

AGENDA

AUDIT COMMITTEE MEETING



Date: Monday 28 November 2011
Time: 6.30 p.m.
Venue: Town Hall, High Street,
Maidstone

Membership:

Councillors Butler, Field, Nelson-Gracie
(Chairman), Warner and Yates

Page No.

1. Apologies for Absence
2. Notification of Substitute Members
3. Notification of Visiting Members
4. Disclosures by Members and Officers
5. Disclosures of Lobbying
6. To consider whether any items should be taken in private because of the possible disclosure of exempt information
7. Minutes (Part I) of the meeting held on 19 September 2011 1 - 7

Continued Over/:

Issued on 17 November 2011

The reports included in Part I of this agenda can be made available in **alternative formats**. For further information about this service, or to arrange for special facilities to be provided at the meeting, **please contact DEBBIE SNOOK on 01622 602030**. To find out more about the work of the Committee, please visit www.maidstone.gov.uk

Alison Broom

**Alison Broom, Chief Executive, Maidstone Borough Council,
Maidstone House, King Street, Maidstone, Kent ME15 6JQ**

8.	Report of the Head of Audit Partnership - Internal Audit - Six Monthly Interim Report	8 - 31
9.	Report of the Head of Audit Partnership - Audit Committee - Member Training and Development	32 - 37
10.	Report of the Head of Audit Partnership - Protecting the Public Purse	38 - 80
11.	Report of the Head of Finance and Customer Services - Treasury Management Strategy Mid-Year Performance 2011/12	81 - 89
12.	Report of the Head of Finance and Customer Services - Audit Commission's Annual Audit Letter 2010-11	90 - 107

PART II

To move that the public be excluded for the items set out in Part II of the Agenda because of the likely disclosure of exempt information for the reasons specified having applied the Public Interest Test

Head of Schedule 12A and Brief Description		
13.	Minutes (Part II) of the meeting held on 19 September 2011	3 – Financial/Business Affairs 5 – Legal Professional Privilege/Legal Proceedings
108 - 111		
14.	Exempt Report of the Assistant Director of Regeneration and Cultural Services - Maidstone Museum East Wing Development Review	3 – Financial/Business Affairs 5 – Legal Professional Privilege/Legal Proceedings
112 - 119		

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES (PART 1) OF THE MEETING HELD ON 19 SEPTEMBER 2011

Present: Councillor Nelson-Gracie (Chairman) and
Councillors Butler, Field, Warner and Yates

Also Present: Councillors Brindle, Daley, Garland and
Greer
Ms S Bubb and Mr S Golding –
Audit Commission

35. **APOLOGIES FOR ABSENCE**

There were no apologies for absence.

36. **NOTIFICATION OF SUBSTITUTE MEMBERS**

There were no Substitute Members.

37. **NOTIFICATION OF VISITING MEMBERS**

Councillors Brindle, Daley, Garland and Greer were in attendance for various items on the agenda.

38. **URGENT ITEM**

**Report of the Head of Finance and Customer Services – Audit
Commission's Annual Governance Report 2010/11**

The Chairman stated that, in his opinion, the report of the Head of Finance and Customer Services relating to the Audit Commission's Annual Governance Report 2010/11 should be taken as an urgent item as the audited accounts had to be approved by the Audit Committee by 30 September 2011 and the Audit Commission's Annual Governance Report 2010/11, which gave an opinion on the accounts, was not received in sufficient time to enable a report addressing the issues raised to be included on the original agenda.

39. **DISCLOSURES BY MEMBERS AND OFFICERS**

There were no disclosures by Members or Officers.

40. **DISCLOSURES OF LOBBYING**

There were no disclosures of lobbying.

41. EXEMPT ITEMS

RESOLVED: That the items on the agenda be taken in public as proposed except that further information relating to delays in the Maidstone Museum East Wing project contract programme should be taken in private as to discuss these matters in public could prejudice the Council's position in any proceedings to recover additional costs.

42. MINUTES OF THE MEETING HELD ON 18 JULY 2011

RESOLVED: That the Minutes of the meeting held on 18 July 2011 be approved as a correct record and signed.

43. AMENDMENT OF THE CONTRACT PROCEDURE RULES

The Committee considered the report of the Assistant Director of Environment and Regulatory Services setting out suggested amendments to the Contract Procedure Rules arising out of changes to UK legislation, a review of purchasing procedures for the acquisition of Council materials, services and works, and an update of related guidance documentation. It was noted that:-

- There was a clause within the Contract Procedure Rules stating that the Rules should be reviewed and updated on a regular basis. A Working Group comprising representatives of the Property and Procurement Team, the Head of Audit Partnership, the Head of Finance and Customer Services, the Head of Democratic Services and the Head of Legal Services had been established and a comprehensive review had now taken place. The findings of the review showed that the financial thresholds for the receipt of quotations and tenders established two years ago were consistent with those of the majority of other Borough and District Councils in Kent. It was recommended that the Council's financial spend should continue to be monitored for anomalies and adverse trends by the Procurement Team and that the existing financial thresholds be maintained at current levels subject to a further review in two years' time.
- Amendments were proposed to the purchasing procedures within the Council's Purchasing Guide arising from recent changes to the Council's senior management structure and delegated responsibilities.
- The opportunity had also been taken to correct ambiguities and other drafting irregularities within the Contract Procedure Rules and associated guidance documents.

The Committee asked a number of questions of the Officers relating to, inter alia, the minimum requirements in relation to contract documentation; the threshold for the recording of contracts in the Council's Contract Register and the process in the event of amendments being made to the value of a contract which might push it beyond that

threshold; the scheme of delegation in respect of Council purchasing; the acceptability of only one written quote in advance being required for the provision of works, supplies and services up to the value of £10,000; and the involvement of Internal Audit in the review of the Contract Procedure Rules.

Having considered the replies to its questions, the Committee:-

RESOLVED:

1. To RECOMMEND to the COUNCIL: That the Contract Procedure Rules within the Constitution be amended in accordance with the proposed wording set out in Appendix A to the report of the Assistant Director of Environment and Regulatory Services.
2. That subject to a further review in two years' time, the existing financial thresholds for the purpose of obtaining the appropriate number of quotations and tenders for the provision of Council required materials, services and works be maintained at the existing levels.
3. That appropriate amendments be made to the commentary and advice for Officers contained within the Council's Purchasing Guide.
4. That the Standards Committee be requested to evaluate the proposed amendments to the Contract Procedure Rules prior to them being considered by the Council.

44. INTERNAL AUDIT STRATEGIC PLAN

The Committee considered the report of the Head of Audit Partnership setting out details of the projects included in the three-year Internal Audit strategic plan. It was noted that:-

- The four-way Internal Audit Partnership between Maidstone, Ashford, Swale and Tunbridge Wells Borough Councils had been in place for almost 18 months. A survey of the Chief Executives of the partner authorities showed that the Partnership was considered to be successful, working well and providing an improved service. One of the business objectives of the Partnership was to co-ordinate audit work, where possible, in order to achieve efficiencies. This had culminated in the creation of individual three-year Internal Audit strategic plans for each partner authority.
- The three year Internal Audit strategic plan had been prepared to take full account of organisational objectives and priorities. It had been prepared on a risk basis which involved scoring each of the potential audit subjects in terms of materiality, inherent risk and control risk, taking into account changes to systems, revised management arrangements, past history and the views of Heads of Service. The plan started by setting out the audit work that would be carried out in relation to the fundamental financial systems,

which were reviewed on an annual basis. It then went on to set out the other service areas that would be subject to an internal audit, some of which had little or no financial risk, but were subject to regulatory, legal, technological or reputational risk.

- Once the planned work had been determined, it had to be compared to resource availability. This had been identified through a resource assessment as 500 annual productive/chargeable “auditor days” which was the total number of days available to the Maidstone Internal Audit team to spend on the strategic plan. It was anticipated that in the majority of cases, individual audit projects would be completed within 15 days.
- The Maidstone Internal Audit team consisted of three full time operational auditors supported operationally by an Audit Manager for two days of the week and strategically by the Head of Audit Partnership. Each auditor was expected to complete twelve projects each year. The majority of the time of the Maidstone auditors would be spent on Maidstone audit projects. However, they would also work at other partnership sites where it was efficient to do so. This would be reciprocated on a quid pro quo basis. The planned audit projects shown for 2011/12 to 2013/14 were considered to be achievable with the existing level of resources.

The Committee asked a number of questions of the Officers relating to, inter alia, the criteria for the inclusion of projects within the Internal Audit strategic plan; the adequacy of the resources and skills available to implement the plan; the operational implications of slippage in the plan and of auditors being diverted to undertake work in other departments within their authorities; the role of the Audit Committee in approving, but not directing the plan; and the arrangements for reviewing progress against the plan.

RESOLVED: That the three-year Internal Audit strategic plan for the period 2011/12 to 2013/14, attached as an Appendix to the report of the Head of Audit Partnership, be approved.

45. STRATEGIC RISKS

The Committee considered the report of Corporate Management Team setting out a new Strategic Risk Register which was adopted by Cabinet at its meeting on 14 September 2011. It was noted that:-

- The Risk Register was intended to align as closely as possible with the Council’s four-year Strategic Plan for delivering its priorities. It had been developed through a risk workshop process which sought to identify the risks to the successful delivery of the newly developed strategic priorities. Management Team had allocated the individual strategic risks to specific senior managers so that they could take personal responsibility for managing those risks. The “risk owners” had completed Management Action Plans setting out

the required management action, the Officer responsible for taking the action and the key dates for the action to be taken by. The Action Plans would be entered onto the corporate performance management system so that actions could be monitored, tracked and reported to Management Team and Cabinet on a quarterly basis as part of the performance monitoring reports.

- The role of the Audit Committee was to monitor the effective development and operation of risk management and corporate governance in the Council. The information contained within the report and Appendices provided assurance that strategic risk management arrangements had been developed effectively and were being operated effectively.

Members expressed concern that the risks identified were not risks as such, but statements and that there should be a distinction between strategic objectives and strategic risks. In addition, clarification was required as to how strategic risk management linked into service planning and the day to day operational management of the authority.

RESOLVED:

1. That the new Strategic Risk Register and the process leading to its creation be noted, but in future the Committee wishes to see improvements to the document clarifying the link between strategic risk management, service planning and the operational management of the authority.
2. That the Head of Audit Partnership be requested to submit a report to a future meeting of the Committee covering all aspects of risk management.
3. That feedback on the performance monitoring reports that are provided to Management Team and the Cabinet, and specifically the progress on actions relating to strategic risk management, should be submitted to the Committee on a regular basis.

46. AUDIT COMMISSION'S ANNUAL GOVERNANCE REPORT 2010/11

The Committee considered the report of the Head of Finance and Customer Services concerning the audit of the Statement of Accounts for 2010/11. It was noted that:-

- The External Auditor intended to issue an unqualified opinion on the 2010/11 financial statements. He was satisfied that the Council's 2010/11 accounts had been prepared to a reasonable standard, that the quality of the supporting working papers was good and that the Council had dealt successfully with the challenges posed by the first year implementation of International Financial Reporting Standards. He also intended to issue an unqualified conclusion stating that in 2010/11 the Council had proper arrangements in

place to secure economy, efficiency and effectiveness in its use of resources.

- The audit did, however, identify a number of significant errors in the un-audited Statement of Accounts. These related mainly to capital accounting entries, the contingent assets note and the disclosure of a material pensions figure. These had no impact on the general fund balance or any other financial resources available to the Council. As a result the External Auditor had made two specific recommendations to address the factors he had identified as being contributory to the identified errors. These had been accepted by the Officers and would be acted upon as a priority to avoid a repeat of such errors in the future.

The Committee asked a number of questions of the Officers and the representatives of the Audit Commission relating to, inter alia, the accounting treatment in respect of the three significant capital projects being undertaken by the Council, including the extension to Maidstone Museum, and the robustness of the capital management process; the adequacy of revenue reserves as a percentage of revenue expenditure (11.7%) to meet contingencies and provide financial stability; the basis for estimating pension assets and liabilities; the reasons for slippage in both revenue and capital expenditure resulting in an increase in investments held with banks and building societies; the reasons for some major variances in original and actual estimates across the portfolios; and the position with regard to Growth Point funding.

Having considered the replies to its questions, the Committee:-

RESOLVED:

1. That the Audit Commission's Annual Governance Report 2010/11, set out in draft form as Appendix A to the report of the Head of Finance and Customer Services, be approved and that, in approving the report, the Committee notes the adjustments to the Statement of Accounts 2010/11, approves the Letter of Representation to the Audit Commission and agrees the response to the proposed action plan to address the recommendations made.
2. That the Statement of Accounts 2010/11, as set out in Appendix B to the report of the Head of Finance and Customer Services, be approved.

47. EXCLUSION OF THE PUBLIC FROM THE MEETING

RESOLVED: That the public be excluded from the meeting for the following item of business because of the likely disclosure of exempt information for the reasons specified in Minute 41 above, having applied the Public Interest Test:-

Head of Schedule 12 A and Brief Description

Matters Arising from the Minutes of the Meeting held on 18 July 2011- Minute 33 - Maidstone Museum East Wing Project – Delays in Contract Programme	3 - Financial/Business Affairs 5 - Legal Professional Privilege/Legal Proceedings
---	---

48. MAIDSTONE MUSEUM EAST WING PROJECT - DELAYS IN CONTRACT PROGRAMME

The Assistant Director of Regeneration and Cultural Services circulated a briefing note updating the position with regard to the delays in the Maidstone Museum East Wing project contract programme. The Committee asked questions of the Officers relating to the contractual, legal and financial implications.

Having received replies to its questions, the Committee gave instructions to the Officers as to how it wished to proceed.

49. DURATION OF MEETING

6.30 p.m. to 9.40 p.m.

Agenda Item 8

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

28 NOVEMBER 2011

REPORT OF HEAD OF AUDIT PARTNERSHIP

Report prepared by Brian Parsons

1. INTERNAL AUDIT – SIX MONTHLY INTERIM REPORT

1.1 Issue for Decision

1.1.1 To consider the work of the Internal Audit team over the six-month period, April 2011 to September 2011 and note the outcomes of the internal audit work.

1.2 Recommendation of the Head of Internal Audit Partnership

It is recommended that the Audit Committee:

1.2.1 Note the results of the work of the Internal Audit team over the period April 2011 to September 2011 as listed at Appendix A.

1.2.2 Note that, during the period April to September, 7 areas were audited where 'substantial' or 'high' control assurance was in place at the time of the audit. Four projects did not have a control assessment (Appendix B).

1.2.3 Note that, 6 areas were audited where only 'limited' control assurance was in place at the time of the audit (Appendix C).

1.2.4 Note the improvement in the internal control environment, identified during the audit follow-up process – as detailed within Appendix D.

1.2.5 Note that there are no important control issues arising from the internal audit work which are outstanding and need to be brought to the attention of Members.

1.3 Reasons for Recommendation

1.3.1 The principal objective of the Internal Audit service is to examine and evaluate the adequacy of internal control within the various systems, procedures and processes that are operated by the Council.

- 1.3.2 Internal Audit is a statutory function under the Accounts and Audit Regulations 2011 which state that the Council 'must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.
- 1.3.3 The adequacy of the internal control environment is a key governance issue. Therefore, the Audit Committee needs to be satisfied with the audit arrangements and to be aware of the issues arising from audit work.
- 1.3.4 Within its Terms of Reference the Audit Committee needs to 'review summary internal audit reports and the main issues arising and seek assurance that remedial action has been taken where necessary'. The Audit Committee therefore needs to be satisfied that the audit process is working efficiently and that management is taking the necessary action to implement agreed audit recommendations.
- 1.3.5 A total of 17 audit projects were completed between April and September 2011 (one of which was a piece of 'consultancy' work – referred to at the end of Appendix C). This represents 47% of the target for the year.
- 1.3.6 The audit team performed extremely well during the six month period, meeting their performance targets within the Reach the Summit performance management system and being given the internal award for most sustained improvement/top team on two occasions.

1.4 Reporting

- 1.4.1 The six-monthly Interim Report is principally intended to inform the Committee of the work of the Internal Audit team during the first half of the financial year. An annual report, which will be provided to the Committee in June 2012, will provide a more detailed review of internal audit work and will include an assessment of the adequacy of the Council's overall internal control environment, in support of the Annual Governance Statement.

1.5 Assurance Assessments

- 1.5.1 Each audit review includes an assurance assessment in terms of the adequacy of controls. This represents 'the audit opinion'. Appendix shows that, of the 17 projects completed during the six month period, one project identified that a 'high' level of control assurance was in place at the time of the audit, 7 projects identified 'substantial' assurance, and 6 identified 'limited' assurance. There were no areas where 'minimal' assurance was in place. Four further audit projects did

not receive an assurance assessment as this was not considered to be appropriate to the scope of the project. A table, showing the definitions of the assurance categories, is attached at Appendix E.

1.6 Follow-Ups

- 1.6.1 A follow-up to each report is completed, usually three to six months after the date of issue of each original report. The follow-up allows the adequacy of controls to be reassessed. Management is expected to have taken the necessary action to address the control weaknesses before the follow-up is undertaken. The results of follow-ups carried out to date (7 November) are summarized within Appendix D.
- 1.6.2 All of the follow-ups confirmed that control assurance had either been maintained at 'substantial' or more importantly that the control assurance had increased from 'limited' to 'substantial' following the implementation of the agreed recommendations.
- 1.6.3 One of the follow-ups related to an audit of Licensing, for which the original report was issued in January 2011; at that time only limited control was found to be in place. This was initially followed-up in June 2011, where a lack of effective management action meant that the control assurance had not changed. This was brought to the attention of the Head of Service and his Director. The second follow-up, which was carried out on the 3 November 2011, confirmed that virtually all of the recommendations had been fully implemented and substantial progress had been made. If this had not been the case a separate report would have been made to this Committee meeting, which the Head of Service would have been invited to attend.

1.7 Alternative Action and why not Recommended

- 1.7.1 The Internal Audit team completed a total of seventeen audit projects during the six-month period April to September 2011. The audit work has led to control improvements in the areas that were reviewed.
- 1.7.2 Although the audit work identified some areas where controls were in need of improvement, it is anticipated that the responsible managers have since taken the necessary action to address those weaknesses. This will be tested as part of the follow-up process.
- 1.7.3 Members of the Audit Committee need to have an awareness of the work of Internal Audit. Therefore, there is no alternative action.

1.8 Impact on Corporate Objectives

- 1.8.1 The Internal Audit service contributes towards the Strategic Plan

through its role as an independent and objective appraisal and consulting function, which provides the means to evaluate the adequacy of the controls that management has put in place to achieve objectives for the delivery of strategic priorities and operational services.

- 1.8.2 The role of Internal Audit can be seen to underpin aspects of the Strategic Plan by reviewing and reporting on the processes by which corporate objectives are delivered to the public (and other stakeholders), as an aid to management.

1.9 Risk Management

- 1.9.1 Internal Audit contributes to the overall risk management environment in reviewing the adequacy of controls that management has put in place to manage risks.

1.10 Other Implications

1. Financial	X
2. Staffing	X
3. Legal	X
4. Equality Impact Needs Assessment	
5. Environmental/Sustainable Development	
6. Community Safety	
7. Human Rights Act	
8. Procurement	
9. Asset Management	

- 1.10.1 The work of Internal Audit includes the examination of all aspects of internal control but inevitably contains a strong emphasis on reviewing the adequacy of financial controls.

- 1.10.2 Each audit involves the participation of the staff that have responsibility for the various systems and processes that are being audited. The results of Internal Audit work are likely to lead to changes in the procedures operated by those staff.

1.10.3 Internal audit is a statutory requirement under the Accounts and Audit Regulations 2011.

1.11 Conclusions

1.11.1 This Interim Report highlights the work of the Internal Audit team between April and September 2011 and provides assurance to the Audit Committee that an effective system of internal audit is in place.

1.12 Relevant Documents

1.12.1 Appendices

Appendix A – Internal Audit reports/work completed April to September 2011

Appendix B – Audits completed where 'substantial' or 'high' control assurance was in place at the time of the audit

Appendix C – Audits completed where only 'limited' control assurance was in place at the time of the audit

Appendix D – Summary report of follow-up assurance assessments

Appendix E – Definitions of assurance - table

1.13 Background Documents

1.13.1 The individual Internal Audit reports for those projects which are listed in Appendix A, are the background documents for this report.

IS THIS A KEY DECISION REPORT?

Yes

☐

No

☒

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because:

.....

Wards/Parishes affected:

.....

Summary Report of Audit Assignments April – September 2011 Assurance Assessments

	Report / Project	Date of Report	Report Assurance Level	Follow-up assurance assessment	Notes
1	Crematorium & Cemetery	April 2011	Limited	Substantial	See appendix B
2	Community Halls	May 2011	Limited	To be completed November 2011	See appendix C
3	Building Control Income	May 2011	Substantial	To be completed November/December 2011	See appendix B
4	Maidstone Leisure Centre	June 2011	Limited	To be completed November 2011	See appendix C
5	Audit Commission Fraud Survey 2010-11	May 2011	N/A	N/A	N/A
6	General Ledger – Budget Setting Process	May 2011	Substantial	To be completed March 2012	See appendix B
7	Insurance	September 2011	High	To be completed February 2012	See appendix B
8	Section 106 Agreements	September 2011	Limited	To be completed February 2012	See appendix C
9	Use of Consultants	August 2011	Substantial	To be completed January 2012	See appendix B
10	Website Management	August 2011	Substantial	To be completed April 2012	See appendix B
11	Payments to Suppliers - Publishing of Spending Data	July 2011	Substantial	To be completed January 2012	See appendix B
12	Museum - Security of Artefacts	July 2011	Limited	To be completed November 2011	See appendix C

13	Elections	August 2011	Substantial	To be completed November 2011	See appendix B
14	Hazlitt Art Centre - Stock Checks	July 2011	Limited	To be completed November 2011	See appendix C
15	Interreg Claim Jan-Jun11 (Mosaic)	July	N/A	N/A	Appendix C
16	Legal Services – Case Management System (time recording)	September 2011	N/A	N/A	Appendix C –note this was 'consultancy' rather than audit.
17	NFI – Data matching exercise progress report (2010/11)	August 2011	N/A	N/A	Appendix C

Summary of Internal Reports - April to September 2011 – Assessed as Substantial or High

Service: Environment and Regulatory Services

Audit title: Building Control Fees

Report Issued: May 2011

Audit Objectives:

- To establish the arrangements for the estimation and charging of fees
- To establish and review the arrangements for the collection, receipting, banking and recording of fees and charges;
- To determine the controls for the adequate reconciliation of income to the Councils Financial Management System (Agresso);
- To establish and review the controls for updating and maintaining the APAS system;

Key Findings:

Control improvements

- Better resilience over the calculation of fees;
- Accuracy and completeness of Surveyor timesheets; and
- Review and repair of the Building Control website information;

Potential service improvements:

- Adopting central payment procedures;
- Utilising the DIP system for scanning and storing application files; and
- Upgrade of the APAS System;

Level of Assurance at the time of the audit: Substantial

Management Response Summary:

All recommendations have been accepted and realistic timeframes for completion have been set. The management response is considered to be adequate.

Proposed Date for Follow-up: November/December 2011

Follow-up Assessment: Not available

Service: Democratic Services

Audit title: Elections

Report Issued: August 2011

Audit Objectives:

- To establish compliance with Election regulations and legislation;
- To establish compliance with operational procedures and policies;
- To review and evaluate the Elections process from pre-election to closing;
- To review the financial procedures and accounting arrangements over the Elections;

Key Findings:

All procedures were found to be operating efficiently and effectively. Only one recommendation was made within the report, to ensure that all future payments to election staff (employed to assist in the running of the election) are made via the Council's payroll system (iTrent).

Level of Assurance at the time of the audit: Substantial

Management Response Summary:

The Head of Democratic Services and the Registration Services Manager will pursue the necessary arrangements with Payroll, as soon as possible. The management response is considered to be adequate.

Proposed Date for Follow-up: November 2011

Follow-up Assessment: Not available

Service: Finance and Customer Services

Audit title: Payments to Suppliers - Transparency

Report Issued: July 2011

Audit Objectives:

- To ensure compliance with the relevant guidelines and internal procedures for the collation and publication of data;
- To confirm the accuracy of published information and the controls over submission of future data;

Key Findings:

Proactive measures were taken by the officers to improve controls and to implement more robust accuracy checks over the publication of data, during the audit. As a result, the recommendations in the report were based on the updated procedures and included:

- Implementation/embedding of robust checks over accuracy & completeness of data;

- Obtaining advice and guidance for redaction of potentially sensitive data;
- Independent management sign-off/authorisation of data reports; and
- Republishing previous spending reports in line with the updated procedures;

Level of Assurance Issued: Substantial

Management Response Summary:

All recommendations have been accepted and implementation is expected for December 2011 / January 2012. The management response is therefore considered to be adequate.

Proposed Date for Follow-up: January 2012

Follow-up Assessment: Not available

Service: Finance and Customer Services

Audit title: Insurance

Report Issued: September 2011

Audit Objectives:

- To consider the means by which risks are identified and prevented/mitigated and how insurance requirements are agreed.
- To establish the adequacy of arrangements for the recording and administration of insurance claims and to verify through audit testing that claims are properly administered.
- To establish the adequacy of monitoring and reporting arrangements
- To establish the adequacy of arrangements for the annual review and negotiation of insurance premiums

Key Findings:

From the audit testing carried out during the course of the audit it is considered that insurance arrangements are well controlled. The audit identified two areas where improvements can be made and these specifically relate to the Council's property portfolio.

Level of Assurance at the time of the audit: High

Management Response Summary:

All recommendations have been accepted; therefore the management response is adequate

Proposed Date for Follow-up: January 2012

Follow-up Assessment: Not available

Service: Environment and Regulatory Services
Audit title: Use of Consultants (non capital projects)
Report Issued: August 2011

Audit Objectives:

- To establish whether consultants and additional resources are procured / employed in accordance with relevant regulations, legislation and Council procedures
- To verify whether payments made to consultants and additional staff are authorised, accurate and within budget
- To consider whether the use of consultants and additional resources is adequately recorded, monitored and reported

Key Findings:

The report concluded that controls over the arrangements were adequate but that improvements could be made to ensure there is more consistency and transparency. The main issues arising were: there was no standard procedure in place for procuring the services of a consultant; there were limited checks completed on consultants prior to engagement; invoices are not always coded to the correct account code and there was no central monitoring of the use of consultants.

Level of Assurance at the time of the audit: Substantial

Management Response Summary:

A response has been received. The response is acceptable subject to a final check with the Property and Procurement Manager.

Proposed Date for Follow-up: To be confirmed

Follow-up Assessment: Not available

Service: Communications
Audit title: Website Management
Report Issued: September 2011

Audit Objectives:

To establish and evaluate the arrangements for the ongoing accuracy, accessibility, security, interoperability and usability of the Council's website

Key Findings:

The audit established that the website provides an effective communication method for customers. Information / documents

available on the website are easy to locate and further work is underway to improve the 'findability' of documents. The format of the website content is in line with the corporate brand. The number of online facilities is increasing in line with customer demand. The website provides a secure and reliable means of transacting with the Council.

A number of areas were identified where improvements could be made, for example the website does not have a clear purpose or vision setting out how the objectives to increase online transactions by 20% by 2015 will be met. The website platform (Immediacy) is prone to intermittent faults and is no longer supported by the software provider and the planned development of the new Sharepoint 2010 platform has been delayed. There is no routine / systematic monitoring of the content published on the website to ensure that the information is accurate, up to date and customer friendly and the high number of the Information Champions with responsibility for amending and publishing information on the Council's website could increase the risk of inconsistencies in the design and format of the content published.

Level of Assurance at the time of the audit: Substantial

Management Response Summary:

All of the recommendations have been accepted. Some of the recommendations are due to be implemented by the end of March 2012 and the remaining recommendations will be implemented when the new website platform is in place.

The management response is considered to be adequate

Proposed Date for Follow-up: April 2012

Follow-up Assessment: Not available

Service: Finance and Customer Services

Audit title: General Ledger – Budget Setting Process

Report Issued: May 2011

Audit Objectives:

- To establish that appropriate budget setting processes are in place.
- To establish that appropriate processes are in place to ensure savings identified within the 2011/12 budget setting process are achieved.

Key Findings:

Overall the audit found that effective arrangements are in place to ensure the Council's budget is robust, and ensure significant budgetary savings are achieved. However, several areas were identified where improvements can be made, for example, a reporting framework should be created between Corporate Finance and Performance and Scrutiny Team to ensure budget savings are reported consistently and accurately.

Level of Assurance at the time of the audit: Substantial

Management Response Summary:

The recommendations are accepted and will be implemented. The management response is considered to be adequate.

Proposed Date for Follow-up: March 2012

Follow-up Assessment: Not available

Service:	Business Improvement
Audit title:	Interreg (Mosaic Project) January to July 2011
Report issued:	Return submitted – 28 July 2011
Background:	The Council is a participant in the 'Mosaic Project' which will provide a detailed socio-economic map of Kent to assist resource planning and focus on service delivery. The Council receives 50% funding from the European Union. The Council's contribution is primarily 'in kind', being the time of the officers spent developing the project.
Audit objectives:	Internal Audit act as the 'First Level Controller' and are responsible for auditing all of the claims for European funding. This is to ensure that the claims are correct and comply with strict evidence requirements to support each claim. The FLC, on auditing each claim, is required to agree and sign off the claim prior to payment approval. The claims are made every six months.
Key findings:	The claim was reviewed and evidence was confirmed to support the claim.

Service:	Corporate/Section 151 Officer
Audit title:	National Fraud Initiative (NFI) – data matching exercise 2010/11
Report issued:	August 2011

Background:	The National Fraud Initiative is a biennial data matching exercise carried out on behalf of the Audit Commission. The Council is required to submit a broad range of data which is matched against other data sets that the Commission has obtained from a number of sources. Data sets provided by the Council have included Benefits, Payroll, Creditors, Residents Parking Permits, Licensing, Insurance Claims and Register of Electors.
Audit objectives:	The audit sought to confirm that data matches were being appropriately and promptly investigated.
Key findings:	At the time of reporting (8 August 2011), 97% of the data matches had been investigated and closed. The exercise identified 3 frauds and 14 errors totalling £72,193. Of this figure, £49,200 related to just one Housing Benefit case.

