



MEETING: AUDIT AND GOVERNANCE COMMITTEE

DATE: Wednesday 28th March, 2012

TIME: 3.00 pm

VENUE: Town Hall, Southport

Member

Councillor
Councillor Hands (Chair)
Councillor Tonkiss (Vice-Chair)
Councillor Brady (Spokesperson)
Councillor Brennan
Councillor Lord Fearn
Councillor Friel
Councillor Maher
Councillor McIvor
Councillor Parry (Spokesperson)
Councillor Shaw

Substitute

Councillor
Councillor Mainey
Councillor M. Fearn
Councillor Tweed
Councillor Mahon
Councillor Ashton
Councillor McGinnity
Councillor Moncur
Councillor Crabtree
Councillor Porter
Councillor Robertson

COMMITTEE OFFICER: Steve Pearce
Head of Committee and Member Services
Telephone: 0151 934 2046
Fax: 0151 934 2034
E-mail: steve.pearce@sefton.gov.uk

If you have any special needs that may require arrangements to facilitate your attendance at this meeting, please contact the Committee Officer named above, who will endeavour to assist.

This page is intentionally left blank.

A G E N D A

- 1. Apologies for absence**
- 2. Declarations of Interest**

Members and Officers are requested to give notice of any personal or prejudicial interest and the nature of that interest, relating to any item on the agenda in accordance with the relevant Code of Conduct.
- 3. Minutes of Previous Meeting** (Pages 5 - 8)

Minutes of the meeting held on 14 December 2011
- 4. The Future of the Standards Regime at Sefton Council** (Pages 9 - 28)

Report of the Head of Corporate Legal Services
- 5. External Audit Plan 2011/12** (Pages 29 - 52)

Report of the External Auditors, PricewaterhouseCoopers
- 6. Members Treasury Management Training** (Pages 53 - 58)

Report of the Head of Corporate Finance and ICT
- 7. Treasury Management 2011/12 - Third Quarter Update** (Pages 59 - 70)

Report of the Head of Corporate Finance and ICT
- 8. Review of Doubtful Debt Provision - Council Tax / Sundry Debts** (Pages 71 - 78)

Report of the Head of Corporate Finance and ICT
- 9. Internal Audit Plan 2011/12 Performance Report - April 2011 to February 2012** (Pages 79 - 96)
- 10. Internal Audit Plan 2012/13** (Pages 97 - 112)

Report of the Head of Corporate Finance and ICT
- 11. Audit Commission Report - Protecting the Public Purse** (Pages 113 - 126)

Report of the Head of Corporate Finance and ICT

12. Exclusion of Press and Public

To consider passing the following resolution:

That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following item(s) of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraphs 3 and 7 of Part 1 of Schedule 12A to the Act. The Public Interest Test has been applied and favours exclusion of the information from the Press and Public.

13. Internal Audit Fraud Report - April 2011 - February 2012 (Pages 127 - 134)

14. Corporate Risk Management and Corporate Risk Register (Pages 135 - 142)

Report of the Head of Corporate Finance and ICT

THIS SET OF MINUTES IS NOT SUBJECT TO "CALL-IN"

AUDIT AND GOVERNANCE COMMITTEE

MEETING HELD AT THE TOWN HALL, BOOTLE ON 14 DECEMBER 2011

PRESENT: Councillor Hands (in the Chair)
Councillor Tonkiss (Vice-Chair)

Councillors Brady, Lord Fearn, Mclvor and Moncur

ALSO PRESENT: Mr. P. Chambers from PricewaterhouseCoopers

24. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Brennan, Friel, Maher, Parry and Shaw and Councillors McGinnity and Robertson (Substitute Members).

25. DECLARATIONS OF INTEREST

No declarations of interest were made.

26. MINUTES OF PREVIOUS MEETING

RESOLVED:

That the Minutes of the meeting of this Committee held on 28 September 2011 be confirmed as a correct record.

27. EXTERNAL AUDIT - ANNUAL AUDIT LETTER 2010/11

Mr. P. Chambers from PricewaterhouseCoopers, the Council's external auditors, presented the Council's Annual Audit Letter, which provided an overall summary of the key issues considered as part of the audit work undertaken on accounting matters and systems of internal control during 2010/11 and a summary of the recommendations made during that period, which had previously been reported to the Committee.

RESOLVED:

That the Annual Audit letter for 2010/11 be noted.

28. DOUBTFUL DEBT POLICY - UPDATE

Further to Minute No. 16(5) of the meeting held on 28 September 2011, the Committee considered the report of the Head of Corporate Finance and ICT on the current policies relating to the provisions made in the annual accounts against general and Council Tax debts and an update on the current review of the Council's debt management and recovery arrangements.

Agenda Item 3

AUDIT AND GOVERNANCE COMMITTEE- WEDNESDAY 14TH
DECEMBER, 2011

RESOLVED:

That the report be noted.

29. TREASURY MANAGEMENT 2011/12 - HALF YEAR UPDATE

The Committee considered the report of the Head of Corporate Finance and ICT reviewing the Treasury Management activities undertaken in the first half of 2011/12 against the Treasury Management Policy and Strategy document 2011/12. The report also provided details of an amendment of the credit ratings approved by Council on 24 November 2011.

RESOLVED:

That the report be noted.

30. INTERNAL AUDIT PLAN 2011/12 PERFORMANCE REPORT - APRIL TO NOVEMBER 2011

The Committee considered the report of the Head of Corporate Finance and ICT which provided a summary of internal audit work undertaken during the period April to November 2011. The Committee was required to be appraised of and review Internal Audit work as part of its review of the internal control environment and overall Governance arrangements.

The report also provided details of the performance trend of Arvato's Benefit Fraud Investigation Team.

RESOLVED: That

- (1) the report be noted;
- (2) the revised format of the report, which included the dates of issue and responses to audit reports be approved; and
- (3) the appreciation of the Committee be recorded for the overall work undertaken by the Internal Audit Section and in particular, the improved standard of the reports submitted to the Committee.

31. RECOMMENDATION ESCALATION POLICY FOR NON RESPONSE

Further to Minute No. 18(2) of the meeting held on 28 September 2011, the Committee considered the report of the Head of Corporate Finance and ICT on the proposed principles to be utilised for the establishment of an escalation policy/process in order to establish a process by which Members of the Committee can be apprised of and take appropriate action in respect of the lack of responses to audit recommendations and reports, non agreement of recommendations and the failure to implement previously agreed recommendations.

RESOLVED:

That the principles set out in the report be approved to enable officers to produce an escalation policy for submission to the next meeting of the Committee.

32. EXCLUSION OF PRESS AND PUBLIC

RESOLVED:

That, under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they would involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act. The Public Interest Test had been applied and favoured exclusion of the information from the press and public.

33. INTERNAL AUDIT FRAUD REPORT - APRIL TO NOVEMBER 2011

The Committee considered the report of the Head of Corporate Finance and ICT which provided a summary of the proactive and reactive anti-fraud and investigation work undertaken during the period April to November 2011 by the Internal Audit Team.

RESOLVED: That

- (1) the report be noted; and
- (2) the appreciation of the Committee be recorded for the work undertaken by the Internal Audit Section on an investigation into the inappropriate use of school computer equipment, referred to in the report.

34. CORPORATE RISK REGISTER - UPDATE

The Committee considered the report of the Head of Corporate Finance and ICT on the Corporate Risk Register which had been updated to reflect the Council's corporate objectives and monitor the Council's strategic risks.

RESOLVED:

That the updated Corporate Risk Register be approved.

This page is intentionally left blank

Agenda Item 4

Report to:	Standards Committee	Date of Meeting:	13 March 2012
	Audit and Governance Committee		28 March 2012
	Council		12 April 2012

Subject: The Future of the Standards Regime at Sefton Council

Report of: Head of Corporate Legal Services

Wards Affected: No

Is this a Key Decision? No

Is it included in the Forward Plan?

Yes

Exempt/Confidential

No

Purpose/Summary

1. To provide a further update on the impact of the Localism Act 2011 and the current standards regime, and;
2. To outline possible future arrangements for the conduct of standards in Sefton

Recommendations: Standards Committee - 13 March 2012

1. That the Standards Committee ceases to exist with effect from 30 June 2012.
2. That the work of the current Standards Committee be merged with that of the Council's Audit and Governance Committee. That the case-work of the current Standards Sub Committees continue, but to now be overseen by the Audit and Governance Committee.
3. That the draft Code of Conduct (Appendix A) as prepared by the Association of County Secretaries and Solicitors (ACSeS) be adopted by the Council with effect from 1 July 2012, subject to recommendations 9 and 10 below.
4. That the need for a meeting of the Standards Committee or its successor is dispensed with in the circumstances outlined in paragraph 6.
5. That authority be delegated to the Hearings Sub-Committee to impose the range of sanctions identified in paragraph 7 below on a Councillor should he/she have been found to be in breach of the Code of Conduct.
6. That the Monitoring Officer be delegated authority to make arrangements for the advertisement, recruitment of an Independent Member (IP) and for standby IP's in consultation with a working group of members (max 5 members) drawn from the current Standards Committee.
7. That the Monitoring Officer prepares the new register of interests in conjunction with the Head of Governance and Civic Services to comply with the new Code of Conduct, and the Act and ensure that the register is available for inspection.

Agenda Item 4

8. That the Monitoring Officer ensures that members are made aware of their new obligations under the Act in due course
9. In addition to the draft Code of Conduct prepared by ACSeS it is recommended that the Code of Conduct includes a provision to ensure that members update their register of interests within 2 months of the date that a change occurs.
10. That an addition be made to the ACSeS draft Code of Conduct that where a member discloses a Dislosable Pecuniary Interest (DPI), that they must withdraw from the meeting room, including from the public gallery, during the whole consideration of any item of business in which he/she has an interest, except where he/she is permitted to remain as a result of a grant of a dispensation.

Recommendations: Audit and Governance Committee – 28 March 2012

1. To consider and endorse the recommendations of the Standards Committee set out above and set out in **Appendix B**
2. To recommend to Council accordingly.

Recommendations: Council – 12 April 2012

1. To receive and approve the recommendations from the Standards Committee and the Audit and Governance Committee.
2. To agree that the necessary changes be made to the terms of reference of the Audit & Governance Committee and that the Council's Constitution be amended accordingly.

How does the decision contribute to the Council's Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		X	
2	Jobs and Prosperity		X	
3	Environmental Sustainability		X	
4	Health and Well-Being		X	
5	Children and Young People		X	
6	Creating Safe Communities		X	
7	Creating Inclusive Communities		X	
8	Improving the Quality of Council Services and Strengthening Local Democracy		X	

Reasons for the Recommendation:

To ensure that the authority is compliant with the requirements of the Localism Act 2011.
To try to optimise the administrative arrangements to support the new legal framework.

What will it cost and how will it be financed?

(A) Revenue Costs

Nil

(B) Capital Costs

Nil

Implications:

Legal: Legal implications are contained within the report

Human Resources: Nil

Equality

- | | |
|---|-------------------------------------|
| 1. No Equality Implication | <input checked="" type="checkbox"/> |
| 2. Equality Implications identified and mitigated | <input type="checkbox"/> |
| 3. Equality Implication identified and risk remains | <input type="checkbox"/> |

Impact on Service Delivery:

The recommendation to remove the Standards Committee will mean that there is one less meeting to be serviced by officers of the Council.

The proposed merging of the work of the Standards Committee with the Audit and Governance Committee will give greater context to work.

What consultations have taken place on the proposals and when?

The Head of Corporate Finance (FD1410) has been consulted and any comments have been incorporated into the report.

Are there any other options available for consideration?

Standards Committee could continue as a committee, with changed terms of reference and work to a revised legal framework.

Implementation Date for the Decision

1 July 2012

Contact Officer: Jill Coule
Tel: Head of Corporate Legal Services
Email: jill.coule@sefton.gov.uk

Background Papers: Nil

Agenda Item 4

1. Introduction/Background

- 1.1 Members will recall at the last meeting of the Standards Committee on 29 November 2011, a report outlined the possible impacts of the Localism Act 2011 (the Act) that had received Royal Assent on 15 November 2011.
- 1.2 Since then officers have had the opportunity to understand more of the impact of the new Act and to liaise with its Parish Councils and other Merseyside Authorities.
- 1.3 The Act makes fundamental changes to the regulation of standards of conduct for Sefton's elected members, co-opted members and parish councillors. The date for implementation of these changes is 1 July 2012. This report describes those changes in more detail and recommends the necessary steps for the Council to implement the new regime. It is proposed that the recommendations from the Standards Committee be considered at the Council's Audit and Governance Committee on 28 March 2012. **(See Appendix B)** Any recommendations made will need to be considered at the full meeting of the Council on 12 April 2012.

2. The duty to promote and maintain high standards of conduct

The Council will remain under a statutory duty to promote and maintain high standards of conduct for its elected and co-opted members (Section 27 Localism Act 2011).

3. The future of the Standards Committee

- 3.1 The Act repeals Section 55 of the Local Government Act 2000, which made it mandatory for each Council to have a Standards Committee. In other words, there will be no requirement for there to be a Standards Committee of the Council after 30 June 2012.
- 3.2 In repealing the Section 55 Local Government Act 2000 statute as set out above, the unique requirements of the existing Standards Committee are also repealed. This means that in establishing any new Standards regime the following arrangements can apply:
 - 3.2.1 The committee with the responsibility for the new standards regime will be governed by proportionality.
 - 3.2.2 The current restriction that only 1 Cabinet Member can be a member of the Committee governing the standards arrangements will cease to apply.
 - 3.2.3 The current co-opted independent members will cease to hold office. The Act establishes a new category of Independent Persons (IP's) and provides that existing co-opted independent members of the current Standards Committee cannot serve as IP's for 5 years. This part of the Act is currently the subject of further lobbying and this provision may change.
- 3.3 There will still be a need to deal with standards issues and case work arising from complaints from members of the public, officers of the Council or other councillors.

- 3.4 To that end it is therefore recommended that the Standards Committee cease to exist with effect from 30 June 2012. (*Recommendation 1*)
- 3.5 Following that, the work of the Standards Committee be merged with that of the Council's Audit and Governance Committee and the necessary changes be made to the terms of reference and the Council's Constitution and be recommended to Council in due course. (*Recommendation 2*)

4. Code of Conduct

4.1 The Act also repeals the Model Code of Conduct which was adopted by Sefton Council in July 2008 as well as the 10 General Principles of Public Life. This means that Councillors will no longer need to give a general undertaking to comply with the Code of Conduct, either on their election to office or annually. However, the Council will be required to adopt a new Code of Conduct governing, elected and co-opted Members which will apply when they are acting in those capacities. Notably any new Code of Conduct must be consistent with the following seven principles which are drawn from the previous ten General Principles of Public Life:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

4.2 What the Code can now contain is at the discretion of each individual Council, so long as it is consistent with those Principles cited above. If Council's wish to include additional requirements such as the previous General Principles (which were Stewardship, Personal Judgement, Duty to uphold the law and Respect for Others) again that is a matter for each individual Council.

4.3 As was noted in the last report to Members of the Standards Committee a number of Sefton Councillors and more generally Councillors within the Merseyside region are also Members of another council or public body. For example some Sefton Councillors are also parish Councillors. In addition some Sefton Councillors are also members of Merseyside wide bodies such as Fire, Transport, Waste Disposal and Police authorities. However, nationally police authorities will cease to exist in November 2012.

4.4 Given the need for transparency and consistency amongst the myriad of councils and public bodies within Merseyside, there appears to be consensus that whatever Code is adopted be consistent amongst those bodies. To that end it is proposed to adopt the Code of Conduct as prepared by the Association County Solicitors and Secretaries (ACSeS). The draft Code is attached at **Appendix A** for information. (*Recommendation 3*)

Agenda Item 4

- 4.5 The Act requires that any Code of Conduct adopted must include appropriate provisions for the registration and disclosure of pecuniary and non-pecuniary interests.

5. Registration Arrangements for and Declarations of Interest

- 5.1 Regulations, yet to be made under the Act will define Disclosable Pecuniary Interests (DPI's). The Act is clear that any Councillor with a DPI will not be able to participate in the Council's business for that item and the Council can reflect this in its Constitution (Standing Orders).
- 5.2 The Code of Conduct will need to be amended when the Regulations are released with respect to the definition and disclosure arrangements for pecuniary and non-pecuniary interests.
- 5.3 In these circumstances, it is therefore recommended that the current arrangements continue for the registration and disclosure of interests until the new Regulations are available and that officers prepare a report accordingly. Members of the Committee are asked to note that it may be necessary to hold an additional Standards Committee to address this and any other miscellaneous issues arising from the new arrangements.

6. Standards Casework

- 6.1 The Act requires a Council to adopt 'arrangements' for dealing with complaints/breaches of the Code of Conduct. In considering such arrangements, Councils should be mindful that it is no longer a statutory requirement to have separate Assessment, Review and Hearings Sub-Committees. This means that the Council can establish its own processes, which could include delegation of some decisions to officers. In considering this possible delegation, attention is drawn to the following types of decisions:

- No discernible breach of the Code of Conduct/no jurisdiction
- Dealing with complaints in writing as opposed to holding a meeting in particular:
 - Prior to the assessment meeting
 - Where there is a finding of no breach following an investigation

No discernible breach of the Code of Conduct/No jurisdiction

- 6.2 Complainants do not always readily identify what part of the Code of Conduct has been breached, or in fact do not fall within the jurisdiction of the Standards Committee at all and on occasion may need to be directed elsewhere. In these circumstances it is proposed to give authority to the Monitoring Officer and deputies to correspond with complainant to consider whether a breach of the Code of Conduct can be clearly determined and if it cannot to write to the complainant confirming that no further action will be taken, or to direct the complainant elsewhere as appropriate.

Dealing with complaints in writing

- 6.3 There are currently two main scenarios where it would be more efficient for the Monitoring Officer and/or Deputies to begin to progress matters in writing before convening a sub-committee meeting. Those two scenarios are when a complaint is received, and following an investigation where there is a finding of no breach of the Code of Conduct. In the first scenario, it can be helpful to the Assessment Sub-Committee if a preliminary response is obtained from the councillor(s) complained about so that this information could be included with the Assessment Sub-Committee papers. In the second scenario where an investigator finds no breach of the Code of Conduct it would be helpful to circulate this to Assessment Sub-Committee members in writing for consideration and only call a meeting if there is no consensus with the investigator's findings. If there was consensus then the case could be dispensed with by way of circulation of the investigators report to relevant parties' and the complaint, the IP and in due course the Audit and Governance Committee.
- 6.4 It is therefore recommended in future that the current arrangements for dealing with casework through the sub committees are retained but transferred to the Audit and Governance Committee, who will retain oversight. These sub-committee arrangements can be reviewed once the level of casework is understood under the new Act and the regulations are available. (*Recommendation 2*)
- 6.5 It is also recommended that the Monitoring Officer and/or Deputies be given authority to deal with certain prescribed matters, as set out above, in writing without the need to convene meetings. Such steps to be taken in consultation with the IP. It is also recommended that these delegations be noted in the Council's constitution accordingly. (*Recommendation 4*)

7. Sanctions

- 7.1 The former sanction provisions are now removed by the Localism Act 2011. There can therefore be no suspensions, no requirement to attend training etc. When a sanction is imposed there is no mechanism under the legislation to appeal. This means that any decision could be open to judicial review by the High Court if it was clearly unreasonable, improperly taken, or imposed a sanction which the Council does not have the power to impose. Under the new legislation where a Councillor is found to have breached the Code of Conduct the following actions can be taken:
- 7.1.1 Report the findings of the hearing, to Council for information;
 - 7.1.2 Recommend to the Councillors Group Leader that the Councillor be removed from any or all Committees/Sub-Committees of the Council. Where Councillors do not belong to Group such a recommendation could be made to full Council;
 - 7.1.3 Recommend to the Leader of the Council that a Councillor be removed from the Cabinet or removed from particular portfolio responsibilities;
 - 7.1.4 Arrange training for a Member;
 - 7.1.5 Recommend to Cabinet to remove the Councillor from all outside body appointments to which the Councillor has been appointed or nominated to by the Council;

Agenda Item 4

- 7.1.6 Dependent upon the nature of the breach, one of the following might be appropriate; withdrawal of facilities such as use of Council email, equipment etc may be appropriate; or, exclusion of a Councillor from Council offices except to attend meetings.
- 7.2 It is therefore recommended that Council delegate authority to the Hearings Sub-Committee the above sanctions which could be imposed on a Councillor should he/she have been found to be in breach of the Code of Conduct.
(*Recommendation 5*)

8. Independent Persons (IP's)

- 8.1 Any arrangements made by the Council under the Localism Act as set out earlier in the report must include the appointment of one IP.
- 8.2 The IP must be appointed through the process of a public advertisement. Appointment is by way a positive majority of all members of the Council (not just the majority of those present and voting). The legislation sets out certain criteria which mean that the IP would not be considered to be independent if one of the following criteria were met:
- 8.2.1 He/she is or has been within the last 5 years, an elected or co-opted member or an officer of the Council;
- 8.2.2 He/She is or has been within the last 5 years, an elected, or co-opted member of any Committee or Sub-Committee of the Council (which would preclude any of the current co-opted independent members of the Standards Committee from being appointed as an IP); or
- 8.2.3 He/She is a close relative or close friend of a current elected or co-opted member or officer of the Council, or of any elected or co-opted member of any Committee or Sub-Committee of the Council. For these purposes 'relative' includes:
- a) The candidate's spouse or civil partner
 - b) Any person with whom the candidate is living as if they are spouses or civil partners
 - c) The candidates grandparents
 - d) Any person who is a lineal descendent of the candidate's grandparent
 - e) A parent, brother, sister or child of anyone in paragraphs (a) or (b) above
 - f) The spouse or civil partner of anyone within paragraphs (c), (d) or (e) above
 - g) Any person living with a person in paragraphs (c), (d) or (e) as if they were a spouse or civil partner to that person
- 8.3 The IP will conduct some key functions which are listed below:
- 8.3.1 An IP must be consulted by the authority before it makes a finding as to whether a member has failed to comply with the Code of Conduct. In addition an IP must be consulted in respect of a decision to take no action where the investigation finds no evidence of breach (see paragraph ??? above), on any local resolution of the complaint etc
- 8.3.2 An IP may be consulted by the Council in respect of a standards complaint at any stage; and

- 8.3.3 An IP may be consulted by a Councillor or co-opted member of the Council against whom the complaint has been made. This seems an ill conceived proposal as this could cause a later conflict of interest when the IP is consulted on the determination of that complaint.

Recruitment and Selection of IP's

- 8.4 The Act gives discretion to appoint one or more IP's. However each IP must be consulted before any decision is taken on a complaint, which has been investigated. There would therefore seem to be little advantage in formally appointing more than one IP. However should the IP be unavailable or as set out above conflicted from involvement, then arrangements may need to be made for another IP to be available at short notice i.e. without the need to advertise, recruit and appoint etc. To that end, it is proposed that through the recruitment process, up to two standby IP's are selected that could be activated at short notice. It is recommended that such recruitment process be conducted in conjunction with a small working group of members (maximum 5) drawn from the current Standards Committee. (*Recommendation 6*)

9. Register of Interests

- 9.1 The Monitoring Officer is obliged under the Act to maintain a register of interests which must be available for inspection and available on the Council's website.
- 9.2 The Act as previously advised earlier in the report, removes the current definitions of personal and prejudicial interests and replaces it with the as yet undefined Disclosable Pecuniary Interest (DPI). Whilst regulations to define the DPI are awaited, it is anticipated that the definition may equate to the current definition of a prejudicial interest. A member's duty to register interests extends beyond their own interests for the first time and will include interests of their spouse/civil partner, or someone living with the Councillor in a similar capacity.
- 9.3 The register of interests is now also required to include a mechanism to record and disclose non-pecuniary interests as well as the formal DPI's. Upon election a Councillor will be required to register a DPI within 28 days of becoming a member. Failure to do so is a criminal offence. Failure to register the DPI does not however prevent a Member from continuing to act as a Member. Where the Code of Conduct requires registration of an interests i.e. the non-pecuniary interests, failure to do so, would be a breach of the Code only and not a criminal offence.
- 9.4 The requirement for a member to keep the register up to date is removed except on re-election. However it is recommended that members will be strongly encouraged to register their interests as it negates the need to orally disclose the interest at the meeting. It is the Monitoring Officers' responsibility to ensure that any new notifications are added to the register accordingly.
- 9.5 It is therefore recommended that the Monitoring Officer prepare the new register of interests in conjunction with the Head of Governance and Civic Services to comply with the new Code of Conduct, and the Act and that the register is available for inspection. (*Recommendation 7*)
- 9.6 It is also recommended that the Monitoring Officer ensures that members are made aware of their new obligations under the Act in due course.

Agenda Item 4

- 9.7 In addition it is recommended that the Code of Conduct includes a provision to ensure that members update their register of interests bi-monthly so that the need to orally declare the interest is removed. (*Recommendation 9*)

10. Disclosure of Prejudicial Interests & Withdrawal from the Meeting

- 10.1 Whilst regulations are awaited for the definition of Disclosable Prejudicial Interests (DPI), what is known about these interests from the Act is what happens when they are disclosed.
- 10.2 The duty to disclose and withdraw arises whenever a Councillor attends any meeting of the Council, a committee, sub-committee, Cabinet meeting or a panel meeting and is aware that he/she has a DPI. The DPI must be about any matter that is being considered as part of the meeting. If the DPI is registered or has been sent to the Monitoring Officer for registration, the Councillor does not need to orally disclose the DPI. However if a DPI is orally disclosed at the meeting, then the member has 28 days in which to ensure that the Monitoring Officer is duly notified of the DPI so that it can be added to the register of interests.
- 10.3 If a Councillor has a DPI in any matter the Councillor must not:
- 10.3.1 Take part in the discussion of the matter in the meeting. It is not clear whether this will include making representations at a meeting, as a member of the public might, or not at this time;
- 10.3.2 Take part in any vote in the matter in question.
- 10.4 Failure to comply with these requirements becomes a criminal offence and is not merely a breach of the Code of Conduct.
- 10.5 It is therefore recommended that in order to give clarity to Members that an addition be made to the ACSes draft Code of Conduct that where a member discloses a DPI, that they must withdraw from the meeting room, including from the public gallery, during the whole consideration of any item of business in which he/she has an interest, except where he/she is permitted to remain as a result of a grant of a dispensation. (*Recommendation 10*)

11. Dispensations

- 11.1 The current criteria for applying for a dispensation under the Local Government Act 2000 (as amended) are:
- 11.1.1 That at least 50% of the members of a decision making body have a prejudicial interest and;
- 11.1.1 That so many members of one political party have a prejudicial interest in the matter that it will upset the result of vote on the matter.
- 11.2 However, under the Act a dispensation can be granted on the following grounds:
- 11.2.1 That so many members of the decision making body have DPI's in a matter that it would "impede the transaction of the business". In other words the meeting that is considering the matter is likely to be inquorate;
- 11.2.2 That, without the dispensation, the representation of the different political groups on the body transacting the business would be so upset so as to alter the outcome of any vote on the matter;

- 11.2.3 That the authority considers that the dispensation would be in the interests of people living in the authority's area;
 - 11.2.4 That without dispensation, no member of the Cabinet would be able to participate in this matter.;
 - 11.2.5 That the authority considers that it is otherwise appropriate to grant a dispensation.
- 11.3 Dispensations must be for a specified period of time and for a maximum of 4 years.
- 11.4 Previously only the full Standards Committee could consider and grant of a dispensation. Under the Act granting of dispensations could be delegated to a sub-committee or to the Monitoring Officer. It is therefore recommended that such a delegation be included in the amendments to the Constitution. Further regulations are expected in the matter of interests and dispensations.

12 Transition Arrangements and Conclusion

- 12.1 The present standards regime will continue to function as at present, considering, investigating and determining allegations of misconduct, until the end of June 2012. There will then be, it is suggested 2 months, to deal with outstanding complaints.
- 12.2 The right of appeal will not exist for those cases Standards Committees deal with as they work their way through the transitional system. The government considers that the risk of protracted proceedings justifies this approach. The sanctions available to standards committees are significantly less severe than the sanctions available to the First-tier Tribunal (Local Government Standards in England).
- 12.3 The government proposes that the suspension sanction is removed from standards committees for the transitional period. Hence the most a Standards Committee could do, for instance, is to issue a Councillor with a censure or a request that they undergo training.
- 12.4 As can be seen by the length of this report, there are a lot of changes to the Standards regime. Following receipt of the regulations and before the implementation date of 1 July 2012, it is proposed that Members be briefed on the new arrangements. (*Recommendation 8*)

This page is intentionally left blank

APPENDIX A

Draft CODE OF CONDUCT

Introduction

This Code applies to you as a member of this Authority when you act in your role as a member and it is your responsibility to comply with the provisions of this Code.

You are a representative of this Authority and the public will view you as such and therefore your actions impact on how the Authority as a whole is viewed and your actions can have both positive and negative impacts on the Authority.

This Code is based upon the “Nolan Principles - the seven principles of public life” which are set out at Appendix 1.

Interpretation

In this Code:-

“Meeting” means any meeting of:

- (a) the Authority;
- (b) the executive of the Authority;
- (c) any of the Authority’s or its executive’s committees, sub-committees, joint committees or area committees;

whether or not the press and public are excluded from the meeting in question by virtue of a resolution of members.

“Member” includes a co-opted member and an appointed member.

General Obligations

1. When acting in your role as a member of the Authority:
 - 1.1 **DO** treat others with respect;
 - 1.2 **DO NOT** conduct yourself in a manner which is contrary to the Authority’s duty to promote and maintain high standards of conduct of members;
 - 1.3 **DO NOT** disclose information given to you in confidence by anyone, or information acquired by you which you believe, or ought reasonably to be aware, is of a confidential nature, except where:-
 - (i) you have the consent of a person authorised to give it;
 - (ii) you are required by law to do so;
 - (iii) the disclosure is made to a third party for the purpose of obtaining professional legal advice, provided that the third party agrees not to disclose the information to any other person; or
 - (iv) the disclosure is:-
 - (a) reasonable and in the public interest; and

Agenda Item 4

- (b) made in good faith and in compliance with the reasonable requirements of the Authority; and
 - (c) you have consulted the Monitoring Officer prior to its release; and
- 1.4 **DO NOT** prevent another person from gaining access to information to which that person is entitled by law.
2. When using or authorising the use by others of the resources of the Authority:-
- 2.1 **DO** act in accordance with the Authority's reasonable requirements, including the requirements of the Authority's ICT policy and the policies (attached to or included in the Authority's Constitution), copies of which have been provided to you and which you are deemed to have read;
 - 2.2 **DO** make sure that such resources are not used improperly for political purposes (including party political purposes); and
 - 2.3 **DO** have regard to any applicable Local Authority Code of Publicity made under the Local Government Act 1986.

Interests

- 3. As a public figure, your public role may, at times, overlap with your personal and/or professional life and interests. However, when performing your public role as a member, **DO** act solely in terms of the public interest and **DO NOT** act in a manner to gain financial or other material benefits for yourself, your family, your friends, your employer or in relation to your business interests.
- 4. You are required to register "pecuniary and other interests" (these will be laid out in Regulations subject to these not being sensitive). Failure to declare or register a pecuniary interest will be a criminal offence if this is done without a reasonable excuse. If you knowingly or recklessly provide false or misleading information about a pecuniary interest, this will also be a criminal offence.
- 5. There will be no requirement for you to declare or register any gifts and hospitality (subject to any future Regulations), but **DO NOT** accept any gifts in excess of £50 (fifty pounds).

Disclosure and participation

- 6. At a meeting where such issues arise, **DO** declare any personal and/or professional interests relating to your public duties and **DO** take steps to resolve any conflicts arising in a way that protects the public interest.
- 7. Certain types of decisions, including those relating to a permission, licence, consent or registration for yourself, your friends, your family members, your employer or your business interests, may be so closely tied to your personal and/or professional life that your ability to contribute to a decision in an impartial manner in your role as a member may be called into question and in turn raise issues about the validity of the decision of the Authority. **DO NOT** become involved in these decisions any more than a member of the public in the same personal and/or professional position as yourself is able to and **DO NOT** vote in relation to such matters. (See also Appendix 2.)

Agenda Item 4

8. **DO NOT** improperly use knowledge gained solely as a result of your role as a member for the advancement of yourself, your friends, your family members, your employer or your business interests.

Pre-determination or bias

9. Where you have been involved in campaigning in your political role on an issue which does not impact on your personal and/or professional life, you should not be prohibited from participating in a decision in your political role as a member. However, **DO NOT** place yourself under any financial or other obligation to outside individuals or organisations that might seek to influence you in the performance of your official duties.
10. When making a decision, **DO** consider the matter with an open mind and on the facts made available to you in order for the decision to be taken.

Interests arising in relation to overview and scrutiny committees (subject to Localism Bill provisions)

11. In relation to any business before an overview and scrutiny committee of the Authority (or of a sub-committee of such a committee) where:-
 - 11.1 that business relates to a decision made (whether implemented or not), or action taken by your Authority's executive or another of your Authority's committees, sub-committees, joint committees or joint sub-committees; and
 - 11.2 at the time the decision was made or action was taken, you were a member of the executive, committee, sub-committee, joint committee or joint sub-committee mentioned in paragraph 11.1 and you were present when that decision was made or action was taken; or
 - 11.3 that business relates to a decision made (whether implemented or not), or action taken by you (whether by virtue of the Authority's Constitution or under delegated authority from the Leader):

you may attend a meeting of the overview and scrutiny committee of your Authority or of a sub-committee of such a committee, but only for the purpose of making representations, answering questions or giving evidence relating to the business, provided that the public are also allowed to attend the meeting for the same purposes, whether under a statutory right or otherwise.

Agenda Item 4

APPENDIX 1

THE SEVEN PRINCIPLES OF PUBLIC LIFE

SELFLESSNESS

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

INTEGRITY

Holders of the public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to 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.

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.

APPENDIX 2

Where the decision referred to in Clause 7 of the Code relates to one of the functions of the Authority set out below, and the condition which follows that function does not apply to you when making that decision, you may participate in the decision:

- (i) housing, where you are a tenant of your Authority *unless* the decision relates particularly to your tenancy or lease;
- (ii) school meals or school transport and travelling expenses, where you are a parent or guardian of a child in full time education, or a parent governor of a school *unless* the decision relates particularly to the school concerned;
- (iii) statutory sick pay under Part XI of the Social Security Contributions and Benefits Act 1992, where you are in receipt of, or are entitled to the receipt of such pay;
- (iv) an allowance, payment or indemnity given to members;
- (v) any ceremonial honour given to members; and
- (vi) setting Council Tax or a precept under the Local Government Finance Act 1992.

This page is intentionally left blank

APPENDIX B

STANDARDS COMMITTEE – 13 MARCH 2012

14. THE FUTURE OF THE STANDARDS REGIME AT SEFTON COUNCIL

Further to Minute No. 10 of the meeting held on 29 November 2011, the Committee considered the report of the Head of Corporate Legal Services which provided a further update on the impact of the Localism Act 2011 and the current standards regime. The report also outlined the possible future arrangements for the administration of Standards in Sefton with effect from 1 July 2012.

RESOLVED: That

- (1) the Council be requested to determine which of the following options should be implemented with regard to the administration of Standards in Sefton with effect from 1 July 2012:
 - (a) the Standards Committee continue to operate as at present; or
 - (b) the work of the current Standards Committee be merged with that of the Council's Audit and Governance Committee and that the case-work of the current Standards Sub Committees continue and be overseen by the Audit and Governance Committee, or
 - (c) a Standards Panel comprising of members of the Audit and Governance Committee be appointed to oversee the case-work of the current Standards Sub Committee
- (2) subject to the decision taken by the Council on resolution 1 above, the Leaders of the Political Groups be requested to ensure that the expertise of the current members of this Committee on Standards issues is taken into account when the membership of the Committee responsible for the administration of Standards is determined for the 2012/13 Council Year; and
- (3) the Council be recommended to give approval to the following issues with regard to the new Standards regime:
 - (i) the draft Code of Conduct set out in Appendix A of the report as prepared by the Association of County Secretaries and Solicitors (ACSeS) be adopted by the Council with effect from 1 July 2012, subject to resolutions (vii) and (viii) below;
 - (ii) the Monitoring Officer and/or Deputies be given delegated authority in consultation with the Independent Member to deal

Agenda Item 4

with certain prescribed matters, in writing without the need to convene meetings, as set out in paragraph 6 of the report;

- (iii) subject to resolution 1 above, authority be delegated to the Hearings Sub Committee to impose the range of sanctions identified in paragraph 7 of the report on a Councillor should he/she have been found to be in breach of the Code of Conduct;
 - (iv)) the Monitoring Officer be granted delegated authority to make arrangements for the advertisement, recruitment of an Independent Member (IP) and for standby IP's in consultation with a working group of members (maximum of 5 members) drawn from the current Standards Committee;
 - (v) the Monitoring Officer prepare the new register of interests in conjunction with the Head of Governance and Civic Services to comply with the new Code of Conduct and the Act and ensure that the register is available for inspection;
 - (vi) the Monitoring Officer ensure that Members of the Council and Parish Councils are made aware of their new obligations under the Act in due course;
 - (vii) in addition to the draft Code of Conduct prepared by ACSeS, a provision be included in the Code to ensure that members update their register of interests within 2 months of the date that a change occurs; and
 - (viii) a further addition be made to the ACSeS draft Code of Conduct that where a member discloses a Disclosable Pecuniary Interest, he/she must withdraw from the meeting room, including from the public gallery, during the whole consideration of any item of business in which he/she has an interest, except where he/she is permitted to remain as a result of a grant of a dispensation.
- (4) the Audit and Governance Committee be requested to consider and endorse the recommendations set out above.

Sefton MBC

External Audit Plan 2011/12

Government and Public
Sector

March 2012

Agenda Item 5



Sefton Metropolitan Borough Council
Southport Town Hall
Lord Street
Southport
PR8 1DA

28 March 2012

Dear Elected Members

We are delighted to present to you our external audit plan 2011/12, which includes an analysis of our assessment of significant audit risks, our proposed audit strategy, audit and reporting timetable and other matters. Discussion of our strategy with you enables our engagement team members to understand your concerns and agree on mutual needs and expectations to provide the highest level of service quality. Our approach is responsive to the many changes affecting Sefton Council.

If you have any questions regarding matters in this document please contact Peter Chambers at 0161 247 4311.

Yours faithfully

A handwritten signature in black ink that reads 'PricewaterhouseCoopers LLP'.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP, Barbirolli Square, Lower Mosley Street, Manchester, M2 3PW
T: +44 (0)161 245 2000, F: +44 (0)161 245 2910, www.pwc.co.uk

Contents

Introduction	2
Purpose	2
Scope of the audit	3
Statement of accounts	3
Value for money conclusion	3
Other reporting requirements	3
Audit approach	4
Timetable	4
Significant audit risks for the audit of the Statement of Accounts	5
Materiality	5
Communications plan	7
Risk of fraud	8
Auditors' responsibility	8
Management's responsibility	8
Responsibility of the Governance and Audit Committee	8
Recent developments	10
Accounting developments	10
Developments in auditing	10
Appendices	11
Audit engagement team	12
Significant and elevated audit risks	13
Audit fees	17
Other engagement information	18

In March 2010 the Audit Commission issued a revised version of the 'Statement of Responsibilities of Auditors and of Audited Bodies'. It is available from the Chief Executive of each audited body and on the Audit Commission's [website](#). The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Introduction

Purpose

This audit plan has been prepared to provide the officers and members of the Council with information about our responsibilities as external auditors and how we plan to discharge them.

We issued our audit fee letter, setting out our indicative fees for 2011/12, on 31 March 2011 in accordance with Audit Commission requirements. This plan sets out in more detail our proposed audit approach for the year.

Every council is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the members and officers of the council. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code).

Our plan has been drawn up based upon discussion with management and our understanding of the Council and the local government sector.

Scope of the audit

We will conduct our audit in accordance with the relevant requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for local government bodies (“the Audit Code”) published by the Audit Commission.

Statement of accounts

We will conduct our audit of the Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland) as published by the Auditing Practices Board. We will issue an opinion stating whether in our view:

- the Statement of Accounts provides a true and fair view and has been prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the CIPFA Service Reporting Code of Practice; and
- the information given in the Explanatory Foreword is consistent with the Statement of Accounts.

In our audit report on the Statement of Accounts, we are also required to report by exception where, in our view, the Annual Governance Statement does not comply with the requirements of “Delivering Good Governance in Local Government: Framework” published by CIPFA/SOALCE in June 2007 or is misleading or inconsistent with information we are aware of from our audit.

As part of our work on the Statement of Accounts statements we will examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and issue an opinion stating whether in our view they are consistent with the Statement of Accounts.

Value for money conclusion

Under the Audit Code we are also required to report on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

As in 2010/11, we will perform the work we consider necessary to allow us to give our statutory value for money conclusion based on the following two criteria specified by the Audit Commission:

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

Other reporting requirements

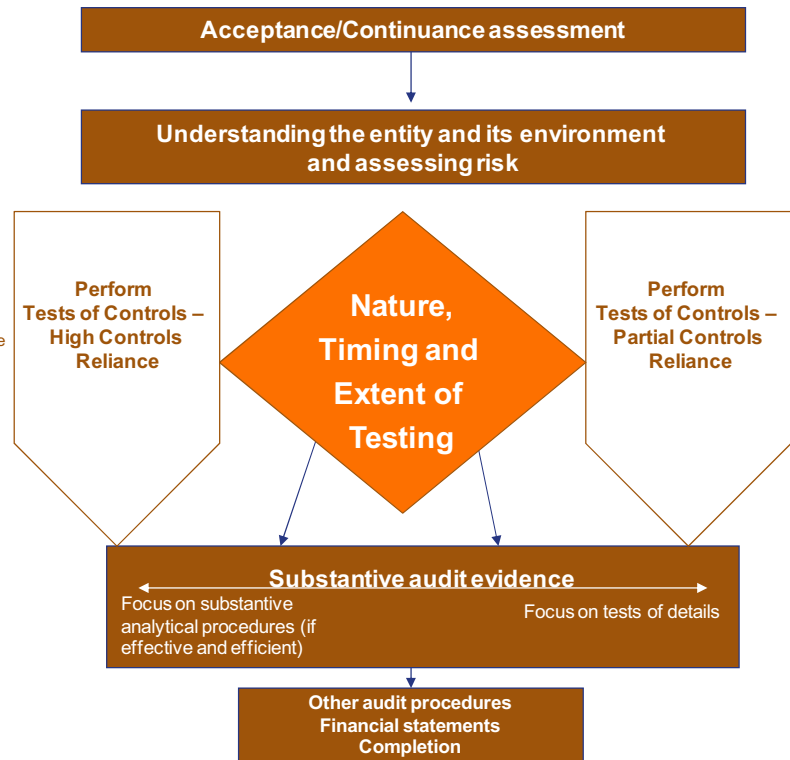
In addition, we are also required to consider:

- whether we need to issue a report in the public interest under s8 of the Audit Commission Act 1998;
- whether we need to make written recommendations for the consideration of the Council under s11(3) of the 1998 Act;
- whether we believe that the Council or one of its officers: is about to make or has made a decision which involves or would involve the authority incurring expenditure which is unlawful; is about to take or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency; or is about to enter an item of account, the entry of which is unlawful; and we need to issue an advisory notice under s19A of the 1998 Act;
- whether there is any item of account for which we need to make an application to the court under s17 of the 1998 Act for a declaration that the item is contrary to law; and
- whether we need to apply under s24 of the 1998 Act for judicial review of any decision or failure to act by the Council which it is reasonable to believe would have an effect on the accounts.

Audit approach

The PwC audit is based on:

- A thorough and detailed understanding of your business and its risks is acquired
- Gathering much of our audit evidence through a process of enquiry and testing which evaluates how your controls address the risks identified and whether assertions about control effectiveness can be supported by verifiable evidence
- As we complete the consideration of controls, we assess the extent to which we need to support the work done with additional substantive audit evidence
- We remain in effective communication with management and the audit committee or those charged with governance throughout the process through the *Communications Plan*



Timetable

The timetable for our work is as follows:

<i>Month/Deadline</i>	<i>Audit activity</i>
March 2012	Issue of External Audit Plan
March 2012	Interim audit
July / August / September 2012	Statement of Accounts audit
30 September 2012 (to be confirmed)	Target date for issue of: <ul style="list-style-type: none"> • ISA (UK&I) 260 Report to those Charged with Governance • Audit Opinion on the Statement of Accounts • Value for Money Conclusion • Opinion on the Whole of Government Accounts return
30 November 2012 (to be confirmed)	Deadline for issue of Annual Audit Letter

Significant audit risks for the audit of the Statement of Accounts

We have identified the following significant risks for our audit:

- **Management override of controls:** “Management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.” (ISA 240 paragraph 31).
- **Income and expenditure recognition:** “When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.” (ISA 240 paragraph 26). We extend this presumption to the recognition of expenditure in local government and other public sector bodies.
- **Valuation of properties:** In recognition of the sector wide risks in relation to valuations in the current economic climate, and recognising the significant judgements applied in this area, we assess the level of risk in this area as significant. The impact of this is to increase the amount of work we need to do on valuations.

These risks, as well as the elevated and normal risks for our audit, are described in more detail in Appendix 2.

Materiality

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on an understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required.

Materiality is another factor which helps us to determine our audit approach. Materiality is more than just a quantitative concept. Judgements about materiality are subjective and may change during the course of the engagement. The judgements about materiality are often implicit, and will be reflected in our assessments of risk and our decisions about which business units or locations, account balances, disclosures and other items are of greater or lesser significance.

We identify and assess the risks of material misstatement at two levels: the overall financial statement level; and in relation to financial statement assertions for classes of transactions, account balances and disclosures. Specifically, under our integrated audit methodology, we are required to identify three quantitative materiality thresholds as set out in the table overleaf.

These help us to plan the nature, timing and extent of our work and to evaluate the significance of any unadjusted differences identified from our audit procedures.

Type of materiality	What is it used for?
Overall materiality	<p>Determining the nature, timing and extent of risk assessment procedures.</p> <p>Identifying and assessing risks of material misstatement.</p> <p>Determining the nature, timing and extent of further audit procedures.</p> <p>Overall materiality represents the level at which we would consider qualifying our audit opinion.</p>

Type of materiality	What is it used for?
Planning materiality	<p>To identify significant accounts.</p> <p>To determine thresholds for further review when performing substantive analytical review procedures.</p> <p>To determine tolerable misstatement when performing non-statistical sampling.</p> <p>This is the level to which we plan our audit work.</p>
De minimis threshold	<p>ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial”. Matters which are clearly trivial are matters which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.</p> <p>As in 2010/11 we propose to treat misstatements less than £250,000 as being clearly trivial. We will include a summary of any uncorrected misstatements identified during our audit in our year-end ISA (UK&I) 260 report.</p>

Communications plan

Required Communication	Planning	Completion	As required
Copy of engagement letter to those charged with governance	<input type="checkbox"/>		
Independence and objectivity confirmation	<input type="checkbox"/>	<input type="checkbox"/>	
Detail of all non-audit work performed by the firm and related fees		<input type="checkbox"/>	
Nature and scope of work together with timing of expected reports	<input type="checkbox"/>		<input type="checkbox"/>
Expected modifications to the auditors' report		<input type="checkbox"/>	<input type="checkbox"/>
Uncorrected misstatements		<input type="checkbox"/>	
Significant deficiencies in internal control identified during the audit		<input type="checkbox"/>	
Views about the qualitative aspects of the entity's accounting practices and financial reporting		<input type="checkbox"/>	
Matters specifically required by other ISAs (UK&I) to be communicated to those charged with governance		<input type="checkbox"/>	<input type="checkbox"/>
Final draft of representation letter		<input type="checkbox"/>	
Any other audit matters of governance interest		<input type="checkbox"/>	<input type="checkbox"/>

Risk of fraud

International Standards on Auditing (UK&I) state that we as auditors are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

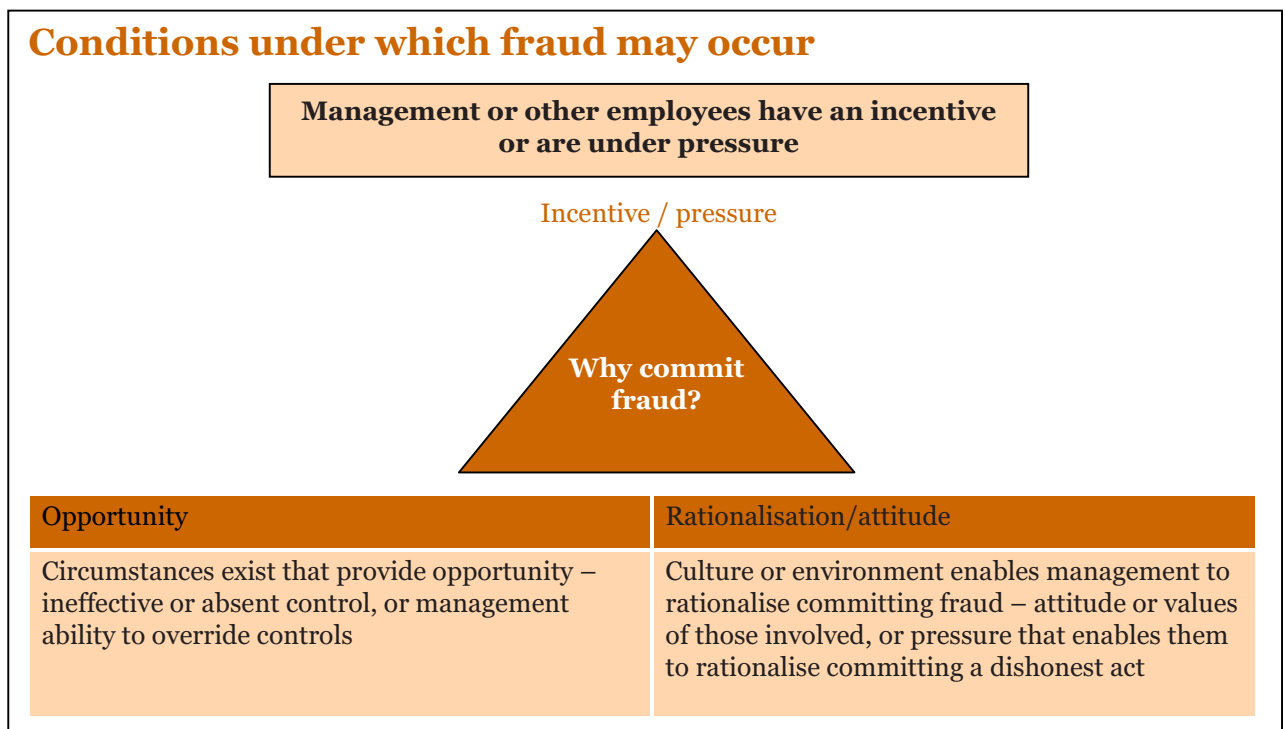
Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Governance and Audit Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.



Your views on fraud

We would welcome the opportunity to discuss the following areas with members of the Governance and Audit Committee:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

Recent developments

Accounting developments

New Requirements in the Code of Accounting Practice

The Code of Practice on Local Authority Accounting in the United Kingdom for 2011/12 was published in Spring 2011 setting out the following substantial changes in accounting requirements for local authorities:

- For the first time in the 2011/12 Statement of Accounts, the Code requires authorities to present information about the **heritage assets** that they hold. Heritage assets are those that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Typical examples include historic buildings, civic regalia, museum and gallery collections and recordings of historic events. Where it is practicable to obtain a valuation (at a cost commensurate with the benefits to users of the Statement of Accounts), the Code now requires material amounts of heritage assets to be carried in the Balance Sheet at that valuation.

Where it is not practicable to obtain a valuation and there is no record of their historical cost, assets are to be omitted from the Balance Sheet. However, in these circumstances notes will be required explaining the significance and nature of those assets that are not reported in the Balance Sheet.

The Council will therefore need to assess whether it has any substantial portfolio of heritage assets. If so, it will determine whether an appropriate and relevant valuation can be made for the items in the portfolio and then obtain any valuations required. New notes to the accounts will also need to be prepared setting out the Council's policy for the acquisition, preservation, management and disposal of heritage assets.

- There is a new requirement for a disclosure note setting out the number of **exit packages** agreed, analysed between compulsory redundancies and other departures and presented in £20,000 bands up to £100,000 and £50,000 bands above £100,000. The total cost of packages in each band must also be disclosed. (There will be scope to combine bands if this is necessary to ensure that individual packages cannot be identified.)
- The **related parties** disclosures have been simplified where the Council has transactions with government departments and agencies, NHS bodies and other local authorities, limiting disclosure to individually or collectively significant transactions.

Carbon Reduction Commitment

2011/12 is the first year that the Council is required under the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme to purchase and surrender CRC allowances in proportion to the emissions it makes during the year. Although the surrender in relation to 2011/12 will take place in 2012/13, the Council will need to account at 31 March 2012 for the consequences of the emissions it has made in 2011/12.

When this report was issued there was no specific guidance available to local authorities as to how CRC obligations should be reflected in the Statement of Accounts. However, it is probable that provisions will need to be made at 31 March 2012 in relation to any costs likely to be incurred in meeting obligations relating to 2011/12 emissions.

Developments in auditing

Highways Infrastructure

Arrangements will not be confirmed by the Audit Commission until after the end of the financial year, but it is possible that the scope of our opinion on the Whole of Government Accounts return may be extended to include aspects of the information that the Council might be required to provide on the depreciated replacement cost of highways infrastructure assets. We will advise the Council promptly of any new responsibilities that might be confirmed once Commission arrangements are finalised.

Appendices

Audit engagement team

<i>Audit team</i>	<i>Responsibilities</i>
Peter Chambers Engagement Leader 0161 247 4311 peter.p.chambers@uk.pwc.com	Peter will be responsible for the overall conduct of the audit, and for signing all audit and other opinions.
Stuart Baron Engagement Manager 07809 755 749 stuart.d.baron@uk.pwc.com	Stuart will be responsible for managing our accounts work, including the audit of the statement of accounts, and governance aspects of the use of resources.
Matthew Chandler Team Leader 07595 610 299 matthew.s.chandler@uk.pwc.com	Matthew will be responsible for day-to-day management of our accounts work, including the audit of the statement of accounts.

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters.

There are no matters which we perceive may impact our independence and objectivity of the audit team.

Relationships and investments

Members and senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Significant and elevated audit risks

Our risk assessment forms the basis for planning and guiding all subsequent audit activities. It allows us to determine where our audit effort should be focused and whether we can place reliance on the effective operation of controls implemented by management. Risks are categorised as follows:

- **Significant** Risk of material misstatement due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.
- **Elevated** Although not considered significant, the nature of the balance/area requires specific consideration.
- **Normal** We perform standard audit procedures to address normal risks in all other material financial statement line items.

Financial Statements risks

Risk	Significant / elevated risk	Reason for risk identification	Audit approach
Fraud and management override of controls	● S	ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.	We will perform procedures to; <ul style="list-style-type: none"> • test the appropriateness of journal entries; • review accounting estimates for biases and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; • perform ‘unpredictable’ procedures; and • may perform other audit procedures if necessary.
Recognition of income and expenditure	● S	Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government. This is more likely to occur in significant areas of non-payroll expenditure or areas where accounting judgements or estimates have been made. There is also a risk of expenditure being	We will obtain an understanding of revenue and expenditure controls. We will evaluate and test the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting. We will also perform detailed

Risk	Significant / elevated risk	Reason for risk identification	Audit approach
Valuation of properties	● S	<p>inappropriately capitalised.</p> <p>Property, plant and equipment (PPE) represents the largest balance in the Council's balance sheet. The Council measures its properties at fair value involving a range of assumptions and the use of external valuation expertise. ISAs (UK&I) 500 and 540 require us, respectively, to undertake certain procedures on the use of external expert valuers and processes and assumptions underlying fair value estimates.</p> <p>Specific areas of risk include:</p> <ul style="list-style-type: none"> • The accuracy and completeness of detailed information on assets. • Whether the Council's assumptions underlying the classification of properties are appropriate. • Whether properties that are not programmed to be revalued in the year might have undergone material changes in their fair value (based on the results for the 20% which are valued in the current year). • The valuer's methodology, assumptions and underlying data, and our access to these. 	<p>testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk.</p> <p>The PwC valuations team will review the assumptions used in determining the fair value of assets recorded within the Council's financial statements. This will be applicable to the 80% not programmed to be revalued in the year as well as the 20% that is included.</p> <p>We will also review the appropriateness of the Council's approach to component depreciation.</p> <p>We will review start up costs included in fixed assets on the year-end balance sheet and physically verify and agree material fixed asset additions in the year to appropriate supporting documentation.</p> <p>We will review the proposed accounting treatment (including financing arrangements) for any new capital schemes and material additions in 2011/12 and consider the implications for our audit work.</p>
Savings Plans / increased pressure on financial position and budgets	● E	<p>The Council is experiencing increased pressures on many of its budgets as economic conditions have worsened. Budget holders may feel under pressure to try to push costs into future periods, or to miscode expenditure to make use of resources intended for different purposes.</p> <p>Local government bodies are expected to make significant efficiency savings over the next three years. There is a risk that savings plans may not be robust or based on long term solutions which could result in short term, yearend</p>	<p>We will review the Council's budget monitoring processes to identify any areas of concern. We will also bear these risks in mind when carrying out cut-off testing.</p> <p>As part of our value for money conclusion and in conjunction with our work on financial standing, we will consider the robustness of a sample of the Council's savings targets. We will also consider the accounting implications of any savings plans and would welcome early discussion of any</p>

Risk	Significant / elevated risk	Reason for risk identification	Audit approach
One Vision Housing legal claim	● E	<p>actions to ensure that targets are met.</p> <p>There are also risks in relation to financial reporting, that the requirement to report particular financial results overrides best financial reporting practice.</p> <p>During 2010/11 the Council agreed to go to mediation to resolve a legal claim in relation to the cost of cladding for a number of tower blocks. The anticipated costs are estimated at £6m, and are currently included in the financial statements as a contingent liability.</p> <p>We understand that the Council was unable to resolve the matter at mediation and the financial consequences may arise as a result of the claim.</p>	<p>new and unusual proposals. In particular, we will consider the impact of the efficiency challenge on the recognition of both income and expenditure.</p> <p>We will hold discussions with management to understand the current position.</p> <p>We will review the status of the dispute to form a view on the appropriateness of the Council's accounting treatment.</p>
Sefton New Directions	● E	<p>The Council's subsidiary company is in financial difficulty following a reduction in revenue it receives from the Council. The Council's 2010/11 financial statements accounted for Sefton New Directions (SND) as a going concern resulting in the pension liability of SND's being treated as a contingent liability in 2010/11.</p>	<p>We will hold discussions with management to understand the current position.</p> <p>We will perform a going concern review of SND's to ensure the accounting treatment is appropriate for the 2011/12 financial statements.</p>
Capita Contract	● N	<p>The Council is bringing back in house the services that were previously outsourced to Capita Symonds.</p>	<p>We will hold discussions with management to understand the current position.</p> <p>We will review the status of the contractual arrangements and determine whether this has any accounting implications.</p>
Heritage assets	● N	<p>We understand that the Council has a number of heritage assets within its financial statements that will now be required to held at valuation where a valuation can be obtained, with the assets recorded at this valuation within its Balance Sheet.</p>	<p>We will discuss with management and determine as to whether an appropriate valuation can be obtained for these assets.</p>
Bad debt	● N	<p>The economic downturn is likely to have increased the risk of the Council suffering losses due to bad debt. The Council will need to have</p>	<p>We will assess the robustness of the Council's assessment of its exposure to bad debts, and review evidence as to the</p>

Risk	Significant / elevated risk	Reason for risk identification	Audit approach
		assessed the collectability of debts, and reviewed its bad debt provision, to avoid overstating its debtors.	collectability of year end debtors.

Audit fees

The Audit Commission has provided audit fee levels for local government bodies for the 2011/12 financial year, based on the fee for 2010/11 adjusted for the reductions set out in the final work programmes and scales of fees documents available on the Commission's website. The fee scale for the audit of the Council is £245,231.

The scale fee takes into account assessments we made in 2010/11 about audit risk and complexity, and the Commission expects variations from the scale fee to occur only where these factors are significantly different from those identified and reflected in the 2010/11 fee.

Our assessments about audit risk and complexity have been based on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- We are able to place reliance on the work of inspectors and internal audit in respect of our value for money conclusion;
- No significant changes being made by the Audit Commission to the value for money criteria on which our conclusion will be based;
- An early draft of the Annual Governance Statement being available for us to review prior to 31 March 2012;
- Our value for money conclusion and accounts opinion being unqualified.

If these prove to be unfounded or other changes in audit risk or complexity are identified, we will seek a variation order to the agreed fee, to be discussed in advance with you.

Other engagement information

The Audit Commission appoint us as auditors to Sefton MBC and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors

There are four further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or James Chalmers, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

Agenda Item 5

In the event that, pursuant to a request which Sefton Metropolitan Borough Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Sefton Metropolitan Borough Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Sefton Metropolitan Borough Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Sefton Metropolitan Borough Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This report has been prepared for and only for Sefton Council in accordance with the Statement of Responsibilities of Auditors and of Audited Bodies (Local government bodies) published by the Audit Commission in March 2010 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

© 2012 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Agenda Item 6

Report to: Audit & Governance Committee **Date of Meeting:** 28 March 2012

Subject: Members Treasury Management Training

Report of: Head of Corporate Finance & ICT **Wards Affected:** All

Is this a Key Decision? No

Is it included in the Forward Plan?
No

Exempt/Confidential

No

Purpose/Summary

To summarise the main issues considered at the treasury management training undertaken on 10 February 2012; and to note the intention for a more detailed report to be presented at a future meeting on this Committee on the “direction of travel” for the Council’s investment strategy.

Recommendation(s)

Audit & Governance Committee is recommended to: -

- i) Note the treasury management training 10 February 2012 update; and
- ii) That a report on the “direction of travel” of the Council’s investment Strategy be presented to a future meeting of this Committee.

How does the decision contribute to the Council’s Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		Y	
2	Jobs and Prosperity		Y	
3	Environmental Sustainability		Y	
4	Health and Well-Being		Y	
5	Children and Young People		Y	
6	Creating Safe Communities		Y	
7	Creating Inclusive Communities		Y	
8	Improving the Quality of Council Services and Strengthening Local Democracy		Y	

Reasons for the Recommendation:

To ensure that Audit & Governance are fully appraised on the Members training undertaken on 10 February 2012.

Agenda Item 6

What will it cost and how will it be financed?

(A) Revenue Costs

No implications.

(B) Capital Costs

No implications.

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal	
Human Resources	
Equality	
1. No Equality Implication	<input type="checkbox"/>
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

None.

What consultations have taken place on the proposals and when?

The Head of Corporate Finance & ICT has been involved in the preparation of this report. (FD 1449/12)

The Head of Corporate Legal Services (LD 800/12) have been consulted and any comments have been incorporated into the report.

Are there any other options available for consideration?

None.

Implementation Date for the Decision

Immediately following the normal call-in period.

Contact Officer: Margaret Rawding Head of Corporate Finance & ICT

Tel: 0151 934 4082

Email: Margaret.rawding@sefton.gov.uk

Background Papers:

Treasury Management Training Day presentation.

1. Introduction

- 1.1 Members were invited to a training seminar on 10 February 2012, on the topic of Treasury Management, which was presented by the Council's Treasury Management advisor, Arlingclose. This was undertaken as part of the contract with the Council to provide advice and support to the Council on investment and borrowing.
- 1.2 The session was well attended and the feedback from Members has been positive. For the benefit of those Members who could not attend, the slides were circulated by e-mail. It was considered appropriate for the main issues raised at the meeting to be briefly summarised.

2. Summary of Key points

2.1 CIPFA definition of Treasury Management is as follows:

"It is the management of an organisation's investments and cash flow, 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 aim is to:

- Provide support towards achievements of business and service objectives
- Achieve best value
- Facilitate appropriate policies and practices.

2.2 Members Roles and Responsibilities

- Determining and approving treasury objectives for Sefton Council
- Determining Sefton's risk threshold
- Understanding risks and their effective control
- Considering a range of investment/borrowing options
- Approving treasury policy, framework and strategy and Prudential Indicators
- Adequacy of skills and resources
- Scrutiny / Governance and Audit
- Receiving reports, review of internal audit reports
- Monitoring treasury performance via reports above.

The key document is the Treasury Management Policy and Strategy document approved by Council in March each year.

3. Economic overview

- 3.1 An understanding of the economic environment is crucial to treasury management, in order that officers and Members are aware of the inherent risks of investment and borrowing appertaining at the time the transactions are made.
- 3.2 The key features of the UK economy at the present time, identified in the presentation were low demand, low growth, and falling inflation.

Agenda Item 6

- Fall in banks share price appears to have bottomed, with RBS share price rising slightly from a low of 17.34p
- The Credit Default Swap spread (i.e. a measure of the cost of insuring a deposit with a bank against bank failure) has reduced for banks such as Lloyds and RBS – less of a risk
- Interest rates will be low for longer due to low growth (potentially at 0.5% until 2015) and low consumption in the economy, as well as the falling away of inflation
- UK house prices still in negative territory
- UK unemployment on the rise which will reduce demand in the economy
- Consumer confidence still in negative territory reducing demand in the economy
- Mortgage equity withdrawal in negative territory as households are repaying mortgages early. In the past, equity withdrawal has stoked demand in the economy, but this is not being experienced currently.

4. Treasury risk management

4.1 The Key principles are identified below. They are always considered in the order shown below i.e. the security of the investment should be the paramount consideration, rather than the rate of return (yield) from that investment:

- Security – probability of getting your investment back at the end of the investment period
- Liquidity – ease of recalling the investment
- Yield – the rate of return on the investment

4.2 Factors influencing decisions as to which banking institutions any spare resources can be invested with, include the following:

- The balance sheet
- Interest rate outlook
- Credit risk
- Borrowing strategy

4.3 When assessing what institutions to invest in, the following are reviewed:

- Credit ratings from credit rating agencies
- CDS levels
- Share price
- Government support
- Press/articles

4.4 Current policy is to internally borrow i.e. run down cash balances rather than borrow. This reduces cost of borrowing and credit risk.

Many top UK banks were downgraded in February 2012. In response Arlingclose, our treasury advisors, have lowered credit criteria from A+ with investment duration of 2 years, to A- with duration of 1 year. Key UK banks on lending list are as follows:

Santander UK
Bank of Scotland
Barclays
HSBC
Lloyds TSB
Natwest
Nationwide
RBS
Standard Chartered Bank

5. Issues on borrowing raised at the seminar

- 5.1 The key here is the cost of borrowing when compared to the return on investments i.e. - the “cost of carry”. At the moment the cost of borrowing is in the region of 5%, whilst the investment rate earned is approximately 1%. Hence the decision has been taken to internally borrow, which describes running down cash balances rather than borrowing in order to minimise the cost of carry.
- 5.2 However, this requires close monitoring of future interest rate projections to ensure that interest rates do not suddenly rise. This is so that any borrowing to reduce internal borrowing is made at the lowest rate possible, so that the benefits of the reduced cost of carry are not outweighed by increased borrowing charges in the future.

6. Direction of Travel

6.1 Investments

A question was raised at the meeting regarding the direction of travel for Sefton’s future investments. This followed the identification of a number of alternative investment opportunities, mainly surrounding improved security.

Some of the options available to the Council are:

i) Bonds

A bond is an instrument that pays a coupon, or fixed rate of interest. For example a £100 bond may be purchased paying 2% interest for a fixed term. There is a risk that a bond can be sold prior to its redemption date but may incur a loss if not held to maturity. This is because if the bond is paying a rate of interest lower than the current rate of interest offered by the market, it is less attractive to potential buyers and its resale value is reduced.

ii) Gilts

Gilts also pay a coupon, but on a twice yearly basis. It is issued at face value, which is the value repaid at maturity.

iii) Treasury Bills

No interest is payable on treasury bills as they are bought at a discount and redeemed at face value.

iv) Local Authorities

Deposits can be made with other local authorities.

Agenda Item 6

v) **Debt Management Office (DMO)**

A government backed agency that is extremely secure, but conversely pays very low rates of interest, currently 0.25%.

The Council has already set up relevant agreements with the relevant bodies for Treasury Bills and Bonds, should they be needed urgently in the event of a collapse in the viability of investing in the current list of high street banks. However, the strategy for the direction of travel of future investments is to be investigated in the coming months and will be the subject of a more detailed report to Audit & Governance Committee at a future meeting.

6.2 Borrowing

The Revenue Budget for 2012/13 assumes that any borrowing (i.e. to replace existing loans which are due to mature and for new capital spending) will be from the Public Works Loans Board. However, the opportunity to borrow short-term from other local authorities at lower rates of interest is being investigated. The wider strategy for borrowing will also be included in the Direction of Travel report.

Agenda Item 7

Report to: Audit & Governance Committee

Date of Meeting: 28 March 2012

Subject: Treasury Management 2011/12 – Third Quarter Update

Report of: Head of Corporate Services & ICT **Wards Affected:** All

Is this a Key Decision? No

Is it included in the Forward Plan?
No

Exempt/Confidential

No

Purpose/Summary

To inform Members of Treasury Management Activities undertaken in the third quarter of 2011/12.

Recommendation(s)

Audit & Governance Committee is requested to note the Treasury Management update for the third quarter of 2011/12.

How does the decision contribute to the Council's Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		Y	
2	Jobs and Prosperity		Y	
3	Environmental Sustainability		Y	
4	Health and Well-Being		Y	
5	Children and Young People		Y	
6	Creating Safe Communities		Y	
7	Creating Inclusive Communities		Y	
8	Improving the Quality of Council Services and Strengthening Local Democracy		Y	

Agenda Item 7

Reasons for the Recommendation:

To ensure that Audit & Governance Committee are fully apprised of the treasury management activity for the third quarter of 2011/12.

What will it cost and how will it be financed?

(A) Revenue Costs

None.

(B) Capital Costs

None.

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal	
Human Resources	
Equality	
1. No Equality Implication	<input type="checkbox"/>
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

None.

What consultations have taken place on the proposals and when?

The Head of Corporate Finance & ICT has been involved in the preparation of this report. (FD 1448/12)

Legal Services (LD 799/12) have been consulted and any comments have been incorporated into the report.

Are there any other options available for consideration?

No.

Agenda Item 7

Implementation Date for the Decision

Immediately following the normal call-in period.

Contact Officer: Margaret Rawding Head of Corporate Finance & ICT

Tel: 0151 934 4082

Email: Margaret.rawding@sefton.gov.uk

Background Papers:

The following papers are available for inspection by contacting the above officer(s):
Treasury Management quarter 1 2011/12 update report, and treasury management half year 2011/12 update report.

Agenda Item 7

1 BACKGROUND TO THE REPORT

- 1.1 The Treasury Management Policy and Strategy document for 2011/12 (approved by Council on 4 March 2011) included a requirement for quarterly reports to be provided to Audit & Governance Committee on the investment activity of the Authority. This report is the third of such reports for the year and presents relevant Treasury Management information for the period ending 31 December 2011.
- 1.2 The report includes information on the investments held / entered into during the period and the interest rates obtained (with a comparison of performance against a standard benchmark figure). In addition, the report highlights whether there has been any variance from the Treasury Management Policy Strategy and the Prudential Indicators (the operational boundaries within which the Council aims to work).

2 INVESTMENTS HELD

- 2.1 Investments held at the end of December 2011 comprise the following:

Overnight deposits

Institution	Deposit £m	Rate %	Maturity date	On current counterparty list?
Natwest	12.000	0.80	N/A	Yes
Goldman-Sachs MMF	4.080	0.64	N/A	Yes
Blackrock MMF	4.085	0.62	N/A	Yes
Insight MMF	4.080	0.75	N/A	Yes
Total	<u>24.245</u>			

Fixed term deposits

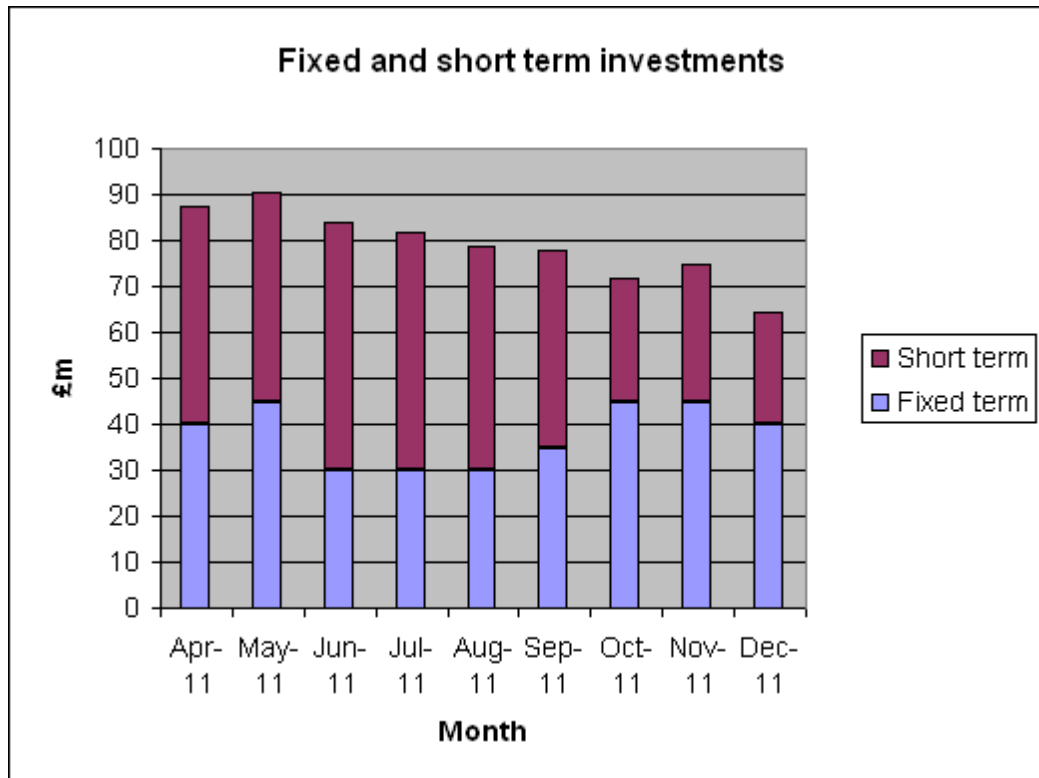
Santander	10.000	1.21	16/01/2012	Yes
Lloyds	10.000	1.14	23/03/2012	Yes
Lloyds	5.000	2.65	27/07/2012	Yes
Barclays	5.000	1.20	30/03/2012	Yes
Barclays	5.000	1.17	04/04/2012	Yes
Nationwide	5.000	1.19	04/04/2012	Yes
Total	<u>40.000</u>			
TOTAL	<u>64.245</u>			

- 2.2 All of the organisations are on the current counterparty list. However, it should be noted that the duration of investments with these institutions has since been shortened by our treasury advisors, Arlingclose. All of the above institutions now have recommended investment duration of one month maximum, except Santander which has an advised overnight duration, although Arlingclose do not advise breaking any of the above term deposits. The maximum level of investment permitted in the Treasury Management Strategy in any one institution, or banking group, is currently £25m. Whilst the maximum should be retained, in case

economic conditions change, a day to day operational maximum of £15m is currently being imposed.

This will spread the risk of investments for the Council, but will have a small detrimental impact on the returns the Council will receive in the future. The Council has remained within that boundary during year. At present, it is not expected that there will be any need to review this limit.

- 2.3 The ratio of overnight deposits (i.e. short term) to fixed term investments is illustrated below:



3 RISK APPETITE

- 3.1 The Council will only invest in institutions that hold a minimum Fitch rating of F1 A- for banking institutions, or Aaa/Mr1+ for money market funds. The rating criteria was revised down to this level after advice from Arlingclose, and this reduction was agreed by Council on 24 November 2011. The ratings applied to investment grade institutions and the much riskier speculative grade institutions, as defined by Fitch, has been placed into a risk matrix – see Appendix B. The matrix defines institutions in terms of their Fitch rating, and grades them as follows:

- Low risk – score of 1 – 4
- Low to medium risk - score of 5 – 9
- Medium risk – score of 10 – 20
- High risk – score of 21 - 36

- 3.2 The matrix shows how the Council has set its risk appetite by being risk averse and putting security and liquidity before yield, by ensuring that it invests with institutions where the probability of default, and consequence of any default, is

Agenda Item 7

kept to a minimum. This is done by keeping within the confines of institutions rated with a risk profile of 1 - 9. The matrix also shows where the Council's deposits are held in terms of the matrix as at 31 December 2011.

4 INTEREST EARNED

4.1 The actual performance of investments against the profiled budget for the period to December 2011 is shown below:

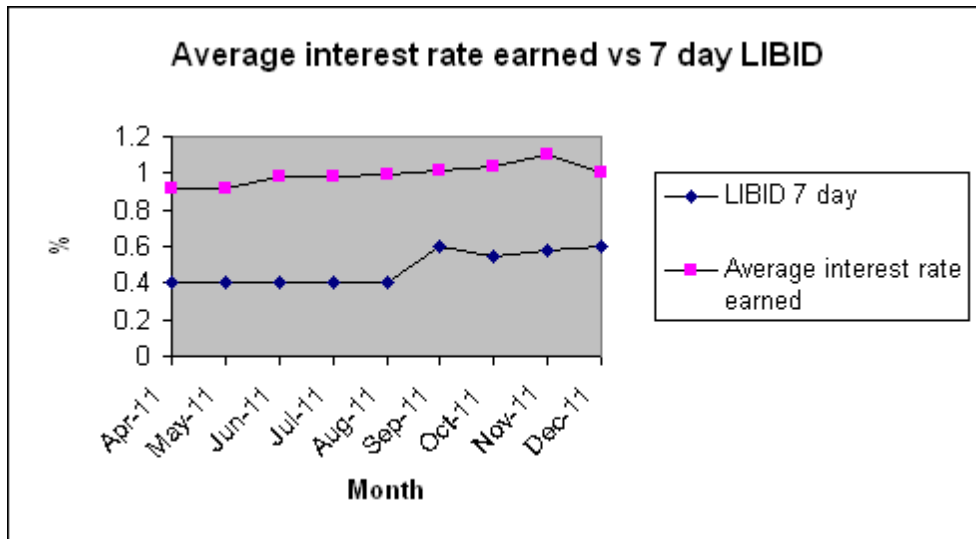
2011/12 Quarterly Investment Income

	Budget '000s	Actual '000s	Variance '000s
Qtr 3	570	609	39

4.2 The budgeted investment average interest rate for 2011/12 is 0.82%, which equates to £0.856m income for the year. This figure assumes the income from investments already in place at 1st April 2011 and new returns based upon Bank of England's Base Rate projection as supplied by our treasury consultants.

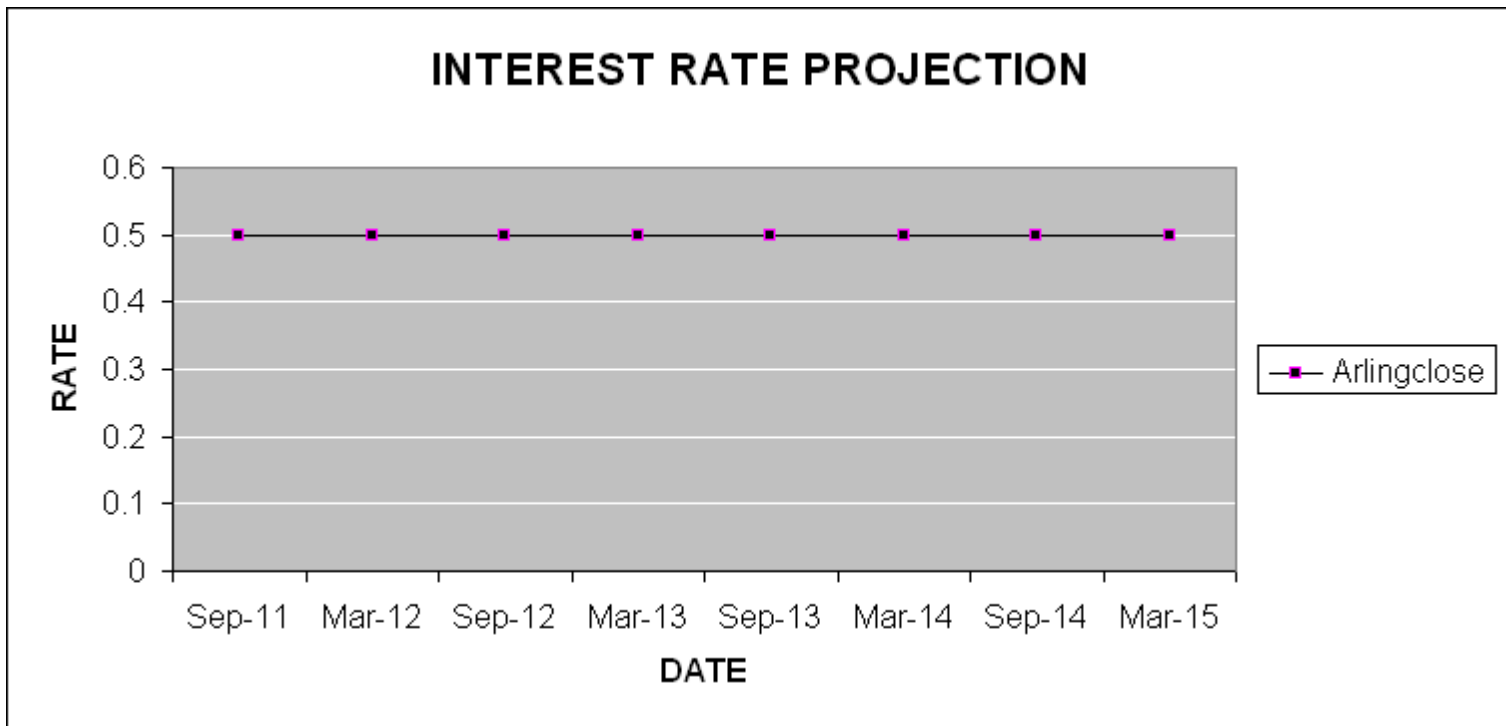
4.3 The investment income achieved during the first three quarters is £0.609 m, which equates to an average interest rate of 1.01%.

We have outperformed the 7 day LIBID average as follows:



5 LATEST BANK OF ENGLAND BASE RATE FORECAST

5.1 Our Treasury Management advisors, Arlingclose, have revised down their base rate projection to a flat projection of 0.5% until March 2015. This is based upon the view that the economic recovery will be considerably slower than expected. This is detailed below:



6 COUNTERPARTY LIST

6.1 The current counterparty list is detailed in **Appendix A**. There is little change to the composition of the list when comparing the position at the end of Qtr 2 2011/12, which does suggest that stability has returned to the banking sector.

7 PRUDENTIAL INDICATOR MONITORING

7.1 Prudential indicators are an integral component of measuring how prudently a Council is acting with regard to its finances. They were introduced into all local authorities (by CIPFA) following the Local Government Act 2003. A number of measures/limits/parameters including capital financing, external debt, impact on Council Tax, and treasury management are set prior to the start of the year and are monitored on a monthly basis.

7.2 It should be noted that one of the prudential indicators has been breached. This position is consistent with that reported in the fourth quarter 2010/11.

The Interest Rate Exposure Indicators has been exceeded:

- The limits for fixed rate interest rate exposure expressed as a percentage of net outstanding debt were set to remain between 250% and 150%.
- The limits for variable rate interest rate exposure expressed as a percentage of net outstanding debt were set to remain between -50% and -150%.

Agenda Item 7

The interest rate indicators are there to prevent either too much investment in fixed or variable interest rate arrangements. This is to ensure a reasonable balance between fixed rate investments where cash is locked away, and variable rate investments that earn a lower rate of interest but give more immediate access to funds.

The variance in both of these indicators is due to the higher level of overnight deposits being held than originally envisaged. As noted in paragraph 2.2, the problem of identifying institutions with which to invest has meant higher levels of investments in liquid funds, including Money Market Funds. Although these deposits do not earn as much income as fixed term deposits, they are felt to be safer in the economic conditions experienced during the year due the immediate access to funds that they allow.

- 7.3 The breaching of the above indicators has been caused by specific reasons which are not considered to be an indication of any inherent problems.

Appendix A

STANDARD LENDING LIST

UK and International Banks (including Nationwide Building Society)

RATING	Individual rating	Support rating
--------	-------------------	----------------

United Kingdom AAA

Santander UK	F1 / A+	B	1
Barclays	F1+ / AA-	B	1
Lloyds TSB/HBOS – nationalised	F1 / A	C	1
RBS Group – nationalised	F1 / A	C	1
Nationwide	F1 / A	B	1
HSBC	F1+ / AA	B	1

Australia AAA

Australia & New Zealand Banking Group	F1+ / AA-	B	1
Commonwealth Bank of Australia	F1+ / AA-	A/B	1
National Australia Bank	F1+ / AA-	B	1
Westpac Banking Group	F1+ / AA-	A/B	1

Canada AAA

Bank of Montreal	F1+ / AA-	B	1
Bank of Nova Scotia	F1+ / AA-	B	1
Canadian Imperial Bank of Commerce	F1+ / AA-	B	1
Royal Bank of Canada	F1+ / AA	A/B	1
Toronto Dominion Bank	F1+ / AA-	B	1

USA AAA

JP Morgan Chase Bank	F1+ / AA-	B	
----------------------	--------------	---	--

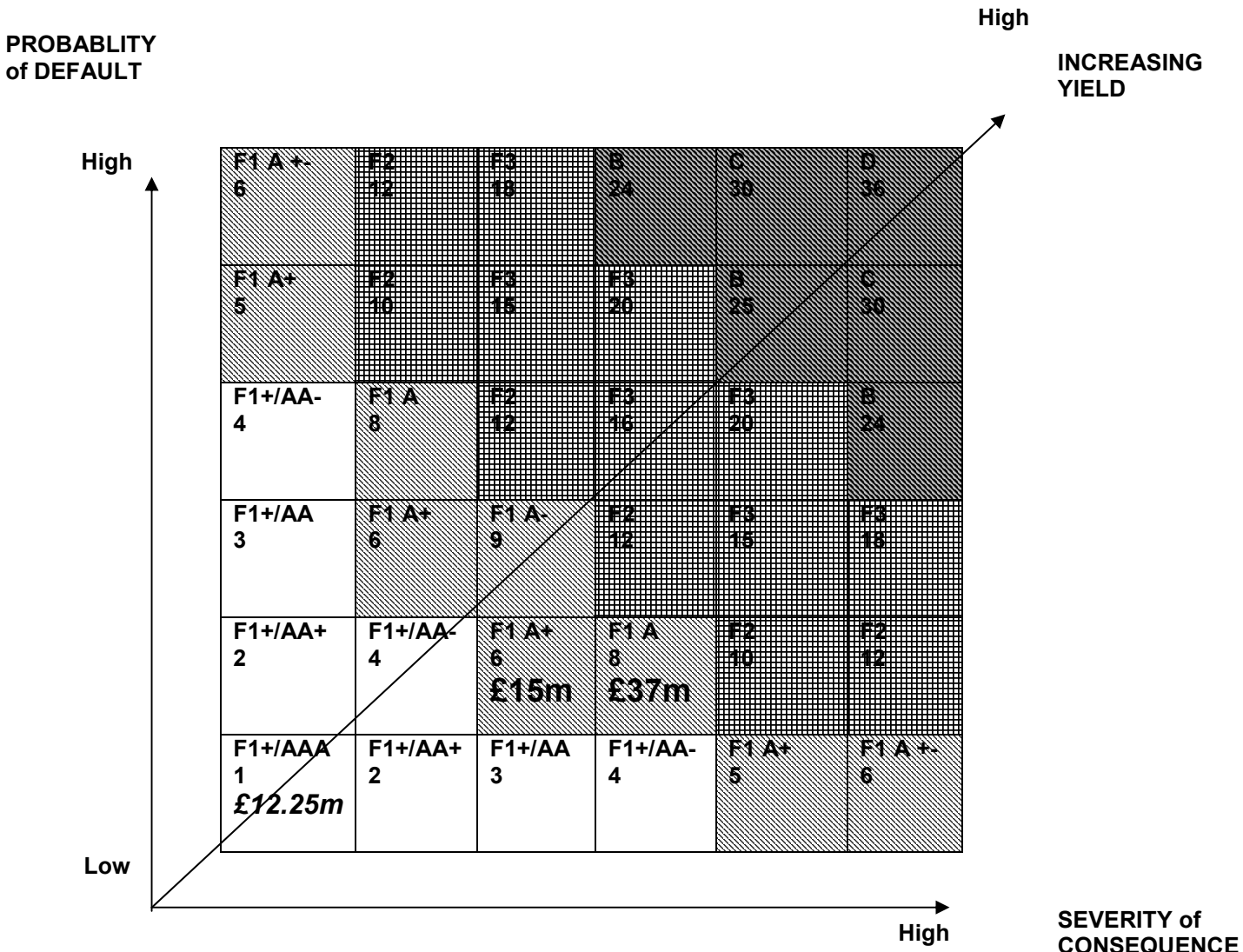
The recent economic situation has provided challenges for the Council with regard to its investment strategy. The report presented to Cabinet on 11 June 2009 explained the difficulties in identifying banking institutions to invest in (which provided reasonable investment

Agenda Item 7

returns), whilst remaining within the deposit limit of £15m. Consequently, Cabinet agreed to increase the deposit limit from £15m to £25m. As noted in 5.2 above, the Council has remained within an operational boundary of £15m. At present, it is not expected that the operational boundary will be increased to £25m.

Appendix B

RISK ASSESSMENT MATRIX - FITCH RATINGS



SEFTON RISK TOLERANCE	4		INVESTED
LOW RISK	1 - 4	Investment Grade	£12.25m
LOW - MEDIUM RISK	5 - 9	Investment Grade	£52m
MEDIUM RISK	10 - 20	Investment Grade	Nil
HIGH RISK	21 - 36	Speculative Grade	Nil

This page is intentionally left blank

Agenda Item 8

Report to: Audit & Governance Committee **Date of Meeting:** 28 March 2012

Subject: Review of Doubtful Debt Provision – Council Tax / Sundry Debts

Report of: Head of Corporate Finance & ICT **Wards Affected:** All

Is this a Key Decision? No **Is it included in the Forward Plan?** No

Exempt/Confidential No

Purpose/Summary

To identify proposed new methodologies for determining the provision for doubtful debts for Council Tax and Sundry Debts.

Recommendation(s)

Audit & Governance Committee is recommended to: -

- i) Note the proposed methodology for determining the target level of provision for Doubtful Debts for Council Tax and Sundry Debts; and
- ii) Note that the Council will move toward the achievement of these target levels, as resources allow.

How does the decision contribute to the Council's Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		Y	
2	Jobs and Prosperity		Y	
3	Environmental Sustainability		Y	
4	Health and Well-Being		Y	
5	Children and Young People		Y	
6	Creating Safe Communities		Y	
7	Creating Inclusive Communities		Y	
8	Improving the Quality of Council Services and Strengthening Local Democracy		Y	

Agenda Item 8

Reasons for the Recommendation:

To ensure that the provisions for doubtful debts of Council Tax and Sundry debts are calculated on a prudent basis.

What will it cost and how will it be financed?

(A) Revenue Costs

Changes to the Council Tax Doubtful Debt provision will be financed from the Collection Fund. This Account is separate from the General Fund (it collects Council Tax income on behalf of Sefton and the Police and Fire and Rescue Authorities), However, deficits on this Account have to be financed, either from future surpluses, or directly from the Revenue Accounts of the above bodies.

Additional contributions to the Sundry Doubtful Debt provision will come directly from the Revenue Account.

(B) Capital Costs

No implications.

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal	None
Human Resources	None
Equality	
1. No Equality Implication	<input type="checkbox"/>
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

None.

What consultations have taken place on the proposals and when?

The Head of Corporate Finance & ICT has been involved in the preparation of this report. (FD 1455/12)

The Head of Corporate Legal Services (LD 806/12) have been consulted and any comments have been incorporated into the report.

Are there any other options available for consideration?

None.

Agenda Item 8

Implementation Date for the Decision

Immediately following the normal call-in period.

Contact Officer: Margaret Rawding Head of Corporate Finance & ICT

Tel: 0151 934 4082

Email: Margaret.rawding@sefton.gov.uk

Background Papers:

None

Agenda Item 8

1. Introduction

- 1.1. Members will recall a report to this Committee on 28 September 2011, which considered the approval of the Statement of Accounts for 2010/11. Contained within that report, the Council's external auditors, PricewaterhouseCoopers (PwC), argued that the level of provision for Doubtful Debts should have provided for a significantly greater proportion of the receivables balance. At that time, no action was taken. However officers indicated that a review would be undertaken prior to setting the level of Doubtful Debt provision for the 2011/12 Accounts.
- 1.2. A review of the Doubtful Debt provision for both the Council Tax Debtors and Sundry Debtors has now been undertaken. Comparisons of both methodology and percentage set asides in other authorities have been used to ascertain whether any changes to Sefton's approach is required. This report sets out the findings of that review and the proposals for the future levels of Doubtful Debt provision.
- 1.3. It should be noted however, that the set aside of resources for doubtful debts, does not necessarily mean that it will result in all such debts defaulting.

2. REVIEW OF DOUBTFUL DEBT PROVISION

2.1 Council Tax Debt Outstanding

- 2.1.1 The level of Doubtful Debt provision within the 2010/11 year end accounts was £1.86m, whilst PwC suggested a further judgemental increase to approximately £4m.
- 2.1.2 As part of the review of the methodology used for setting the provision, contact was made with other local authorities. It is evident that there is little consistency in the methodologies used between authorities, with a wide range of levels of provisions being in existence. Sefton is positioned toward the lower end of the range being used. It should be noted that at a number of authorities are considering what the appropriate level of provision should be, including the potential reduction in the level of provision.
- 2.1.3 Given our position in relation to other authorities, it is proposed to adjust the provision percentages to a higher level in order to accord with the need to be more prudent. The proposed methodology considers the stages of the collection process that the debt has reached (e.g. summons, liability order etc,) and making prudent assumptions as to the likely level of collectability for each category. The proposed percentage in older years is no longer at 100%, as part of the debt will be collected by attachment of earnings, benefits or other special arrangements.

2.1.4 The suggested percentage levels of provision can be compared to those previously used by the Council in 2010/11 year end accounts: -

Year	Current Percentage	Proposed Percentage
1997/1998	100%	91%
1998/1999	100%	87%
1999/2000	100%	89%
2000/2001	95%	86%
2001/2002	85%	85%
2002/2003	50%	86%
2003/2004	40%	84%
2004/2005	25%	69%
2005/2006	20%	58%
2006/2007	18%	49%
2007/2008	15%	38%
2008/2009	13%	31%
2009/2010	10%	22%
2010/2011	5%	6%

2.1.5 As can be seen, the methodology increases considerably the level of provision across previous years. Applying the new methodology to the outstanding debt position as at 31/03/2011 suggests a bad debt provision that is significantly higher than is currently provided i.e. £3.98m, compared to £1.86m.

2.1.6 A similar exercise has been undertaken as of the position at February 2012 (to broadly indicate what would be the target for 2011/12), where the revised methodology would suggest a provision of £4.10m.

2.1.7 This revised calculation is one that would be continually reviewed to ensure its robustness. However, in terms of identifying a methodology to be more prudent, and therefore increasing resources to be set aside, the Council is faced with the reality of needing to identify enough resources to actually implement this change. With regard to Council Tax debts, the provision for doubtful debts is made from the Collection Fund i.e. a separate account which monitors the collection of such income on behalf of the Council and the Police and Fire Authorities. The forecast year-end financial position of the Collection Fund indicates that there may well be a surplus, which would enable some additional resources to be set aside in 2011/12 to move toward the proposed methodology. As such, whilst a new methodology can be put in place to ascertain a more prudent level of provision, it is anticipated that this will need to be staged over the next few years. This staggered approach is similar to other authorities who are proposing to increase their provisions.

Agenda Item 8

2.2 Sundry Debts Outstanding

- 2.2.1 The level of Doubtful Debt provision within the 2010/11 year end accounts was £1.6m, whilst PwC suggested a judgemental increase of this figure by a further £2.1m.
- 2.2.2 The provision is currently calculated by individually assessing the recoverability of all debts over £10,000. This methodology is considered robust and will result in a prudent level of resource being set aside. Consequently, it is proposed to continue this process in future years.
- 2.2.3 With regard to debts relating to community care costs, which are to be funded from the sale of property belonging to the people receiving care, these are currently assumed to be collectible (in the longer term). As such, no doubtful debt provision is set aside for such cases. It is not proposed to amend this policy at the present time.
- 2.2.4 For debts under £10,000 the provision is calculated as a set percentage based on the age of the debt. For debts deemed to be unrecoverable a 100% provision is made.
- 2.2.5 The Council has contacted other authorities to ascertain what approaches are taken to calculating their provision. In most cases a similar methodology is used. However, most other authorities are generally more prudent, as the percentages applied are generally higher than those used by Sefton. Percentages may vary because of the recoverability of the debts outstanding. Authorities with lower collection rates would need to apply higher percentages. Also those authorities that write-off debt earlier would apply lower percentages (although the cost of increasing the provision would be higher as more is written off).
- 2.2.6 Due to the Accounts Receivable module of the Financial Management System being a 'live' system there is no historic information available as to the amount of debt recovered over time relating to each year. It is therefore difficult to establish whether the percentages used by Sefton are adequate for the level of debt collected. However, arrangements have now been put in place to allow the Council to monitor on a regular basis the amount of debt recovered relating to each year.
- 2.2.7 Given that Sefton's annual percentages are, at face value, less prudent, it is therefore deemed appropriate to adopt higher percentages for debt still outstanding from previous years in line with those used by many other authorities.

Agenda Item 8

2.2.8 The following Table identifies the position of the proposed methodology in determining a more prudent level of Doubtful Debt provision (for outstanding debt below £10,000), compared to the current percentages.

Year	Current Percentage	Proposed Percentage
2002/2003	25%	95%
2003/2004	25%	95%
2004/2005	25%	95%
2005/2006	25%	95%
2006/2007	25%	90%
2007/2008	25%	90%
2008/2009	25%	80%
2009/2010	25%	50%
2010/2011 - 5-12 months	10%	40%
2010/2011 - 4 months	5%	25%
2010/2011 - 0-3 months	0.5%	5%

2.2.9 The Council will monitor the percentage of debt recovered over time and look to adjust the percentages used in line with this experience.

2.2.10 The cost of increasing the provision is estimated to be in the region of £1.7m. The Doubtful Debt provision for sundry debts is financed from the Council's revenue budget, rather than the Collection Fund. As such the impact falls solely on Sefton, and not the Police and Fire Authorities. However, as with the Council Tax provision, the ability to set aside additional resources in 2011/12 is dependent upon what can be afforded in the year end position of the Council. Whilst the actual increase in set aside resources cannot be confirmed at the present time, it is anticipated that a significant move toward the new targeted amount can be achieved.

3. **Summary**

3.1. The review of the methodologies for determining both doubtful debt provisions has concluded that a more prudent approach is required.

3.2. The proposal is to move as quickly, yet prudently, as possible to the new levels. However, at the present time, the judgement is that the sundry debts provision does not need to be at the level suggested by PwC in their audit report last September. Nonetheless, the level of both provisions will continue to be reviewed in the light of changes in circumstances, including the likelihood of additional write-offs and the potential impact of the economic climate on the recovery levels.

This page is intentionally left blank

Agenda Item 9

Report to: Audit & Governance Committee **Date of Meeting:** 28 March 2012

Subject: Internal Audit Plan 2011/12 Performance Report –
April 2011 to February 2012

Report of: Head of Corporate Finance & ICT **Wards Affected:** All

Is this a Key Decision? No

Is it included in the Forward Plan?
No

Exempt/Confidential

No

Purpose/Summary

To provide Audit and Governance Committee with a summary of Internal Audit work undertaken during the period April 2011 to February 2012.

Recommendation(s)

Members are requested to consider and note the content of the report.

How does the decision contribute to the Council's Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community	✓		
2	Jobs and Prosperity	✓		
3	Environmental Sustainability	✓		
4	Health and Well-Being	✓		
5	Children and Young People	✓		
6	Creating Safe Communities	✓		
7	Creating Inclusive Communities	✓		
8	Improving the Quality of Council Services and Strengthening Local Democracy	✓		

Reasons for the Recommendation:

Audit and Governance Committee require to be informed of and review Internal Audit work as part of their review of the internal control environment and overall Governance arrangements.

Agenda Item 9

What will it cost and how will it be financed?

There are no financial costs associated with the proposals in this report

(A) Revenue Costs

(B) Capital Costs

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal	
Human Resources None	
Equality	
1. No Equality Implication	<input checked="" type="checkbox"/>
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

Internal Audit provide assurance to the Council that Internal Controls are provided for within systems utilised across the Council providing for effective and efficient service delivery for the community.

What consultations have taken place on the proposals and when?

The Head of Corporate Finance (FD1436) and Head of Corporate Legal Services (LD781) have been consulted and any comments have been incorporated into the report.

All departments / establishments receive Audit Reports as necessary throughout the year.

Audit & Governance Committee receive quarterly Internal Audit Performance Reports.

Are there any other options available for consideration?

No

Implementation Date for the Decision

Immediately following the Audit & Governance Committee meeting.

Contact Officer: Janice Bamber, Chief Internal Auditor

Tel: 0151 934 4051

Email: janice.bamber@sefton.gov.uk

Agenda Item 9

Background Papers:

The following papers are available for inspection by contacting the above officer(s).

Audit Plan

Audit Reports & Correspondence

CIPFA Code of Practice for Internal Audit 2006

Accounts & Audit (Amendment) (England) Regulations 2006

Agenda Item 9

1. Introduction/Background

- 1.1. The Chief Internal Auditor under the CIPFA Code of Practice for Internal Audit is required to provide periodic reports on the performance of Internal Audit to Audit and Governance. These progress reports support the Chief Internal Auditor's Annual Report and opinion and allow the Committee to assess the level of assurance it can gain over the Council's governance and control arrangements. The work of the Internal Audit Section, which is drawn from the Annual Audit Plan, is fundamental in enabling this opinion to be formed. This opinion also contributes to the review of internal control and the Annual Governance Statement (AGS).

2. Report April 2011 to February 2012

- 2.1. This is the third progress report of 2011/12 on the work of the Internal Audit Section. It provides Members with a summary of Internal Audit work both completed and at various stages of progress (i.e. draft report, final report, in progress) for the above mentioned period. As part of the Internal Audit Code of Practice 2006 the Chief Internal Auditor is required to provide a written report to those charged with governance, i.e., this Committee, which compares the work actually undertaken with that which was agreed as planned work in the Audit Plan. The summary has been compiled taking into account this requirement and identifies the status of each audit (as outlined above) against the plan, the report includes dates of issue and response.
- 2.2. For each relevant Audit Area the numbers of Proposed / Agreed Recommendations are shown together with the following dates; Draft Report Issued, Final Report Issued, Action Plan Returned and Job Closed. For each area reviewed an opinion has been given on the overall control environment pertaining at the time of the review and based on the Auditors assessment on the extent to which the system control objectives identified for the specific audit review have been met and the risks mitigated. Opinion classifications given are: 'Very Good', 'Good', 'Fair', 'Weak' or 'Poor'. Where audit reviews are 'In Progress' or 'Pre Draft Report' the outcome of these will be reported on in the next quarterly report. The summary is attached at Annex A.
- 2.3. The performance report for the Benefit Fraud Investigation Team (BFIT) provided by arvato Government Services is attached at Annex B.
- 2.4. Details of investigations undertaken in this period are reported in the separate Internal Audit Fraud Report.

3. Matters Arising from Audit Reports issued between November 2011 and February 2012

3.1 There are no significant issues arising from reviews completed in this period, to report.

Audit Performance April to November 2011

3.3. As part of the planning process every effort has been made to ensure that there has been a reasonable spread of audit work across Departments. As the table below shows, with regard to completed audits, recommendations for improvement identified by Internal Audit continue to have a high level of acceptance by clients (99%). It is expected that a similar level of acceptance will apply to audits in progress.

Analysis of Audit Recommendations and Client Responses April to November 2011

	Proposed	Agreed	Not Agreed	Awaiting Confirmation
Audit Reviews				
– Completed Audits	326	323	3	
– In Progress/Draft etc	99			99
Total	425	323	3	99

4.1 Details of three recommendations that were not agreed were reported at the two previous Audit and Governance committee meetings.

4.2 Response to Audit Reports is generally good and there are no significant non response issues requiring referral to Members at this stage. Internal Audit continues to receive a very positive response to their Client Satisfaction Surveys with 94% considering services to be Very Good / Good.

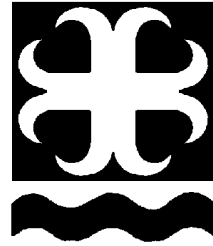
5. Recommendation(s)

5.1 That the Committee notes the report.

This page is intentionally left blank

Sefton Council

FINANCE DEPARTMENT



**Internal Audit Section
Summary of Internal Audit Work
1st April 2011 – 29th February 2012**

Planned Work	Status	Opinion	Recommendations		Draft Sent	Action Plan Ret	Final Sent	Job Closed
			Proposed	Agreed				
2010/11 C/FWD								
CORPORATE SERVICES								
Corporate Finance & IS								
Client Functions								
Client Team - Payroll	Draft Report	Fair	5		28/09/2011			
Financial Processes								
Accounts Payable Council Processes	Completed	Weak	16	16	10/08/2011	30/09/2011	30/09/2011	30/09/2011
Payroll Council Processes	Draft Report	Fair	14		12/12/2011			
Accounts Receivables Council Processes	Completed	Good	9	9	03/08/2011	30/09/2011	30/09/2011	30/09/2011
Bank Reconciliation	In Progress							
Financial Management								
Capital Programme/Accounting	Completed	Good	2	2	13/07/2011	30/08/2011	14/07/2011	30/08/2011
Information Services								
Data Protection	Draft Report							
Mobile Phones Devices / Compliance with Policy	Draft Report	Poor	12		11/07/2011			
Corporate Personnel								
Policy & Operation								
Sickness Absence Procedure/Reporting	Completed	Fair	4	4	17/06/2011	20/10/2011	02/08/2011	27/10/2011
All Saints Primary								
Universal & Learning Services								
Our Lady Queen of Peace Catholic Primary	Completed	Good	8	8	06/10/2010	23/09/2011	06/10/2010	23/09/2011
Hillside High	Completed	Good	10	10	16/09/2010	17/06/2011	16/09/2010	17/06/2011
Formby High	Completed	Good	7	7	06/10/2010	11/07/2011	06/10/2010	11/07/2011
St Phillip's Primary (Southport)	Completed	Good	11	11	25/11/2010	15/07/2011	18/07/2011	18/07/2011
Trinity St Peters Primary	Completed	Fair	7	6	17/03/2011	01/04/2011	24/06/2011	24/06/2011
Our Lady of Lourdes Catholic Primary	Completed	Fair	23	23	02/06/2011	03/10/2011	04/10/2011	04/10/2011
Forefield Infants	Completed	Good	6	6	04/05/2011	11/11/2011	11/11/2011	17/11/2011
All Saints Primary	Completed	Fair	10	10	03/03/2011	04/05/2011	18/07/2011	18/07/2011
Crosby High	Completed	Good	5	5	14/04/2011	03/08/2011	09/08/2011	09/08/2011
Freshfield Primary	Completed	Very Good	4	3	27/05/2011	14/11/2011	15/11/2011	17/11/2011
Deyes High	Completed	Fair	9	9	09/06/2011	13/06/2011	14/06/2011	14/06/2011
Student Travel Passes	Completed	Fair	9	9	15/07/2011	09/09/2011	15/09/2011	15/09/2011

Planned Work	Status	Opinion	Recommendations		Draft	Action	Final	Job
			Proposed	Agreed	Sent	Plan Ret	Sent	Closed

COMMUNITIES								
Operational Services								
Taxi Licencing	Completed	Good	6	6	30/08/2011	12/09/2011	12/09/2011	30/09/2011
Security Services Follow-up	Completed	Fair	13	13	01/09/2011	06/09/2011	27/09/2011	27/09/2011
Environmental & Technical Services								
Client Team - Technical Services	Draft Report	Weak	30		21/04/2011			
Car Parking	Completed	Fair	16	16	03/10/2011	20/12/2011	09/02/2012	09/02/2012
Planning & Economic Development								
Sefton at Work	Completed	Fair	4	3	17/06/2011	14/07/2011	14/07/2011	14/07/2011
SOCIAL CARE & WELL-BEING								
Adult Social Care								
Domiciliary Care	Completed	Fair	5	5	14/10/2011	06/01/2012	06/01/2012	06/01/2012
Community Equipment Service Follow-Up	Completed	Weak	15	15	01/09/2011	02/11/2011	16/09/2011	02/11/2011
Leisure & Tourism								
Beach Car Parking	Completed	Weak	9	9	06/04/2011	07/06/2011	14/06/2011	14/06/2011
Meadows Leisure Centre	Draft	Fair	18	18	03/02/2012			
TIC follow up	Completed	Weak	7	7	22/11/2011	16/12/2011	04/01/2012	04/01/2012
2011/12								
VALUE FOR MONEY								
Corporate Governance (Annual Governance Statement & Review of Internal Audit)	Completed	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Review of Accounting Instructions/Financial Procedure Rules	Completed	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Corporate Plans & DSPs	Completed	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Corporate Reviews								
Delivering Budget Savings								
Data Use & Duplication (eg CTAX/Planning)								
Public Consultation								
People - Young People & Families								
Leasing for Schools								

Planned Work	Status	Opinion	Recommendations		Draft Sent	Action Plan Ret	Final Sent	Job Closed
			Proposed	Agreed				

Place - Built Environment								
Core Strategy/Planning								
New Homes Bonus	In Progress							
PROBITY/COMPLIANCE								
Corporate Reviews								
Exposure to Equality Impacts and Effectiveness								
Means Tested Benefits								
Discounts allowed across Council								
Audit of Financial Skills								
Ordering Compliance/Procurement								
People - Young People and Families								
Great Crosby RC Primary	Completed	Good	9	9	17/06/2011	05/09/2011	06/09/2011	06/09/2011
Holy Rosary RC Primary	Completed	Very Good	3	3	21/06/2011	28/09/2011	05/10/2011	05/10/2011
Birkdale Primary	Completed	Good	7	7	20/06/2011	29/07/2011	04/08/2011	04/08/2011
Fostering B/F	Completed	Fair	10	10	16/01/2012	20/02/2012	23/02/2012	23/02/2012
Springbrook Children's Home B/F	Completed	Good	5	5	21/11/2011	22/11/2011	01/12/2011	01/12/2011
Melrose Children's Home B/F	Completed	Fair	11	11	30/01/2012	01/02/2012	02/02/2012	28/02/2012
Safeguarding (Adults & Children)	In Progress							
Eligibility for Free School Meals								
Schools Value Standard	In Progress							
People - Older People								
Income Collections Systems								
Netherton Activity Centre - Project Group								
Crosby Lakeside Activity Centre B/F								
Crosby PFI								
Place - Built Environment								
Planning and Building Control	Completed	Good	8	8	16/02/2012	24/02/2012	27/02/2012	27/02/2012
Land Charges	In Progress							
Homelessness	Final Report	Fair	11		06/02/2012		27/02/2012	
Carbon Reduction Commitment	Completed	Fair	17	17	05/08/2011	03/11/2011	03/11/2011	08/11/2011
Staff Car Parking								
Events								
Concessions/Agreements/Licences								
Cycle Hire	In Progress							

Planned Work	Status	Opinion	Recommendations		Draft	Action	Final	Job
			Proposed	Agreed	Sent	Plan Ret	Sent	Closed

Place - Street Scene								
Refuse Collection Trade & Domestic Coroners B/F	Draft Report	Fair	15		31/01/2012			
Chief Executive - Corporate Support Services								
Cheque Investigations	Continuous	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Council Tax Write Offs	Continuous	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Housing Benefits Write Offs	Continuous	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NNDR Write Offs	Continuous	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Over £25K payment checks	Continuous	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cash/Income Collection								
Procurement								
IS Security Policy - Compliance B/F	Draft Report	Poor	10		16/01/2012			
Emergency Planning/Business Continuity								
Client Management Team								
Conveyancing	Completed	Good	3	3	30/01/2012	24/02/2012	23/02/2012	27/02/2012
Health and Safety								
Mayor's Charity Fund	Completed	Good	4	4	27/10/2011	N/A	11/11/2011	11/11/2011
ANTI-FRAUD/NFI								
Corporate Reviews								
Review of compliance with Managing the Risk of Fraud								
People - Older People								
NFI - Private Care Homes	Pre-Draft Report							
Place - Built Environment								
NFI - Blue Badge	In Progress							
NFI - Residents Parking	In Progress							
Chief Executive - Corporate Support Services								
NFI - Payroll	In Progress							
NFI - Suppliers/Salary	In Progress							
NFI - Accounts Payable	In Progress							
NFI - Insurance	Completed	Good	0	0		N/A	29/02/2012	29/02/2012

Planned Work	Status	Opinion	Recommendations		Draft Sent	Action Plan Ret	Final Sent	Job Closed
			Proposed	Agreed				
PROJECT SUPPORT WORK								
Corporate Reviews								
Pre-Payment Cards	Completed	N/A	N/A	N/A	N/A	N/A	07/12/2012	07/12/2012
Embedded Procurement Cards	Completed	N/A	N/A	N/A	N/A	N/A	07/12/2012	07/12/2012
People - Older People								
Liquid Logic (Replacement of Swift)	In Progress							
Place - Street Scene								
New Services within Street Scene								
Built Environment								
Taxi Licensing Transformation	Completed	N/A	N/A	N/A	N/A	N/A	12/12/2011	12/12/2011
CONTRACT AUDIT								
Pre-Contract	Continuous							
Final Accounts	Completed	N/A	N/A	N/A	N/A	N/A	13/02/2012	13/02/2012
GRANT CERTIFICATIONS								
Child Poverty Grant	Completed	N/A	N/A	N/A	N/A	N/A	01/07/2011	01/07/2011
Play Capital Grant	Completed	N/A	N/A	N/A	N/A	N/A	16/06/2011	16/06/2011
Innovative Management (for Europe's changing) Coastal Resource (IMCORE) Jan - June 2011	Completed	N/A	N/A	N/A	N/A	N/A	03/08/2011	03/08/2011
Assessing Sustainability & Strengthening Operational Policy (SUSTAIN) Jan - June 2011	Completed	N/A	N/A	N/A	N/A	N/A	30/08/2011	30/08/2011
Innovative Management (for Europe's changing) Coastal Resource (IMCORE) July - Dec 2011	In Progress	N/A	N/A	N/A	N/A	N/A		
Assessing Sustainability & Strengthening Operational Policy (SUSTAIN) July - Dec 2011	Completed	N/A	N/A	N/A	N/A	N/A	15/02/2011	15/02/2011
CONSULTANCY								
Manual Purchase Orders	Completed	N/A	N/A	N/A	N/A	N/A	N/A	16/11/2011
IFRS Employee Leave/Flexi	Completed	N/A	N/A	N/A	N/A	N/A	15/06/2011	15/06/2011
Planning Income Procedures	Completed	N/A		5	5	N/A	27/07/2011	27/07/2011

Planned Work	Status	Opinion	Recommendations		Draft	Action	Final	Job
			Proposed	Agreed	Sent	Plan Ret	Sent	Closed

Land Charges Fees	Completed	N/A	N/A	N/A	N/A	N/A	05/07/2011	05/07/2011
Children with disabilities	Completed	N/A	N/A	N/A	N/A	N/A	18/10/2011	18/10/2011
Authorised Signatories	Completed	N/A	N/A	N/A	N/A	N/A	N/A	10/05/2011
Range High School Bank Account	Completed	N/A	N/A	N/A	N/A	N/A	31/10/2011	31/10/2011
Community Equipment Stores Section 75 Agreement	Completed	N/A	N/A	N/A	N/A	N/A	06/09/2011	02/11/2011
Hunter Kane Ltd	Completed	N/A	N/A	N/A	N/A	N/A	26/07/2011	28/09/2011
Joseph Harley Bequest Fund	Completed	N/A	N/A	N/A	N/A	N/A	N/A	23/11/2011
Budget Monitoring Workshop	Completed	N/A	N/A	N/A	N/A	N/A	N/A	23/11/2011
Pericles Data Migration	Completed	N/A	N/A	N/A	N/A	N/A	19/01/2012	19/01/2012
CM93 Payments	Completed	N/A	N/A	N/A	N/A	N/A	28/11/2011	28/11/2011
Duplicate Housing Benefit Payments Run	Completed	N/A	N/A	N/A	N/A	N/A	13/02/2012	13/02/2012
Fostering Services - Home improvements	Completed	N/A	N/A	N/A	N/A	N/A	17/02/2012	20/02/2012
Green Finance	Completed	N/A	N/A	N/A	N/A	N/A	06/01/2012	09/02/2012
Planning Value for Money	Completed	N/A	N/A	N/A	N/A	N/A	07/12/2011	07/12/2011
I Proc Tolerances	Completed	N/A	N/A	N/A	N/A	N/A	11/01/2012	11/01/2012
Cycle Hire	Completed	N/A	N/A	N/A	N/A	N/A	07/12/2011	07/12/2011
Crosby Lakeside Coffee Machines	Completed	N/A	N/A	N/A	N/A	N/A	26/10/2011	05/01/2012
Client Contributions	Completed	N/A	N/A	N/A	N/A	N/A	13/12/2011	13/12/2011
Academies	Completed	N/A	N/A	N/A	N/A	N/A	N/A	20/02/2012
Farnborough Juniors - Parentmail and Pay	Completed	N/A	N/A	N/A	N/A	N/A	N/A	16/02/2012
Swimming Lessons	Completed	N/A	N/A	N/A	N/A	N/A	09/02/2012	09/02/2012
Council Tax Single Person Discount	Completed	N/A	N/A	N/A	N/A	N/A	07/02/2012	07/02/2012
Crosby Lakeside Duplicate Invoice	Completed	N/A	N/A	N/A	N/A	N/A	25/01/2012	25/01/2012
Leisure Centre Direct Debit Collections	In Progress							
School Bank Accounts	In Progress							
School Full Bank Accounts	In Progress							
My View Expenses and Car Mileage	In Progress							
Write Off Proposal	In Progress							
Credit Management Policy	In Progress							
Direct Payments (Carers Centre)	In Progress							

Planned Work	Status	Opinion	Recommendations		Draft Sent	Action Plan Ret	Final Sent	Job Closed
			Proposed	Agreed				

Energy Consumption Carbon Reduction	In Progress							
Trading Services	In Progress							
Annual Billing Checks	In Progress							
Council Tax Salary Deductions	In Progress							
Meadows 3rd Party arrangements	Pre Draft Report							
Locker Thefts	In Progress							
Foster Carer Vehicles	In Progress							
<u>NATIONAL ANTI FRAUD NETWORK</u>								
Franking Supplies UK	Completed	N/A	N/A	N/A	N/A	N/A	16/11/2011	16/11/2011
<u>ADVICE</u>								
There have been 56 requests for Advice in the period								

Benefit Fraud Investigation Team (BFIT)

Summary of Work 1st November 2011 to 29th February 2012

1. Caseload and Results

1.1. The following table shows the number of investigations undertaken by BFIT and analyses the results.

Result Outcome	Period Nov – Feb (incl)	As % of cases investigated	Period Apr – Feb (incl)	As % of cases investigated
Cases Closed	359	100	851	100
Results				
Fraud Proved	48	15	160	20
Not Resident	12	4	45	6
Incorrect Benefit	<u>5</u>	<u>2</u>	<u>17</u>	<u>2</u>
Total Positive Results	65	21	222	28
No fraud	<u>263</u>	<u>79</u>	<u>566</u>	<u>72</u>
	328	100	788	100
Not Investigated	31		63	
Total Cases	359		851	

1.2. It can be seen that the Team has returned an investigation success rate between April 2011 and February 2012 of 222 cases out of 788, some 28%. The overall success rate of positive investigations has reduced - however, of the 566 cases closed 'no fraud' in the above period 249 (44%), have been in respect of HBMS referrals. A sample of these closed cases has identified some of the reasons for no further action being taken on these cases, such as work outstanding in the Benefits Section (where the information has been received, but not processed in time for the referral to be produced), out of date/incorrect information on the data-match, no change to the amount of benefit being paid or (in the case of capital matches), the capital having been reduced or spent before the claim for benefit has been made. In addition, work has recently begun on evaluating the Credit Reference Agency (CRA) data-matches. Early indications are that the information held on the majority of these referrals is relatively poor, which is clearly indicated by the increase in 'no fraud' cases during Nov '11 – Feb '12 (shown above). In view of these results it may be necessary to review our approach on how best to deal with these particular referrals in order to make the best use of resources.

2. Sanctions and Prosecutions

2.1. Sanctions during the period 1st Nov 2011 to 29th February 2012 are as follows:

Type	Nov '11 – Feb '12	Apr '11 – Feb '12
Convictions	9	27
Cautions	24	59
Ad Pens	<u>2</u>	<u>10</u>
Total	35	96

The Client has reduced the BFIT sanction target to a minimum of 85 for the year 2011 / 2012 to take account the assistance the Team will be providing to the Benefit Assessment Teams (see below)

Other aspects of BFIT work highlighted for Members is noted below.

3. Housing Benefit Matching Service (HBMS)

- 3.1. HBMS is a branch of the Department for Work and Pensions dealing with data-matching. Each month the Council submits HB/CTB data to the HBMS who then match this against a range of other data from the DWP, Revenue and Customs, Pensions etc. Matches, which are normally of very high quality, are then returned to the Council for further investigation. Between November 2011 and February 2012 (inclusive) the BFIT received 217 referrals from the HBMS that required further investigation. In the same period, 180 cases derived from HBMS were closed after investigation. Positive results were recorded on 21 cases (12%). The decrease in the level of positive results has been addressed above and is mainly due to the poor quality CRA data-matches. The Benefit Claim Processing Teams still continue to process many of the referrals received from the Housing Benefit Matching Service.
- 3.2. HBMS continually look for new data sources to match against and Sefton is one of a number of Councils who evaluate various new rules.

4. National Fraud Initiative (NFI)

- 4.1 Work is still continuing on the matches from the National Fraud Initiative. So far 494 cases have been looked at, with 94 being identified for further investigation. Of these 94 cases, 56 are under investigation or awaiting reassessment, whilst 44 have been closed. Of these closed cases, 34 (85%) have been closed with no further issue.

5. Fraud Awareness

- 5.1. Enquiries were recently undertaken to see if the Meritec Fraud Awareness interactive presentation could be integrated with the arvato e-learning training tool. Unfortunately, the format is not compatible and therefore work will shortly start on customizing this package for roll-out. Face-to-face training in respect of 'One Vision Housing' employees has already been completed.

6. Joint Working

Of the 9 convictions obtained by BFIT during the quarter Nov '11 – Feb '12, 7 were as a result of joint working with The Department for Work & Pensions (DWP). Sefton MBC continues to enjoy a good working relationship with DWP Investigators, which is reflected in the many positive cases highlighted during the year. During the above period overpayments totalling £17,980.48, £5,137.15 and £51,997.67 were raised in respect of Housing Benefit, Council Tax Benefit and DWP benefits respectively. In total overpayments totalling £75,115.30 were created during the period Nov '11 – Feb '12 in respect of these 7 joint working cases with the DWP.

7. 'Undeclared working' referral

One of the above cases concerned a female from the Litherland area, who had allegedly been working whilst in receipt of benefits from both the LA and the DWP. Enquiries made by both agencies suggested that her claims for Housing and Council Tax benefit, Income Support and Jobseekers Allowance may not have been valid. When interviewed under caution the customer stated that she was only working 10 hours per week and that she would have declared if she had worked any extra hours, however, her employment details showed her to be working around 20 hours per week and she could not give a reason as to why she had failed to declare this. She admitted to acting in a dishonest manner and as a result she has been overpaid LA and DWP benefits totalling £9,747.40. At court, she was found guilty of 4 charges under the Social Security Administration Act 1992 and was given a 6 week Curfew Order (between 9pm and 5am) and ordered to pay £100 costs.

8. Assistance to the Benefit Claim Processing Teams

The BFIT has continued to provide assistance to the claim assessment teams within the Benefits Service to help with work outstanding. BFIT has provided valuable support by answering telephone queries on their behalf thereby freeing up assessment resources.

9. Proposed Single Fraud Investigation Service (SFIS) and Welfare Reform

The BFIT continues to participate in any DWP workshops etc regarding the design of the proposed Single Fraud Investigation Service and – which will see the implementation of a joined-up approach to benefit investigation, incorporating investigators from the Department for Work & Pensions (DWP), Local Authorities and Investigating Officers from Her Majesty's Revenues & Customs (HMRC). In addition, the Team will continue to response to any legislative changes brought about by the forthcoming Welfare Reform Bill.

This page is intentionally left blank

Agenda Item 10

Report to: Audit & Governance Committee **Date of Meeting:** 28th March 2012

Subject: Internal Audit Annual Plan 2012/13

Report of: Head of Corporate Finance & ICT **Wards Affected:** All

Is this a Key Decision? No **Is it included in the Forward Plan?** No

Exempt/Confidential No

Purpose/Summary

To provide Audit & Governance Committee with the framework for the Internal Audit Plan for 2012/13.

Recommendation(s)

Members are requested to approve the framework for the Annual Audit Plan for 2012/13.

How does the decision contribute to the Council's Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community	✓		
2	Jobs and Prosperity	✓		
3	Environmental Sustainability	✓		
4	Health and Well-Being	✓		
5	Children and Young People	✓		
6	Creating Safe Communities	✓		
7	Creating Inclusive Communities	✓		
8	Improving the Quality of Council Services and Strengthening Local Democracy	✓		

Reasons for the Recommendation:

In order that Members can be made aware of an approve the framework for compiling the Audit Plan 2012/13 to enable the Chief Internal Auditor to consult with Strategic and Service Directors and Heads of Service in regard to the production of the Annual Plan for 2012/13

Agenda Item 10

What will it cost and how will it be financed?

There are no financial costs associated with the proposals within this report.

(A) Revenue Costs

(B) Capital Costs

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal	
Human Resources	
Equality	
1. No Equality Implication	<input checked="" type="checkbox"/>
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

Internal Audit provide assurance to the Council that Internal Controls are provided for within systems utilised across the Council providing for effective and efficient service delivery for the community.

What consultations have taken place on the proposals and when?

The Head of Corporate Finance (FD1456) and Head of Corporate Legal Services (LD805) have been consulted and any comments have been incorporated into the report.

Are there any other options available for consideration?

The Committee could choose not to approve the framework for the Audit Plan, which would prevent the Chief Internal Auditor consulting with officers to compile the plan. The Code of Practice for Internal Audit recommends that Internal Audit operate to an Annual Audit Plan.

Implementation Date for the Decision

Immediately following the Audit & Governance Committee meeting.

Agenda Item 10

Contact Officer: Janice Bamber, Chief Internal Auditor
Tel: 0151 934 4051
Email: janice.bamber@sefton.gov.uk

Background Papers:

The following papers are available for inspection by contacting the above officer.

CIPFA Code of Practice for Internal Audit

Agenda Item 10

1. Introduction/Background

- 1.1 The Accounts and Audit (Amendment) Regulations 2006 require that the Council maintain an adequate and effective system of Internal Audit of its accounting records and of its system of internal control. Internal Audit is the assurance function that provides an independent and objective opinion to the Council on the control environment. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. In fulfilling this it supports the Annual Governance Statement.
- 1.2 The organisation (Council, Directors, Departments) is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the organisation that these arrangements are in place and operating properly. In order to fulfil this function and provide an opinion on the adequacy and effectiveness of the Council's internal control environment Internal Audit has to plan its work.
- 1.3 The Chief Internal Auditor has adopted a revised approach to the compilation of the plan in order to meet with the Councils changing priorities in the current climate. The revised approach comprises 2 stages:-

Stage 1 – the plan has been split into strategic areas comprising;

- Annual Requirements
- Probity / Compliance
- ICT
- Value For Money
- Anti Fraud/NFI
- Project Support Work
- Transformation / Financial Support

This is presented to the Audit & Governance Committee to approve the framework in order that the Chief Internal Auditor can progress to Stage 2 with that approval;

Where areas for review are known to be high risk and require audit in the coming financial year these have been included in the plan.

Stage 2 – the Chief Internal Auditor will consult with Strategic & Service Directors and Heads of Service to negotiate the detail of the Annual Plan (this will include those areas already included);

Stage 3 – once the detail of the plan is agreed with officers the finalised plan will be presented to the Audit & Governance Committee to inform and seek approval of the plan and thus outline to Members the direction for audit.

- 1.4 This will ensure that Members are assured that the plan will meet their strategic requirements and the strategic objectives of the Council.
- 1.5 The Audit Plan is drawn up in accordance with the CIPFA Code of Practice for Internal Audit 2006 (CoP). The Plan is risk based and an Audit Risk Assessment

Agenda Item 10

has been applied which assists in prioritising audit work relative to risk. The process also considers the resources available to Internal Audit (in terms of audit days available, staff qualifications and experience) and is drawn up to deliver audit services within those resources. Whilst specific areas for review have been identified in the Plan it must be recognised that the Plan is intended to be flexible and responsive to changes in the Council's audit requirements and priorities, be able to address unforeseen circumstances, undertake unplanned work and accommodate variances between planned and actual allocations.

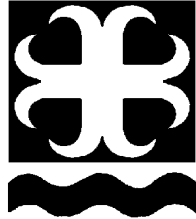
- 1.6 Audit staffing resources are identified and allocated in terms of estimated planned days for audit work. The resource within the Section will be reduced as part of the larger review of Corporate Finance & ICT; the number of Auditors is to reduce from 10 to 8 (excluding the Chief Internal Auditor). Further the Section is to reduce from 2 Audit Managers to 1, however, a Computer Audit post is to be established. In 2012/13 there is 1 Senior Auditor on extended shared maternity leave until end of August 2012. The plan has been adopted to account for this reduction in resources and therefore the number of planned days has reduced from 1958 to 1525.
- 1.7 This report provides the background and methodology for compiling the Audit Plan and advises Members of the framework for the Internal Audit Plan for 2012 /13 appended to this report at Annex A.

2. Recommendation

- 2.1 Members are requested to approve the framework for the Audit Plan for 2012/13.

This page is intentionally left blank

CORPORATE FINANCE & ICT
DEPARTMENT



Sefton Council

Internal Audit

Plan

2012/13



Agenda Item 10

Internal Audit Annual Plan 2012-2013

Legal Framework

The Accounts and Audit (Amendment) Regulations 2006 require that the Council must “maintain an adequate and effective system of Internal Audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”. The Council has determined that the Head of Corporate Finance and Information Services has responsibility for Internal Audit and is the “Responsible Officer” under Section 151 of the Local Government Act 1972 for making arrangements for the proper administration of the Council’s financial affairs. The Internal Audit Section fulfils the Council’s requirements in respect of the Internal Audit function.

The Regulations also place a requirement for each local authority to compile an Annual Governance Statement (subsuming the previous Statement on Internal Control) with its Annual Accounts. The work of Internal Audit provides an important contribution to this.

How the Plan was Compiled

The Audit Plan for 2012/13 is drawn up in accordance with the CIPFA Code of Practice for Internal Audit 2006. The Chief Internal Auditor has adopted a revised approach to the compilation of the plan in order to meet with the Councils changing priorities in the current climate. The revised approach comprises 2 stages:-

Stage 1 – the plan has been split into strategic areas comprising;

- Annual Requirements
- Probity / Compliance
- ICT
- Value For Money
- Anti Fraud/NFI
- Project Support Work
- Transformation / Financial Support

This is presented to the Audit & Governance Committee to approve the framework in order that the Chief Internal Auditor can progress to Stage 2 with that approval;

Where areas for review are known to be high risk and require audit in the coming financial year these have been included in the plan.

Stage 2 – the Chief Internal Auditor will consult with Strategic & Service Directors and Heads of Service to negotiate the detail of the Annual Plan (this will include those areas already included);

Stage 3 – once the detail of the plan is agreed with officers the finalised plan will be presented to the Audit & Governance Committee to inform and seek approval of the plan and thus outline to Members the direction for audit.

This will ensure that Members are assured that the plan will meet their strategic requirements and the strategic objectives of the Council.

The Plan is intended to be flexible and responsive to the changing needs and demands for audit services and will be reviewed throughout the year. There is regular liaison and

Agenda Item 10

consultation with our External Auditor (PriceWaterhouseCoopers) to ensure a good working relationship, maximise use of overall audit resource and enable them to place reliance on, and take assurance from, the work of Internal Audit.

Audit staffing resources are identified and allocated in terms of estimated planned days for audit work. The resource within the Section will be reduced as part of the larger review of Corporate Finance & ICT; the number of Auditors is to reduce from 10 to 8 (excluding the Chief Internal Auditor). Further the Section is to reduce from 2 Audit Managers to 1 Audit Manager, however, a Computer Audit post is to be established. In 2012/13 there is 1 Senior Auditor on extended shared maternity leave until end of August 2012. The plan has been adopted to account for these resources and therefore the number of planned days has reduced from 1958 to 1525.

The Section is staffed with a suitable mix of professionally qualified, part qualified, accounting technician, and experienced staff appropriate to the requirements of the Plan.

How Does Audit Work With Its Clients?

Directors and their Departmental Managers are responsible for ensuring that their services are operating within the Council's control environment.

The control environment comprises the policies, procedures and operations in place to:

- establish and monitor achievement of objectives
- identify, assess and manage risks to achieving objectives
- facilitate policy and decision making
- ensure economic, effective and efficient use of resources
- ensure compliance with policies, procedures, laws and regulations
- safeguard assets and interests from losses of all kinds
- ensure integrity and reliability of records and information.

Internal Audit is an assurance function that provides an independent and objective opinion to the Council on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

Internal Audit deliver a wide range of audit work on a risk based approach. Audit reviews aimed at providing an opinion on the control environment are delivered through reviews of Value for Money, Probity and Compliance, Anti Fraud/NFI and Project Support Work. Contract Audit and Information Systems Audit are two specialist areas provided for in the Plan. Internal Audit will provide advice and consultancy services to clients and where relevant, carry out special investigations where fraud or irregularity is suspected. A small contingency provision provides a basic allowance in this respect.

This Plan has been drawn up to meet the Council's statutory requirements for Internal Audit and to contribute to the Council's Annual Governance Statement. The Plan is intended to be flexible and responsive to changing needs.

Operating Standards, Measuring and Reporting of Internal Audit Activity

Agenda Item 10

Internal Audit operate to standards as set out in CIPFA's Code of Practice for Internal Audit in Local Government in the UK 2006. In doing so Management can be assured that Audit reviews will be to professional standards from officers with integrity providing well considered, impartial advice and sound practical recommendations.

Audit reviews are reported directly to Directors, Heads of Service, Schools and Chairs of Governors as appropriate on a continuous basis throughout the year. There is regular liaison with constructive dialogue and a good working relationship with the External Auditor (PriceWaterhouseCoopers).

Audit and Governance Committee receive quarterly updates on Internal Audit work which would where necessary advise of any significant issues requiring to be addressed by them or any failure or undue delay by Departments to respond to significant audit issues. Additionally, an Annual Audit Report is submitted which summarises the Audit activity for the year and provides an opinion on the overall control environment.

As a management tool Internal Audit utilises the Audit Planning And Control Environment (APACE) system. This enables the planning, recording, monitoring and reporting of all audit activity. Throughout the year the Audit Plan is proactively monitored by the Chief Internal Auditor and Audit Managers to review progress against the Plan. .

The section has a number of performance measures in place including client satisfaction surveys which are undertaken on an ongoing basis. The latest returns from these show a very high level of client satisfaction with Audit work with 94% of clients sampled considering overall audit services to be in the categories of Very Good/Good.

Contacts

Should you require any further information or need any help or advice on this plan or Internal Audit issues please use the contacts below:

Janice Bamber CMIIA	Chief Internal Auditor	0151 934 4051 janice.bamber@sefton.gov.uk
Justin Swale CMIIA	Audit Manager	0151 934 3855 justin.swale@sefton.gov.uk
Jim Kilburn CMIIA	Audit Manager	0151 934 4053 jim.kilburn@sefton.gov.uk

The address for all the contacts above is:

Corporate Finance & ICT Department
Internal Audit
2nd Floor Magdalen House
Trinity Road
Bootle
L20 3NJ

INTERNAL AUDIT PLAN 2012/13

April 2012 - March 2013



SEFTON COUNCIL
CORPORATE FINANCE & ICT
DEPT
INTERNAL AUDIT SECTION

Department/ Service: SUMMARY SHEET

Service/ Activity	Apr 12 - Mar 13 Planned Annual Audit Days
Annual Contract Audit	30
Grant Certification	15
Advice, Consultancy & Investigations (Unallocated)	250
Contingency (Unallocated)	100
Corporate Governance	60
People	190
Place	112
Chief Executives	220
ICT	15
Transformation/Financial Support	160
To be Allocated Following Consultation	373
Split Between :	
Probity and Compliance	45
ICT	75
Value For Money	145
Anti-Fraud/NFI	50
Project Support Work	58
TOTAL	1525

Agenda Item 10

INTERNAL AUDIT PLAN 2012/13

April 2012 - March 2013



SEFTON COUNCIL
CORPORATE FINANCE & ICT
DEPT.
INTERNAL AUDIT SECTION

Department: PEOPLE

Service / Activity	Audit Risk Assessment		Audit Days Proposed Apr 12 - Mar 13
<u>Young People & Families</u>			
Leasing for Schools	H		25
Adoption	H		25
Schools - Payments to Self Employed	H		15
Schools Information to Governors	H		10
Schools Medium Term Financial Planning	H		10
<u>Older People</u>			
Community Equipment Service Follow Up	H		5
Litherland Sports Park	H		20
Assistive Technology	H		20
Personal Budgets	H		20
Liquid Logic (Replacement of Swift) b/f	H		40
			190

INTERNAL AUDIT PLAN 2012/13

April 12 - March 13



SEFTON COUNCIL
CORPORATE FINANCE & ICT
DEPT.
INTERNAL AUDIT SECTION

Department: **PLACE**

Service / Activity	Audit Risk Assessment		Audit Days Proposed Apr 12 - Mar 13
<p><u>Built Environment</u></p>			
<p>New Homes Bonus c/f</p>	H		30
<p>Carbon Reduction Commitment</p>	H		20
<p><u>Street Scene</u></p>			
<p>Refuse Collection Trade & Domestic b/f</p>	H		30
<p>Skips</p>	H		20
<p>Southport Golf Course Systems and Procedures</p>	H		12
			112

Agenda Item 10

INTERNAL AUDIT PLAN 2012/13

April 12 - March 13



SEFTON COUNCIL
CORPORATE FINANCE & ICT
DEPT.
INTERNAL AUDIT SECTION

Department: CHIEF EXECS

Service / Activity	Audit Risk Assessment	Audit Days Proposed Apr 12 - Mar 13
<u>Corporate Support Services</u>		
<u>Corporate Finance & ICT</u>		
Cash/Income Collection	H	30
Client Management (Transactional Services)	H	40
Over £25k Payments	H	8
Debt Write-Offs	H	12
Ordering Compliance/Procurement	H	25
NFI - Single Occupancy Discount	H	15
HB Fraud & Counterfeit Documents b/f	H	15
<u>Corporate Personnel</u>		
Sickness Absence Follow-Up	H	15
Car Allowance Scheme	H	10
<u>Corporate Commissioning</u>		
Mayors Charity	H	10
<u>Cross Cutting Reviews</u>		
Review of Managing the Risk of Fraud (To be delivered by Warrington)	H	40
Total		220

INTERNAL AUDIT PLAN 2012/13
April 12 - March 13



SEFTON COUNCIL
CORPORATE FINANCE & ICT
DEPT.
INTERNAL AUDIT SECTION

Department: CORPORATE GOVERNANCE

Service / Activity	Audit Risk Assessment		Audit Days Proposed Apr 12 - Mar 13
<p><u>Corporate Governance</u></p> <p>Annual Governance Statement</p> <p>Review of Constitution</p> <p>Mapping Assurance Framework</p>	<p>H</p> <p>H</p> <p>H</p>		<p>15</p> <p>15</p> <p>30</p>
<p>Total</p>			<p>60</p>

Agenda Item 10

INTERNAL AUDIT PLAN 2012/13

April 12 - March 13



SEFTON COUNCIL
CORPORATE FINANCE & ICT
DEPT.
INTERNAL AUDIT SECTION

Department: ICT

Service / Activity	Audit Risk Assessment		Audit Days Proposed Apr 12 - Mar 13
Provision of ICT Audit to Warrington MBC	H		-50
Freedom of Information	H		25
Annual Billing Checks	H		5
Client Management (ICT)	H		35
Total			15

Report to: Audit & Governance Committee **Date of Meeting:** 28th March 2012

Subject: Audit Commission Report: Protecting the Public Purse

Report of: Head of Corporate Finance & ICT **Wards Affected:** All

Is this a Key Decision? No **Is it included in the Forward Plan?**
No

Exempt/Confidential No

Purpose/Summary

To inform the Audit & Governance Committee of the Audit Commission’s publication Protecting the Public Purse (Fighting Fraud against Local Government); outline Sefton’s response by identifying the Councils current actions to respond to the risk of Fraud and identify any potential gaps / weaknesses in the Council’s strategy / plan.

Recommendation(s)

Members are requested to consider and note the report and endorse Sefton’s response action plan / way forward to the publication.

How does the decision contribute to the Council’s Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community	✓		
2	Jobs and Prosperity	✓		
3	Environmental Sustainability	✓		
4	Health and Well-Being	✓		
5	Children and Young People	✓		
6	Creating Safe Communities	✓		
7	Creating Inclusive Communities	✓		
8	Improving the Quality of Council Services and Strengthening Local Democracy	✓		

Reasons for the Recommendation:

The Audit and Governance Committee, as those charged with governance, are required to be apprised of and review work undertaken in respect of the reactive and proactive response to fraud. The Audit Commissions publication – “*Protecting the Public Purse (Fighting Fraud against Local Government)*” highlights emerging fraud issues and

Agenda Item 11

review's Local Authorities progress in tackling significant risks, it also provides recommendations for Council's to consider in order to reduce the risk of fraud. Significant savings can be made by Council's by reducing fraud, which can help protect frontline jobs and services.

What will it cost and how will it be financed?

There are no current financial implications associated with the proposals in this report.

(A) Revenue Costs

(B) Capital Costs

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal	
Human Resources	
Equality	
1. No Equality Implication	<input checked="" type="checkbox"/>
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

Internal Audit provide assurance to the Council that appropriate actions are undertaken in respect of fraud risks within the service areas delivered by the Council ensuring that the public purse is protected in order to provide for effective and efficient service delivery for the community.

What consultations have taken place on the proposals and when?

The Head of Corporate Finance (FD1450) and Head of Corporate Legal Services (LD802) have been consulted and any comments have been incorporated into the report.

Audit & Governance Committee receive quarterly reports on Fraud and Investigation work undertaken.

Are there any other options available for consideration?

Audit & Governance Committee could choose not to receive Fraud and Investigation reports but this would weaken its involvement in the Council's Internal Control Framework and overall governance.

Implementation Date for the Decision

Immediately following the Audit & Governance Committee meeting.

Contact Officer: Janice Bamber

Tel: 0151 934 4051

Email: janice.bamber@sefton.gov.uk

Background Papers:

The following papers are available for inspection by contacting the above officer(s).

Protecting the Public Purse (Fighting fraud against Local Government)

Managing the Risk of Fraud (Books 1 &2)

PWC Progress Report

Audit Committee Terms of Reference

Agenda Item 11

1. Introduction/Background

1.1 The Audit & Governance Committee have a responsibility:

To monitor Council policies on 'whistle-blowing' and the anti-fraud and anti-corruption strategy, anti money laundering, bribery and the Council's complaints process and review as necessary.

1.2 As part of the External Auditor's (PWC) work they are required to obtain from those charged with governance, their perspective of fraud within the Council. As part of this they ask a number of key questions including:-

"What incentives and pressures do you perceive to be on management and how are the related fraud risks managed?"

"How do you exercise oversight over activities regarding the risks of fraud and the programme and controls established to mitigate risks?"

1.3 The Audit & Governance Committee has previously received and approved those policies identified at 1.1 and also receive a quarterly report on the proactive and reactive work undertaken by Internal Audit in regard to Fraud and the actions undertaken to mitigate the risk of fraud. It is important that Members understand how the Council responds to the issue on a day to day basis and the actions currently undertaken by Sefton to respond to the risk fraud presents.

1.4 This report is provided in order to ensure that those members responsible for the governance of the organisation are aware of the problems Local Government faces in regards to fraud; to outline the actions currently undertaken by Sefton to respond to the risk that fraud presents; to identify any potential gaps / weaknesses in the Council's strategy / plan and to consider actions to address these areas.

1.5 Each year the Audit Commission undertakes a survey of all local authorities. This survey looks at the detection of fraud and the levels and types of fraud within Local Authorities along with the procedures that are in place to detect and prevent fraud. The results of the survey are published annually in the document "Protecting the Public Purse" which highlights some of the key issues around fraud in Local Government; the current fraud risks that Council's face; further the report includes good practice and recommendations for Council's to consider in order to help reduce fraud. This report outlines some of the main issues included in the 2011 document, a full copy of the document can be found on the Audit Commission website at

<http://www.audit-commission.gov.uk/fraud/protecting-the-public-purse/Pages/ppp2011.aspx>

2. Protecting the Public Purse 2011

Summary Information

2.1 The survey of fraud against Councils and related bodies shows that:-

- local public bodies detected approximately 121,000 frauds, valued at £185 million, this compares with 119,000 detected frauds valued at £135 million in 2009/10;
- there were about 59,000 housing benefit and council tax benefit fraud cases, resulting in losses of £110 million to the public purse. These frauds represent more than half the total value of frauds detected by local bodies in 2010/11, in 2009/10 there were 63,000 cases with losses of £99 million;
- there were 56,000 detected council tax discount frauds costing more than £22 million, compared with 48,000 frauds costing £15 million in 2009/10;
- other frauds totalled around 5,600 and were worth £53 million, this compares with 7,000 other frauds worth £21 million in 2009/10. The six largest fraud types within this category include procurement, payroll, pensions and expenses, abuse of position, false insurance claims, social care and disabled parking concessions (blue badge);
- the number of frauds perpetrated by councils' own staff is low with only 1,581 cases (1.3% of total cases) but the value was £19.5 million, which represents 10.5% of the total value of detected frauds.

2.2 The Chief Internal Auditor completed the Survey on behalf of Sefton Council and these figures will be included in the Audit Commissions publication for 2011. Whilst Sefton's figures have been provided in previous years there are no records retained in regard to these figures, therefore, it is not possible to provide Members with a comparison of the figures relating specifically to Sefton. In future years this report will include a comparison of Sefton's figures and indication of increases / decreases. Further Sefton has not previously maintained figures in relation to the type and value of fraud except in the areas that Internal Audit examine. This will be addressed in the coming financial year with a co-ordinated approach to the recording of cases / incidents. This is to be discussed and agreed with the Heads of Corporate Personnel and Corporate Legal as part of a fraud response plan.

Fraud Risks Highlighted in 2009 and 2010 Reports

- 2.3 In the previous reports the Audit Commission highlighted the growing risk of fraud associated with housing tenancies; false claims for council tax discounts; abuse of personal budgets; procurement fraud; and housing benefits fraud.
- 2.4 The 2011 survey provided for Councils to submit council's progress in these areas since those publications.
- 2.5 Sefton now has a more proactive approach to tackling fraud, both in the detection and the prevention of the risk of fraud. In the current financial year specifically work has been undertaken in the areas of Housing Benefit and Council tax discounts, specifically Single Person Discount fraud. Specific detail in relation to Sefton's work in this area is included in this report below.
- 2.6 Further work will be undertaken in all areas identified in the coming financial year 2012/13. This will partly be resourced through a shared service arrangement; the Chief Internal Auditor has agreed an arrangement with Warrington Council that will see a number of days from Sefton's Audit Plan for the provision computer audit to Warrington; in return Warrington Audit will provide the same number of days to Sefton for fraud related work, including those areas for improvement identified

Agenda Item 11

below. Warrington Internal Audit have officers who have skills and expertise in that area

Emerging Fraud Risk Areas 2011

- 2.7 The Audit Commissions report (Protecting the Public Purse) goes on to identify nationally emerging fraud risk areas for 2011 across local public bodies; including Councils, these have been identified as including:
- the expansion of personal budgets in social services;
 - the impact of the current economic climate putting more pressure on individual's finances and tempting people to commit fraud;
 - reduced staff numbers, which may weaken councils' internal controls; and
 - fraudsters abusing the expenditure information that councils are now asked to publish, in order to defraud local public bodies.
- 2.8 Criminals, including some based outside the UK, have targeted councils and other public organisations in an attempt to redirect payments intended for legitimate creditors such as large construction companies. This has previously been reported to this Committee and Sefton did not suffer any financial loss from attempts of this nature as appropriate controls were in place to mitigate the risk.

Good Practice Advice

- 2.9 The Audit Commission report also provides some examples of good practice that local public bodies could follow to preserve an effective counter-fraud response. Organisations can make large savings as reducing fraud can make an important difference to local finances. The report identifies good counter-fraud work submitted by local public bodies surveyed that Council's may wish to consider in tackling fraud in the public sector, however, it is for public bodies to act on it. The recommendations made that relate to Councils are included at Appendix 1 of this report. The Audit Commission report also includes a checklist for those responsible for Governance, this is included at Appendix 2, and this will be completed as part of the review of the Council's arrangements in regard to fraud.
- 2.10 There is support and advice from government in respect of Council's approach to fraud. In October 2010, the government established a Taskforce on Fraud, Error and Debt to develop a new approach to tackling public sector fraud. The taskforce highlighted four priorities for tackling public sector fraud:-
- **Collaboration:** public organisations should remove any barriers to joint working. All parts of the public sector must work together to tackle fraud;
 - **Risk assessment and measuring losses:** public organisations must assess the risk of fraud before they launch projects and programmes and must record and report losses;
 - **Prevention:** public organisations must invest in and properly resource fraud prevention;
 - **A zero-tolerance culture towards fraud:** there is no acceptable level of fraud against the public purse.

Taken together these priorities will help to improve fraud prevention, deterrence and detection.

2.11 In April 2011 DCLG published a ten point plan for tackling fraud against local government. The Audit Commission report recommends that Councils should compare their arrangements for tackling fraud against this plan, shown below:-

1. Measure exposure to risk
2. More aggressively pursue a preventative strategy
3. Make better use of data analytics and credit reference agency checks to prevent fraud
4. Adopt tried and tested methods for tackling fraud in risk areas – such as blue badge scheme misuse
5. Follow best practice to drive down Housing Tenancy and Single Person Discount fraud
6. Pay particular attention to high risk areas such as procurement and grant awards
7. Work in partnership with service providers to tackle organised fraud against local services
8. Maintain specialist fraud investigative teams
9. Vet staff to a high standard to stop organised criminals infiltrating key departments
10. Implement national counter fraud standards developed by CIPFA.

3. Sefton's Action Plan / Way Forward

3.1 This Section identifies Sefton Council's current work / actions; future work / actions and areas for improvement.

Current Work / Actions

3.2 The Council already has a number of Sections that focuses on preventing, detecting and deterring fraud, including:-

- Housing Benefit fraud Team
- Trading Standards
- Internal Audit
- HR / Personnel Officers.

3.3 Further there are a number of documents / policies in place that contribute to the Councils preventative measures including:-

- Anti Fraud, Bribery & Corruption Policy
- Confidential Reporting (Whistle-blowing) Policy
- Code of Conduct
- Constitution, including Financial Procedure Rules and Contract Procedure Rules

3.4 The Audit Plan includes a substantial number of days for proactive anti fraud work in order to put measures in place to prevent, detect and deter fraud as well as days included for reactive work in relation to frauds / other investigations that have

Agenda Item 11

happened. When the Audit Plan is compiled each area is risk scored and this includes scoring in respect of the potential / likelihood for fraud in that area in order for the Chief Internal Auditor to ensure that those key high risk areas where fraud is more likely to occur are audited on a regular basis, each brief that is produced for each individual audit also takes account of any guidance / information in respect of frauds likely to occur in those areas.

- 3.5 The Benefit Fraud Investigation Team continues to investigate allegations of Housing and Council Tax benefit fraud, the results of which are reported to the Audit & Governance Committee each quarter.
- 3.6 Work has also been undertaken by Arvato in partnership with Experian, at the Councils request in respect of Single Person Discount (SPD). A press release was published informing residents that checks were being undertaken to identify fraud and in addition a narrative was included on the Council Tax bills stating that information may be shared for the prevention and detection of fraud. Experian undertook a data matching exercise to establish the likelihood of there being other residents at the addresses of the persons claiming SPD, a total of 25,000 non benefit cases were sent to Experian.
- 3.7 In total approximately 3300 – 3400 cases were initially identified as potentially having more than one qualifying resident at the address, query letters were sent to these residents, a second data match has been performed resulting in a further 800 query letters being sent. The findings as at December 2011 are identified below:-
- 698 discounts have been cancelled (approx 2.8% of those identified);
 - £255K of additional debt has been raised.

It is envisaged that the review will result in approximately 800 – 850 discounts being cancelled realising a total of £300k additional debt (and therefore potential income). This theoretically means that the Council has uncovered approximately £300k of potential fraud as these claimants were claiming Single Person Discount when they were not entitled to it. Further work is to be undertaken in this area and will be reported to Audit & Governance at a future meeting.

- 3.8 The Council partakes in the Audit Commissions National Fraud Initiative and submits data for data matching on a bi-annual basis. Data matches are then investigated by each appropriate Section, an Auditor is assigned to each set of data matches and investigations are undertaken as necessary, these are reported to the Audit & Governance Committee as part of the quarterly fraud report. The Council also submits data in relation to Electoral Register information and SPD, this has been submitted for 2012 and matches will be released to Councils in May 2012, further work will then be undertaken on SPD potential fraud.
- 3.9 There is further work that the Council undertakes in order to prevent, detect and deter fraud including:-
- Duplicate payment identification software;
 - Verification process for all social landlords;
 - Improvements in automated payment processes.

Future Work / Actions

- 3.10 The Council currently has strong anti-fraud procedures in place however there are a number of further actions that can be taken in order to strengthen controls within the Council to contribute towards the prevention, detection and deterrence of fraud. It is anticipated that by strengthening controls and addressing risks in respect of fraud the Council will become more robust in its fight against fraud.
- 3.11 In the coming 12 months (2012/13) it is intended that a number of initiatives will be introduced to respond to the recommendations within the Audit Commission's report (Protecting the Public Purse) and the DCLG's ten point plan including:-
- **Producing a fraud response plan for the Council** – this will focus on the Council's response to fraud and responsibilities of individual officers;
 - **Internal Audit will undertake a fraud risk assessment** – this will be undertaken with Managers across the Council (via the Corporate Risk Management Group);
 - **Establish a more joined up approach to the recording and reporting of fraud across the Council** – currently a number of different sections respond to fraud both internal and external; these need to be recorded and reported centrally in order to ensure resources are focused where the Council's vulnerabilities lie;
 - **Improve awareness of processes in respect of potential fraudulent documents** – this will ensure that those people who receive identity documents / proof of earnings etc. are aware of the issues around fraudulent documents and a process is in place to record and report;
 - **Internal Audit will undertake an assessment against the CIPFA red book "Managing the Risk of Fraud"** - this document outlines best practice in regards to managing the risk of fraud; IA will undertake a gap analysis to identify areas for improvement for Sefton.
 - **Continue to be involved in NFI exercise** – the Council will continue to be involved with the NFI data matching exercises; Internal Audit will continue to support departments in investigations as and when necessary;
 - **Review of personal budgets in social care**
 - **Review of Changes in staffing structures** – Internal Audit will undertake a review to identify with Managers areas that are open to risk of fraud due to lack of staffing or inexperienced staff;
 - **Review of and Response to the Checklist included in the Protecting the Public Purse report** – Internal Audit will review the checklist and respond to the issues raised, this will be reported to Members on completion, following the review of the Councils assessment against the CIPFA guidance.

Areas for Improvement

- 3.12 There are a number of areas for improvement that will be considered as part of the approach to the prevention, detection and deterrence of risk of fraud. These include:-
- Schools and the risk of fraud arising within the operation of schools finances, ICT etc.;

Agenda Item 11

- Raise staff awareness of the potential risk of fraud by issuing fraud bulletins and establishing training etc.;
- Advertise the undertaking of NFI data matching exercises and its outcomes;
- Strengthen the inter agency approach to fraud and its prevention;
- Strengthen the co-ordinated approach to fraud by LA's across Merseyside;
- Review and improve protocols for data sharing inter departmentally.

4. Conclusion

- 4.1 The Audit Commissions report "Protecting the Public Purse provides useful information on the prevention, detection and deterrence of fraud within local government. It provides indications as to the extent of fraud within a range of public bodies, good practice guidance and markers to future issues. Sefton Council will continue to contribute to the compilation of this report via completing the fraud survey.
- 4.2 The Audit Commission's report includes a number of recommendations for Councils, Sefton Council already meets many of these and we will be actively pursuing others. All fraud work and progress against the issues raised in this report will be reported via the quarterly fraud reports to Audit & Governance.

5. Recommendation

- 5.1 Members are asked to consider and note the report and endorse Sefton's action plan / way forward.

Audit Commission “Protecting the Public Purse” **Recommendations for Councils**

Councils should:-

1. Ensure they keep the capability to investigate fraud that is not referred to Housing Benefits;
2. Improve their use of data, information and intelligence to focus their counter-fraud work;
3. Review their counter-fraud arrangements in the context of the NFA’s strategy for local government “Fighting Fraud Locally”;
4. Work with other social housing providers to improve the use of civil and criminal action to deter tenancy fraudsters; (*)
5. Use the Audit Commission’s council tax single person discount (SPD) fraud predictor toolkit to assess the potential level of such fraud locally;
6. Review their performance against the NFA’s good practice guide on tackling housing tenancy fraud (*) and council tax fraud;
7. Ensure the National Fraud Initiative (NFI) data matches are followed up effectively, including those targeting council tax discount abuse;
8. Review personal budget arrangements to ensure safeguarding and whistleblowing arrangements are proportionate to the fraud risk;
9. Follow good practice and match the success of others; and
10. Use the Audit Commissions checklist for those charged with governance (See Appendix 2) to review their counter-fraud arrangements.

() Not Applicable to Sefton*

**Audit Commission “Protecting the Public Purse”
Checklist for those charged with Governance**

General

1. Do we have a zero tolerance policy towards fraud?
2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with *Fighting Fraud Locally*?
3. Do we have dedicated counter-fraud staff?
4. Do counter-fraud staff review all the work of our organisation?
5. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?
6. Have we assessed our management of counter-fraud work against good practice?
7. Do we raise awareness of fraud risks?
 - a. with new staff (including agency staff)?
 - b. with existing staff?
 - c. with elected members?
 - d. with our contractors?
8. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?
9. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?
10. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?
11. Do we maximise the benefit of our participation in the Audit Commission NFI and receive reports on the matches investigated?
12. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?
13. Do we have effective whistleblowing arrangements?
14. Do we have effective fidelity insurance arrangements?

Fighting Fraud with reduced resources

15. Have we reassessed our fraud risks since the change in the financial climate?

16. Have we amended our counter-fraud action plan as a result?
17. Have we reallocated staff as a result?

Current Risks & Issues

Housing Tenancy (Not Applicable to Sefton)

18. Do we take proper action to ensure we only allocate social housing to those who are eligible?
19. Do we ensure that social housing is occupied by those to whom it is allocated?

Procurement

20. Are we satisfied our procurement controls are working as intended?
21. Have we reviewed our contract-letting procedures since the investigations by the Office of Fair Trading into cartels and compared them with best practice?

Recruitment

22. Are we satisfied our recruitment procedures achieve the following:-
 - a. Do they prevent us employing people working under false identities?
 - b. Do they confirm employment references effectively?
 - c. Do they ensure applicants are eligible to work in the UK?
 - d. Do they require agencies supplying us with staff to undertake the checks that we require?

Personal Budgets

23. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?
24. Have we updated our whistleblowing arrangements for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?

Council Tax

25. Are we effectively controlling the discounts and allowances we give to council taxpayers?

Housing and Council Tax Benefits

26. When we tackle housing and council tax benefit fraud do we make full use of the following:-
 - a. National Fraud Initiative?
 - b. Department for Work and Pensions Housing Benefit matching service?
 - c. Internal Data Matching?
 - d. Private sector data matching?

Agenda Item 11

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank