Council or Cabinet of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
 - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 - Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body. For this Council the delegated body is Governance, Audit, Risk Management and Standards Committee.

10. The purpose of this report is specifically to meet one of the above requirements, namely the mid-year report of Treasury Management activities for financial year 2016/17. The report details progress during the year against the Strategy approved by Council on 25 February 2016. The report covers the following:

- Treasury position as at 30 September 2016 including investment portfolio and borrowing portfolio (paragraphs 11-23);
- Economic and interest rates update (paragraph 24 and Appendix A);
- Compliance with Prudential Indicators (paragraphs 25-34);
- Local HRA indicators (paragraphs 35-36)
- Additional investment opportunities (paragraphs 37-43)

Treasury Position as at 30 September 2016

11. The Council's borrowings and investment (cash balances) position as at 30 September 2016 is detailed below:

Table 1: Outstanding Investments and Borrowings

	As at 30 September 2016			As at 31 March 2016		
	Principal £m	Average Rate %	Average Life	Principal £m	Average Rate %	Average Life
Total Investments	77.9	0.73	37 days	76.2	0.87	74 days
Total Borrowing						
Public Works Loan Board	218.5	4.09	34.7 yrs	218.5	4.09	35.2 yrs
Market Loans	115.8	4.53	35.5 yrs	115.8	4.53	36.0 yrs
Total	334.3	4.24	35.0 yrs	334.3	4.24	35.5 yrs

The above analysis assumes loans structured as Lender Option, Borrower Option loans (LOBOs) mature at the end of the contractual period. If the first date at which the lender can reset interest rates is used as the maturity date, the average life for market loans would be 7.7 years and, for the whole debt portfolio, 25.3 years. LOBOs are discussed further in paragraph 20.

Review of Investment Portfolio

12. The Council remains a cautious investor placing security and liquidity considerations ahead of income generation. With Bank Rate having started the year at 0.5% and being cut to 0.25% on 4 August it is impossible, at comparable risk levels, to invest at interest rates commonly seen in previous decades. During the first half of the year the rate on offer for instant access investments has been 0.25% (RBS), for investments of three months with Lloyds plc in the range of 0.50% to 0.65% and for investments of over one year periods just over 1%. With balances reducing and the demands of the capital programme it has not been appropriate to

commit investments to periods beyond three months with a consequent effect on rates realised. Additionally, the maturity of some relatively high-earning investments has had the effect of reducing both the average interest rate being received and the average life of the investments.

13. The Council held £77.9m of investments as at 30 September 2016 compared with £76.2m at 31 March 2016. However they have fallen by over £20m since the end of May when they were at their high point in the year and are now at their lowest mid-year level for at least five years. The investment portfolio yield for the first six months of the year is 0.73% against the three months LIBOR of 0.38%. The reduction in investments is due primarily to the investments in the capital programme. The Council's investment income budget is £1.8m and the forecast outturn is an unfavourable balance of £0.4m due to the reduction in the cash balances.
14. The only counterparties actively in use during the period have been Lloyds, Royal Bank of Scotland Group and Svenska Handelsbanken.
15. The performance of the investment portfolio is benchmarked on a quarterly basis by the Treasury Management Adviser both against their risk adjusted model and the returns from other local authorities. As at 30 September 2016, the average yield on the portfolio of 0.73% was in line with the model return and was in the top third of all local authorities.
16. In addition to the investment of cash balances, the Council, at its meeting in July 2013, approved a loan of £15m to West London Waste Authority to help finance the cost of a new energy from waste plant. The term of the loan is 25 years at an interest rate of 7.604% on a reducing balance. The drawdown as at September 2016 is £13.7m and the remaining facility of £1.3m is predicted to be drawn by December 2016. For the financial year 2016/17, the outturn forecast on the interest accrued is £1.1m which is included as part of the investment income budget of £1.8m.
17. The table below sets out the counterparty position as at 30 September 2016.

Table 2: Investment Balances

	2015/16				2016/17	
	Sep-15		Mar-16		Sep-16	
	£m	%	£m	%	£m	%
Specified Investments						
Banks & Building Societies	14.3	13.1	19.7	25.9	14.8	19.0
Money Market Funds	1.6	1.5	1.6	2.1	1.6	2.0
Non –Specified Investments						
Banks & Building Societies	93.1	85.3	54.8	71.9	61.3	78.8
Enhanced Money Market Funds	0.1	0.1	0.1	0.1	0.2	0.2
Total	109.1	100.0	76.2	100.0	77.9	100.0

18. At its meeting in November 2014 the Council approved HB Public Law Ltd. which is wholly owned by the Council to be added to the counterparty list. The Council has approved a start-up loan of £100,000 for three years. To date there has been a drawdown of £40,000 in April 2015. The Council has approved a start-up loan of £274,000 for three years to Concilium Business Services limited which is wholly owned by the Council. To date there have been drawdowns totalling £120,000.

Review of Borrowing Portfolio

19. At 30 September 2016 the Council held £334.3m of external borrowing which was unchanged from the position at 31 March 2016. It is currently expected that borrowing of £30m will be required before the end of the financial year.

20. Within this total is a sum of £83.8m borrowed during the period December 2007 to May 2010 under LOBO structures with maturities between 2050 and 2078. In exchange for an interest rate that was below that offered on long term debt by the PWLB, the lender has the option at the end of five years (and yearly or half yearly thereafter) to reset the interest rate. If the rate of interest changes, the Council is permitted to repay the loan at no additional cost. One of the loans arranged was with Barclays Bank plc in the sum of £13m at an interest rate of 3.99% with a maturity date of 2078. On 22 June 2016 Barclays advised that they intended to forgo their option to change the interest rate for the remainder of the loan period. In future analysis of outstanding debt, including table 1 above and 3 below, this borrowing will be analysed as a fixed term loan at a fixed rate.

21. The table below analyses the maturity profile of borrowing.

Table 3: Borrowing Maturity Profile

Maturity structure of borrowing	upper limit	lower limit	LOBO final maturity		LOBO interest reset date	
	%	%	£m	%	£m	%
under 12 months	30	0	10.0	3.0	80.8	24.2
12 months and within 24 mths	20	0	0.0	0.0	0.0	0.0
24 months and within 5 years	30	0	22.0	6.6	22.0	6.6
5 years and within 10 years	40	0	5.0	1.5	5.0	1.5
10 years and above	90	30	297.3	88.9	226.5	67.7
Total			334.3	100.0	334.3	100.0

22. The average borrowing rate is 4.24% and the forecast outturn on borrowing cost is £0.1m above the budget of £7.8m.

23. Debt rescheduling opportunities have been very limited in the current economic climate given the structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. A detailed review of the possibilities for rescheduling was discussed with the Treasury Management Adviser in January 2016y who advised that in a period of such low interest rates there are no financial advantages available which could be recommended for acceptance. Hence, no debt rescheduling was undertaken during the first six months of the year.

Economic and Interest Rates Updates

24. An economic update for the first part of the 2016/17 financial year along with the interest rate forecast and commentary provided by Capita as at 30th September 2016 is included as Appendix A.

Compliance with Prudential Indicators

Capital Expenditure and Funding

25. The Council's capital expenditure programme is the key driver of Treasury Management activity. The output of the capital expenditure programme is reflected in the statutory prudential indicators, which are designed to assist Members' overview and confirm the capital expenditure programme. The table below summarises the capital expenditure and funding for the current financial year and gives an indication of future levels of investment.

Table 4: Capital Expenditure

	2015/16	2016/17	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Forecast	Forecast	Forecast	Forecast
	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure						
Non - HRA	79,623	82,425	84,423	19,200	25,107	12,783
HRA	13,554	25,550	17,399	25,486	11,013	8,639
Regeneration	0	25,480	10,871	83,770	114,450	110,220
TOTAL	93,177	133,455	112,693	128,456	150,570	131,642
Funding:-						
Grants	22,967	25,759	25,379	530	530	530
Capital receipts	30,472	10,398	0	12,651	1,960	36,301
Revenue financing	9,679	9,987	12,089	11,354	8,753	6,842
Section 106 / Section 20	1458	1,565	448	1,481	250	70
TOTAL	64,576	47,709	37,916	26,016	11,493	43,743
Net financing need for the year	28,601	85,746	74,777	102,440	139,077	87,899

26. The increase in the expenditure on the capital programme is due primarily to the carry forward of slippage from 2015/16. This has an impact on the annual change in capital financing requirement and net borrowing requirement as detailed in tables below.

Capital Financing Requirement (CFR)

27. The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any new capital expenditure, which has not immediately been paid for, will increase the CFR.

Table 5: Capital Financing Requirement

	2015/16	2016/17	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Forecast	Forecast	Forecast	Forecast
	£'000	£'000	£'000	£'000	£'000	£'000
CFR as at 31 March						
Non – HRA	268,264	356,142	323,761	412,201	537,278	611,177
HRA	149,477	154,783	154,783	154,783	154,783	154,783
TOTAL	417,741	510,925	478,544	566,984	692,061	765,960
Annual change in CFR						
Non – HRA	13,393	87,878	55,497	88,440	125,077	73,899
HRA	30	5,306	5,306	-	-	-
TOTAL	13,363	93,184	60,803	88,440	125,077	73,899

28. Debt outstanding, including that arising from PFI and leasing schemes, should not normally exceed the CFR. As the Council has funded a substantial amount of capital expenditure from revenue resources, as shown in Table 6 below, current forecast gross debt of £364m is well below the CFR of £479m.

Table 6: Changes to Gross Debt

	2015/16	2016/17	2016/17
	Actual	Estimate	Forecast
	£'000	£'000	£'000
External Debt			
Debt at 1 April	334,434	359,466	334,434
Expected change in Debt	-	85,715	30,000
Other long-term liabilities (OLTL) 1st April	18,075	17,733	17,032
Expected change in OLTL	- 1,043	- 826	- 800
Actual gross debt at 31 march	351,466	462,088	380,666
Capital financing requirement	417,741	510,925	478,544
Under / (Over) borrowing	66,275	48,837	97,878

29. The table below shows the net borrowing after investment balances are taken into account.

Table 7: Net Borrowing

Net Borrowing	2015/16	2016/17	2016/17
	Actual	Estimate	Forecast
	£'000	£'000	£'000
Brought forward 1 April	215,356	258,201	258,201
Carried forward 31 March	258,201	385,181	334,434
Change in net borrowing	42,845	126,980	76,233

The estimated net borrowing at 31 March 2017 of £334.4m is made up of outstanding borrowing of £364.4m (including an additional £30m likely to be borrowed during the financial year) partly offset by estimated investment balances of £30.0m.

Operational Boundary and Authorised Limit

30. Operational Boundary – This limit is based on the Council’s programme for capital expenditure, capital financing requirement and cash flow requirements for the year.
31. Authorised Limit – This represents a limit beyond which external debt is prohibited. The Council’s policy is to set this rate at the Capital Financing Requirement. The Government retains an option to control either the total of all councils’ programmes, or those of a specific council, although this power has not yet been exercised.

Table 8: Boundaries

	2015/16	2016/17	2016/17
		Original	Revised
	£m	£m	£m
Authorised Limit for external debt			
Borrowing and finance leases	416	511	479
Operational Boundary for external debt			
Borrowing	340	445	364
Other long term liabilities	19	17	16
Total	359	462	381
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing	340	445	364
Upper limit for variable rate exposure			
Net principal re variable rate borrowing	-	-	-
Upper limit for principal sums invested over 364 days*	41	60	60

Affordability Indicators

32. Ratio of Financing Costs to Net Revenue Streams – This indicator identifies the trend in the cost of capital (borrowing, depreciation, impairment and other long term obligation costs net of investment income) against the net revenue stream. Tables 9 and 10 below show the current position for the General Fund and HRA respectively.

Table 9: Ratio of Financing Costs to Net Revenue Stream – General Fund

	2015/16	2016/17	2016/17
	Actual	Estimate	Forecast Outturn
Net revenue stream (£'000)	167,491	165,754	173,392
Interest costs (£'000)	7,866	8,378	7,910
Interest costs - finance leases (£'000)	1,766	2,100	2,100
Interest and investment income (£'000)	-1,817	-1,509	-1,332
MRP (£'000)	15,326	13,000	14,000
Total financing costs (£'000)	23,141	21,969	22,678
Ratio of total financing costs against net revenue stream (%)	13.8	13.3	13.1

The ratio shows a small reduction between 2015-16 and 2016-17 which suggests that the capital programme remains affordable.

Table 10: Ratio of Financing Costs to Gross Revenue Stream - HRA

	2015/16	2016/17	2016/17
	Actual	Estimate	Forecast Outturn
Gross revenue stream (£'000)	32,111	32,170	32,164
Interest costs of self-funding borrowing (£'000)	3,078	3,078	3,078
Interest costs of other borrowing (£'000)	3,265	3,411	3,373
Interest and investment income (£'000)	-156	-147	-147
Depreciation (£'000)	7,789	6,573	6,573
Impairment (£'000)	177	0	0
Total financing costs (£'000)	14,153	12,915	12,877
Ratio of total financing costs against net revenue stream (%)	44.1	40.1	40.0
Ratio of total financing costs (excluding depreciation and impairment) against net revenue stream (%)	19.3	19.7	19.6

33. Incremental impact of Capital Investment Decisions on Council Tax and Housing Rents – This indicator identifies the revenue costs associated with proposed changes to the capital programme and the impact on Council Tax and Housing Rents.

34. The tables below identify the revenue costs associated with the proposed capital programme and the impact on Council Tax and housing rents.

Table 11: Incremental Impact of Capital Investment Decisions – Council Tax

	2015/16	2016/17	2016/17
	Actual	Estimate	Forecast Outturn
Net financing need (£'000)	28,601	85,746	74,776
Borrowing at 25-50 years PWLB rate (£'000)	930	1,886	1,645
MRP (2%) (£'000)	572	1,715	1,496
Total increased costs (£'000)	1,502	3,601	3,141
CTax base (£'000)	79,795	82,000	82,000
% increase	1.9	4.4	3.8
Band D Council Tax	1,529	1,560	1,560
Overall increase £ pa	28.77	68.51	59.75

Table 12: Incremental Impact of Capital Investment Decisions – Housing Rents

	2015/16	2016/17	2016/17
	Actual	Estimate	Forecast Outturn
Net Financing need (£'000)	-	3,570	5,306
Borrowing @ 2% (25-50years PWLB rate) (£'000)	-	71	106
Depreciation @ 2% (£'000)	-	71	106
Total increased costs	-	143	212
Number of dwellings	4,867	4,816	4,839
Increase in average housing rent per week £	-	0.57	0.84

Local HRA indicators

35. The ratio of gross revenue stream to debt shows a consistent pattern which is affordable by the HRA. As the number of dwellings reduces over the two years, the debt outstanding per dwelling is estimated to increase. However, the annual increases are only marginal and the ratio compared to the average value of each dwelling is low enough for the measure to raise no concern.

Table 13: Local HRA Indicators

	2015/16	2016/17	2016/17
	Actual	Estimate	Forecast Outturn
Debt (CFR) (£m)	149.48	154.78	154.78
Gross Revenue Stream (£m)	32.11	32.17	32.16
Ratio of Gross Revenue Stream to Debt (%)	21	21	21
Average Number of Dwellings	4,867	4,816	4,839
Debt outstanding per dwelling (£)	30,712	32,139	31,987

36. HRA Debt Limit is shown in the table below

Table 14: HRA Debt

	2015/16	2016/17	2016/17
	Actual	Estimate	Forecast Outturn
	£m	£m	£m
HRA Debt Limit	151.34	154.94	154.94
HRA CFR	149.48	154.78	154.78
Headroom	1.86	0.15	0.15

Additional investment opportunities

37. As discussed in paragraph 12 above interest rates available from institutions on the Council's counterparty list and beyond are at historically very low levels and the Council is earning, overall, well under 1% on its cash balances. Advice available to the Council suggests that returns are likely to remain low.
38. Notwithstanding this both officers and Members have expressed concern over the poor rates available and officers keep the counterparty list under review and opportunities to potentially realise better returns are investigated.
39. Regular meetings are held with the Treasury Management Adviser and they are always asked to update officers on investment opportunities which might be available. Vehicles discussed include gilts, European Investment Bank, money market funds, enhanced cash plus funds property funds and covered bonds. The Council has recently agreed to make direct investments of up to £20m in property but the other vehicles do not generally offer returns substantially in excess of those currently achieved.
40. Recently officers have been investigating "peer-to-peer" lending platforms and, in particular Funding Circle, one of the UK's largest such platform. Investment through Funding Circle involves lending to small and medium sized businesses in the UK, US, Germany, Spain and the Netherlands. Its publicity states that, since its founding in 2010, it has lent over £2.5bn to over 20,000 businesses and has received investments from over 54,000 lenders. It is regulated by the Financial Conduct Authority but is not covered by the Financial Services Compensation Scheme.
41. The biggest single investor is the British Business Bank, a development bank wholly owned by the UK Government. Other investors include UK Government Business Finance Partnership, European Investment Bank, several county councils, several London boroughs and several district councils.
42. Funding Circle have advised that after fees and bad debts the average return achieved by investors is 7.1% and opportunities are available to structure investments in accordance with risk appetite.

43. Cabinet will be asked to consider whether officers should investigate “peer-to-peer” investment opportunities further the results of which would be reported as part of the Treasury Management Strategy Statement report to be considered in January/February 2017.

Legal Implications

44. The purpose of this report is to comply with the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and other relevant guidance referred to in the report.

Financial Implications

45. In addition to supporting the Council’s revenue and Capital programmes the Treasury Management net budget of £6.0m (Interest payable £7.8m; Interest receivable £1.8m) discussed in paragraphs 16 and 22 is an important part of the General Fund budget. Any savings achieved, or overspends incurred have a direct impact on the delivery of the budget.

Risk Management Implications

46. The identification, monitoring and control of risk are central to the achievement of the Treasury Management objectives. Potential risks are included in the directorate risk register and are identified, mitigated and monitored in accordance with Treasury Management Practice notes approved by the Treasury Management Group.

Equalities Implications

47. There are no equalities implications arising from this report.

Corporate Priorities

48. This report deals with the Treasury Management activity which plays a significant part in supporting the delivery of all the Council’s corporate priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 15 November 2016		
Name: Caroline Eccles	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 25 November 2016		

Ward Councillors notified:	NO as report impacts on all Wards
EqIA carried out:	NO
EqIA cleared by:	There are no equalities implications arising from this "information" report.

Section 4 - Contact Details and Background Papers

Contact: Ian Talbot (Treasury and Pension Fund Manager)
Tel: 020-8424-1450 / Email: ian.talbot@harrow.gov.uk

Background Papers: None

Provided by Capita Asset Services at 30 September 2016

Economics and interest rates

Economics update

UK. GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

USA. The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

EZ. In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

Interest rate forecasts

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

Capita Asset Services undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later. Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities. However, we have been experiencing exceptional levels of volatility in financial markets which have caused significant swings in PWLB rates. Our PWLB rate forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The overall balance of risks to economic recovery in the UK remains to the downside. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Weak capitalisation of some European banks.
- A resurgence of the Eurozone sovereign debt crisis.
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a further flight to safe havens (bonds).
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

**REPORT FOR: GOVERNANCE, AUDIT,
RISK MANAGEMENT
AND STANDARDS
COMMITTEE**

Date of Meeting:	6 th December 2016
Subject:	INFORMATION REPORT Report detailing the review of the Corporate Anti-Fraud and Corruption Strategy
Responsible Officer:	Tom Whiting – Corporate Director of Resources & Commercial
Exempt:	No
Wards affected:	All wards
Enclosures:	Appendix 1 – Draft Corporate Anti Fraud and Corruption Strategy 2016-2019

Section 1 – Summary

This report details the review the Corporate Anti-Fraud and Corruption Strategy.

FOR INFORMATION

Section 2 – Report

This is an information report and details the review of the Corporate Anti-Fraud and Corruption Strategy

Anti Fraud & Corruption Strategy

2.1 In July 2016 the Committee were informed that following the CIPFA Fraud Code self assessment undertaken by the Corporate Anti Fraud Team and Internal Audit, a number of work streams were identified for implementation to improve how the organisation dealt with fraud and corruption and associated risks and to increase its resilience to fraud. These work streams were:-

- To consider the development of a fraud risk register
- Increase awareness of fraud and corruption affecting the organisation both internally and in the community and to create a tone from the top of the organisation of zero tolerance towards fraud
- A review and refresh of the Corporate Anti-Fraud and Corruption Strategy

2.2 The strategy attached as Appendix 1 aligns to the current Local Government Counter Fraud and Corruption Strategy 2016-2019 and focusses on the three principles of Acknowledge, Prevent and Pursuing fraud and corruption. It also links to the supporting themes of establishing the right culture, ensuring sufficient capability, capacity and competence to deal with fraud, using communications in the right way to raise awareness and lastly increased collaboration with partners when dealing with fraud and corruption.

2.3 It sets out roles and responsibilities within the organisation and an assessment of the ever changing fraud landscape and the authorities' current fraud risks and where information has been drawn from to detail these risks.

2.4 There is a clear emphasis on management being responsible for managing fraud and corruptions risks as they would with any other risks affecting services with support from Corporate Anti Fraud, Internal Audit and Risk Management.

2.5 The aims and objectives and accompanying actions for implementation will provide a solid basis for progress against the strategy in determining its success.

2.6 Progress on strategy implementation will be reported to the Corporate Strategy Board and the Governance, Risk Management and Standards Committee on a periodic basis along with other fraud related outcome activity.

Fraud Risks

2.7 The strategy has been drafted to reflect best practice, considering the national fraud landscape, to localise the fraud risks faced by Harrow Council and to align with the latest Local Government Counter Fraud & Corruption Strategy 2016-2019.

2.8 Acknowledgement and understanding of fraud risks and threats faced by the authority at present and into the future is critical if the organisation is to increase its resilience and protect valuable resources and assets. Fraud affects every business in some way, be it in the public, private or third sector. Harrow Council is not immune to these risks and acknowledging this should be seen as positive action.

2.9 The authority acknowledges fraud risks at present by reflecting on fraud investigation work and Internal Audit work undertaken during the year and from national indicator reports detailing frauds captured in the public sector and by analysing evidence of emerging fraud risks.

2.10 This acknowledgement process will be fine tuned by the establishment of a fraud risk register. Work has commenced on this stream of work through the meetings held with the Directorate Departmental Management Teams in March 2016. This work will be continued and the register established by April 2017 so the authority will be in a stronger position in terms of understanding its fraud and corruption risks moving forward.

2.11 Working with Corporate Anti Fraud, Internal Audit and Risk Management, once established, the risks will be owned and maintained by the Directorates as they currently do with the Corporate and Directorate Risk Registers. This ownership is crucial to the management of fraud risks and the measurement of successful implementation of the strategy.

2.12 Establishing a risk register will also raise awareness of fraud and corruption across the authority.

Fraud Awareness

2.13 Raising awareness of fraud and corruption is an area of significant importance and there is a strong theme running through the strategy both for Members and Senior Managers setting the tone from the top of the organisation and for all employees to accept their responsibilities in being alert to fraud and corruption risks and actual fraud incidents.

2.14 The strategy launch and promotion will in itself raise awareness throughout the organisation.

2.15 There are specific aims and objectives in the strategy to continue building an anti fraud culture and an environment where fraud is not tolerated and reporting fraud is actively encouraged by the organisation.

2.16 It is of equal importance that this strategy and associated counter fraud activity is communicated through fraud awareness campaigns to the community and through working with our partners so that they are

encouraged to report fraud allowing us to investigation allegations appropriately.

Consultation

2.17 In drafting this strategy, consultation has taken place with the following:-

- The Leader of the Council
- The Chief Executive
- The Corporate Director - Resources and Commercial
- The Director of Finance (Section 151 Officer)
- The Finance and Commercialisation Portfolio Holder
- Corporate Strategy Board (CSB)

2.18 Once the Governance, Audit, Risk Management and Standards Committee has had the opportunity to review and comment, the strategy will then proceed to Council for a decision to adopt into the Constitution.

Financial Implications

The financial implications have been shown where appropriate in the report

Risk Management Implications

Raising awareness of fraud and corruption is likely to increase fraud referrals to the Corporate Anti Fraud Team which in turn will increase the risk that existing resources are insufficient to deal with all referrals appropriately. This could lead to both financial and reputational damage.

Equalities implications

None

Council Priorities

Managing the risk of fraud and corruption contributes to all of the corporate priorities by ensuring that limited finances and resources are protected from fraud and support the implementation of the Ambition Plan 2020

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 21 st November 2016.		

Ward Councillors notified:	NO
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Section 4 - Contact Details and Background Papers

Contact: Justin Phillips, Corporate Anti-Fraud Manager

Background Papers: None

If appropriate, does the report include the following considerations?

1.	Consultation	YES
2.	Priorities	YES

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HARROW COUNCIL

**CORPORATE ANTI-FRAUD &
CORRUPTION**

STRATEGY 2016 - 2019

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DRAFT

1.0 Foreword by the Leader of Harrow Council, Cllr Sachin Shah and Chief Executive, Michael Lockwood

Fraud and corruption is a very real threat to the UK economy and Harrow Council is not immune to these risks. In May 2016, the [Annual Fraud Indicator Report 2016](#) was published putting estimated fraud and corruption losses affecting the UK at around £193 billion. Losses in the public sector were estimated to be £37.5 billion. These are significant sums of money that are potentially being taken away from the people that need it most, such as the vulnerable, children and the elderly.

Fraud and corruption not only removes resources but can cause untold social harm to individuals and communities. Harrow Council will not tolerate fraud and corruption and will push for the strongest penalties against those that think it acceptable to commit fraud.

Having recently launched our Ambition Plan 2020, it is vital that we are able to protect our limited resources and assets from fraud and corruption so that they are put to best use and support those with the greatest need. This Council is committed to *Working together to make a difference for Harrow* and in doing so our vision is to:

- **Build a Better Harrow**
- **Be More Business-like and Business Friendly**
- **Protect the Most Vulnerable and Support Families**

Working hand in hand with our vision we have also developed with our employees, values to enable us to achieve the Ambition Plan 2020. These are:-

- **Be courageous**
- **Do It Together**
- **Make it Happen**

We have some tough challenges ahead, in particular the financial pressures that the public sector is facing. The Council has to meet a savings requirement of £53m over the period 2016-17 to 2019-20 (this is in addition to a previous savings target of £31m).¹ We are showing leadership and ambition even in these difficult circumstances. We are continuing to make Harrow a better place to live and do business.

Our regeneration plans will create thousands of much needed affordable and high-quality homes, bring jobs and investments into the Borough, new schools, cleaner and greener neighbourhoods and an improved entertainment, cultural and leisure offer to bring a new buzz to our high streets.

¹ 2015/16 Statement of Accounts

According to [Protecting the English Public Purse 2015](#) Housing Tenancy Fraud is costing the UK economy in the region of £845 million annually so it is vital that we provide assurance that those families occupying our housing stock are the rightful tenants and we take robust action to remove those tenants unlawfully subletting or not occupying as their principle home. Similarly, once we start building affordable homes, we ensure that those that need our help the most are given priority to occupy.

By 2020 Harrow Council will be moving into a new Civic Centre, designed in consultation with residents to be at the heart of the community and Wealdstone, supporting local businesses, local families and turning round an area that has been ignored for far too long.

At all times it is crucial that we ensure public money is properly spent. This is the basis of the trust which our residents place in the Council. As Harrow's largest employer, the Council has a duty to make clear to all members, employees and contractors that malpractice in any form will not be tolerated. The authority needs to demonstrate the highest standards of probity and transparency. All council employees are reminded that it is their duty to report any financial or professional misconduct. The Council has a well established 'whistle blowing' procedure and will always investigate when presented with serious concerns.

Whilst all stakeholders have a part to play in reducing the risk of fraud, Elected Members and Senior Management are ideally positioned to influence the ethical tone of the organisation and play a crucial role in fostering a culture of high ethical standards and integrity.

This Corporate Anti-Fraud & Corruption Strategy sets out the responsibilities and behaviours the Council expects from its employees, members and partners. We urge you to study it carefully and join with us in ensuring Harrow Council retains its good name for corporate governance and fairness.



Cllr Sachin Shah
Leader of the Council



Michael Lockwood
Chief Executive

2.0 INTRODUCTION

This document sets out the Council's strategy in relation to fraud and corruption. It has the full support of, the Corporate Strategy Board, relevant Members including the Governance, Risk Management and Standards Committee (GARMS), the Leader and Portfolio Holder for Finance & Commercialisation.

The Council takes its responsibilities for the stewardship of public finances very seriously and is committed to the highest standards of transparency and accountability in order to ensure appropriate use of public funds and assets. It has a duty to prevent fraud and corruption, whether it is attempted by someone within or outside of the Council such as another organisation, a resident, an employee, contractor or Councillor. The Council is committed to creating and maintaining an effective anti-fraud and corruption culture, by promoting high ethical standards and encouraging the prevention and detection of fraudulent activities.

In all its dealings, the Authority will adhere to the seven principles of public life set out in the Nolan Committee's report on *Standards in Public Life*.

- **Selflessness**

Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their families or their friends.

- **Integrity**

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.

- **Objectivity**

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

- **Accountability**

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

- **Openness**

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands. Openness requires an inclusive approach, an outward focus and a commitment to partnership working.

- **Honesty**

Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

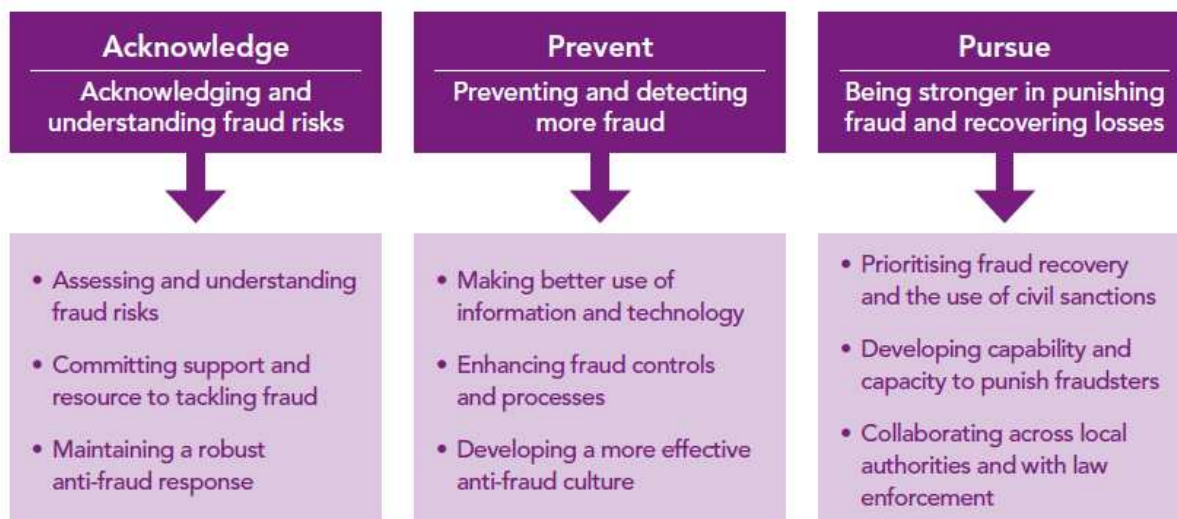
- **Leadership**

Holders of public office should promote and support these principles by leadership and example.

The Council will not tolerate fraud or corruption by its councillors, employees, suppliers, contractors, customers or any other attacks on its resources by criminals and will take all necessary steps to investigate all allegations of fraud or corruption and pursue sanctions available in each case, including removal from office, dismissal, prosecution and robust recovery of losses through both civil and criminal means.

To fulfil the Council's Ambition Plan 2020, the authority has to ensure that fraud, corruption and misappropriation is minimised. Every pound lost to fraud and corruption is a reduction in resources and negatively impacts the authorities' ability to deliver its objectives.

Our strategy is based upon three key principles : Acknowledge, Prevent and Pursue, and aligns with the [Local Government Counter Fraud & Corruption Strategy 2016-2019](#)



Accompanying the three principles are six overarching themes to assist the organisation ensure that our counter fraud response is comprehensive and effective. These are often referred to as the six Cs.

- **Culture** – create a culture in which beating fraud and corruption is part of normal business
- **Capability** – ensuring that the range of counter fraud measures deployed is appropriate to the fraud risks
- **Capacity** – deploying the right level of resources to deal with the level of fraud risk
- **Competence** – having the right skills and standards in place
- **Communication** – raising awareness, deterring fraudsters sharing information and celebrating success
- **Collaboration** – working together across internal and external boundaries with colleagues and other agencies, sharing resources, information skills and learning

2.1 Scope

This strategy applies to:

- All Harrow Council employees (including volunteers and agency staff);
- Councillors;
- Staff and Committee Members of council funded voluntary organisations;
- Harrow Council's partners;
- NHS partners;
- Maintained schools;
- Council suppliers, contractors and consultants;
- Customers

2.2 Roles & Responsibilities

RESPONSIBILITIES STAKEHOLDER	SPECIFIC RESPONSIBILITIES
Chief Executive	Ultimately accountable for the effectiveness of the Council's arrangements for countering fraud and corruption.
Director of Finance (Section 151 Officer)	To ensure the Council has adopted an appropriate anti-fraud strategy, there is an effective internal control environment in place and there is an adequately resourced and effective Internal Audit and Corporate Anti Fraud Service to deliver 'counter-fraud' work.
Monitoring Officer and Director of Legal & Governance Services	To advise Councillors and Officers on ethical issues, standards and powers to ensure that the Council operates within the law and statutory Codes of Practice.

Governance, Audit, Risk Management and Standards Committee (GARMSC)	To monitor on a regular basis the Council's approach to tackling fraud and corruption and promote an anti-fraud culture
Councillors	To comply with the Code of Conduct and related Council policies and procedures, to be aware of the possibility of fraud, corruption and theft, and to report any genuine concerns accordingly.
External Audit	Statutory duty to ensure that the Council has adequate arrangements in place for the prevention and detection of fraud, corruption and theft.
Internal Audit	Internal audit is responsible for evaluating the potential for the occurrence of fraud and how the organisation manages fraud risk ²
Corporate Anti Fraud Team	Responsible for the co-ordination of the authorities anti fraud and corruption strategy, including the measures in place to acknowledge, prevent and pursue fraud and corruption activity. This also includes the a key co-ordination role in the National Fraud Initiative (NFI) which is a fraud prevention and detection exercise based around bulk data matching that is led by the Cabinet Office every two years.
Corporate Directors, Directors, Heads of Service and Service Managers	Manage the risk of fraud and corruption. To promote staff awareness and ensure that all suspected or reported irregularities are immediately referred to Corporate Anti Fraud or Internal Audit. To ensure that there are mechanisms in place within their service areas to assess the risk of fraud, corruption and theft and to reduce these risks by implementing strong internal controls. It is vital that this group show leadership in supporting investigations into fraud and corruption and that they are responsive to implementing actions arising from this work. Their role in the NFI exercise is to provide data for matching and to analyses the outputs form the matching exercise and take appropriate action
Employees	Our employees are the first line of defence against fraud and corruption. They are expected to conduct themselves in ways

² Public Sector Internal Audit Standards

	<p>which are beyond reproach, above suspicion and fully accountable. Also responsible for reporting malpractice through well established 'whistleblowing' procedures. Employees are expected to adhere to the Employee Code of Conduct, Financial Regulations and Contract Procedure Rules</p>
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3.0 DEFINITIONS

What is fraud?

The **Fraud Act 2006** details the legal definitions of fraud, and is used for the criminal prosecution of fraud offences. The Council also deals with fraud in non-criminal disciplinary matters.

For the purposes of this document fraud defined as; the dishonest action designed to facilitate gain (personally or for another) at the expense of the Council, the residents of the Borough or the wider national community.

The definition covers various offences including; deception, forgery, theft, misappropriation, collusion and misrepresentation. Although use in this context is not intended to limit the full use of the Fraud Act 2006 in the investigation and prosecution, by the Council, of any offences.

What is corruption?

Corruption is the offering or acceptance of inducements designed to influence official action or decision making. These inducements can take many forms including cash, holidays, event tickets, meals.

The **Bribery Act 2010** received Royal Assent on 8 April 2010 and reforms the criminal law to provide a new, modern and comprehensive scheme of bribery offences that will enable courts and prosecutors to respond more effectively to bribery at home or abroad.

Further guidance is available from the Ministry of Justice to explain to organisations what action is required to ensure they are compliant.

What is theft?

Theft is stealing any property belonging to the Council or which has been entrusted to it (i.e. client funds), including cash, equipment, vehicles, data.

Theft does not necessarily require fraud to be committed. Theft can also include the stealing of property belonging to our staff or members whilst on Council property.

What is money laundering?

Money laundering is the process by which criminals attempt to 'recycle' the proceeds of their criminal activities in order to conceal its origins and ownership and which leaves them with money that cannot be traced back. All employees are instructed be aware of the increasing possibility of receiving requests that could be used for money laundering and illicit requests for money through e-mails. Detailed guidance is set out in the Council's Money Laundering Policy. Detailed guidance is set out in the Council's Money Laundering Policy.

Any service that receives money from an external person or body is potentially vulnerable to a money laundering operation. The need for vigilance is vital and if there is any suspicion concerning the appropriateness of the transaction then advice must be sought. Officers

should seek the advice from management, Internal Audit or the Corporate Anti Fraud Team. The Council's Money Laundering Reporting Officer (MLRO) is the Director of Finance.

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4.0 AIMS AND OBJECTIVES

The aims and objectives of the Anti-Fraud and Corruption Strategy are to:-

- A.** To protect the Council's valuable resources by ensuring they are not lost through fraud and corruption but are used for improving the delivery of services to Harrow residents through the successful implementation of the Harrow Ambition Plan 2020.
- B.** To gain a better understanding of local fraud and corruption risks impacting on the Council's ability to deliver its objectives.
- C.** Create an 'anti-fraud' culture which highlights the Council's zero tolerance of fraud, corruption and theft, which defines roles and responsibilities and actively engages the public, Councillors and employees, by raising awareness of fraud both internally and externally.
- D.** Actively seeks to increase the Council's resilience to fraud and corruption through the raising of fraud awareness.
- E.** To provide a best practice counter-fraud service which:
 - Proactively deters, prevents and detects fraud, corruption and theft.
 - Investigates suspected or detected fraud, corruption and theft.
 - Enables the Council to apply appropriate sanctions and recover losses.
 - Provides management reports and recommendations to inform policy, systems and control improvements, thereby reducing the Council's exposure to fraudulent activity.
- F.** Create an environment that enables the reporting of any genuine suspicions of fraudulent activity. However, we will not tolerate malicious or vexatious allegations or those motivated by personal gain and, if proven, we may take disciplinary or legal action; and
- G.** Work with our partners and other investigative bodies in collaboration to strengthen and continuously improve our arrangements to prevent fraud and corruption.

5.0 FRAUD RISKS

The Council seeks to fulfil its responsibility to reduce fraud and protect its resources by a strategic approach consistent with that outlined in both CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption and in the Local Government Fraud Strategy – Fighting Fraud Locally, and its three key themes of Acknowledge, Prevent & Pursue. Fraud risks are corporate risks faced by all of our services and, as with other risks, are the responsibility of the Directorates to manage and mitigate. The Corporate Anti Fraud Team and Internal Audit, however, provide advice, knowledge and support to the Directorates in the managements of these risks.

ACKNOWLEDGE	Committing Support	The Council's commitment to tackling fraud threats is clear. We have whistleblowing procedures and support those who come forward to report suspected fraud. All reports will be treated seriously and acted upon. Staff awareness of fraud risks will be gained through e-learning, face to face development sessions, Internal Audit and CAFT reports and general consultation and advice provided.
	Assessing Risks	We will continuously assess those areas most vulnerable to the risk of fraud as part of our risk management arrangements and annually meet with the Directorate Management Teams to discuss fraud, corruption and internal control risks and seek to assess in terms of likelihood and impact. These risk assessments along with known fraud risks identified by investigation work and national reports and fraud patterns will inform our annual programme of works for both Internal Audit and Corporate Anti Fraud.
	Robust Response	We will strengthen measures to prevent fraud. Internal Audit and Corporate Anti Fraud will work with management and our internal partners such as Human Resources, Finance and Legal to ensure new and existing systems and policy initiatives are adequately fraud proofed.

PREVENT	Better use of Information Technology	We will explore the use of data and analytical software to prevent and detect fraudulent activity. We will always look for opportunities to share data and fraud intelligence to increase our capability to uncover potential and actual fraud as we have done in becoming members of the London Housing Fraud Hub. We will continue to play an active part in National Fraud Initiative (NFI) data matching exercise. Whilst the Corporate Anti-Fraud Team plays a co-ordination and support role in this exercise, it is management that is responsible for processing the actual matches. The Corporate Anti Fraud Team will ensure there is a robust follow up process to ensure that high risk matches are pursued where appropriate.
	Enhancing fraud controls and processes	We will educate managers with regard to their responsibilities for operating effective internal controls within their service areas. We will promote strong management and good governance that provides scrutiny and independent challenge to risks and management controls. Internal Audit reviews will seek to highlight vulnerabilities in the control environment and make recommendations for improvement. The Corporate Anti-Fraud Team investigations and reports will also provide management with actions to improve controls to reduce fraud risks.
	Anti-fraud culture	We will promote and develop a strong counter fraud culture, raise awareness, provide a fraud e-learning tool and provide information and guidance on all aspects of our counter fraud work.

PURSUE	Fraud Recovery	A crucial element of our response to tackling fraud is recovering any monies lost through fraud. This is an important part of our strategy and will be rigorously pursued, where possible.
	Punishing Fraudsters	We will apply realistic and effective sanctions for individuals or organisations where an investigation reveals fraudulent activity. This may include legal action, criminal and/or disciplinary action. We will also seek to publicise successes to act as a deterrent to those seeking to commit fraud.
	Enforcement	We will investigate instances of suspected fraud detected through the planned proactive work; cases of suspected fraud referred from internal or external stakeholders, or received via the whistleblowing procedure and prioritised on a fraud risk basis. We will work with internal / external partners/organisations, including law enforcement agencies where common ground exists or where intelligence can be lawfully shared.

5.1 Current Fraud Landscape

The fraud landscape is ever changing and requires constant review. The Corporate Anti Fraud Team keeps abreast of these changes in a number of ways.

- Membership of the National Anti-Fraud Network (NAFN) which provides the authority with a legal gateway to a wide range of information providers, best practice, legislation updates and sharing of fraud intelligence/bulletins of local and national interest potentially affecting the organisation.
- Membership of the London Borough of Fraud Investigators Group (LBFIG) which meets bi-annually to discuss current fraud work and associated risks, trends and emerging fraud risks developing across London.
- Membership of The Chartered Institute of Public Finance and Accountancy (CIPFA) and the related Counter Fraud Centre and contributor to the Counter Fraud and Corruption Tracker (CFaCT) survey.
- Attendance at relevant counter fraud conferences.
- Contributing and reviewing of National Fraud Reports such as Protecting the Public Purse (PPP) and the Annual Fraud Indicator Report.
- Contributors to the National Fraud Initiative (NFI) exercise led by the Cabinet Office and analyse of careful consideration of the subsequent reports produced.
- Constant review of incoming fraud referrals informing patterns and/or concerns affecting the fraud risk in specific areas.
- Fraud investigation and Internal Audit outcome reports to management highlighting fraud risk control weaknesses with recommendations to strengthen.
- Liaison with the Directorates and their Department Management Teams on an annual basis to discuss fraud risks and periodically when required.

5.2 Current Fraud Risks

The following areas of Council business have been assessed as being high risk to fraud after an assessment drawing on the above sources of information. These considerations form the basis of a proactive annual programme of fraud work in 2016-17 and beyond but are subject to change as the fraud landscape changes.

- **Tenancy including the Right to Buy (RTB)**
- **Housing Needs / Provision**
- **Council Tax Support / Exemptions / Discounts**
- **Personal Budgets / Social Care**
- **No Recourse to Public Funds (NRPF)**

- **Disabled parking badges**
- **Cyber security/crime**

The development of a fraud risk register will enable a better understanding of local fraud and corruption risks impacting on the Council's ability to deliver its objectives. Once established, this risk register along with the other sources of fraud risk intelligence referred to in 5.1, will be used to inform the counter fraud approach of the organisation.

5.3 Managing the risk of Fraud & Corruption

Whilst all stakeholders have a part to play in reducing the risk of fraud, Elected Members and Senior Management are ideally positioned to influence the ethical tone of the organisation and play a crucial role in fostering a culture of high ethical standards and integrity.

As with any risk faced by the Council, it is the responsibility of managers to ensure that fraud risk is adequately considered within their individual service areas and in support of achieving strategic priorities, business plans, project and programme objectives and outcomes. In making this assessment it is important to consider the risk of fraud occurring (i.e. proactive) rather than the actual incidence of fraud that has occurred in the past (reactive).

Once the fraud risk has been evaluated, appropriate action will be taken by management to mitigate those risks on an ongoing basis, for example through introducing and operating effective systems of internal control (first line of defence). Adequate supervision, recruitment and selection, scrutiny and healthy scepticism will not be seen as distrust but simply as good management practice shaping attitudes and creating an environment opposed to fraudulent activity.

Good corporate governance procedures are a strong safeguard against fraud and corruption. The Council's Governance, Audit, Risk Management & Standards Committee plays a key role in scrutinising the Council's approach to fraud, its system of controls & risk management; and its wider resiliency to financial irregularity in general (second line of defence).

The Council's Corporate Anti Fraud Team undertakes a risk based programme of works targeting areas of high risk to fraud and corruption. This is based on consultation with the Directorates, known local fraud outcomes from investigation work, evidence from national reports such as *Protecting the English Public Purse 2015* and outcomes from data-matching such as the National Fraud Initiative. This programme of works is approved by the Governance, Risk Management and Standards Committee.

Internal Audit also undertakes a risk-based assurance programme of work each year developed with input from management and agreed by the Governance, Risk Management and Standards Committee. This assurance work involves an independent review of systems and procedures, including a review of the management of risk (of both fraud and other types of risk) whereby system weaknesses are brought to the attention of management along with recommendations to strengthen controls within procedures (third line of defence).

6.0 ACTION PLAN

This Strategy sets out the developments and actions the Council proposes to take over the medium term future to further improve its resilience to fraud and corruption. These developments include the following actions:-

ACTION	IMPLEMENTATION DATE	LINKS TO AIMS AND OBJECTIVES
Identify and assess Harrow's fraud risk exposure affecting the principle activities in order to fully understand changing patterns in fraud and corruption threats and the potential harmful consequences to the authority and our customers	Complete in June annually	4a, 4b, 4c, 4d
Development of a fraud risk register to be integrated into the existing risk management framework, where significant fraud and corruption risks will be owned and maintained by the directorates	April 2017	4a, 4b, 4c, 4d
To be an active participant in the bi-ennial National Fraud Initiative (NFI) exercise and to robustly investigate suspected cases of fraud identified through NFI. The Corporate Anti-Fraud Team are responsible for the co-ordination of the exercise including ensuring that the data sets comply with specification and are securely uploaded to the Cabinet Office. Management are responsible for the review of matches that are returned and for referring suspicions of fraud and corruption to the Corporate Anti Fraud Team	October 2016 & October 2018 onwards	4c, 4d, 4e, 4g
Raise awareness of fraud and corruption both within the authority and in the community through running awareness campaigns and the publication of fraud successes in local and national media, including the use of all forms of social media	Ongoing throughout the duration of the strategy	4a, 4c, 4d
Actively seeks to increase the Council's resilience to fraud and corruption through fraud awareness by ensuring that all existing employees in all directorates undertake a fraud & corruption e-learning course	By March 2019	4a, 4c, 4e
Actively seeks to increase the Council's resilience	June 2017	4a, 4c, 4e

to fraud and corruption through fraud awareness by ensuring that all new employees in all directorates undertake a fraud & corruption e-learning course		
By launching and publicising our strategy raise awareness of fraud and corruption with Senior Managers and Elected Members through a combination of e-training and face to face fraud awareness development sessions where appropriate.	March 2017	4c, 4e
To refresh the fraud awareness pages on the Hub/Website	September 2017	4c, 4d, 4e
To refresh and promote the Council's suite of anti-fraud related policies and procedures and to ensure that they continue to be relevant to national guidance, e.g. CIPFA Code of Practice on Managing the Risk of Fraud and Corruption	December 2017	4a, 4b
To actively maintain the authorities' membership of the National Anti-Fraud Network (NAFN), the London Borough of Fraud Investigators Group (LBFIG), The Chartered Institute of Public Finance and Accountancy (CIPFA), the London Fraud Hub and all other enforcement partners including the Police, The Border Force and HMRC. Also to be open to new and innovative anti-fraud projects	Ongoing throughout the duration of the strategy	4e, 4f, 4g
To produce fraud investigation outcome reports for management which highlight the action taken to investigate the fraud risks, the outcome of the investigations e.g. sanction and recommendations to minimise future risk of fraud	Ongoing throughout the duration of the strategy	4c, 4d, 4f
To explore with Human Resources the possibility of including management responsibility for managing fraud and corruption risks within all managerial role profiles	September 2017	4a, 4c, 4d

7.0 MEASURES OF SUCCESS

The successful implementation of this strategy will be measured by the following:-

- Successful implementation of the actions contained within the strategy.
- Increased awareness of fraud and corruption risks by members, managers and employees.
- Evidence that fraud risks are being actively managed across the authority.
- An increased fraud risk resilience across the authority to protect the Council's assets and resources.
- An anti fraud culture where employees feel able to identify and report concerns relating to potential fraud and corruption.

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8.0 REPORTING AND REVIEW

The Council's approach to suspected fraud can be demonstrated in its Fraud Response Plan / Flowchart - **see Appendix 1 - Fraud Response Plan**

The Council recognises that the primary responsibility for the prevention and detection of fraud rests with management. If anyone believes that someone is committing a fraud or suspects corrupt practices, these concerns should be raised in the first instance directly with line management then the Corporate Anti Fraud Team or Internal Audit.

Where managers are made aware of suspected fraud by employees, they have responsibilities for passing on those concerns to the Corporate Anti Fraud Team, Internal Audit, and Monitoring Officer in the event of a whistleblowing allegation or the Director of Finance (Section 151 Officer). Managers should react urgently to suspicion of potential internal fraud or corruption.

Head teachers of LA-maintained schools should also notify their Chair of Governors. Notifications must be treated with the utmost confidentiality. Any person that is implicated in the alleged offence should not be included in the notification procedure.

The Corporate Director of Resources, Head of Internal Audit, Corporate Anti Fraud Manager and Director of Finance (s.151 Officer) has responsibility for ensuring the authority has a robust anti fraud and corruption response.

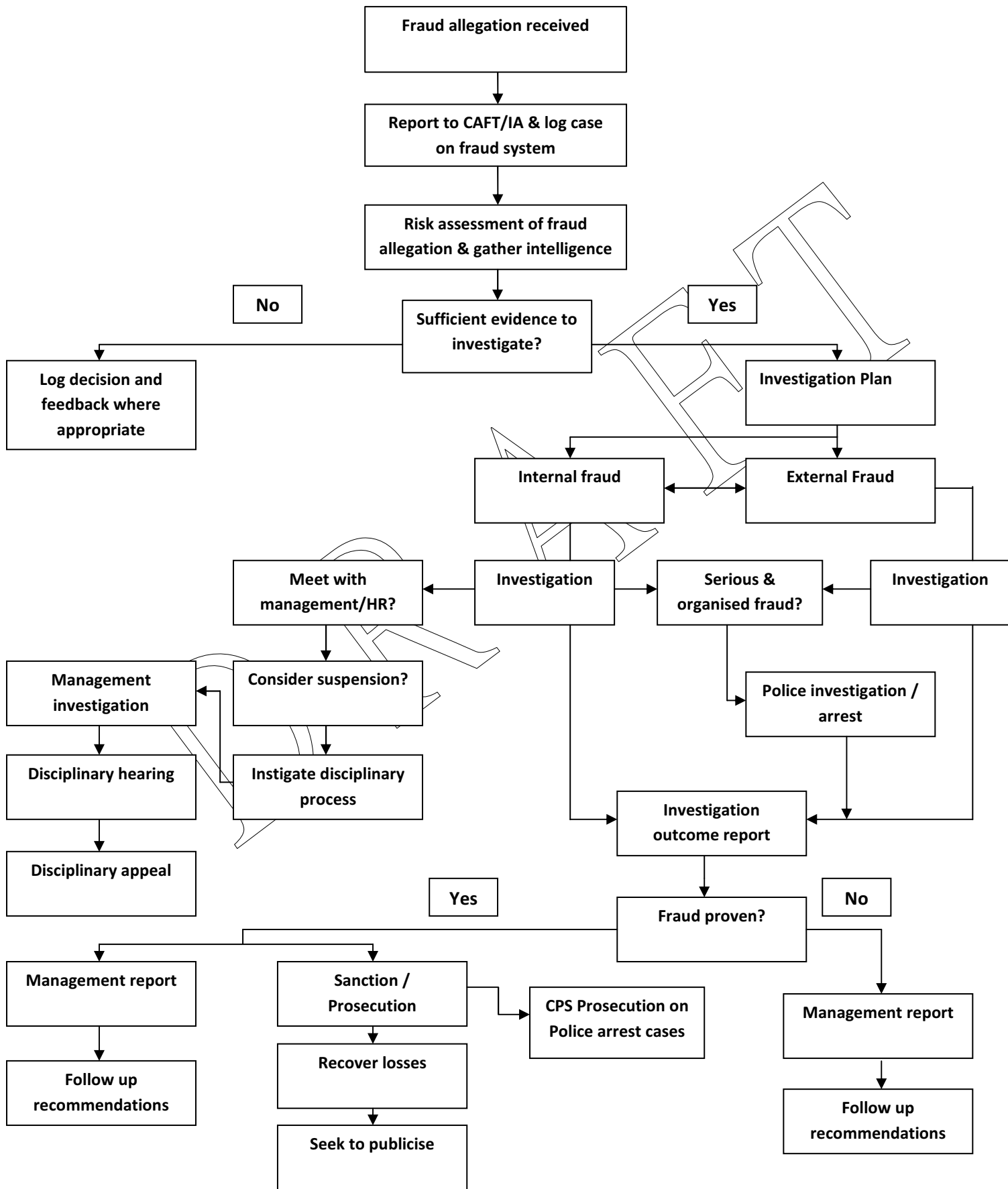
The Council's GARMS Committee will ensure the continuous review and amendment of this Strategy, and the Action Plan contained within it, to ensure that it remains compliant with good practice national public sector standards, primarily CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption and the Local Government Fraud Strategy – Fighting Fraud Locally, and meets the needs of Harrow Council.

9.0 FURTHER READING

Further information on related relevant council policies and documentation that was referenced in the development of this strategy can be found below.

- The Council [Constitution](#) (Financial Regulations, Contract Procedure Rules, Members and Employees Code of Conduct)
- [Recruitment & Selection Policy](#)
- [Disciplinary Procedure](#)
- [Whistleblowing Policy](#)
- [Protocol on Gifts and Hospitality](#)
- Prosecution & Sanction Policy
- [Anti-Money Laundering Policy](#)
- The Regulation of Investigatory Powers Act 2000 (RIPA) Policy
- [Information Security Policy](#)
- Risk Management Strategy & Policy
- Corporate Anti Fraud Team web pages www.harrow.gov.uk/fraud
- [Annual Fraud Indicator Report 2013](#)
- [Annual Fraud Indicator Report 2016](#)
- [Fighting Fraud and Corruption Locally 2016. The Local Government Counter Fraud and Corruption Strategy](#)
- [CIPFA Counter Fraud Centre](#)
- [CIPFA Code of Practice Managing the Risk of Fraud and Corruption 2014](#)
- [Protecting the Public Purse 2015](#)
- [Protecting the London Purse 2015](#)
- [UK Anti-Corruption Plan 2014](#)

Appendix 1 – Harrow Council Fraud Response Plan / Flowchart



**REPORT FOR: GOVERNANCE, AUDIT,
RISK MANAGEMENT AND
STANDARDS COMMITTEE**

Date of Meeting: 6 December 2016

Subject: INFORMATION REPORT
Annual Audit Letter 2015/16

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: Annual Audit Letter 2015/16

Section 1 – Summary and Recommendations

This report provides the Committee with an opportunity to consider the Annual Audit Letter from the Council's external auditors

Recommendation

The Committee is requested to note this report containing the Annual Audit Letter

Reason

The Accounts and Audit (England) Regulations 2015 requires the Committee to consider the Annual Audit Letter

Section 2 – Report

Background

- 1 The Council's External Auditors (KPMG LLP) have now completed their first audit of the Statement of Accounts following their appointment to succeed Deloitte's LLP as external auditors. The appointed auditor writes to the Council on an annual basis through an Audit Letter summarising the important findings from their audit work.
- 2 The 2015/16 Annual Audit Letter is attached as an appendix to this report and covers the following matters:
 - The headlines – a summary of Value For Money (VFM); the Audit Opinion; the Financial Statements and related matters; the high priority recommendations; the Pension Fund audit; Whole of Government Accounts (WGA); the certificate, and the audit fees
 - Appendix 1 : Key issues and recommendations
 - Appendix 2: Summary of reports issued
 - Appendix 3 : Audit Fees
- 3 The key conclusions emerging from the Auditor's work were:
 - The Council received an unqualified audit opinion and value for money conclusion.
 - The recommendations referred to on page 4 of the Annual Audit Letter were considered by this Committee at its meeting in September 2016 and where accepted these are being implemented during the current financial year 2016/17.
 - The Council had continued to demonstrate strong financial resilience and has robust controls over financial planning and budget monitoring to ensure that it did not require the use of its general fund reserves during the year.

Financial Implications

- 4 There are no direct financial implications arising from this report.

Risk Management Implications

- 5 The risks of not implementing the recommendations are not included in the corporate risk register. However the review of such recommendations is included as a separate task within the closure of accounts timetable for officers to ensure action has been taken. The external auditors (KPMG) will as part of their audit work, check that the Council has implemented the accepted recommendations from the previous years annual audit letter.

Equalities implications

- 6 There are no equalities implications.

Council Priorities

- 7 The Annual Audit Letter provides assurance that the Council has managed its finances and delivered value for money in accordance with Council's corporate vision and priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert



Chief Financial Officer

Date: 23rd November 2016

Ward Councillors notified:

n/a

Section 4 - Contact Details and Background Papers

Contact: Paul Gower (Interim Technical Accounting Manager) Tel: 020-8424-1335 /
Email: paul.gower@harrow.gov.uk

Background Papers:

http://www.harrow.gov.uk/download/downloads/id/9078/kpmg_annual_audit_letter_2015-16

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Annual Audit Letter 2015/16

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London Borough of Harrow

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October 2016



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Report sections

— Headlines

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Appendices

1. Key issues and recommendations
2. Summary of reports issues
3. Audit fees

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andy Sayers, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This Annual Audit Letter summarises the outcome from our audit work at London Borough of Harrow in relation to the 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

VFM conclusion	We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 28 September 2016. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority's arrangement to make informed decision making, sustainable resource deployment and working with partners and third parties.
VFM risk areas	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> — The Authority has significant savings targets to achieve in the coming years. The 2015/16 MTFP taken to the February 2015 Council meeting highlighted a finding gap of c.£23m for 2016/17 and c.£15m and c.£14m in 2017/18 and 2018/19 respectively. — In addition, the Authority has low general fund reserves of £10m. — We considered the budget setting and monitoring process, including how saving targets are monitored and reported. We reviewed a sample of specific savings targets and confirmed that there was adequate challenge and monitoring of the savings throughout the year. — We also considered the level of reserves, whilst we note that the Authority's reserves are low in comparison to other London Borough's, the low level of reserves is within the Council's financial plan and is a conscious decision. At the end of 2014-15 the General Fund Reserve balance was £10m. This remained consistent throughout 2015-16. As the reserves balance has not moved in year this demonstrates that the council was able to achieve its year end position without the use of its reserves. — We found the controls in place over financial planning and budget monitoring to be robust, however we did raise two medium priority recommendations in relation to improving the monitoring and reporting process of savings going forward.
Audit opinion	We issued an unqualified opinion on the Authority's financial statements on 28 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the Pension Fund.
Financial statements audit	<p>Our audit, identified a total of four audit adjustments, that required reporting, these had a total value of £12.7 million. The largest of these adjustments was for £11.7m and related to the classification of PPE assets between operational and surplus assets.</p> <p>The remaining audit adjustments were not adjusted by management as they do not have a material impact on the financial statements. These uncorrected adjustments relate to PPE and include the omission of two assets from the revaluation cycle and the miscalculation of depreciation on PFI assets.</p> <p>We raised a total of 14 recommendations as part of our audit, all apart from one have been accepted by Management and have action plans in place to ensure they are implemented ahead of the year end.</p>

Other information accompanying the financial statements	Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.
Pension Fund audit	There were no significant issues arising from our audit of the Pension Fund and we issued an unqualified opinion on the Pension Fund financial statements as part of our audit report. We raised one high priority recommendation in relation to fully utilising the Pension Fund bank account for all pension transactions.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
High priority recommendations	<p>We raised three high priority recommendations as a result of our 2015/16 audit work. These are detailed in Appendix 1 together with the action plan agreed by management. Our three high priority recommendations related to:</p> <ul style="list-style-type: none"> — The quality and review of PPE; — The processing of journals; and — Fully utilising the Pension Fund bank account. <p>We will formally follow up these recommendations as part of our 2016/17 work.</p>
Certificate	There is one outstanding objection relating to the 2014-15 accounts that we inherited from the previous Auditors. This objection remains outstanding as at the date of this report. As a result the 2014-15 certificate has not yet been issued and we are unable to issue our 2015-16 certificate until this objection is closed.
Audit fee	<p>Our fee for the 2015/16 audit of the Authority was £150,724 excluding VAT and £21,000 excluding VAT for the Pension Fund. This fee was in line with that highlighted within our audit plan agreed by the Governance, Audit, Risk Management and Standards Committee in January 2016. Our fee for the certification of grant claims for Housing Benefits is £27,735 excluding VAT.</p> <p>Fees for other grants and claims (Teachers Pension and Pooling Capital Receipts) are £6,500 excluding VAT.</p>

Appendix 1: Key issues and recommendations

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No.	Issue and recommendation	Management response / responsible officer / due date
1	<p>Quality and review of PPE</p> <p>Our final accounts audit identified a number of proposed adjustments to the PPE balance which we would expect management to have identified as part of their review of the financial statements. The adjustments included:</p> <ul style="list-style-type: none"> ▪ The omission of two assets from the revaluation process despite being recorded as requiring a full inspection in year ▪ Annual depreciation charge for PFI assets calculated post year end revaluation ▪ £11.72m of assets incorrectly classified as operational land and buildings <p>We recommend going forwards the Council performs a thorough review of the PPE balance to identify similar avoidable adjustments prior to submitting the accounts for audit. Checks of accuracy of data input and reconciliations to ensure the completeness of the information provided should be performed. The Council should ensure a robust quality review process is in place ahead of the 2016/17 year end audit to identify avoidable misstatements in the accounts.</p>	<p>Accepted</p> <p>Officers acknowledge the recommendations raised and the need to improve certain procedures and processes. To prevent such occurrences happening again additional controls (reconciliations / review of accounting guidance) will be implemented.</p> <p>Responsible Officers: Head of Corporate Estate / Interim Technical Accounting Manager Due Date: February 2017</p>
2	<p>Processing of Journals</p> <p>Our documentation of the Council's journals processes identified a central finance team who post all journals required for both the Council and the Pension Fund. Journals are requested and authorised by appropriate individuals throughout the Council, however only the central finance team are able to post these journals onto the ledger.</p> <p>While this demonstrates strong segregation of duties in the control, from our discussions with the Council we understand there is no process to review the completeness and accuracy of the journals posted by this team. Without an independent review there is a risk that fraudulent, erroneous or inaccurate journals are posted. The risk of inappropriate journals being authorised is mitigated from the Council's monthly budget monitoring processes however this is only likely to identify large journals.</p> <p>We recommend the Council introduce a control to perform a sample review of journals posted on a monthly basis to ensure the journal posted was requested by an appropriate individual in the Council and has been posted accurately, in line with the initial request.</p>	<p>Accepted</p> <p>Officers have already identified the need and recently put in place a monthly sample testing and review of journals. The review currently under taken by the interim Technical Accounting Manager checks the accuracy, validity and correct authorisation of the journal. The testing will also assess the completeness of supporting documentation.</p> <p>Processing of journals will be discussed at the next Finance Team meeting and training provided where required</p> <p>Responsible Officer: Interim Technical Accounting Manager Due Date: Implemented (August 2016)</p>

Appendix 1: Key issues and recommendations

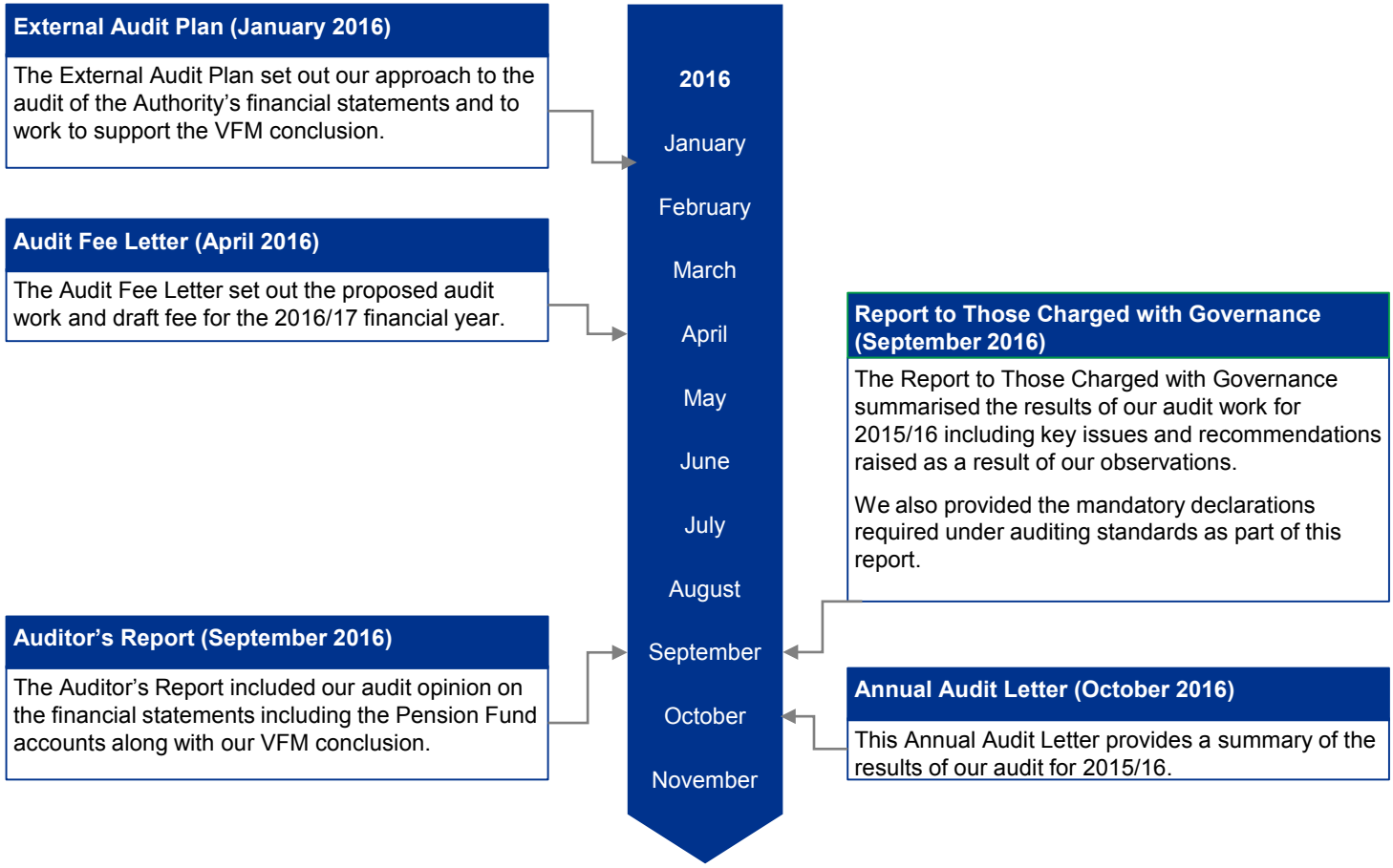
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No.	Issue and recommendation	Management response / responsible officer / due date
3	<p>Use of Pension Fund bank account</p> <p>The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 required that all pension schemes have their own bank account effective 1 April 2011. Specifically the regulations state the following: “On and after 1st April 2011, an administering authority must hold in a separate account kept by it with a deposit-taker in accordance with this regulation —(a) all monies held by the authority on that date; and (b) all monies received by it on or after that date for the purpose of its Pension Fund.”</p> <p>Although a separate bank account has been set up for the Fund, it is not being used for all Pension Fund transactions. We understand a number of historic income and expenditure transactions are still processed through the Council’s bank account. As a result, the Fund is not fully compliant with the requirements of the legislation.</p> <p>It should be noted that, since 1 April 2015, the Pensions Regulator now has an oversight role in relation to scheme administration and governance. As such, the Fund may be subject to increased levels of external scrutiny in future. We recommend the Fund amends all historic processes to ensure all Pension Fund specific transactions are processed through the Fund bank account. We recommend the bank account is put into full use in order that the Pension Fund is fully compliant with all regulations.</p>	<p>Not Accepted</p> <p>In accordance with the legislation the separate bank account was opened from 1 April 2011 and, since then, an increasing number of transactions have been processed directly through the account. These include the pensioners’ payroll, transfers in and out of the Fund, lump sum and death benefits payments, the receipt of contributions from admitted and scheduled bodies and income from the property investment manager. The account is reconciled monthly.</p> <p>Each month, Pension Fund related expenditure (particularly employee / employer contributions) and income transactions processed through the Council’s bank account are identified. A monthly cash transfer is made from the Council into the Pension Fund account and, at year end, the appropriate debtor is shown in both the Pension Fund and the Council’s accounts.</p> <p>From the time the account was established every effort has been made to maximise its use consistent with the Council’s existing systems and the costs and risks associated with changes. This will continue to be the case.</p> <p>However, the Council uses a commercial software package (SAP) and substantial support would be needed from them to make any system changes necessary. For all transactions to go directly through the Pension Fund account, changes would be necessary for the following processes: accounts payable / purchase orders; accounts receivable; VAT; payroll tax deductions; manual cheque payments; receipt of foreign currency payments.</p> <p>The Council is of the view that to make the changes necessary for the Pension Fund bank account to directly process all transactions would entail certain costs and uncertain risks which cannot be justified at this time.</p> <p>Responsible Officer: Interim Treasury and Pension Fund Manager</p>

Appendix 2: Summary of reports issued

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This appendix summarises the reports we issued in 2016. These reports can be accessed via the Governance, Audit, Risk Management and Standards Committee pages on the Authority's website at www.harrow.gov.uk.



Appendix 3: Audit fees

This appendix provides information on our final fees for the 2015/16 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

External audit

Our final fee for the 2015/16 audit of the Authority was £150,724, which is in line with the planned fee.

- An additional fee in relation to consideration of a formal objection to the 2014-15 accounts will be charged following the completion of our work. This fee will be agreed with the Authority and the Public Sector Audit Appointments once our work is completed.

Our final fee for the 2015/16 audit of the Pension Fund was in line with the planned fee of £21,000.

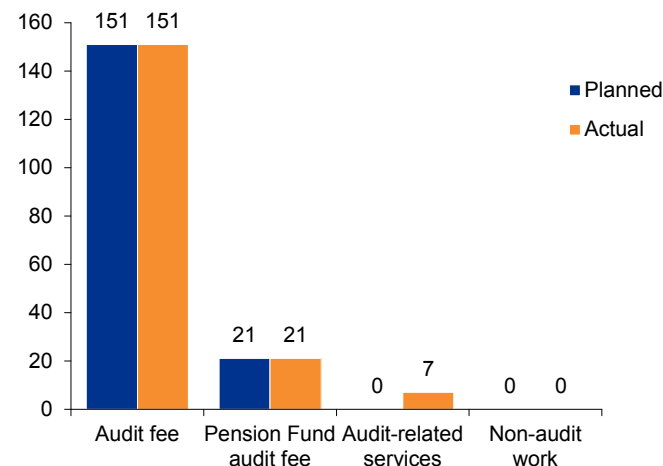
Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2017.

Other services

We charged £6,500 excluding VAT for additional audit-related services for the certification of the Pooling of Capital Receipts grant claim and the Teachers Pension return, which are outside of Public Sector Audit Appointment's certification regime.

External audit fees 2015/16 (£'000)





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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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**REPORT FOR: Governance, Audit, Risk
Management & Standards
Committee**

Date of Meeting: 06 December 2016

Subject: **INFORMATION REPORT** – Changes to arrangements for appointment of External Auditors

Responsible Officer: Dawn Calvert - Director of Finance

Exempt: No

Wards affected: All

Enclosures: Appendix 1- PSAA Prospectus
Appendix 2 - Invitation to opt in to the National Scheme for Auditor Appointments

Section 1 – Summary

This report summarises the changes to the arrangements for appointing external auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits. The Council is required to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.

The formal approval process is a decision made by the members of an authority meeting as a whole. The closing date for opting in is 9 March 2017 and the decision will be considered by Council on 23 February 2017.

FOR INFORMATION

Section 2 – Report

Background

- 2.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State for Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18. The Act also provides for the appointment by the secretary of state of a ‘sector led body’ to be an appointing person. This body would provide the option of a managed appointment process for those who wished to select it. Public Sector Audit Appointments Ltd (PSAA) has now been approved by the DCLG to be a sector led body for principal authorities – councils, police and fire bodies.
- 2.2 Under Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a decision for the Council to join the sector led approach must be made by Full Council and cannot be delegated.
- 2.3 The Council have until December 2017 to make an appointment. In practical terms this means one of the options outlined in this report will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.
- 2.4 Following the appointment of PSAA in July 2016 they issued a prospectus about the scheme (Appendix 1) and sent an invitation to opt in to the national scheme for auditor appointments on 27th October 2016 (Appendix 2). The Regulations specify a minimum period of eight weeks for invitation for Councils to accept the invitation to opt into the Sector Led Body arrangement being run by PSAA once the formal invitation has been received. However the PSAA has allowed more than the minimum eight week notice period because the formal approval process is a decision made by the members of an authority meeting as a whole. The closing date for opting in is 9 March 2017 and the decision will go to Council 23 February 2017.

Current situation

- 2.5 The Council’s current external auditor is KPMG, who were appointed under a contract let by the Audit Commission in 2014/15. Following closure of the Audit Commission the contract is currently managed by PSAA, the transitional body set up by the Local Government Association (LGA) with delegated authority from the Secretary of State for CLG. Over recent years we have benefited from reduction in fees in the order of 50% compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from closure of the

Audit Commission. The Council's current external audit fees for the accounts, including the Pension Fund, are £199,459 per annum.

Why a change is needed

- 2.6 When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to local appointment of the auditor for a period of up to five years. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.
- 2.7 The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The Local Audit Register maintained by the Institute for Charter Accountants (England and Wales) currently contains nine firms, including our current auditor.

Main options

- 2.8 There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act) which are set out below, along with consideration of the advantages and risks for each option:

Option 1: Make a stand-alone appointment

- 2.9 In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel would need to be established by the Council, in addition to the GARMS Committee. The Panel would be responsible for selecting the auditor and recommending their appointment to Full Council.

Advantages/benefits

- Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

- Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on going expenses and allowances.
- The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

Option 2: Set up a Joint Auditor Panel/local joint procurement arrangements

2.10 The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (non-elected members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council will need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits

- The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

- The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possible only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.
- The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

Option 3: Opt-in to a sector led body (SLB)

2.11 To follow a sector led approach by which an ‘appointing person’ operates a nationwide, EU compliant procurement and appoints on the Council’s behalf, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. PSAA was confirmed as an appointing person by the Secretary of State in July 2016. PSAA is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the LGA.

Advantages/benefits

- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.
- By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation.
- Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.
- Opting into the appointing person scheme removes the need to set up a separate independent auditor panel, comprising a majority of independent (non-elected) members.

Disadvantages/risks

- Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need Councils to opt-in before final contract prices are known.

Preferred option

2.12 Officers recommend Option 3, the sector led approach, as the most appropriate option for the Council to follow for the reasons set out above. The recommendation will be made to Council on 23 February 2017 to approve a sector led approach and opt in to appointing person arrangements.

Section 3

Financial Implications

3.1 Current external audit fees levels are likely to increase when the current contracts end in 2018.

- 3.2 The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above have not been included in the Council's budget for 2016/17 and would need to be estimated and included in the Council's budget for 2017/18 if either of these options were recommended to Council. This would include the cost of recruiting independent appointees (members), servicing the independent Panel, running a bidding and tender evaluation process, letting a contract and paying independent members fees and allowances.
- 3.3 Opting-in to a national SLB provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an independent auditor panel.

Risk Management Implications

- 3.4 There is no immediate risk to the Council, however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.
- 3.5 Opting in to the PSAA arrangement, which indications suggest is the approach likely to be taken by most local authorities, will enable the PSAA to obtain greatest economies of scale through competition and to invest in developing appropriate arrangements to support the Council through the management of these contracts and future procurement of contracts when they are due for renewal.
- Risk included on Directorate risk register? **Yes/No**
 - Separate risk register in place? **Yes/No**

Equalities implications

- 3.6 Was an Equality Impact Assessment carried out? **Yes/No** – not applicable.

Legal Implications

- 3.7 Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 9 sets out the requirement to have an auditor panel. Paragraph 1(1) of Schedule 3 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.

- 3.8 Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
- 3.9 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. The Regulations also make certain modifications to the Act to dis-apply or modify the provisions of the Act in relation to opted in authorities, including that the requirement to have an auditor panel does not apply to such an authority and similarly that the authority does not have to consult and take into account the advice of the auditor panel.

Council Priorities

- 3.10 The work of the External Auditor's helps the Council to achieve its vision and priorities.

The Council's vision:

Working Together to Make a Difference for Harrow

- Making a difference for the vulnerable
- Making a difference for communities
- Making a difference for local businesses
- Making a difference for families

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 24/11/16		
Name: Caroline Eccles...	<input checked="" type="checkbox"/>	on behalf of the* Monitoring Officer
Date: 24/11/16		

Ward Councillors notified:	YES/ NO
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Section 4 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit, 0208 424 1420

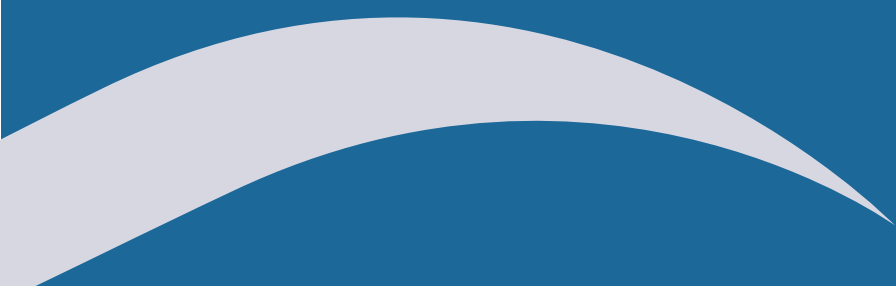
Background Papers: None

If appropriate, does the report include the following considerations?

1.	Consultation	YES / NO
2.	Priorities	YES / NO



Developing the option of a national scheme for local auditor appointments



“The LGA has worked hard to secure the option for local government to appoint auditors through a dedicated sector-led national procurement body. I am sure that this will deliver significant financial benefits to those who opt in.”

– Lord Porter CBE, Chairman,
Local Government Association

Over the next few months all principal authorities will need to decide how their auditors will be appointed in the future. They may make the appointment themselves, or in conjunction with other bodies. Or they can take advantage of a national collective scheme which is designed to offer them a further choice. Choosing the national scheme should pay dividends in quality, in cost, in responsiveness and in convenience.

Public Sector Audit Appointments Ltd (PSAA) is leading the development of this national option. PSAA is a not-for-profit company which already administers the current audit contracts. It has been designated by the Department for Communities & Local Government (DCLG) to operate a collective scheme for auditor appointments for principal authorities (other than NHS bodies) in England. It is currently designing the scheme to reflect the sector's needs and views.

The Local Government Association (LGA) is strongly supportive of this ambition, and 200+ authorities have already signalled their positive interest. This is an opportunity for local government, fire, police and other bodies to act in their own and their communities' best interests.

We hope you will be interested in the national scheme and its development. We would be happy to engage with you to hear your views – please contact us at [**generalenquiries@psaa.co.uk**](mailto:generalenquiries@psaa.co.uk)

You will also find some questions at the end of this booklet which cover areas in which we would particularly welcome your feedback.

Audit does matter

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

Imminent changes to the arrangements for appointing the auditors of local public bodies are therefore very important. Following the abolition of the Audit Commission, local bodies will soon begin to make their own decisions about how and by whom their auditors are appointed. A list of the local government bodies affected can be found at the end of this booklet.

The Local Government Association (LGA) has played a leadership role in anticipating these changes and influencing the range of options available to local bodies. In particular, it has lobbied to ensure that, irrespective of size, scale, responsibilities or location, principal local government bodies can, if they wish, subscribe to a specially authorised national scheme which will take full responsibility for local auditor appointments which offer a high quality professional service and value for money.


The LGA supported PSAA's successful application to the Department for Communities & Local Government (DCLG) to be appointed to deliver and manage this scheme.

PSAA is well placed to award and manage audit contracts, and appoint local auditors under a national scheme

PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA. It already carries out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities & Local Government. However, those powers are time-limited and will cease when current contracts with audit firms expire with the completion of the 2017/18 audits for local government bodies, and the completion of the 2016/17 audits for NHS bodies and smaller bodies.

The expiry of contracts will also mark the end of the current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.

PSAA has been selected to be the trusted operator of the national scheme, formally specified to undertake this important role by the Secretary of State. The company is staffed by a team with significant experience in appointing auditors, managing contracts with audit firms and setting and determining audit fees. We intend to put in place an advisory group, drawn from the sector, to give us ready access to your views on the design and operation of the scheme. We are confident that we can create a scheme which delivers quality-assured audit services to every participating local body at a price which represents outstanding value for money.



“Many district councils will be very aware of the resource implications of making their own appointment. Joining a well-designed national scheme has significant attractions.”

– Norma Atlay, President,
Society of District Council Treasurers

“Police bodies have expressed very strong interest in a national scheme led by PSAA. Appointing the same auditor to both the PCC and the Chief Constable in any area must be the best way to maximise efficiency.”

– Sean Nolan, President,
Police and Crime Commissioners
Treasurers’ Society (PACCTS)

The national scheme can work for you

We believe that the national scheme can be an excellent option for all local bodies. Early indications are that many bodies agree - in a recent LGA survey more than 200 have expressed an interest in joining the scheme.

We plan to run the scheme in a way that will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. The scheme will take away those headaches and, assuming a high level of participation, be able to attract the best audit suppliers and command highly competitive prices.

The scope of public audit is wider than for private sector organisations. For example, it involves forming a conclusion on the body's arrangements for securing value for money, dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports. PSAA will ensure that the auditors which it appoints are the most competent to carry out these functions.

Auditors must be independent of the bodies they audit, to enable them to them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA plans to take great care to ensure that every auditor appointment passes this test. It will also monitor any significant proposals, above an agreed threshold, for auditors to carry out consultancy or other non-audit work to ensure that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration/joint working initiatives or within combined authority areas, if the parties consider that a common auditor will enhance efficiency and value for money.

PSAA will ensure high quality audits

We will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.

PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the National Audit Office (NAO) to help ensure that guidance to auditors is updated when necessary.

We will include obligations in relation to maintaining and continuously improving quality in our contract terms and quality criteria in our tender evaluation method.

PSAA will secure highly competitive prices

A top priority must be to seek to obtain the best possible prices for local audit services. PSAA's objective will be to make independent auditor appointments at the most competitive aggregate rate achievable.

Our current thinking is that the best prices will be obtained by letting three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. The value of each contract will depend on the prices bid, with the firms offering the best prices being awarded larger amounts of work. By having contracts with a number of firms we will be able to ensure independence and avoid dominance of the market by one or two firms.

Correspondingly, at this stage our thinking is to invite bodies to opt into the scheme for an initial term of three to five years.

The procurement strategy will need to prioritise the importance of demonstrably independent appointments, in terms of both the audit firm appointed to each audited body and the procurement and appointment processes used. This will require specific safeguards in the design of the procurement and appointment arrangements.

“Early audit planning is a vital element of a timely audit. We need the auditors to be available and ready to go right away at the critical points in the final accounts process.”

– Steven Mair, City Treasurer,
Westminster City Council

“In forming a view on VFM arrangements it is essential that auditors have an awareness of the significant challenges and changes which the service is grappling with.”

– Charles Kerr, Chair,
Fire Finance Network

PSAA will establish a fair scale of fees

Audit fees must ultimately be met by individual audited bodies. PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own costs. The changes to our role and functions will enable us to run the new scheme with a smaller team of staff. PSAA is a not-for-profit company and any surplus funds will be returned to scheme members.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk. Pooling means that everyone within the scheme will benefit from the most competitive prices. Current scale fees are set on this basis. Responses from audited bodies to recent fee consultations have been positive.

PSAA will continue to consult bodies in connection with any proposals to establish or vary the scale of fees. However, we will not be able to consult on our proposed scale of fees until the initial major procurement has been completed and contracts with audit firms have been let. Fees will also reflect the number of scheme participants - the greater the level of participation, the better the value represented by our scale of fees. We will be looking for principal bodies to give firm commitments to join the scheme during Autumn 2016.

The scheme offers multiple benefits for participating bodies

We believe that PSAA can deliver a national scheme which offers multiple benefits to the bodies which take up the opportunity to collaborate across the sector by opting into scheme membership.

Benefits include:

- assured appointment of a qualified, registered, independent auditor
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- on-going management of independence issues
- securing highly competitive prices from audit firms
- minimising scheme overhead costs
- savings from one major procurement as opposed to a multiplicity of small procurements
- distribution of surpluses to participating bodies
- a scale of fees which reflects size, complexity and audit risk
- a strong focus on audit quality to help develop and maintain the market for the sector
- avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- enabling time and resources to be deployed on other pressing priorities
- setting the benchmark standard for audit arrangements for the whole of the sector

We understand the balance required between ensuring independence and being responsive, and will continually engage with stakeholders to ensure we achieve it.

How can you help?

We are keen to receive feedback from local bodies concerning our plans for the future. Please let us have your views and let us know if a national scheme operated by PSAA would be right for your organisation.

In particular we would welcome your views on the following questions:

1. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?
2. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?
3. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?
4. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive? Which specific benefits are most valuable to local bodies? Are there others you would like included?
5. What are the key issues which will influence your decisions about scheme membership?
6. What is the best way of us continuing our engagement with you on these issues?

Please reply to: generalenquiries@psaa.co.uk

The following bodies will be eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils in England
- district councils
- London borough councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area in England
- chief constables for an area in England
- national park authorities for a national park in England
- conservation boards
- fire and rescue authorities in England
- waste authorities
- the Greater London Authority and its functional bodies.

BOARD MEMBERS

Steve Freer (Chairman), former Chief Executive CIPFA

Caroline Gardner, Auditor General Scotland

Clive Grace, former Deputy Auditor General Wales

Stephen Sellers, Solicitor, Gowling WLG (UK) LLP

CHIEF OFFICER

Jon Hayes, former Audit Commission Associate Controller

“Maintaining audit quality is critically important. We need experienced audit teams who really understand our issues.”

– Andrew Burns, Director of
Finance and Resources,
Staffordshire County Council

PSAA Ltd
3rd Floor, Local Government House
Smith Square
London SW1P 3HZ

www.psa.co.uk

27 October 2016

Email: appointingperson@psaa.co.uk

Michael Lockwood
London Borough of Harrow
Civic Centre 1
Station Road Harrow
HA1 2UJ

Copied to: Dawn Calvert, Director of Finance, London Borough of Harrow
Hugh Peart, Director of Legal & Governance Service, London Borough of Harrow

Dear Mr Lockwood

Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the [appointing person](#) page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at appointingperson@psaa.co.uk.

Yours sincerely



Jon Hayes, Chief Officer

Appointing an external auditor

Information on the national scheme

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

High quality audits

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

Procurement strategy

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

Auditor appointments and independence

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

Fee scales

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

Timetable

In summary, we expect the timetable for the new arrangements to be:

- Invitation to opt in issued 27 October 2016
- Closing date for receipt of notices to opt in 9 March 2017
- Contract notice published 20 February 2017
- Award audit contracts By end of June 2017
- Consult on and make auditor appointments By end of December 2017
- Consult on and publish scale fees By end of March 2018

Enquiries

We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: appointingperson@psaa.co.uk.

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.

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