Service:	Corporate/Section 151 Officer
Audit title:	Audit Commission Fraud Survey 2010-11
Background:	<p>The Audit Commission require that the Council undertake an internal fraud survey and to submit the results to them in a prescribed format.</p> <p>Internal Audit undertake the survey and provide the information to the Commission.</p> <p>There were no issues arising from the survey.</p>

Service:	Legal Services Partnership
Audit title:	Legal Services – Time recording arrangements (IKEN)
Background:	<p>The Legal Services Partnership has implemented a case management system called IKEN. The legal services partnership was established under the Mid Kent Improvement Partnership (MKIP). MKIP requested that Internal Audit complete a consultancy review of the use of the time recording system by legal staff.</p> <p>The outcomes from the review were considered by the MKIP Management Board in September 2011.</p>

Appendix C

Summary of Internal Audit Reports – April to September 2011 – Assessed as Limited or Minimal

Service: Environmental and Regulatory Services

Audit title: Cemetery and Crematorium

Report Issued: April 2011

Audit Objectives:

- To establish whether all income due is received and banked
- To establish whether there are adequate controls in place to control expenditure
- To establish whether burials and cremations are completed in accordance with relevant legislation and agreed procedures e.g. health and safety and security.

Key Findings: The audit identified that improvements are needed to the storage of cremation and burial paperwork to ensure key documentation is fully accounted for. The reporting functionality of BACAS needs to be improved to ensure the reports extracted are reliable and complete. A routine reconciliation between Agresso and BACAS needs to be introduced to ensure all income is fully accounted for. Some of the buildings at the Cemetery are in need of significant repair / maintenance.

Level of Assurance at the time of the audit: Limited

Management Response Summary:

All of the recommendations have been agreed in principle and will be implemented where practical to do so. The actions are due to be fully implemented by the end of August 2011, with the exception of the migration of old memorials onto BACAS, which is due to be completed by the end of December 2011. However, the recommendation relating to the reconciliation between BACAS and Agresso cannot be implemented until the reporting functionality within BACAS has been improved. In the meantime a manual reconciliation process, using the information which is currently available, will be introduced to ensure all memorial income (new and renewals) due has been received.

The management response is considered to be adequate.

Proposed Date for Follow-up: October 2011

Follow-up Assessment: Substantial

Service: Regeneration and Community Services

Audit title: Community Halls

Report Issued: May 2011

Audit Objectives: The audit review set out to establish the controls in place over three of the Council's Community Halls; Fant Hall, Beechwood Hall and Heather House. The Assistant Director of Regeneration and Cultural Services had requested the audit to be undertaken in order to establish the current position with regard to: adherence to the terms of the lease agreements by the tenant; rental payments due to the Council; the recharging of utilities associated with the community halls; maintenance of the buildings and fees and charges associated with the hire of the halls.

Key Findings: The audit established that there was a need to improve procedures. The main findings from the audit are:-

- There is no one officer who has overall responsibility to oversee the operational management of the community halls.
- A current lease agreement is only in place for one of three community halls reviewed
- Recharges for utilities used by the occupiers of the halls are not made on a timely basis.
- NNDR business rates paid by the Council had not been recharged to all tenants.
- Evidence of third party liability insurance has not been obtained from one tenant.
- Income due from Heather House was not being paid to the Council in accordance with the terms of the service level agreement. This requires that 70% of hire income received by Heather House is paid to the council on a monthly basis.

Level of Assurance at the time of the audit: Limited

Management Response Summary:

A comprehensive response has been received with all recommendations accepted, and realistic dates have been set. Therefore the management response is considered to be adequate

Proposed Date for Follow-up: November 2011

Follow-up Assessment: Not available

Service: Environment and Regulatory Services

Audit title: Maidstone Leisure Centre

Report Issued: June 2011

Audit Objectives: The audit set out to establish whether the Leisure Centre refurbishment programme was being effectively managed, whether the refurbishment programme was being delivered as agreed, whether the payments made to Serco PAISA were authorised and accurate and whether all of the Council's assets and equipment are adequately maintained and fully accounted for.

Key Findings:

- (At the time of the audit) The Building Control completion certificate had not been issued in respect of the major refurbishment works which were completed in May 2010
- There had been no formal follow up to the building condition survey which was completed by the Council's Principal Building Surveyor in October 2009
- The records held in relation to the delivery of the programme and substituted items were in need of improvement
- The information being recorded on the payment certificates was inconsistent and did not always include the full value of the items delivered.
- The asset register did not provide adequate details for each asset

Level of Assurance at the time of the audit: Limited

Management Response Summary:

All of the recommendations are accepted. The majority of the recommendations are due to be implemented by 31 October 2011, with the exception of one recommendation which is due to be implemented by 31 December 2011, at the end of the next draw down period. The management response is considered to be adequate.

Proposed Date for Follow-up: November 2011

Follow-up Assessment: Not available

Service: Regeneration and Community Services

Audit title: Museum – Security of Artefacts

Report Issued: July 2011

Audit Objectives: The audit set out to examine and evaluate the security for the new East Wing extension and more generally for staff security at the Museum. The review also considered the arrangement for the return of artefacts from storage to the Museum.

Key Findings: The audit identified a need to ensure that staff working within the new Visitor Economy Business Unit based at the Museum, are fully aware of the security process and procedures in place.

The Museum East Wing building contract incorporates an Electronic Security Specification/Scope of Works. The specification required the security contractor to take 'ownership' of all existing systems on commencement of works until the security systems are 'signed off' by the nominated agent. There was a need to ensure that, following completion and sign off, the contractor provides comprehensive manuals for the operation of the systems. Furthermore, there was a need to ensure that appropriate staff receive the necessary training to operate the systems.

The process for the return of artefacts from storage was examined. It was considered that the arrangements provided sufficient security over the artefacts.

Level of Assurance at the time of the audit: Limited

Management Response Summary:

A comprehensive response has been received with all recommendations accepted, and realistic dates have been set. Therefore the management response is considered to be adequate

Proposed Date for Follow-up: November 2011

Follow-up Assessment: Not available

Service: Regeneration and Community Services

Audit title: Hazlitt Arts Centre – Bar Stock Checks

Report Issued: July 2011

Audit Objectives: This short audit review was undertaken to verify the arrangements in place for the ordering of bar supplies for the Hazlitt Arts Centre, and included a review of the records maintained to identify and record stock levels.

Key Findings: The audit selected stock checks related to the period September - November 2010 and March - May 2011. Testing involved agreeing delivery notes/invoices to the stock control records to ensure stock had been correctly recorded. While undertaking this testing it was established that the Bar Manager had not followed prescribed procedures for the purchasing and payment for bar stock.

Audit testing confirms that the Bar Manager reconciles his stock records monthly through a full stock check exercise. The stock check procedures, which were observed and tested during the audit, are considered satisfactory with no significant variances in stock levels identified.

Level of Assurance at the time of the audit: Limited

Management Response Summary:

A response has been received with all recommendations accepted. The Bar Manager has been instructed to follow the proper procedures for the purchase of stock. Therefore the management response is considered to be adequate

Proposed Date for Follow-up: November 2011

Follow-up Assessment: Not available

Service: Development Management

Audit title: Section 106 Agreements

Report Issued: September 2011

Audit Objectives:

- To establish and evaluate the arrangements for recording the individual planning obligations which are negotiated through the Planning process.
- To review the process by which negotiated planning obligations are formalised into Section 106 agreements.
- To establish and evaluate the means by which the Council's interests are brought into account.
- To establish and review the process for monitoring Section 106 agreements.
- To establish and review the means by which planning obligations are collected, recovered or obtained from developers.
- To establish the progress of arrangements to implement the Community Infrastructure Levy.

Key Findings: The report concludes that controls over the arrangements had improved since the previous audit was undertaken in December 2008, with the implementation of an access database for recording details of Section 106 Agreements and the use of the Sundry Debtors system for the recovery of payments due. However, several significant areas were identified where improvements need to be made, for example, there is excessive reliance on one officer to access the system and provide reports and therefore a need to identify an officer who can undertake the responsibilities of the Compliance Officer in her absence. Improved controls are required over the access database and there is a need to generate reports from APAS to ensure all Section 106 Agreements are properly recorded on the database.

Level of Assurance at the time of the audit: Limited

Management Response Summary:

A comprehensive response has been received with all recommendations accepted, therefore the management response is considered to be adequate

Proposed Date for Follow-up: February 2012

Follow-up Assessment: Not available

Summary Report of Audit Follow Up Assurance Assessments April 2011 – to 7 November 2011

	Follow Up reviews carried out April 2011 – September 2011	Date of Follow Up	Audit Assurance Assessment	Follow Up Assurance Assessment	Notes	Direction of Travel
1	Development Control Fees	July 2011	Substantial	Substantial		→
2	Control of Capital Projects	May 2011	Limited	Substantial		↑
3	Licensing	June 2011	Limited	Substantial		↑
4	Street Cleansing	August 2011	Limited	High		↑
5	NNDR Valuation, Liability & Billing	September 2011	High	High		→
6	Council Tax Recovery & Enforcement	September 2011	High	High		→
7	Car Parking Income	August 2011	High/Limited	High/Substantial		↑
8	Treasury Management	September 2011	Substantial	Substantial		→
9	Market	July 2011	Substantial	Substantial		→
10	Affordable Housing	October 2011	Substantial	Substantial		→
11	Property Management Income	November 2011	Substantial	Substantial		→
12	Cobtree Golf Course	October 2011	Substantial	Substantial		→
13	Crematorium & Cemetery	November 2011	Limited	Substantial		↑
14	Housing & Council Tax –Benefit Payments	October 2011	Substantial	High		↑
15	Housing Improvement Grants	November 2011	Limited	Substantial		↑

Definitions of Assurance Levels

Our opinion on the adequacy and effectiveness of controls for an audited activity is shown as an ***assurance level*** within four categories. The use of an ***assurance level*** is more consistent with the requirement for managers (and Members) to consider the degree to which controls and processes can be relied upon to achieve the objectives of the reviewed activity. The assessment is largely based on the adequacy of the controls over risks but also includes consideration of the adequacy of controls that promote efficiency and value for money. The definitions of assurance levels are provided below:

Controls Assurance Level	Summary description	Detailed definition
Minimal	Urgent improvements in controls or in the application of controls are required	<p>The authority and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation.</p> <p>This is because key controls do not exist with the absence of at least one critical control or there is evidence that there is significant non-compliance with key controls.</p> <p>The control arrangements are of a poor standard.</p>
Limited	Improvements in controls or in the application of controls are required	<p>The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review.</p> <p>This is because, key controls exist but they are not applied, or there is significant evidence that they are not applied consistently and effectively.</p> <p>The control arrangements are below an acceptable standard.</p>
Substantial	Controls are in place but improvements would be beneficial	<p>There is some limited exposure to risk which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.</p> <p>The control arrangements are of an acceptable standard.</p>

High	Strong controls are in place and are complied with	<p>The systems/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.</p> <p>The control arrangements are of a high standard.</p>

Agenda Item 9

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

28 NOVEMBER 2011

REPORT OF HEAD OF AUDIT PARTNERSHIP

Report prepared by Brian Parsons

1. AUDIT COMMITTEE – MEMBER TRAINING AND DEVELOPMENT

1.1 Issue for Decision

- 1.1.1 To consider the Audit Committee Training Plan (shown at Appendix A) and agree the content and delivery of the plan, and whether all elements should be mandatory.

1.2 Recommendation of the Head of Audit Partnership

- 1.2.1 That the Committee agrees the content and delivery of the Audit Plan and whether all elements should be mandatory for all full members of the Committee.

1.3 Reasons for Recommendation

- 1.3.1 The Committee considered the report of the Head of Audit Partnership which proposed a number of options for training, in the course of its meeting on 18 July 2011.

- 1.3.2 The report highlighted that the Council had previously agreed that no Member would be able to serve on the Committee without having agreed to undertake a minimum period of training on the policies and procedures of the Committee as specified by the Committee.

- 1.3.3 The Committee resolved that:

- All new Members of the Committee should receive induction training.
- The induction training should be based around the subjects set out in paragraphs 1.4.2 and 1.4.6 of the report of the Head of Audit Partnership. In view of the nature of the work of the Committee,

the training should include a steer on how to interpret reports and the questions to be asked.

- An ongoing training programme should be developed based around the topics set out in paragraphs 1.4.3 and 1.4.7 of the report.
- The co-opted Independent Member (when appointed) should receive the same training as full Members of the Committee.
- Substitute Members of the Committee, as occasional attendees, should only be required to undergo induction training but with the option of attending further training sessions.
- Where possible, the training should be delivered over a concentrated period and in a concentrated manner (rather than as briefings prior to actual meetings of the Committee).
- Where practical, joint training should be arranged with Members of Audit Committees of other Councils.
- Members of the Audit Committee do not wish to receive occasional briefing papers to supplement the training sessions.
- That the induction training specified in paragraphs 1.4.2 and 1.4.6 of the report represents the minimum level of training for newly appointed Members/Substitute Members of the Committee and the Independent Member and must be completed within six months of appointment to the Committee.
- That consideration as to whether full Members of the Committee and the Independent Members should be required to attend a minimum percentage of the annual training provided should be deferred until it is known what the training involves.
- That details of the training programme which is drawn up to reflect the decisions set out above should be submitted to the next meeting of the Committee.

1.3.4 The training plan (programme) has now been devised by the Learning and Development Shared Service Manager and is attached.

1.3.5 The training will be provided in the context of the Member Development Policy, the Committee Member Training Criteria and the competency profiles; all of which are available from the Learning and Development Shared Service Manager.

1.3.6 The Committee is asked to consider and agree the content of the training plan and decide whether attendance at all training should be mandatory for all full members of the Committee.

1.4 Alternative Action and why not Recommended

1.4.1 The Committee has already agreed to adopt a training programme.

1.5 Impact on Corporate Objectives

1.5.1 The Committee has a key role to play in terms of ensuring that adequacy of governance and that risks to the delivery of corporate objectives are being properly managed.

1.6 Risk Management

1.6.1 The adoption of a training programme for the Audit Committee will help the Committee to perform its role and will help to manage the risk of Members being unable to offer informed challenge in the areas that the Committee has responsibility for.

1.7 Other Implications

1.7.1

1.	Financial	x
2.	Staffing	
3.	Legal	
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.7.2 There is a cost associated with providing training. However, it is anticipated that the majority of the training will be delivered 'in-house' whereby the cost will relate to the time of the officers involved.

1.8 Relevant Documents

1.8.1 Appendices: Appendix A – Audit Committee Training Plan.

1.8.2 Background Documents: Report to Audit Committee 18 July 2011 –
Audit Committee – Member Training and Development.

IS THIS A KEY DECISION REPORT?

Yes

☐

No

☒

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because:

.....

Wards/Parishes affected:

.....

APPENDIX A



Audit Committee Training Plan

It is the intention of the Council to provide effective training for all members and specialist topic specific training for those Members that sit on a Committee where technical issues are part of its remit. This is in order to ensure that members have the tools, skills and knowledge to perform their roles effectively.

The Council has agreed that no Member would be able to serve on the Audit Committee without having agreed to undertake a minimum period of training on the policies and procedures as specified by the Committee.

A proposed training plan is set out below. Once agreed it will be the responsibility of the 'Lead Officer' to roll this training out and ensure that it takes place effectively with the support of Learning & Development/HR. In the case of the Audit Committee at Maidstone BC the Lead Officer is Zena Cooke – Director of Regeneration and Communities.

In terms of how the training should be delivered, it must be consistent with the Learning & Development Guidelines, Equal Opportunities Policy and developed to suit all learning styles.

This is a rolling plan beginning each year in line with elections and runs over a 2 year period. This plan is supported by the wider Learning & Development Programme for members run annually.

Who	Timeframe	Topic	Who to deliver	Method
<u>All new committee members and substitutes – Mandatory</u> All members are encouraged to attend as a refresher	Within 6 months (between May & Sept)	Induction training to include: <ul style="list-style-type: none"> • Overview of the role of the Audit Committee • Terms of reference • Governance Framework • Briefing on the roles of audit, O&S and standards committees • An overview of the councils activities & priorities • An overview of the financial and risk environment • The role of internal and external audit 	Lead & key officers as follows: Head of Internal Audit, S151 Officer/Head of Finance and Lead officer as described above	Discussion Forum with notes and guidance materials to be delivered in advance Interactive Workshop/Presentation

Who	Timeframe	Topic	Who to deliver	Method
<u>All Committee members and substitutes</u> Mandatory OR All members are encouraged to attend	Between November & January	Finance & Budget, to include: <ul style="list-style-type: none"> Financial reporting & monitoring Understanding financial statements (council specific) Local Government Finance 	Head of Finance/s151 Officer	Interactive workshop Handouts and notes to be available Pre reading if possible
<u>All Committee members and substitutes</u> Mandatory OR All members are encouraged to attend	Between February & April	Regulatory Framework, to include: <ul style="list-style-type: none"> Statutory background, financial rules, contrast rules The Constitution (council specific) The role of Internal & External Audit 	Head of Internal Audit Head of Democratic Service/ Head of Legal Head of Finance/s151	Interactive workshop Handouts and notes to be available Pre reading if possible
<u>All Committee members and substitutes</u> Mandatory OR All members are encouraged to attend	Between July & September	The Importance of Risk Management Business Continuity	Head of Internal Audit Officer responsible for BC	Scenarios/practical examples in workshop format Media formats to be used Handouts and pre reading available

Agenda Item 10

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

28 NOVEMBER 2011

REPORT OF HEAD OF AUDIT PARTNERSHIP

Report prepared by Brian Parsons

1. PROTECTING THE PUBLIC PURSE

1.1 Issue for Decision

- 1.1.1 To note the recently published report from the Audit Commission, 'Protecting the Public Purse'; and that a future report will be provided to the Committee setting out the Council's response to the issues raised within the publication.

1.2 Recommendation of the Head of Audit Partnership

- 1.2.1 That the Committee note the publication by the Audit Commission 'Protecting the Public Purse' and that a report will be provided to a later meeting of the Committee setting out the Council's arrangements for fighting fraud.

1.3 Reasons for Recommendation

- 1.3.1 The Audit Commission publishes an annual report on 'Protecting the Public Purse'. The report brings together information compiled by the Commission nationally, relating to fraud against local government. One of the key sources of information is the National Fraud Initiative.
- 1.3.2 The most recent report was published on the 11 November 2011, and shows some alarming trends in terms of fraud, not least the significant increase in the value of fraud by staff.
- 1.3.3 The Audit Commission report is provided to enable the Committee to be aware of some of the key fraud areas that are of concern nationally to local government at the present time. The report is shown at Appendix A.
- 1.3.4 A report will be provided to a future meeting of the Committee setting out the Council's arrangements for managing the risk of fraud and tackling fraud where it exists.

1.4 Alternative Action and why not Recommended

- 1.4.1 It is appropriate that the Audit Committee, as the Committee charged with governance, has an appreciation of the issues facing local government in terms of the fight against fraud. No other action could be recommended.

1.5 Impact on Corporate Objectives

- 1.5.1 The issues raised within the publication reflect on the Council's responsibility to ensure proper financial administration.

1.6 Risk Management

- 1.6.1 Some of the risks to financial administration are set out in the 'Protecting the Public Purse' publication. A future report to the Committee will set out how those risks are managed at Maidstone.

1.7 Other Implications

1.7.1

1.	Financial	X
2.	Staffing	X
3.	Legal	X
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

- 1.7.2 Fraud needs to be addressed in order to protect the Council's financial position.

- 1.7.3 Staff are a key element in the fight against fraud.

1.7.4 Fraud and theft are criminal offences.

1.8 Relevant Documents

1.8.1 Appendices: 'Protecting the Public Purse 2011 – fighting fraud against local government' – the Audit Commission.

1.8.2 Background Documents: None

IS THIS A KEY DECISION REPORT?

Yes

☐

No

X

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because:

.....

Wards/Parishes affected:

.....

Protecting the public purse 2011

Fighting fraud against local government

November 2011



The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Summary and recommendations	2
Summary	2
Recommendations	3
Background	4
Detected fraud against councils and related bodies	5
Key fraud risks	9
Housing tenancy fraud	9
Council tax fraud	14
Personal budgets (direct payments) fraud	15
Procurement fraud	18
Housing and council tax benefit (HB/CTB) fraud	19
Emerging fraud risks	20
Conclusions and good practice	22
Next steps	27
Appendix 1: Checklist for those responsible for governance	28
References	35
Additional reading	36

Summary and recommendations

Summary

***Protecting the Public Purse 2011 (PPP 2011)* focuses on fighting fraud against local government. We have written it for councillors and senior officers responsible for governance. In addition, government departments, other national organisations and counter-fraud specialists will find this report is relevant to them.**

Fraud is a significant problem. It affects everyone in the UK. In 2011, the National Fraud Authority (NFA) estimated that:

- each year public, private and third sector organisations, as well as individuals, lose over £38 billion to fraud;
- fraud costs every adult in the country £765 a year; and
- fraud against public sector organisations costs £21.2 billion, with fraud against councils costing more than £2 billion a year.

The Audit Commission's 2010/11 survey of fraud against councils and related bodies shows that:

- councils detected more than £185 million worth of fraud, involving 121,000 cases;
- the total value of detected fraud losses for 2010/11 increased by 37 per cent compared with 2009/10, with the number of fraud cases also increasing; and
- councils recovered nearly 1,800 homes from tenancy fraudsters. These homes had a total replacement value of over £266 million.

In *PPP 2011*, we highlight some emerging fraud issues and review councils' progress in tackling the significant risks described in our 2009 and 2010 *PPP* reports. We show that:

- housing tenancy fraud could cost the public purse £900 million each year (NFA estimate);
- councils detected more than £22 million of false claims for student and single person council tax discounts;
- housing and council tax benefits fraud losses accounted for more than half of the total fraud losses detected by councils;

- counter-fraud professionals increasingly recognise abuse of personal budgets in adult social care as a fraud risk for councils; and
- councils detected 145 cases of procurement fraud amounting to £14.6 million.

Councils are having to make reductions in spending. They can make significant savings by reducing fraud. This can help protect frontline jobs and services.

Recommendations

Councils should:

- ensure they keep the capability to investigate fraud that is not related to housing benefit;
- improve their use of data, information and intelligence to focus their counter-fraud work;
- review their counter-fraud arrangements in the context of the NFA's strategy for local government, *Fighting Fraud Locally*, to be published shortly;
- work with other registered social housing providers to improve the use of civil and criminal action to deter tenancy fraudsters;
- use the Audit Commission's council tax single person discount (SPD) fraud predictor toolkit to assess the potential level of such fraud locally;
- review their performance against the NFA's good practice on tackling housing tenancy fraud and council tax fraud;
- ensure the National Fraud Initiative (NFI) data matches are followed up effectively, including those targeting council tax discount abuse (next data release due in February 2012);
- review personal budgets arrangements to ensure safeguarding and whistleblowing arrangements are proportionate to the fraud risk;
- follow good practice and match the successes of others; and
- use our checklist for those charged with governance (Appendix 1) to review their counter-fraud arrangements.

The Department for Communities and Local Government (DCLG) should consider:

- what arrangements will be required to collect and publish data on detected fraud against local public bodies, after the Audit Commission's abolition;
- collecting and publishing information on properties recovered from tenancy fraudsters by housing associations;
- how best to encourage housing associations to tackle tenancy fraud; and
- with registered social housing providers, how best to use the knowledge and skills of the Chartered Institute of Housing Making Best Use of Stock (MBUS) team (see Paragraph 70).

Background

This chapter provides an overview of the purpose and focus of *PPP 2011*.

1 Councils need a culture that supports action against fraud and their counter-fraud specialists need accurate information about levels and types of fraud. They need to know the size and frequency of the fraud risks they face. Good data and information means councils can:

- develop focused plans and strategies for tackling fraud; and
- target resources on areas where prevention and detection can have the most impact.

2 The Audit Commission's annual fraud survey is still the sole source of evidence about the levels of detected fraud in local government and related bodies. The survey results and our *PPP* publications focus on local government and can help councils and other local public bodies by providing the data and information they need to tackle fraud effectively.

3 Our reports are designed to help councillors and senior officers responsible for governance in councils and local public bodies, and particularly members of audit committees. The reports are also relevant to the work of government departments, other national organisations and counter-fraud specialists.

4 *PPP 2011* concentrates on the results of our 2010/11 survey and councils' progress in tackling significant fraud risks highlighted in *PPP 2009* and *PPP 2010*.

5 Alongside the annual fraud survey, the Audit Commission has run the NFI data-matching exercise every two years since 1996. NFI compares data sets and identifies inconsistencies or circumstances that might suggest fraud or error. Organisations taking part follow up the data matches they receive from NFI. The Audit Commission will publish the results of the NFI 2010/11 exercise in Spring 2012.

Detected fraud against councils and related bodies

In this chapter we report our survey results of detected fraud committed against councils and other local public bodies.

6 In January 2011, the NFA reported that fraud costs the UK more than £38 billion each year. It estimates that fraud against councils cost more than £2 billion a year (Ref. 1).

7 *PPP 2010* included details of fraud detected by councils and other local public bodies, including police and fire authorities and probation trusts, drawn from our 2009/10 fraud survey.ⁱ In *PPP 2011* we review changes in the survey results between 2009/10 and 2010/11.

8 More than 480 public sector organisations responded to our 2010/11 survey (a 99 per cent response rate). The survey results, therefore, provide a comprehensive picture of detected fraud across local government over the last year. These results:

- enable us to report the amount of different types of detected frauds in local government;
- provide information about emerging and changing fraud risks; and
- help identify good practice.

9 Our 2010/11 fraud survey found the following.

- Local public bodies detected about 121,000 frauds, valued at £185 million (Figure 1). 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 fraud cases represent more than half the total value of frauds detected by local public bodies in 2010/11. In 2009/10, there were 63,000 cases with losses of £99 million.
- There were about 56,000 detected council tax discount frauds costing more than £22 million, compared with 48,000 frauds costing £15 million in 2009/10.

ⁱ In this report, we define fraud as any intentional false representation, including failure to declare information or abuse of position which is carried out to make gain, cause loss or expose another to the risk of loss. We include cases where civil, criminal or management action such as disciplinary action has been taken.

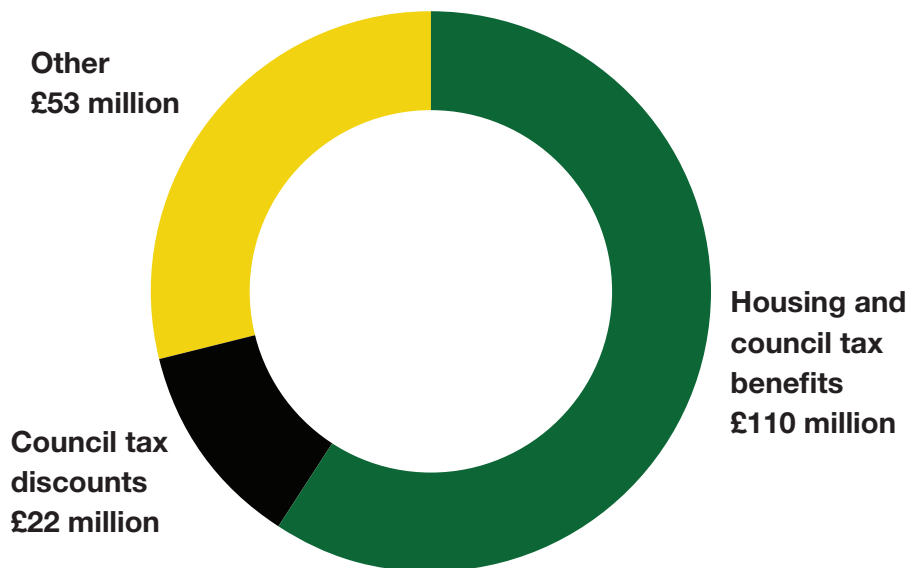
99%
of public sector
organisations
responded to
our 2010/11
fraud survey

£185m
of fraud was
detected by
local public
bodies,
according to
our 2010/11
survey

- Other frauds totalled around 5,600 and were worth £53 million. This compares with 7,000 other frauds worth £21 million in 2009/10 (See Table 1 for a breakdown and comparison of the six largest fraud types in this category).

Figure 1: **£185 million of detected fraud 2010/11**

More than half of detected fraud losses relate to housing and council tax benefits.



Source: Audit Commission

10 Councils also recovered nearly 1,800 homes, with a total replacement value of over £266 million, from tenancy fraud. This compares with some 1,600 homes recovered in 2009/10, with a replacement value of around £240 million.

11 In all organisations there is always a risk of fraud by staff. Our surveys show the number of frauds perpetrated by councils' own staff is low. In 2010/11, there were 1,581 cases (1.3 per cent of total cases). But they involved £19.5 million, which represents 10.5 per cent of the total value of detected frauds.

Table 1: **Other frauds against councils (excluding council tax and benefits fraud)**

The six largest fraud types within the other frauds category by value for 2010/11 compared with 2009/10.

Fraud type	Cases 2010/11	Value 2010/11 (£m)	Cases 2009/10	Value 2009/10 (£m)	% change in value
Procurement	145	14.6	165	2.7	+441
Payroll, pensions, expenses	556	5.6	873	3.3	+70
Abuse of position	395	4.3	252	2.0	+115
False insurance claims	149	3.7	72	2.8	+32
Social care	102	2.2	131	1.4	+57
Disabled parking concessions (blue badges)	3,007	1.5	4,097	2.0	-25
TOTAL	4,354	31.9	5,590	14.2	+125

Source: Audit Commission

12 Detected procurement fraud showed the largest increase in 2010/11, and totalled £14.6million. The number of detected false insurance claims has more than doubled. Values of payroll, pensions, expenses and abuse of position frauds have also increased significantly. This information can help councils to use their counter-fraud resources more effectively.

13 Table 2 shows the regional breakdown of detected frauds for 2010/11, compared with local government spending in those regions. Table 3 compares the numbers and values of frauds in 2009/10 and 2010/11 by region.

14 The increase in detected fraud over the past few years does not necessarily mean that fraud locally is getting worse. The figures reflect a combination of factors. These include:

- the level of fraud locally;
- the resources applied to identify and investigate such fraud;
- the successful detection by councils within a region; and
- improved methods of recording fraud.

15 Most local public bodies have improved fraud detection since the first PPP in 2009. They are also classifying more incidents correctly as fraud rather than error. Our surveys show that councils continue to take tackling fraud seriously and are playing their part in protecting the public purse despite financial pressures.

Table 2: **Detected frauds and losses by region compared with regional spend by councils**

Region	Council spending by region 2010/11 (% of total)	Detected frauds value (% of total)	Detected frauds number of cases (% of total)
East Midlands	7.5	8.4	10.5
East of England	9.7	11.6	13.1
London	21.8	29.3	19.5
North East	5.2	4.7	7.3
North West	13.8	11.5	13.1
South East	13.8	12.1	11.6
South West	8.7	8.2	9.2
West Midlands	10.1	8.1	7.2
Yorkshire and Humber	9.4	6.1	8.5
TOTAL	100	100	100

Source: Audit Commission

Table 3: **Comparison of detected frauds and losses by region in 2010/11 compared with 2009/10**

Region	2010/11 reported losses (£m)	2009/10 reported losses (£m)	Change (%)	2010/11 reported cases (000)	2009/10 reported cases (000)	Change (%)
East Midlands	15.6	10.1	+ 54	12.6	9.0	+ 40
East of England	21.5	8.8	+ 144	15.9	9.5	+ 67
London	54.2	34.6	+ 57	23.6	22.3	+ 6
North East	8.7	5.0	+ 74	8.9	7.7	+ 16
North West	21.2	17.6	+ 20	15.8	23.3	- 32
South East	22.3	24.0	- 7	13.9	15.0	- 7
South West	15.2	8.2	+ 85	11.1	7.7	+ 44
West Midlands	15.1	12.9	+ 17	8.7	8.3	+ 5
Yorkshire and Humber	11.2	13.4	- 16	10.3	15.9	- 35
TOTAL	185	134.6	+ 37	120.8	118.7	+ 2

Source: Audit Commission

Key fraud risks

This chapter sets out the progress made in tackling significant fraud risks highlighted in our 2009 and 2010 reports. We also describe emerging fraud risks identified by our 2011 survey.

16 In *PPP 2009* and *PPP 2010* we highlighted the growing risks associated with unauthorised housing tenancies; false claims for council tax discounts; abuse of personal budgets; procurement fraud; and housing benefits fraud. We drew attention to the innovative work that some councils were doing to tackle these frauds (Ref. 2). This section reviews councils' progress since *PPP 2010*.

Housing tenancy fraud

17 Housing tenancy fraud is the use of social housing by someone not entitled to occupy that home. It includes:

- the unauthorised subletting of a property for profit to people not allowed to live there under the conditions of the tenancy;
- using false information in a housing application to gain a tenancy; and
- wrongful tenancy assignment and succession where the property is no longer occupied by the original tenant.

18 There are nearly four million social housing properties in England, with an estimated asset value of more than £180 billion. Over half of all social housing in England is managed by housing associations. In 2010, nearly two million families were waiting for a council house (Ref. 3).

19 Where councils do not have enough social housing, they place homeless families in temporary accommodation. Nationally, it costs councils on average £18,000 a year for each of the families they place in temporary accommodation (Ref. 4). The total cost to the public purse of housing these families is nearly £1 billion each year. The NFA estimates that social housing fraud costs the public purse at least £900 million each year. This is the single largest category of fraud loss across local government.

Social housing fraud is the largest category of fraud loss across local government

20 In *PPP 2010*, we estimated that it costs around £150,000 to build just one new unit of social housing.

21 Tackling housing tenancy fraud is one of the most cost-effective means of making social housing properties available to match the demand from those in genuine need. It also reduces the significant financial loss to the public purse caused by this fraud.



**Recovering
wrongfully occupied
properties frees up
homes for those in
genuine need.**

22 In our previous *PPP* publications, we estimated that registered social housing providers may have lost control of the allocation of at least 50,000 social housing properties in England because of housing tenancy fraud. We assumed a 2.5 per cent level of tenancy fraud in London (where the difference between social and private rents is greatest) and 1 per cent in all other parts of the country.ⁱ

23 Our *PPP* reports have previously suggested there are moral reasons but few, if any, financial incentives for housing associations to tackle tenancy fraud. Although some housing associations are working successfully with councils to tackle tenancy fraud, this is not yet widespread.

24 The recent successful application of both civil and criminal legal action to tackle tenancy fraud has the potential to create an important deterrent to this type of fraud. All registered social housing providers should consider, on a case-by-case basis, whether to apply civil and criminal legal action against tenancy fraudsters. Case studies 1 and 2 highlight successful recent actions.

ⁱ In *PPP 2009*, we noted that no accurate measure of the extent of housing fraud in different parts of the country existed. Housing professionals had told us they thought unlawful subletting could be as high as 5 per cent of the social housing stock in London and other metropolitan areas. The Commission's estimate of housing tenancy fraud is based on a prudent assessment of those views, informed by the data we have collected on proven tenancy frauds.

Case study 1

Housing tenancy fraud

Use of civil action to recover unlawful profit

Housing officers discovered that a tenant was offering one of the council's homes for rent through a local letting agency. The council was charging about £50 a week rent for the property. The officers visited the address and found the tenant was unlawfully subletting the property to a subtenant. He was charging the subtenant £300 a week rent. The council took civil action against the tenant. The court ordered him to pay £7,000 to the council. This included around £3,000 for unjust enrichment from the unlawful profit made by subletting the property.

Source: Audit Commission

Case study 2

Housing tenancy fraud

Use of the Fraud Act to prosecute tenancy fraud

Acting on information received about a suspected housing benefit fraud, one London council also uncovered a case of housing tenancy fraud. The tenant claimed to be unemployed and living alone in a housing association property. She was actually employed at a school and lived in, and jointly owned, a separate property elsewhere. Interviewed under caution, the tenant admitted unlawfully subletting the housing association property for profit and committing several benefit-related frauds. The tenant pleaded guilty in court to several benefit offences totalling £25,000. The tenant also pleaded guilty to the offence (under Section 3 Fraud Act) of failing to disclose information and subletting the housing association property. The court sentenced the tenant to three months imprisonment, suspended for two years, with a requirement to undertake 150 hours of work in the community. The court also placed a restraining order on the property jointly owned by the tenant. The council and police are pursuing confiscation proceedings.

Source: Audit Commission

25 In 2008/09, we reported that councils recovered nearly 1,000 properties from fraudsters. In 2009/10, almost 1,600 properties were recovered and in 2010/11, councils recovered about 1,800 properties. The vast majority of these properties were recovered by London councils.

75%
more properties
were recovered
in 2010/11 than
in 2008/09

26 However, the problem of tenancy fraud is not restricted to London. Although the number of properties that councils outside London have recovered has increased in recent years, recovery by councils outside London is still significantly less than half of that achieved in London. More than half the councils outside London with housing stock did not recover any properties from tenancy fraudsters in 2010/11 (see Table 4).

Table 4: **Homes recovered by region**

Numbers of social homes recovered by councils.

Region	2010/11 No. of properties recovered	2009/10 No. of properties recovered	Councils with housing stock recovering at least one property in 2010/11 (%)	Total housing stock 2010/11	Recovered properties as a proportion of total council housing stock (%)
East Midlands	54	10	64	202,973	0.027
East of England	82	12	32	182,007	0.046
London	1,337	1,349	93	437,431	0.306
North East	3	53	29	121,112	0.002
North West	57	86	27	131,588	0.043
South East	56	30	40	166,278	0.034
South West	35	5	46	90,153	0.039
West Midlands	101	6	54	188,251	0.054
Yorkshire and Humber	53	26	43	242,800	0.022
TOTAL	1,778	1,577	51	1,762,593	0.1

Source: Audit Commission

27 PPP 2009 raised awareness of the problem of housing tenancy fraud. Since then, good practice guidance (Ref. 5) and DCLG funding for councils have helped councils tackle these frauds. The number of properties recovered has increased by more than 75 per cent between

2008/09 and 2010/11. Registered social housing providers, however, still have more opportunities to recover homes from fraudsters, especially outside London where about 75 per cent of all council properties are situated (Ref. 6).

28 Some councils outside London have shown what specialist fraud investigators can achieve by tackling tenancy fraud:

- Hull City Council recovered 21 properties in 2010/11 (none reported in 2009/10);
- Bristol City Council recovered 22 properties in 2010/11 (none reported in 2009/10);
- Wolverhampton City Council recovered 57 properties in 2010/11 (four reported in 2009/10);
- Basildon Borough Council recovered 12 properties in 2010/11 (none reported in 2009/10);
- City of York Council recovered six properties in 2010/11 (one reported in 2009/10); and
- Bolton Council recovered 19 properties in 2010/11 (three reported in 2009/10).

29 Some district councils show what they can achieve even with modest resources. In 2010/11, Ashford Borough Council spent £10,000 on an initiative to tackle housing tenancy fraud. This included a whistleblowing campaign and investigation time. In the first six months of this initiative, residents referred 15 suspected cases of tenancy fraud to the Council. The Council recovered eight homes from tenancy fraud, uncovered two housing benefit frauds, one SPD fraud and one housing application fraud.

30 Some housing associations have also taken action. Gallions Housing Association provides homes for rent and shared ownership in London and the South East. In 2010, it recovered 51 homes from fraudsters after employing a dedicated housing investigator. Before that, it typically recovered about four properties each year.

31 These organisations have shown a clear commitment to tackling tenancy fraud, making more properties available for those in genuine need. Other registered providers of social housing, especially those outside London, should follow their example.

32 We believe that publishing information on the number of council properties recovered from tenancy fraudsters has had an impact, when combined with recent government initiatives, in the fight against tenancy fraud. Information on the number of homes recovered by housing associations from tenancy fraudsters is not available at all. The government should consider how it will address this information gap. It also needs to consider how best to encourage housing associations to tackle tenancy fraud.

Providers of social housing outside of London need to show a clearer commitment to tackling tenancy fraud

33 In May 2011, the government set up a team of specialists – the MBUS team – to offer free advice to help registered providers of social housing tackle tenancy fraud. Our survey results show that councils have made significant progress in recent years by working with others to tackle tenancy fraud. However, the scale of loss is such that the government and housing providers should consider what more they could do to quicken the pace of improvement, increase the number of properties recovered and make best use of the knowledge and skills of the MBUS team.

34 All social housing providers should recognise the problem of tenancy fraud and commit resources to tackling it, using the research on good practice published in 2011 by the NFA. A link to this can be found at the end of this report.

Council tax fraud

35 In 2011/12, councils in England will raise about £26 billion from council tax (Ref. 7). Council tax payers can claim various discounts. For example, council tax payers are eligible for an SPD of 25 per cent where they are aged 18 or over and are the only occupier of a household. However, they can also apply for this discount if anyone else living at that address falls into certain categories that allow them not to be counted as ‘other occupiers’. Other discounts include a student discount where a student who is the sole occupier of a property may claim 100 per cent exemption from council tax.

36 In *PPP 2010*, we drew attention, for the first time, to the potentially significant risk of fraudulent claims for student discount. Council tax student discount fraud could represent a financial loss similar in scale to SPD fraud. Bristol City Council undertook exercises to detect both student and SPD frauds. The Council reviewed a sample of student exemptions. Of the 4,500 cases examined, 1,500 (34 per cent) were fraudulent claims worth £1.9 million. Data matching by the Council, including NFI matches, also identified an extra £1.9 million of SPD fraud.

37 Other councils have taken action to address council tax fraud, sometimes with unexpected results. In 2010/11, the London Borough of Havering spent £40,000 to target high-risk SPD claimants. Credit reference data helped them save £300,000 and highlighted potential tenancy frauds, leading to the recovery of five properties from unlawful subletters.

38 Councils have noted a sharp increase in the number of people claiming council tax discounts in recent years and an increasing number of fraudulent applications. In *PPP 2010* we showed that

between 4 and 6 per cent of SPD claims are fraudulent costing taxpayers at least £90 million each year.



Council tax student discount fraud could represent a financial loss similar in scale to SPD fraud.

39 *PPP 2010* provided councils with an online tool to compare recorded levels of SPD with the predicted levels for their area. Councils have used this tool extensively to identify fraud risks. At the request of many councils and professional bodies, we have updated the toolkit this year. A link to this toolkit can be found at the end of this report.

40 Councils should review their performance against the NFA's good practice guidelines on tackling council tax fraud. The NFA aims to publish the guidelines in December 2011.

Personal budgets (direct payments) fraud

41 Adult social care currently costs around £16 billion a year in England (Ref. 8). Councils increasingly use personal budgets to manage and deliver adult social care. Personal budgets can help personalise adult social care services – users can decide how to spend the funds available for their care. This increases users' choice and control.

42 Councils can assign personal budgets to adults in need of social care in various ways, including by direct payments. After a council has assessed a person as needing this care, the council may make a direct payment of funds, usually in advance, to those managing the budget. The council may manage the budget, as can the person receiving the care, independent care providers, a family member, a friend, or a mixture of these.

43 The number of personal budgets has increased by 55 per cent in the last year alone (Ref. 9). The Department of Health is urging councils to provide personal budgets for everyone eligible for continuing social care, preferably as a direct payment, by April 2013 (Ref. 10). Such a significant change in the way adult social care is delivered, though clearly providing improved choice and control for users, also increases the risk of fraud. It is important that councils adopt a proportionate response, balancing the risk of fraud against the benefits for users that personal budgets provide.



Social care fraud can hurt the most vulnerable in society.

44 Fraud risks include:

- a person falsely claiming that they need care – the risk of this type of fraud is not new, but the access to funds through direct payments is likely to be more attractive to potential fraudsters than traditional care packages;
- fraud by someone managing the personal budget of the person in need; and
- fraud by an organisation or someone providing care to the person in need.

45 In *PPP 2010*, we recognised that financial abuse of personal budgets is difficult to detect and prove. Our 2010/11 survey shows that counter-fraud professionals consider the fraud risks associated with personal budgets as significant. Councils have reported 102 cases of proven social care fraud to us this year. They involved over £2.2 million of loss to the public purse – an average of over £21,000 for each case.

46 Public Concern at Work, the whistleblowing charity, reports that, historically, the single largest proportion of referrals received by their hotline is from the care sector. They account for 15 per cent

of all concerns raised (Ref. 11). Concerns about financial abuse in all its forms account for six in every 100 calls from the care sector. Information on whistleblowing good practice can be found by following the link at the end of this report.

47 Enfield Council has reduced the risk of personal budget fraud. In 2010, it created a team whose remit includes safeguarding the finances of those with some form of personal budget. The Council states that financial abuse is now the most common abuse reported to them. It has put in place processes to detect and respond to concerns raised.

48 Other councils have also taken action to raise staff and public awareness about the potential impact of financial abuse, resulting in some significant early successes. As part of the response to an initial public referral of a concern about personal budget fraud, Croydon Council undertook fraud awareness training for social services staff. As a result, care workers referred ten more cases with a value of nearly £300,000. Case study 3 highlights one case where the Council took legal action. Of the remainder of cases, half are subject to court proceedings or further investigation for fraud. These cases show why early intervention is important and how heightened fraud risk awareness can identify savings to the public purse.

Case study 3

Direct payments fraud

Son diverted direct payments intended to pay for care of elderly mother

In March 2011, the court found a man guilty of two counts of fraud and sentenced him to 20 weeks imprisonment for defrauding the public purse of over £12,000. In what the judge described as a 'very serious matter', the man had fraudulently diverted the money received from the council by direct payments. The payments were to provide a carer for the fraudster's elderly mother. Council investigators proved the fraudster had diverted the money instead for his own purposes.

Source: Audit Commission

49 Personal budget fraud can have a potentially damaging impact on the health, safety and wellbeing of those receiving care, as well as representing a financial loss to the public purse. When internal audit, finance and care staff work together, supported by effective whistleblowing arrangements, it can help to reduce this risk of fraud.

50 Councils should consider reviewing the fraud risks associated with personal budgets to ensure safeguarding and whistleblowing arrangements are proportionate to the fraud risk.

Procurement fraud

51 Councils spend over £50 billion each year, buying goods and services from suppliers and funding major construction projects (Ref. 12). Fraud may occur at any stage in the procurement cycle, from the first business case to the award and management of the contract. External providers or internal parties can carry out procurement fraud which may take various forms.



Procurement fraud can result in huge one-off losses.

52 The key areas of external fraudulent activity include:

- cartels involving collusion among some bidders to agree that they will not bid competitively for a particular contract;
- applicants tendering, but not in accordance with contract specifications, and then submitting false claims for extra costs under the contract;
- contractors providing inferior goods or services;
- contractors intentionally overriding minimum statutory pay and health and safety regulations for financial gain;
- contractors presenting false invoices; and
- contractors providing inflated performance information to attract greater payments than are due.

53 The NFA estimates that procurement fraud costs councils about £855 million a year (Ref. 13). It believes that councils need to do more to obtain accurate figures on this fraud. The NFA is working on a new way of quantifying these losses.

54 Our 2010/11 survey found that councils had detected 145 cases of procurement fraud involving losses of £14.6 million, an increase of over 400 per cent in value compared with 2009/10. Losses in individual cases can be large. The total value of just two cases in 2010/11 amounted to £6 million. Councils should continue to treat procurement fraud as high risk, with significant potential financial impact.

Housing and council tax benefit (HB/CTB) fraud

55 In 2010, councils in England paid out over £21.5 billion of HB/CTB (Ref. 14). The NFA reports that housing benefit fraud losses (excluding council tax benefit) in the UK are about £260 million each year (Ref. 15).

56 The Audit Commission's fraud surveys show there are more detected HB/CTB fraud cases than any other type of fraud against councils. For the three years covered by our surveys (2008/09, 2009/10 and 2010/11), councils have detected almost 210,000 cases of HB/CTB fraud worth more than £310 million.

57 In 2010/11, there were 59,000 cases of HB/CTB fraud, which represents almost half the total number of frauds detected by councils. The total value of HB/CTB frauds detected was £110 million – an average of nearly £1,900 for each case. There has been a 6 per cent drop in the number of detected cases since 2009/10, but an 11 per cent increase in the value of detected losses.

58 The government is proposing major welfare reforms which include localising council tax support and the transition to Universal Credit – due to start in 2013. The changes will have a significant impact on councils' benefit services. The government also proposes to set up a single fraud investigation service (SFIS). At this stage, the government has not decided on the organisational design or geographical structure of the service. However, the government intends that councils' housing benefit fraud investigators become part of the SFIS when it is formed in 2013.

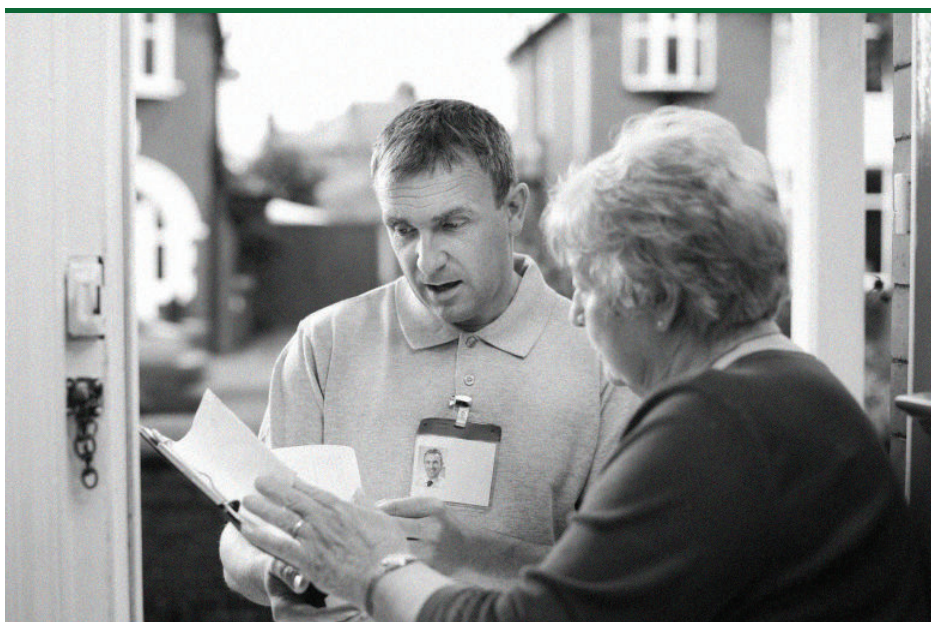
59 Many district and smaller unitary councils have a benefit fraud investigative capability that they also use to combat other frauds. When the switch to the SFIS is made, it will be important for these councils to ensure they retain the capability to investigate fraud unrelated to housing benefit.

60 DCLG's ten-point plan for countering fraud (see Paragraph 69), published in 2011, advises councils to keep their fraud investigation teams. Councils' performance in detecting HB/CTB fraud over the last three years shows the significant contribution that counter-fraud specialists make in the fight against such fraud. Councils will need

£310m
of housing and
council tax
benefit fraud
was detected in
the last three
years by
councils

to review their counter-fraud capability in the light of the proposed changes and published good practice.

61 The Audit Commission has collected information on detected fraud in local government for over 20 years. We have, therefore, been able to track the positive impact that increased council investigative capability has had on the amount of detected fraud. The mid-1990s saw increasing professionalisation and training of council benefit fraud investigation teams, combined with financial incentives to detect such fraud. One of the added benefits of this approach has been an increased capability to investigate non-benefit-related frauds. In 1994/95, these accounted for about 13 per cent of all fraud detected by councils. By 2010/11, this had risen to more than 40 per cent. This highlights why councils must keep an effective professional counter-fraud capability.



Counter-fraud capabilities are key to detecting fraud in local government.

Emerging fraud risks

62 Our surveys collect the opinions of counter-fraud and senior finance officers on emerging fraud risks. Councils reported the following significant risks in 2010/11:

- the expansion of personal budgets in social services;
- the impact of the current economic climate putting more pressure on individuals' 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

63 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. The fraudsters have sent letters to council finance teams that appear legitimate and often follow them up with phone calls to chase payments. The fraudsters gather the details about key creditors from the information that councils now publish on their websites. In our 2010/11 survey, councils reported several detected frauds of this type amounting to some £7 million.

64 Local public bodies have become increasingly successful at preventing these frauds by applying sound internal controls (see Case study 4). They have prevented about £20 million of such attempted fraud. Fraud warnings, such as those issued by the National Anti-Fraud Network, have helped raise awareness of the risks. However, fraudsters continue to target local public bodies.

Case study 4

Change of bank details fraud

Checks prevented money being paid into a false bank account

A fraudster tried to get a public sector organisation to change the details it held for a supplier. The fraudster, claiming to be an employee of the supplier, asked for the supplier's bank account details to be changed to a false account set up by the fraudster. The fraudster used published information – namely a supplier invoice – to confirm the authenticity of the request. However, the public body was aware of similar frauds and had put in place suitable checks. As a result, a payment of £5 million to the false bank account was stopped.

Source: Audit Commission

Conclusions and good practice

This chapter provides examples of good practice and advice that local public bodies could follow to preserve an effective counter-fraud response.

65 Local public bodies should remain alive to, and continue to tackle, the threat of fraud to the public purse. Organisations can make large savings as the best councils show. Reducing fraud can make an important difference to local finances.

66 All public organisations need to play their part in the fight against fraud. Telling local public bodies about good practice is an essential prerequisite to ensuring that it is adopted. However, it is for local public bodies to act upon it. In the following paragraphs, therefore, we draw attention to good counter-fraud work that councils may wish to consider in tackling fraud against the public sector.

Support and advice from government

67 The government set up the Taskforce on Fraud, Error and Debt in October 2010 to develop a new approach to tackling public sector fraud. In its first report in June 2011, the taskforce highlighted four priorities for tackling public sector fraud.

- **Collaboration:** public organisations need to remove any barriers to joint working. All parts of the public sector must work together to tackle fraud. They must share information on fraudsters, develop cross-cutting skills, undertake joint projects and use data matching and analytical information more effectively and efficiently.
- **Risk assessment and measuring losses:** public organisations must assess the risk of fraud before they launch projects and programmes. They must record and report fraud losses often.
- **Prevention:** public organisations must invest in and properly resource fraud prevention. For example, the current approach of ‘pay first, check later’ must change. When an organisation finds its systems are vulnerable to fraud they must change them.
- **A zero-tolerance culture towards fraud:** there is no acceptable level of fraud against the public purse.

68 Taken together, these priorities will help to improve fraud prevention, deterrence and detection. The Taskforce has started to encourage public organisations to collaborate in the fight against fraud.

Councils have an important role to play in tackling fraud across the whole public sector.

69 In April 2011 DCLG published a ten-point plan for tackling fraud against local government. The plan draws on our *PPP 2009* and *PPP 2010* reports. Councils should compare their arrangements for tackling fraud with this plan, shown below. Organisations can access the national counter-fraud standards developed by CIPFA and referred to by DCLG in the ten-point plan, through the link at the end of this report.

DCLG's ten actions to tackle fraud against councils

- 1** Measure exposure to fraud 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 across 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.

Source: DCLG

70 The MBUS team, which DCLG funds in the Policy and Practice Directorate of the Chartered Institute of Housing, can help housing providers tackle housing tenancy fraud. The team of experts aims to share good practice across the country and help housing organisations develop strategies to meet housing need better (including tackling tenancy fraud) at no cost to organisations. For more details visit the website by following the link at the end of this report.

71 The NFA is coordinating the publication of the first national strategy to tackle fraud against local government (*Fighting Fraud Locally*), due to be published in December 2011. It will provide a

framework for councils and other local public bodies to contribute to a national approach to reduce the harm caused by fraudsters.

Support and advice from professional bodies

72 The Bribery Act came into force in July 2011. There are four key offences under the Act:

- bribery of another person;
- accepting a bribe;
- bribing a foreign official; and
- failing to prevent bribery.

73 The offences carry criminal penalties for individuals and organisations. For individuals, the courts can impose a maximum prison sentence of ten years and/or an unlimited fine. For organisations, courts can impose unlimited fines. Councils should review their anti-bribery policy and procedures and ensure they are robust enough to prevent bribery and to reduce the risk of any staff or councillor committing a bribery offence. CIPFA has produced guidance that can help councils and their audit committees.

Examples of good practice by other public sector bodies

74 Devon and Cornwall Police Authority introduced continuous audit of its payroll about six years ago. Continuous audit is the application of automated checks, designed to verify that the organisation is correctly processing financial and non-financial data and that internal control is working effectively. The potential to confirm information and to check for errors or fraud in real time provides the ‘continuous’ aspect of the audit. This improves the organisation’s ability to provide greater assurance to auditors and members of their Corporate Governance Committee as well as preventing and detecting fraud and error. Organisations that have developed a strong continuous audit culture usually start with key, business-critical systems.

75 Devon and Cornwall Police Authority’s payroll costs typically account for around 80 per cent of the Authority’s budget. When the Authority implemented a new financial system, internal auditors implemented continuous audit. This provides monthly assurance over payroll costs. The total value of transactions – that is, all payroll payments and deductions – checked each month is £25 million.

76 The process is cost-effective (taking, typically, one day each month – sometimes less) enabling auditors to focus their investigations on significant items rather than using random data samples. For example, in one month, auditors noted an unexpected fall of around £100,000 in payments of National Insurance contributions. Although this turned out to be an error in a linked finance system and not an indicator of fraud, the payroll team was able to correct the error before payment was made.

77 Increasingly, councils are working together to share information and good practice. Internal audit professionals in six London councils (Barking and Dagenham, Havering, Newham, Redbridge, Tower Hamlets and Waltham Forest) have joined forces in several counter-fraud initiatives, and have pooled resources to achieve greater impact.

78 This has alerted members to emerging trends and helped them set up effective training programmes. The group has also invested in a secure web application that makes sharing counter-fraud intelligence accessible, manageable and safe.

Support and advice from the Audit Commission

79 In *PPP 2009*, we provided a checklist for those responsible for governance. Audit committee members have told us how they have used the checklist to assess the effectiveness of their governance arrangements. We updated the checklist in 2010 and have done so again in this report. You can find it in Appendix 1.

80 The Audit Commission published its first counter-fraud and corruption manual in 1995 (Ref. 16). It aimed to help auditors assess a public sector body's arrangements for tackling financial misconduct, fraud and corruption. The manual provided:

- guidance on the review of counter-fraud and corruption arrangements;
- advice on undertaking reviews of arrangements in specific areas of risk; and
- links to more information, for example from legal advisers.

81 We are working to update the manual, which we will make available for use in 2012.

82 We have also developed a series of short leaflets for schools and parish councils where size, complexity or limited numbers of staff may mean that effective internal control is difficult (see Case study 5). Follow the links at the end of this report to find them. We are working with the Charity Commission on a similar leaflet for charities, to be published in 2012.

Parish council fraud

Clerk abused trust and stole from parish council

A parish clerk pleaded guilty to stealing almost £63,000 from four parish councils and a community project charity that employed her. The clerk forged signatures, altered cheques, and made unauthorised payments to herself and her family. In sentencing the clerk to 18 months in jail the judge said, 'It really was a quite dreadful breach of trust.'

The chair of one of the parish councils said, 'We have had to take out a £30,000 loan as a result of her leaving us practically bankrupt.'

Another said, 'She had a good name and this was not the sort of thing you would expect to happen.'

Source: Audit Commission

83 For more than 15 years, the Audit Commission's NFI has successfully combined data from the public and private sectors across the UK to detect fraud, overpayments and errors totalling £750 million. The matches provided by NFI help councils detect a wide range of frauds. The Commission will publish the results of the NFI 2010/11 exercise in Spring 2012.

84 We are working with the Taskforce on Fraud, Error and Debt to make the most of the benefits NFI can deliver. For example, the NFI launched its first real-time data-matching service in September 2011. This will help improve fraud prevention and renew the increasingly important fight against fraud.

Next steps

85 In August 2010, the government announced its plan to abolish the Audit Commission. Until its abolition, the Commission will continue to promote good governance and financial management in the public sector.

86 The Audit Commission believes publishing detected fraud data helps improve public knowledge and understanding of councils' performance in the fight against fraud. Such information also supports the government's transparency and localism agenda.

87 Our *PPP* reports and publication of our survey results have encouraged councils to focus their counter-fraud activities on the areas of greatest risk. The Audit Commission's annual fraud survey is currently the only national source of information on the performance of local public bodies in the fight against fraud.

88 Given the importance of this data, the Audit Commission remains committed to collect and publish data on detected fraud against local bodies every year until it is abolished. The government needs to consider what arrangements will be required to collect and publish this data thereafter.

89 As well as the annual fraud survey, we gather intelligence on fraud and corruption in several ways. For example, we require external auditors of councils and other local public bodies to report to the Audit Commission all frauds over £10,000 and all incidents of corruption in the bodies they audit. This means we can track, analyse and spread information on emerging areas of fraud risk and alert counter-fraud professionals.

90 The government is planning a similar 'early warning system' for central government departments. DCLG should consider which organisation should take on this important role for local public bodies in future.

Appendix 1: Checklist for those responsible for governance

Checklist

General	Yes	No
1 Do we have a zero-tolerance policy towards fraud?	<input type="radio"/>	<input type="radio"/>
Comments		
2 Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with <i>Fighting Fraud Locally</i> ?	<input type="radio"/>	<input type="radio"/>
Comments		
3 Do we have dedicated counter-fraud staff?	<input type="radio"/>	<input type="radio"/>
Comments		
4 Do counter-fraud staff review all the work of our organisation?	<input type="radio"/>	<input type="radio"/>
Comments		
5 Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	<input type="radio"/>	<input type="radio"/>
Comments		

General	Yes	No
6 Have we assessed our management of counter-fraud work against good practice?	<input type="radio"/>	<input type="radio"/>
Comments		
7 Do we raise awareness of fraud risks?		
a. With new staff (including agency staff)?	<input type="radio"/>	<input type="radio"/>
b. With existing staff?	<input type="radio"/>	<input type="radio"/>
c. With elected members?	<input type="radio"/>	<input type="radio"/>
d. With our contractors?	<input type="radio"/>	<input type="radio"/>
Comments		
8 Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	<input type="radio"/>	<input type="radio"/>
Comments		
9 Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	<input type="radio"/>	<input type="radio"/>
Comments		

General	Yes	No
10 Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?	<input type="radio"/>	<input type="radio"/>
Comments		
11 Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on the matches investigated?	<input type="radio"/>	<input type="radio"/>
Comments		
12 Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	<input type="radio"/>	<input type="radio"/>
Comments		
13 Do we have effective whistleblowing arrangements?	<input type="radio"/>	<input type="radio"/>
Comments		
14 Do we have effective fidelity insurance arrangements?	<input type="radio"/>	<input type="radio"/>
Comments		

Fighting fraud with reduced resources	Yes	No
15 Have we reassessed our fraud risks since the change in the financial climate?	<input type="radio"/>	<input type="radio"/>
Comments		
16 Have we amended our counter-fraud action plan as a result?	<input type="radio"/>	<input type="radio"/>
Comments		
17 Have we reallocated staff as a result?	<input type="radio"/>	<input type="radio"/>
Comments		

Current risks and issues	Yes	No
Housing tenancy		
18 Do we take proper action to ensure that we only allocate social housing to those who are eligible?	<input type="radio"/>	<input type="radio"/>
Comments		
19 Do we ensure that social housing is occupied by those to whom it is allocated?	<input type="radio"/>	<input type="radio"/>
Comments		

Current risks and issues	Yes	No
Procurement		
20 Are we satisfied our procurement controls are working as intended?	<input type="radio"/>	<input type="radio"/>
Comments		
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?	<input type="radio"/>	<input type="radio"/>
Comments		
Recruitment		
22 Are we satisfied our recruitment procedures achieve the following?		
a. Do they prevent us employing people working under false identities?	<input type="radio"/>	<input type="radio"/>
b. Do they confirm employment references effectively?	<input type="radio"/>	<input type="radio"/>
c. Do they ensure applicants are eligible to work in the UK?	<input type="radio"/>	<input type="radio"/>
d. Do they require agencies supplying us with staff to undertake the checks that we require?	<input type="radio"/>	<input type="radio"/>
Comments		

Current risks and issues	Yes	No
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?	<input type="radio"/>	<input type="radio"/>
Comments 		
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?	<input type="radio"/>	<input type="radio"/>
Comments 		
Council tax		
25 Are we effectively controlling the discounts and allowances we give to council taxpayers?	<input type="radio"/>	<input type="radio"/>
Comments 		

Current risks and issues	Yes	No
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?	<input type="radio"/>	<input type="radio"/>
b. Department for Work and Pensions Housing Benefit matching service?	<input type="radio"/>	<input type="radio"/>
c. Internal data matching?	<input type="radio"/>	<input type="radio"/>
d. Private sector data matching?	<input type="radio"/>	<input type="radio"/>
Comments <div></div>		

References

- 1 National Fraud Authority, *Annual Fraud Indicator*, January 2011
- 2 Audit Commission, *Protecting the Public Purse 2010*, October 2010
- 3 Department for Communities and Local Government, *Housing Strategy Statistical Appendix Table 600*, November 2010
- 4 Audit Commission, *Protecting the Public Purse 2010*, October 2010
- 5 Department for Communities and Local Government, *Tackling Unlawful Tenancies and Occupancy: Good Practice Guidance for Social Landlords*, November 2009
- 6 Department for Communities and Local Government, *Housing Statistics Table 100*, November 2010
- 7 Department for Communities and Local Government, *Statistical Release Local Authority Expenditure and Financing England 2010/11 Budget (Revised)*, February 2011
- 8 Health and Social Care Information Centre, *Personal Social Services Expenditure and Unit Costs England, 2008/09*
- 9 Audit Commission, *Improving Value for Money in Adult Social Care*, June 2011
- 10 Department of Health, *A Vision for Adult Social Care*, November 2010
- 11 Public Concern at Work, *Speaking Up for Vulnerable Adults: What the Whistleblowers Say*, April 2011
- 12 Local Government Group, *Procurement, Capital and Shared Assets Productivity Workstream*, October 2010
- 13 National Fraud Authority, *Annual Fraud Indicator*, January 2011
- 14 Department for Work and Pensions, *Housing Benefit and Council Tax Benefit by Local Authority District 1996/97 to 2009/10*, December 2010
- 15 National Fraud Authority, *Annual Fraud Indicator*, January 2011
- 16 Audit Commission, *Counter Fraud and Corruption Manual*, 1995

Additional reading

- 1 CIPFA Counter-Fraud Standards [Managing the risk of fraud – actions to counter fraud and corruption – Red Book](#)
- 2 Public Concern at Work www.pcaw.org.uk
- 3 National Fraud Authority: Good practice publication
www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/our-work/
- 4 Audit Commission
 - Fraud Risks in Parish and Town Councils - Advice for Councillors
www.audit-commission.gov.uk/PPP2011parishguide
 - Fraud Risks in Schools Advice for School Governors
www.audit-commission.gov.uk/PPP2011schoolsguide
 - Single Person Discount on Council Tax: Predictor Tool
www.audit-commission.gov.uk/PPP2011SPDpredictor
- 5 Chartered Institute of Housing, Making Best Use of Stock team
www.cih.org/bestuseofstock
- 6 Office of Fair Trading guidance on cartels
www.oft.gov.uk/OFTwork/competition-act-and-cartels/ca98/decisions/bid_rigging_construction

If you require a copy of this document in an alternative format or in a language other than English, please call: **0844 798 7070**

We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: nationalstudies@audit-commission.gov.uk

Stock code: LNR3696

10_0385



Audit Commission

1st Floor

Millbank Tower

Millbank

London

SW1P 4HQ

Telephone: **0844 798 3131**

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

28 NOVEMBER 2011

REPORT OF HEAD OF FINANCE & CUSTOMER SERVICES

Report prepared by John Owen
Accountant (Systems)

1. TREASURY MANAGEMENT STRATEGY MID YEAR PERFORMANCE 2011/12

1.1 Issue for Decision

- 1.1.1 This report sets out the activities of the Treasury Management function for the 2011/12 financial year in accordance with CIPFA's Code of Practice on Treasury Management issued in November 2009. The revised Code suggests that Members should be informed of Treasury Management activities at least twice a year, but preferably quarterly.

1.2 Recommendation of Head of Finance & Customer Services

- 1.2.1 That Audit Committee notes the position, as detailed within the report.
- 1.2.2 That Audit Committee agrees that no amendments to the current procedures are necessary as a result of the review of activities in 2011/12.

1.3 Reasons for Recommendation

- 1.3.1 The council has adopted and incorporated into its Financial Regulations, the CIPFA Code of Practice on Treasury Management 2009 (Revised) in Local Authorities. This Code covers the principles and guidelines relating to borrowing and investment operations.
- 1.3.2 In February 2011 the council approved a Treasury Management Strategy for 2011/12. The Strategy requires Members to be kept informed of Treasury Management activities through a mid-year review and an annual report.

1.3.3 The Strategy for 2011/12 set out the following objectives:-

- a) Keep investments short term (up to 1 year) to help fund the existing capital programme when needed and to make funds available to invest if rates increased;
- b) Use up to £3m from core cash balances to be invested for 1 year or above if rates are at a premium over predicted base rates and funds are available for the term;
- c) No planned borrowing, other than for short-term cashflow purposes. The council is currently debt-free;
- d) Group limits placed in institutions within the same ownership group;
- e) The Head of Finance & Customer Services be given delegated responsibility to add or withdraw institutions from the counterparty list when ratings change, either as advised by Sector or from another reliable market source.

1.3.4 The council's Treasury Management Practices are amended to reflect these decisions.

1.4 2011/12 Overview

Economic Overview

- The UK economy grew by a 0.1% in the first quarter of 2011/12, which was less than expected, and this provided a knock on effect to future growth prospects. Higher VAT, overhanging debt, high inflation and concerns over employment are likely to weigh heavily on consumers into the future.
- CPI (Consumer Price Index) Inflation is rising and heading for a peak of around 5%.
- MPC (Monetary Policy Committee) announcement of second round of quantitative easing of £75bn.

The council's current Treasury Advisers, Sector, provide the following forecast for rates:

- The first bank increase is expected to be in September 2013, which has slipped from June 2012 as previously forecast.
- Rates are expected to steadily rise reaching 2.5% by mid 2015.
- Long term PWLB rates are expected to steadily increase to reach 5.30% by the first quarter of 2015.

There are still uncertainties within the economic forecasts due to risk of another recession in the UK and the speed of recovery of banks' profitability.

MBC Overview

- All investments have been on a short-term basis to be used, as agreed within the Strategy.
- £3m of core cash funds were invested for 1 year with Lloyds TSB (part nationalised bank).
- The current balance of investments as at 30th September 2011 is £26.275m. These are listed within **Appendix A**.
- The average rate of interest received on the council's investments over the period was 1.18% compared to a forecast level of 1.0%. Investment income for the first half of 2010/11 is £150,000 compared to a budget of £125,000.
- There has been continued concern with all financial institutions within the UK having their credit ratings reduced. This is mainly due to the current economic situation in Europe. It is Sector's view that the semi nationalised banks, e.g. RBS and Lloyds groups, will be safe but there is uncertainty with other UK institutions. With this in mind, the Head of Finance and Customer Services (in line with his delegated authority) has reduced the exposure to these other institutions down to a maximum of three month term deposits, as recommended by Sector, and the use of building societies down from top 10 to top 5. This ensures that the greater part of the Council's finances will be very liquid and placed with higher rated institutions.

1.5 Annual Investment Strategy

1.5.1 The Treasury Management Strategy (TM) for 2011/12 was approved by council in February 2011. The council's Annual Investment Strategy, which is incorporated in the TM Strategy outlines the council's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

The council will aim to achieve optimum return on investments with proper levels of security and liquidity. It was agreed to keep investments short term with highly credit rated financial institutions, using the credit worthiness list and information provided by Sector as well as being mindful of market intelligence.

1.6 Borrowing

- 1.6.1 The Council is currently debt free so there is no need for long term borrowing. The Council did borrow £1m for a period of one day due to repayment of over claimed NNDR grant from 2010/11.

1.7 Prudential Indicators

- 1.7.1 It is a statutory duty for the council to determine and keep under review the "Affordable Borrowing Limits". These are listed within **Appendix B.**

1.8 Cash Management

- 1.8.1 The major element of the council's Treasury Management function is the management on a daily basis of the cash requirements of the council. The policy objectives in this respect are:-

- The minimisation of the daily credit bank balance, subject to the clearance of monies overnight;
- Interest earned on investments should be maximised subject to the **security** of the funds being paramount;
- Interest paid on borrowing should be minimised;
- Adequate funds should be available to meet precept payments and other payments as they fall due;
- Cash management activities are carried out in accordance with the agreed Treasury Management Strategy.

1.9 Alternative Action and why not Recommended

- 1.9.1 No alternative action is proposed relating to the historic activity covered in this report.

1.10 Impact on Corporate Objectives

- 1.10.1 The Treasury Management Strategy will impact upon all corporate objectives through the resource it provides from the investment of the council's balances. These resources are incorporated in the council's budget.

1.11 Risk Management

Risk Management is included within the Treasury Management Practices which the council adheres to. The main risks to the council are counterparty risk, liquidity risks and interest rate risks which are closely monitored on a regular basis using the council's treasury advisors, Sector, and other market intelligence. If there is a possibility of a negative risk, the appropriate action is taken.

1.12 Other Implications

1.12.1

1. Financial
2. Staffing
3. Legal
4. Equality Impact Needs Assessment
5. Environmental/Sustainable Development
6. Community Safety
7. Human Rights Act
8. Procurement
9. Asset Management

1.13 Relevant Documents

1.13.1 Appendices

Appendix A - List of Investments
Appendix B - Prudential Indicators

1.13.2 Background Documents

Working papers held in the Corporate Finance office.

IS THIS A KEY DECISION REPORT?

Yes

☐

No

X

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because:

.....

Wards/Parishes affected:

.....

LIST OF INVESTMENTS

APPENDIX A

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Amount Invested	Current Interest Rate	Other information (if required)
Call account		Nat West Bank Plc			£4,270,000	0.8000	
Call account		Clydesdale Bank			£2,000,000	0.8500	30 Day Notice
Call account		Svenska Handelsbanken			£5,000	0.7500	35 Day Notice
Fixed Term Deposit	2043	West Brom	07/04/11	06/10/11	£1,000,000	1.1500	
Fixed Term Deposit	2037	Lloyds TSB Bank	17/01/11	17/10/11	£2,000,000	1.5800	
Fixed Term Deposit	2044	Skipton BS	27/04/11	27/10/11	£2,000,000	1.1300	
Fixed Term Deposit	2045	West Brom BS	10/05/11	10/11/11	£1,000,000	1.2000	
Fixed Term Deposit	2046	Leeds BS	10/05/11	10/11/11	£1,000,000	1.1100	
Fixed Term Deposit	2047	Newcastle BS	07/06/11	07/12/11	£2,000,000	1.3500	
Fixed Term Deposit	2048	Santander UK Plc	29/06/11	29/12/11	£3,000,000	1.4000	
Fixed Term Deposit	2052	Nottingham BS	28/09/11	03/01/12	£2,000,000	0.9000	
Fixed Term Deposit	2049	Principality BS	01/07/11	03/01/12	£2,000,000	1.1700	
Fixed Term Deposit	2050	Leeds BS	15/07/11	16/01/12	£1,000,000	1.1500	
Fixed Term Deposit	2051	Lloyds TSB Bank	21/07/11	23/07/12	£3,000,000	2.1000	
		Total			£26,275,000		

PRUDENTIAL INDICATORS**PRUDENTIAL INDICATORS****Ratio of Financing Costs to Net Revenue Stream**

2010/11 %	2011/12 %	2012/13 %	2013/14 %
-1.6	-1.8	-3.0	-4.1

This indicator shows the proportion of the net revenue stream (revenue budget) that is attributable to financing costs of capital expenditure. Borrowing may be needed to fund the current Capital Programme in 2012/13 and additional borrowing in 2013/14.

Incremental Impact of Capital Investment Decisions on the Council Tax

	2010/11 £,000	2011/12 £,000	2012/13 £,000	2013/14 £,000
i) Forecast of total budgetary requirement no changes to capital programme	7,288	9,850	3,267	1,997
ii) Forecast of total budgetary requirement after changes to capital programme	7,658	10,000	3,450	2,260
iii) Additional Council Tax Required	6.12	2.46	2.97	4.22

Demonstrates the affordability of the capital programme. It demonstrates the impact of the proposed capital programme upon the Council Tax.

Current Financial Plan

2010/11 £,000	2011/12 £,000	2012/13 £,000	2013/14 £,000
7,658	10,000	3,450	2,260

This is the estimate of capital expenditure taken from the Corporate Revenue and Capital Budget 2010/11 onwards .

Capital Financing Requirement

2010/11 £,000	2011/12 £,000	2012/13 £,000	2013/14 £,000
0	0	2,371	1,810

This indicator measures the underlying need to borrow for capital purposes.

PRUDENTIAL INDICATORS

TREASURY MANAGEMENT INDICATORS**Authorised Limit for External Debt**

	2010/11 £,000	2011/12 £,000	2012/13 £,000	2013/14 £,000
Borrowing	8,000	8,000	8,000	8,000
Other Long Term Liabilities	7,074	6,684	6,294	5,891
Total	15,074	14,684	14,294	13,891

This limit is the main limit set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003.

Operational Boundary

	2010/11 £,000	2011/12 £,000	2012/13 £,000	2013/14 £,000
Borrowing	4,000	4,000	4,000	4,000
Other Long Term Liabilities	6,694	6,294	5,891	5,463
Total	10,694	10,294	9,891	9,463

This limit should be the focus of day to day treasury management. It is similar to the Authorised Limit but excludes the allowance for temporary cash flow borrowing as perceived as not necessary on a day to day basis.

Upper Limit for Fixed Interest Rate Exposure

	2010/11 %	2011/12 %	2012/13 %	2013/14 %
	100	100	100	100

This is the maximum amount of net borrowing and investment that can be at a fixed rate. Variable rate call accounts may be cleared during periods of high payments eg Precept so fixed rate can peak during these periods.

Upper Limit for Variable Interest Rate Exposure

	2010/11 %	2011/12 %	2012/13 %	2013/14 %
	80	80	80	80

This is the maximum amount of net borrowing and investment that can be at a variable rate. The limit set reflects the fact that during the year there can be excess surplus funds available for short term investment. These arise from timing differences between receipts received and payments made.

Maturity Structure of New Fixed Rate Borrowing during 2010/11

	Upper Limit %	Lower Limit %
Under 12 months	100	0
12 months to under 24 months	100	0
24 months to under 5 years	100	0
5 years to under 10 years	100	0
10 years and over	100	0

It may be necessary to borrow at fixed term rates during 2012/13. This will be monitored as the year progresses and a decision will then be made.

Principal Invested for more than 364 Days

	2010/11 %	2011/12 %	2012/13 %	2013/14 %
	0	20	20	20

This indicator is set to reflect current advice from our Treasury Management Advisors.

Actual External Debt for 2010/11

	2010/11 £,000
Actual Borrowing	0
Other Long Term Liabilities	6,694
Total	6,694

Actual point in time of external borrowing

Agenda Item 12

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

28 NOVEMBER 2011

REPORT OF HEAD OF FINANCE & CUSTOMER SERVICES

Report prepared by Paul Holland
Senior Accountant (Client)

1. AUDIT COMMISSION'S ANNUAL AUDIT LETTER 2010/11

1.1 Issue for Decision

- 1.1.1 To consider the Audit Commission's Annual Audit Letter covering the year 2010/11. The letter provides a summary of the findings and the conclusions which have arisen during the Audit Commission's audit and inspection programme.

1.2 Recommendation of Head of Finance & Customer Services

- 1.2.1 It is recommended that Audit Committee note and comment on the Audit Commission's Annual Audit Letter to Maidstone Borough Council and make any recommendations to Cabinet.

1.3 Reasons for Recommendation

- 1.3.1 The annual audit letter, attached as Appendix A, provides a summary of the results of the Audit Commission's inspection activity at the Council during 2010/11. It gives an overview of the following:

- The audit of accounts;
- The value for money opinion;
- A review of current and future challenges

- 1.3.2 As part of the Letter the Auditor is required to give an opinion on value for money. The value for money conclusion reached by the Auditor is "that the Council has proper arrangements in place to secure economy, efficiency and effectiveness". The Audit Commission now uses a traffic light system to indicate how effective the arrangements are in their opinion, and Maidstone is ranked as being green.

- 1.3.3 The audit letter also communicates any significant issues which the

Council will need to address. The issues detailed in the letter have been reported to this Committee while considering the audit of the statement of accounts earlier in the year but are replicated below.

1.4 Issues Raised Within the Assessment

1.4.1 Overall, the Council is performing well and listed below are a number of the key points from the Letter:

- An unqualified opinion on the financial statements has been issued;
- An unqualified value for money conclusion has also been issued;
- The Council has a history of strong financial management, and the underlying financial position is sound;
- There is a strong record of achieving efficiency savings and a clear focus on prioritising resources within a sustainable medium term planning framework.

1.4.2 There are, however, two issues that the Commission has asked the Council to consider, and these were reported to the Committee during consideration of the audited Statement of Accounts for 2010/11, earlier in the year:

- The introduction of a specialist asset register system to deal with the more complex capital accounting requirements of International Financial Reporting Standards;
- The introduction of additional checks within the final accounts closedown process to ensure that the capital accounting entries are correct.

1.4.3 Officers are currently working through these recommendations in preparation for the next assessment in 2012.

1.5 Future Challenges

1.5.1 The Audit Commission acknowledges that the Council has coped well with the immediate pressures of the economic downturn, and is positioned well to deal with ever more constrained resources, but will need to continue to focus on key priorities and strategic risks.

1.5.2 The Letter identifies that the Council is well positioned to ensure it is financially resilient, and that the processes to support the medium term financial strategy are well-established. It also recognises that the Council is reasonably on track to achieve its 2011/12 savings target, and that there is a good track record of working with other partners and identifying and developing opportunities for joint arrangements and shared services.

1.6 Conclusions

- 1.6.1 Attached at **Appendix A** is a copy of the Auditor's letter which must be distributed to all Members of the Council. It outlines a positive picture of the Council's performance and its match to delivery of priorities.
- 1.6.2 The recommendations of the Auditor's previous report on the audit of the statement of accounts for 2010/11 have been considered previously by this Committee and are to be implemented. There are no additional actions required as a result of this letter and it is recommended that Audit Committee note the letter.

1.7 Alternative Action and why not Recommended

- 1.7.1 The Committee, and the Council, could choose not to acknowledge the comments made by the Audit Commission, but this is an independent view of how the authority is operating. It offers stakeholders an opportunity to gain a view of how the Council is performing in a range of areas including value for money.

1.8 Impact on Corporate Objectives

- 1.8.1 The Council is committed to delivering on its priorities and securing value for money. This letter is one measure of how successful that commitment is.

1.9 Risk Management

- 1.9.1 Risk Management forms a key part of the corporate governance arrangements that are assessed as part of the annual audit and are commented on in this letter.

1.10 Other Implications

1.10.1

1. Financial
2. Staffing
3. Legal
4. Equality Impact Needs Assessment
5. Environmental/Sustainable Development
6. Community Safety

X

- 7. Human Rights Act
- 8. Procurement
- 9. Asset Management

1.10.2 The financial implications are dealt with within Appendix A.

1.11 Relevant Documents

1.11.1 Appendix A – Audit Commission’s Annual Audit Letter 2010/11

1.12 Background Documents

1.12.1 None.

IS THIS A KEY DECISION REPORT?

Yes

☐

No

X

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because:

.....

Wards/Parishes affected:

.....

Annual Audit Letter

Maidstone Borough Council

Audit 2010/11



Contents



- Key messages.....3
 - Audit opinion and financial statements.....3
 - Value for money3
- Financial statements and annual governance statement.....4
 - Overall conclusion from the audit.....4
 - Significant weaknesses in internal control.....4
- Value for money.....5
- Future challenges7
- Closing remarks10
- Appendix 1 - Fees.....11
- Appendix 2 - Glossary.....12

Traffic light explanation
Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

96 Audit opinion and financial statements

- I gave an unqualified audit opinion on the Council's financial statements on 30 September 2011.
- The Council coped well with the first year of IFRS implementation and the financial statements were prepared to a reasonable standard.
- I made recommendations which were agreed with officers to improve some aspects of capital accounting and asset management.

Value for money

- I gave an unqualified value for money conclusion on 30 September, stating that the Council has proper arrangements in place for securing economy, efficiency and effectiveness.
- The Council has a strong financial governance framework, and there are sound arrangements for financial control. Financial planning is effective and forward looking. The Council's reserves are being maintained at sufficient levels to provide for contingencies and to address the financial pressures it faces over the medium term.
- The Council has a strong record of achieving efficiency savings, and there is a clear focus on prioritising resources within a sustainable medium term planning framework.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

I gave an unqualified opinion on the Council's financial statements on 30 September 2011. The Council's coped well with the new requirements of International Financial Reporting Standards, and the accounts were prepared to a reasonable standard although a number of adjustments were required in respect of capital accounting. Good working paper trails were in place to support the accounts.

9 I reported on the detailed findings of my audit to the Audit Committee on 19 September 2011. I recommended that additional quality checks should be undertaken in respect of capital accounting entries, and that the Council should consider introducing an improved computerised asset management system. These recommendations have been accepted by officers.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

86

Criterion	Key messages
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2010/11: The organisation has robust systems and processes to effectively manage financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The Council's underlying financial position is sound. At 31 March 2011 general fund balances and general revenue reserves totalled £9.9m. The Council has been able to make a contribution of £1.5m to the general revenue reserve in 2010/11 despite significant financial pressures, and achieved the £1.6m savings target. Whilst the Council's reserves as a percentage of revenue expenditure (11.7%) are low compared to the average for shire districts (36.7%), they are being maintained at sufficient levels to provide for contingencies and maintain the Council's policy of sustaining working balances at 10% of net revenue expenditure. The Council has a history of strong financial management. During 2010/11 it has again demonstrated a clear corporate focus on financial planning and early action to deal with financial pressures.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Council has a strong record of achieving efficiency savings, and there is a clear focus on prioritising resources within a sustainable medium term planning framework.

A primary objective for the Council has been to progress development of the Local Strategic Partnership (LSP) as the main medium for achieving the targets of the Sustainable Community Strategy. A resource mapping exercise was undertaken to assist in integrating existing plans within the LSP. The economic downturn and consequent funding pressure has required the Council to ensure its risk assessment, corporate planning and budget setting processes remain fully aligned and “fit for purpose”.

Despite the financial situation the Council has progressed a number of major capital projects whilst actively marketing assets surplus to requirements to help fund its capital programme.

A key achievement of 2010/11 was the development of a revised Waste and Recycling Strategy which will be implemented over the next five years. A food waste collection service has been introduced and successfully rolled out across the authority.

Good use is being made of COVALENT to record and track the Council’s objectives, and flag any risk areas promptly when key milestones are missed or performance targets slip. Each objective is allocated to a named officer, and progress can be tracked through the system updates and reports. A challenge going forward will be to ensure that data on the system is updated promptly, as this is not yet consistent across the authority

Future challenges

The Council has coped well in meeting the immediate pressures of the economic downturn. Demands on the public sector to manage within ever more constrained resources look set to continue. The Council has positioned itself well but will need to continue to focus on its key priorities and strategic risks.

100

Economic downturn and pressure on the public sector

The economic forecast for the UK and western developed economies remains gloomy. Since taking office in May 2010 the Coalition government has focused its attention on deficit reduction measures and the public sector has faced an unprecedented squeeze on its funding. The UK recovery continues to remain weak and there is considerable volatility in financial markets as Europe struggles to deal with the sovereign debt crisis affecting Greece and other countries in the euro zone.

The Council has positioned itself well to ensure it is financially resilient, and the processes to support the medium term financial strategy (MTFS) are well-established. However, the Council has performed a further detailed review of the strategy during 2010/11, projecting budget requirements and spending levels over the period 2011/12 to 2014/15. A savings target of £4.3m was identified over the four years, with £1.9m required in 2011/12.

The Council is reasonably on track in achieving its 2011/12 savings target, although £150k is considered vulnerable at this stage due primarily to contract delays and cost pressures. Despite the difficult financial environment the Council is well-placed to address the potential funding gaps identified over the lifetime of the MTFS.

Joint arrangements / shared services

The Council has a good track record of working with other partners in the public and voluntary sectors to identify and develop opportunities for joint arrangements and shared services. The Council remains a key member of MKIP, and successfully adopted a shared revenues and benefits service with Tunbridge Wells BC in 2011.

The Council is also developing services with partners in other areas, for example to reduce health inequalities (with the PCT) and improve educational attainment as part of the Mid Kent College Advisory Panel. Such arrangements will be particularly important as the Council aims to achieve its key priorities over the medium term, and working effectively with other members of the Local Strategic Partnership and Delivery Group as they move to a Locality Board will be crucial.

Economic development and regeneration

Development of the Council's Core Strategy for the next 15 years has now progressed to the consultation stage. The importance of linking this with the Council's Economic Development Strategy, new Housing Strategy and key documents produced by partners (eg the Local Transport Plan and the Integrated Transport Strategy) is recognised by the Council, and will be vital in securing and sustaining the necessary support for the local economy.

Planned changes to legislation

The Coalition government has announced a significant number of wide ranging reforms to the public sector since taking office in May 2010. The Localism Bill is advanced in its parliamentary progress and if enacted will have a significant impact on Local Government. Key aspects of the Bill are:

- The abolition of the Standards Board regime;
- introducing a general power of competence for local authorities;
- introducing rights for communities to buy local assets threatened with closure and challenge the way services are provided;
- substantial reforms of the planning system; and
- other changes to local government finance including business rates.

In addition, government reforms are planned to the welfare system which will impact on the Council's future work in administering Housing and Council tax Benefits.

Closing remarks

I have discussed and agreed this letter with the Chief Executive, the Director of Change, Planning and the Environment and the Director of Regeneration and Communities on 2nd November 2011. I will present this letter at the Audit Committee on 28th November 2011 and will provide copies to all members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

103	Report	Date issued
	Certification of Claims & Returns	January 2011
	Audit Plan 2010/11 audit	March 2011
	External Audit Progress Report	June 2011
	Annual Governance Report	September 2011

The Council has taken a positive and constructive approach to our audit, and I wish to thank the Council staff for their continued support and co-operation.

Andy Mack

Acting Engagement Lead

November 2011

Appendix 1 - Fees

	Actual 2009/10	2010/11 Initial Estimate (April 2010)	2010/11 Revised Estimate (Jan 2011)	2010/11 Final
Fee for audit	109,020	116,490	116,490	116,490
Inspection fee	9,152	9,152	0 ⁱ	0
Total	118,172	125,642	116,490	116,490

In addition the Audit Commission issued rebates to the Council of £7,357 in April 2010 in respect of the cost of first year audit work on IFRS and a further rebate of £1,839 in December 2010.

104

ⁱ Inspection activity cancelled following abolition of CAA

Appendix 2 - Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

105

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view;
- I cannot confirm that the statements give a true and fair view; or
- I find that some spending or income was irregular.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.



By virtue of paragraph(s) 3, 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

By virtue of paragraph(s) 3, 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

By virtue of paragraph(s) 3, 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted