

## Audit Committee

Date: **Thursday 30 January 2014**  
Time: **2pm**  
Venue: **Colman Room, County Hall, Norwich**

**Persons attending the meeting are requested to turn off mobile phones.**

Membership: Mr B Bremner  
Mr J Dobson  
Mr A Gunson  
Mr J Joyce  
Mr I Mackie - (Chairman)  
Mr M Smith  
Mr R Smith - (Vice-Chairman)

### A g e n d a

**1 To receive apologies and details of any substitute members attending**

**2 Minutes**

To confirm the minutes of the meeting held on 26 September 2013

(Page **5**)

**3 Members to Declare any Interests**

If you have a **Disclosable Pecuniary Interest** in a matter to be considered at the meeting and that interest is on your Register of Interests you must not speak or vote on the matter.

If you have a **Disclosable Pecuniary Interest** in a matter to be considered at the meeting and that interest is not on your Register of Interests you must declare that interest at the meeting and not speak or vote on the matter

In either case you may remain in the room where the meeting is taking place. If you consider that it would be inappropriate in the circumstances to remain in the room, you may leave the room while the matter is dealt with.

If you do not have a Disclosable Pecuniary Interest you may nevertheless have an **Other Interest** in a matter to be discussed if it affects

- your well being or financial position
- that of your family or close friends

- that of a club or society in which you have a management role
- that of another public body of which you are a member to a greater extent than others in your ward.

If that is the case then you must declare such an interest but can speak and vote on the matter.

- 4 To receive any items of business which the Chairman decides should be considered as a matter of urgency**
- 5 Risk Management Report (3rd Quarter 2013/14)** (Page 13)  
Report by the Interim Head of Finance
- 6 Norfolk Audit Services Quarterly Report for the Quarter ended 30 September 2013.** (Page 36)  
Report by the Interim Head of Finance
- 7 External Auditor - Certification of Claims and Returns 2012-13** (Page 63)  
Report by the Interim Head of Finance
- 8 Work Programme** (Page 69)  
Report by the Interim Head of Finance
- 9 Anti Fraud and Corruption Strategy - January 2014 Edition** (Page 71)  
Report by the Practice Director Norfolk Public Law (NPLaw)
- 10 Anti-Fraud and Corruption Update** (Page 128)  
Report by the Practice Director Norfolk Public Law (NPLaw)
- 11 Review of the Internal Audit Terms of Reference and Code of Ethics** (Page 210)  
Report by the Head of Finance
- 12 Audit Committee Terms of Reference.** (Page 222)  
Report by the Chairman
- 13 Internal Audit Strategy, Approach, Strategic Plan 2014-17 and Annual Internal Audit Plan 2014-15.** (Page 226)  
Report by the Interim Head of Finance
- 14 Norse Group - Transfer of Pensions Risk** (Page 265)  
Report by the Interim Head of Finance
- 15 Norfolk Pension Fund – Governance reports relevant to the Audit Committee** (Page 276)  
Report by the Interim Head of Finance

**Chris Walton**  
**Head of Democratic Services**  
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Date Agenda Published: 22 January 2014



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**Audit Committee**  
**Minutes of the Meeting held on 26 September 2013 at 10.30pm**  
**in the Colman Room, County Hall, Norwich**

**Present:**

Mr B Bremner  
Mr A Gunson  
Mr B Long  
Mr I Mackie (Chairman)  
Mr M Smith  
Mr R Smith

**Also Present:**

Mr R Bearman

**Officers Present:**

Mr S Andreassen	Strategic Risk Manager
Mr P Brittain	Head of Finance
Mr H Bullen	Head of Budgeting and Financial Management
Mr G Cossey	Investment Manager
Mr P King	Ernst & Young (External Auditor)
Mr R Murray	Ernst & Young (External Auditor)
Mrs N Mark	Head of Norfolk Pension Fund
Mr S Rayner	Strategic Risk Manager
Mr A Thompson	Chief Internal Auditor
Miss S Blythe	Committee Officer

**1 Apologies for Absence**

- 1.1 An apology for absence was received from Mr J Dobson (Mr Long substituting) and Mr J Joyce.

**2 Minutes**

- 2.1 The minutes of the meeting held on 24 June 2013 were agreed as a correct record and signed by the Chairman, subject to the following amendment:-

9.3 Second bullet point should read:- "Ernst and Young had been appointed as auditors for the Pension Fund".

**3 Declarations of Interest**

No declarations were made.

**4 Matters of Urgent Business**

- 4.1 The Chairman welcomed the external auditors from Ernst and Young and officers from Norfolk Pension Fund to the meeting.
- 4.2 The Chairman acknowledged that it was the last meeting of the Head of Finance and thanked him for the support he had offered all Members during his time with the County Council.
- 4.3 The Chairman noted that a report into the remuneration package of the former Chief Executive when he had left the County Council had been published. This had covered all points which the Audit Committee had planned to investigate. Members confirmed that they were happy with the published report.

**5 Norfolk Audit Services Quarterly Report for the quarter ended 30 June 2013**

- 5.1 The Committee received the report by the Head of Finance which summarised the results of recent work by Norfolk Audit Services (NAS) and gave assurances that, where improvements were required, remedial action had been taken by Chief Officers.
- 5.2 The following points were noted in response to questions from the Committee:-
- It remained the view that the arrangements for the County Council's systems of internal audit were both sufficient and best value. An external review of the arrangements would be completed at the appropriate time.
  - In June 2013 Cabinet had approved the proposal for the County Council to submit a bid for the France Channel Interreg Programme as Managing Authority, which had been successful. As part of the Managing Authority an Audit Authority would be set up which would be run in-house. This could report to the Audit Committee to keep Members apprised, but the Committee was not responsible for it. NAS was looking to recruit a bi-lingual auditor who would be funded by the programme. Members requested that they receive a regular brief summary of the Audit Authority's work in order to oversee it. All costs would be recovered from the programme.
  - Opportunities to generate income such as moving into shared Internal Audit services were currently being investigated.
  - The Chief Internal Auditor confirmed that he had attended a recent meeting of the Schools Forum. They had approved the changes to audit delivery within schools.
- 5.3 **RESOLVED** to note:
- That the effectiveness of risk management and internal control be considered sound.
  - The effectiveness of the management processes and corporate control functions being provided by self assessment, customer feedback and any existing external performance reviews, including periodic independent assurance on the application of the relevant internal audit standards, thus developing the approach agreed in April 2007 and January 2009.

- Internal Audit's policy to include unannounced 'spot' checking in the audit planning process and its promotion to all staff and managers across the Council as agreed by Chief Officers
  - That satisfactory progress had been made with the preparations for an Audit Authority for the France Channel England Interreg Operational Programme
- the changes to the approved 2013-14 internal audit plan, described in
- Appendix D of the report.

**RESOLVED** that the schools audit offering described in paragraph 4.5 of the report be approved.

## **6 Work Programme**

- 6.1 The Committee received a report by the Head of Finance setting out the work programme for the Audit Committee until June 2013.
- 6.2 Members noted that they would monitor the frequency of meetings and consider whether the Committee should meet on a bi-monthly basis in future.

**RESOLVED** to note the report.

## **7 Norfolk Pension Fund Governance Arrangements and Management of Market Fluctuations**

- 7.1 The Head of the Norfolk Pension Fund and the Investment Manager were welcomed to the meeting in order to answer questions about the governance arrangements and market fluctuations of the pension fund.
- 7.2 The following points were noted in response to questions from the Committee:-
- Market fluctuations were a matter for the Pensions Committee, which is representative of all main political parties within the County Council. Due to the long-term nature of its liabilities, the Pension Fund takes a long-term view of its investments rather than short term tactical asset allocations.

The Norfolk Pension Fund is a self-governed body, separate from the County Council. Separate opinions were provided by the External Auditors on the statement of accounts for the County Council and for the Norfolk Pension Fund. The Pensions Committee receives and considers the draft statement of accounts for the Norfolk Pension Fund and makes recommendation to the Audit Committee that they be approved/not approved.

- In signing off the annual statement of account the Audit Committee was also signing off the Norfolk Pension Fund accounts.
- Ultimately the Pensions Committee had responsibility for the Norfolk Pension Fund and it was that Committee's duty to take professional advice.

- 120 days per year were allocated by NAS to carry out internal auditing of the Norfolk Pension Fund. The Chief Internal Auditor gave updates to the Pensions Committee and believed that adequate arrangements were in place.
- The figures being signed off were a snapshot taken at the 31<sup>st</sup> March. The Norfolk Pension Fund was actually valued on a tri-annual basis, which considered assets and liabilities. This was signed off by the Fund Actuary in consultation with trustees and confirms that in the long term enough money was available to pay pensions. Currently the Norfolk Pension Fund was considered to be a well funded pension fund.
- Members requested that summaries of any internal and external audit reports be presented to them in order to provide extra assurances and to ensure that they had access to full facts.

7.3 **RESOLVED** to note the report.

## **8 Governance, Control and Risk Management of Treasury Management**

8.1 The Committee received a report by the Head of Finance which reported on the County Council's treasury management operations.

8.2 The Investment Manager advised that this was an annual report which looked at the governance of the treasury management function. Regular monitoring reports were presented to the Treasury Management Panel, Cabinet and full Council throughout the year.

8.3 The following points were noted in response to questions from the Committee:-

- Key controls of the treasury management function were checked annually, with an audit being carried out every three years.
- The County Council has followed good practice and set up a dormant bank account with another banking provider, unrelated to the Council's incumbent bank, for business continuity purposes.

8.4 **RESOLVED** to note the report.

## **9 Ernst and Young – Annual Governance Report Audit 2012/13**

9.1 The Committee received the Annual Governance Report Audit for 2012/13

9.2 The external auditor advised that he expected to issue an unqualified audit opinion by the statutory deadline of 30 September 2013. One small amendment had been made to the whole of government accounts which meant that they could not close the audit until 4 October, instead of 30 September. This was an administration issue; the accounts would not be late, they would just be confirmed later than usual.

9.3 The following points were noted in response to questions from the Committee:-

- Enhanced work had been carried out in relation to the auditing of Norse in the past year due to its growth. The work had been carried out by Grant



Thornton who had reported back to the external auditor, Ernst and Young. Historically Norse worked to a different year-end than the County Council. This did not affect the audit completion but did cause a slight risk around disclosure and the work that needed to be done around consolidation. The Chairman agreed to write to the Managing Director of Norse to enquire whether the dates could be reconciled.

- There had been a small number of insignificant errors in the accounts which had since been amended. No areas of weakness within the internal controls had been identified.
- Additional charges of £21,800 had been made by Ernst and Young for instructing and liaising with group auditors, and for responding to issues raised by electors in relation to the Waste PFI credits. Ernst and Young did not often have cause to enter into communication with the public so this was not included in the general fees, but it was important that the public could raise their views and concerns in this way.

9.4 **RESOLVED** that the report be noted and that the Chairman should write to the Managing Director of Norse regarding the year-end date.

## **10 Norfolk County Council Annual Statement of Accounts 2012/13**

10.1 The Committee received the Annual Statement of Accounts and Annual Governance Statement 2012.13 which summarised the statement of accounts for the County Council, which had been subject to external audit by Ernst and Young.

10.2 The following points were noted in response to questions from the Committee:-

- The County Councils net assets had reduced due to a large increase in personal liabilities. In addition the Norse pension liability had also increased. The County Council was backed by taxation so, if the assets did go into negative figures, it would always have a means to pay with.
- Appropriate procedures were in place to ensure that the County Council remained financially viable.

10.3 **RESOLVED** that:-

- The report be noted.
- The annual governance statement be approved.
- The Council's 2012/13 Statement of Accounts be approved.

## **11 Letter of Representation**

11.1 The Committee received the report which detailed the letters of representation in connection with the audit of financial statements 2012/13. This was required in order to confirm that all relevant matters had been disclosed to the external auditors for their opinion.

11.2 **RESOLVED** that the letter be endorsed and signed by the Chairman.

**12 Risk Management Report – 2<sup>nd</sup> Quarter 2013/14**

12.1 The Committee received the report which provided an update on the corporate risk register and other related matters, following a quarterly review. The update included details of 19 risks which were proposed for inclusion within the corporate risk register.

12.2 The following points were noted in response to questions from the Committee:-

- Risk MN14028 “Failure to comply with landfill allowance for 2012/13” had been completed and removed.
- Risk RM14116 “Failure to fully implement the improved standards contained within A Good School for Every Norfolk Learner” had been added.
- Consideration would be given to adding risks around the county hall building works to the register.
- The risk register was taken to the Chief Officer Group on a quarterly basis. Risks could be added and removed by the Chief Officers.
- Based on current CIPFA joint benchmarking, the County Council had delivered good results.
- Members raised concerns around RM14097 – “Shortage of Personnel through illness, sustained industrial action etc including loss of key senior personnel” due to the high level of interim staff currently within the organisation, which could lead to risks around continuity of service.
- The Icelandic banks were on the register due to an outstanding £10m still to be received.
- Some Overview and Scrutiny Panels tended to consider the corporate risks on departmental risk registers at their meetings as opposed to the departmental risks. The Chairman agreed to write to the Chairs of all Overview and Scrutiny meetings to suggest that both the corporate risks and departmental risks were looked at in detail in order to ensure that regular challenges were being made.

12.3 **RESOLVED:-**

- To note the changes to the risk register.
- To note the nineteen corporate risks.
- To note that the arrangements for risk management were acceptable and complied with the County Councils “Management of Risk Framework”
- That risk management training throughout the County Council be

endorsed.

**RESOLVED** that a letter would be sent by the Chairman to the Chairmen of Overview and Scrutiny panels regarding the use of the corporate risk register at meetings.

### **13 Internal Audit Plan 2013-14 for Quarter 4**

13.1 The Committee received the report which documented the proposed internal audit plan for quarter four 2013-14.

13.2 The following points were noted in response to questions from the Committee:-

- The report noted several staff vacancies. One had successfully since been filled on a temporary basis. Currently NAS had sufficient resources to manage all work. Extra staff had been brought in on temporary contracts for special projects.
- A £102k reduction in the base budget had been achieved over a three year period by working differently and by reorganising the NAS team.

13.3 **RESOLVED** to:-

- Note that there had been a reduction in the overall plan from 1,840 audit days (plus £25,000 contractor allowance) in the total strategy, down to 1,543. As a result of some changes in planned audits for Quarter 3 and 4, there were 575 overall audit days proposed for quarter 4 (up from 554 in the previous plan)
- Note that the proposed audit plan met the legislative requirements of the Accounts and Audit (England) Regulations (2011)
- Note that the allocation of days set out in Appendix A met the various elements of the strategy approved by the Audit Committee on 31<sup>st</sup> January 2013
- Note that it did not wish to amend the schedule of audits, for 419 days, set out in Appendix B1 of the report to deliver the audit work to support the opinion
- Note that the internal audit plan for Quarter 4 of 2013-14 made adequate provision for the risks arising from organisational change, the economic downturn and that resources were sufficient to accomplish the plan.

### **14 Audit Committee Terms of Reference**

14.1 The Committee received the report which proposed changes to the Audit Committee's responsibilities in relation to the Norfolk Pension Fund and changes to the terms of reference.

14.2 The following points were noted in response to questions from the Committee:-

- Mention of the Norfolk Pension Fund had been struck through in section G

as it was also mentioned in part E.

- Members of the Committee were unclear of their authority to call items in to the Cabinet Scrutiny Committee. The terms of reference should clarify this.

**RESOLVED** that the changes to the terms of reference be commended to full Council for agreement.

The meeting ended at 12.40pm

#### **CHAIRMAN**



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## **Risk Management Report (3rd Quarter 2013/14)**

### **Report by Head of Finance**

#### **Summary**

This report provides Audit Committee with an update of the Corporate Risk Register and other related matters following the latest quarterly review conducted during the third quarter of 2013/14. The update includes details of seventeen risks proposed for inclusion within the Corporate Risk Register. Risks are where events may impact on the County Council achieving its objectives.

#### **Recommendations**

Audit Committee is asked to:

- note the changes to the risk register
- comment on the seventeen corporate risks
- consider any further actions that may be required
- note that the arrangements for risk management are acceptable and fulfil Norfolk County Council's "Well Managed Risk – Management of Risk Framework"
- actively endorse risk management training throughout the County Council

## **1. Introduction**

- 1.1 The Corporate Risk Register is a dynamic document that is reviewed and updated regularly by risk owners and responsible officers for any changes that have occurred to the risk as a whole and to the progress of its control measures in accordance with the County Council's "Well Managed Risk – Management of Risk Framework". The Corporate Risk Register is regularly reviewed by the Chief Officer Group (COG) and lists risks where events may impact on the County Council achieving its objectives.
- 1.2 Following the most recent report to Audit Committee in September 2013 a review of the existing risks, as well any new risks proposed for inclusion in the Corporate Risk Register, has taken place with the officers responsible and then considered by COG.
- 1.3 This report is based on the outcome of that review. We also acknowledge that further changes to the Corporate Risk Register may be necessary based on the outcome of the Putting People First public consultation. The risks that have been identified to date are now in the process of being reported and reviewed by the applicable Overview and Scrutiny Panels.

- 1.4 Appendix 1 displays a summary of the updated Corporate Risk Register as approved by COG on 19 December 2013 and Appendix 2 contains the full detail of the same Corporate Risk Register.

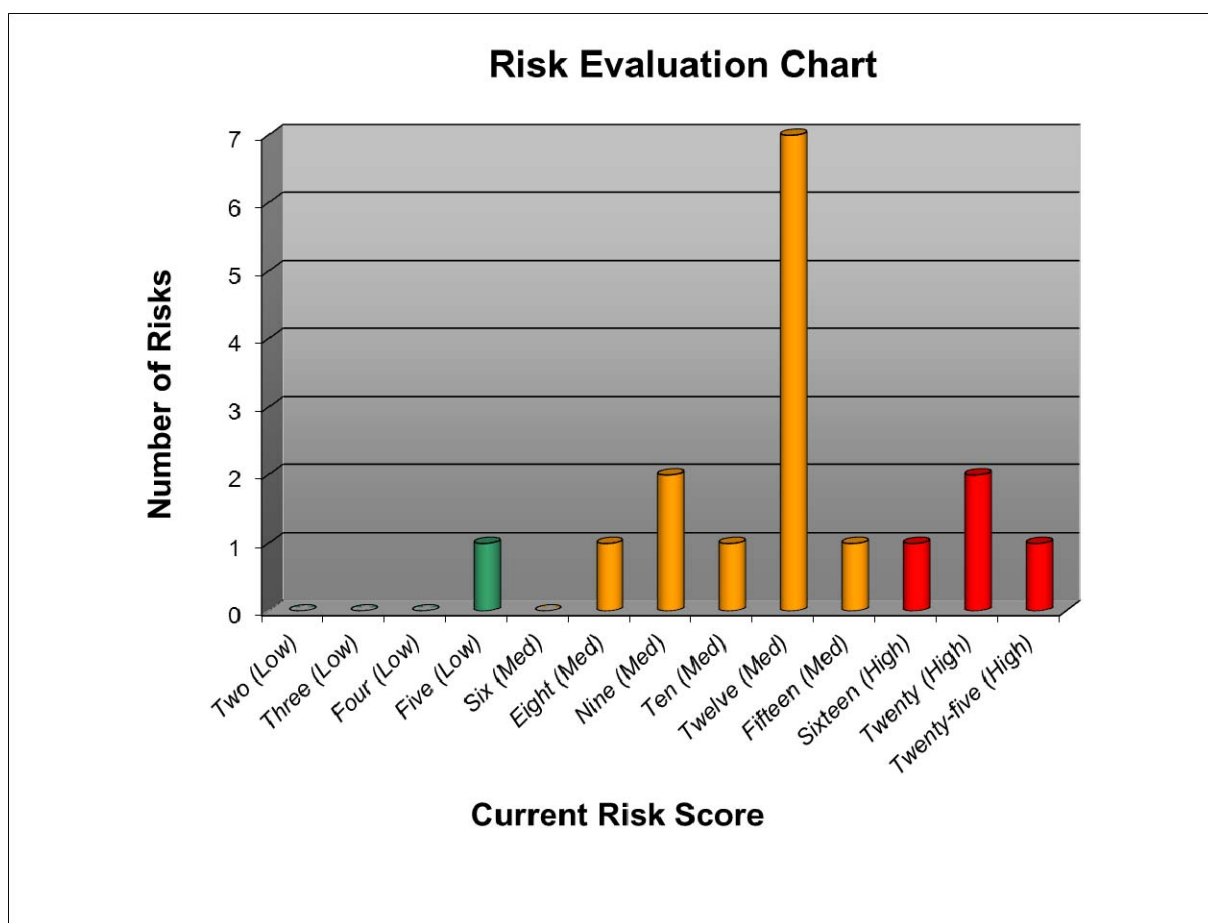
## **2. Corporate Risk Register**

- 2.1 The Corporate Risk Register lists the key business risks that require strong management at a corporate level and which, if not managed appropriately, could result in the County Council failing to achieve one or more of its key objectives and/or suffer a significant financial loss or reputational damage. All risks listed have been reviewed and updated, as appropriate.
- 2.2 In total it is recommended that seventeen risks are included on the Corporate Risk Register.
- 2.3 Risk RM14113 "Failure in the delivery of the Willows Power and Recycling Plane" remains on the register and as at the date of writing this report the decision by the Secretary of State for Communities and Local Government, due on 14 January 2014, has been delayed while he continues to consider the information relating to the planning application. The Waste Contingency planning paper approved by Cabinet on 4 November 2013 recommends the provision of a contingency fund relating to the potential planning failure compensation, currently some £11M has been set aside in this fund.
- 2.4 Of the nineteen risks on the Corporate Risk Register that were reported to Audit Committee in September 2013 five have now been removed and three new risks have been added.
- 2.5 Risk RM13919 "Organisational changes within the NHS" has been removed from the register having met the target score by the target date with business as usual risks now being managed by Public Health.
- 2.6 Risk RM14081 "Failure of supplier" – "If a supplier fails to deliver in accordance with the contract (because of insolvency, capability issues, lack of contract management or a poorly drafted contract) we may be unable to deliver services to the required standard or we may incur excessive costs" has been removed from the register having met the target score by the target date.
- 2.7 Risk RM13911 "Insufficient Capacity within the Care Market" – "If there is insufficient capacity within the care market to take on and provide services previously delivered by NCC" has been removed from the register having met the target score by the target date.
- 2.8 Following a full review of the Children's Services risk register and approval by Children's Services Leadership Team, two risks, RM14112 "Not achieving the required improvements set out by Department for Education in the direction to improve" and RM14116 "Failure to fully implement the improvement standards contained within "A Good School for Every Norfolk Learner" have also been removed, reworked, reworded and replaced by one new risk. The changes reflect the reports from the Ofsted inspections and the improvement plans that have been implemented to address the issues raised by Ofsted. The one new

risk RM14147 “Failure to improve at the required pace” acknowledges the current position and reflects the progress that has already been achieved in these areas.

- 2.9 In addition to the risk relating to the improvement plans the Children’s Services Leadership Team have acknowledged the risks around the reliance on interim positions currently within Children’s Services. Give that there are significant numbers of interim and temporary positions a new risk RM14148 “Overreliance on interim capacity” reflects the current position and how this will be addressed specifically within Children’s Services given the scale of the situation in that department.
- 2.10 A new risk has been added to the register RM14146 “Failure to effectively manage County Hall refurbishment and maintenance” following consideration by COG and Audit Committee in September to reflect the heightened risks relating to the maintenance project at County Hall. The works involve a number of construction activities that will increase the risks to many elements of the service delivery of the council. The risk is time framed for the duration of the project, and will be present throughout all phases of the construction and maintenance works.
- 2.11 The County Hall refurbishment and maintenance project has a risk register held on the NPS Connect2 record system which is reviewed at Risk Review meetings attended by representatives of NCC, NPS and the contractor. The register lists all risks to the project, the majority being specific to the success of the project. That risk register is reported to the Project Board on a regular basis.
- 2.12 In accordance with the Risk Matrix and Risk Tolerance Level set out within the current Norfolk County Council “Well Managed Risk - Management of Risk Framework four risks are reported as “High” (risk score 16–25), twelve as “Medium” (risk score 6–15) and one as “Low” (risk score 1-5).
- 2.13 Within the constraints of the target date (which provides a time-frame for the risk) and using the Generic Risk Impact Criteria Model and Likelihood Criteria Model the three risk scores can be determined. Each risk score is a multiple of the impact and the likelihood of the event occurring.
- Inherent risk score – this is the level of risk exposure before any action is taken to reduce the risk
  - Current risk score – this is the level of risk exposure at the time the risk is reviewed by the risk owner and takes into consideration the progress of the mitigation tasks at that point.
  - Target risk score – this is the level of risk exposure that we are prepared to tolerate following completion of all the mitigation tasks, this is known as the risk appetite.

2.14 The current scores of the seventeen are illustrated by the chart below.



2.15 The prospects of meeting target scores by the target dates are a reflection of how well mitigation tasks are controlling the risk. The contents of this cell act as an early warning indicator that there may be concerns when the prospect is shown as amber or red. In these cases further investigation may be required to determine the factors that have caused the risk owner to consider the target may not be met. It is also an early indication that additional resources and tasks or escalation may be required to ensure that the risk can meet the target score by the target date. The position is visually displayed for ease in the “Prospects of meeting the target score by the target date” column as follows:

- Green – the mitigation tasks are on schedule and the risk owner considers that the target score is achievable by the target date.
- Amber – one or more of the mitigation tasks are falling behind and there are some concerns that the target score may not be achievable by the target date unless the shortcomings are addressed.
- Red – significant mitigation tasks are falling behind and there are serious concerns that the target score will not be achieved by the target date and the shortcomings must be addresses and/or new tasks are introduced.



- 2.16 One risk RM0207 “Failure to meet the needs of older people” has had its prospects changed from Amber to Green following review by the risk owner.

### **3. Emerging risks**

- 3.1 At the Chief Officers Group meeting on 19 December 2013 it was decided that two new risks are to be drafted and added to the Corporate Risk Register in future, the risks relate to:
- The ability of Norfolk County Council to respond to emergency planning situations such as extensive coastal/inland flooding.
  - The transfer of the governance of Norfolk from the current Cabinet system to the Committee system as approved by Full Council.
- 3.2 The two new risks will be reported to Audit Committee in April 2014.

### **4. Training**

- 4.1 The new e-learning course, ‘How to Manage Risk’ has been developed and been promoted with coverage in “Norfolk Manager” and on the NCC intranet Home Page. The course, accessed via our Learning Hub, is aimed at Members and officers at all levels. It provides an opportunity to gain a better understanding of the County Council’s management of risk policy and framework, including the principles, strategy, roles and responsibilities, reporting requirements, tools and documents and the overall process.
- 4.2 We recommend anyone with responsibilities for the risk management process should complete the course.
- 4.3 The new course has been extremely well received. Enrolment figures, since the introduction of the new course in June 2013 already exceed the total number who enrolled on the previous version during the entire three years that it was available.
- 4.4 At the Corporate Resources Overview and Scrutiny Panel on 12 November 2013 it was suggested that a scrutiny of the authority’s exposure to risk could be considered. It was confirmed that risk was already scrutinised regularly by overview and scrutiny panels and Audit Committee as part of their remit. It was agreed that a briefing note on the County Council’s approach to risk management would be circulated to members.
- 4.5 The briefing note is attached at Appendix 3.
- 4.6 Arrangements are being made for Members to receive risk management training in small group sessions during 2014. An additional benefit of the sessions is that they should provide Members with increased assurance of the level of maturity of risk management within the County Council.

## **5. Conclusion**

- 5.1 The review of existing risks has been completed with responsible officers.
- 5.2 There remains a strong corporate commitment to the management of risk and appropriately managing risk, particularly during periods of organisational change, such as the accelerated programme to deliver all the elements of the vision for the County Council.
- 5.3 An on-going clear focus on strong risk management is necessary as it provides an essential tool to ensure the successful delivery of our strategic and operational objectives.

## **6. Recommendations**

- 6.1 Audit Committee is asked to:
- note the changes to the risk register
  - comment on the seventeen corporate risks
  - consider any further actions that may be required
  - note that the arrangements for risk management are acceptable and fulfil Norfolk County Council's "Well Managed Risk – Management of Risk Framework"
  - actively endorse risk management training throughout the County Council

### **Officer Contacts:**

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# Risk Register - Norfolk County Council - Summary - Appendix 1

Risk Register Name		Corporate Risk Register					Red	
Prepared by		Stephen Andreassen and Steve Rayner		High			Amber	
Date updated		16 December 2013		Med			Green	
Next update due		31 January 2014		Low			Met	
Area	Risk Number	Risk Name	Risk Description	Current Risk Score	Target Risk Score	Target Date	Prospects of meeting Target Risk Score by Target Date	Risk Owner
Children's Services	RM14147	Failure to improve at the required pace.	CS Teams do not show the improved performance at the speed which is acceptable to DfE and Ofsted.	10	8	31/01/2016	Amber	Sheila Lock
Children's Services	RM14148	Overreliance on interim capacity	Overreliance on interim capacity at leadership and management levels and in social worker teams leads to unsustainable performance improvement.	20	8	30/06/2014	Amber	Sheila Lock
Children's Services	RM13906	Looked After Children overspends	That the Looked After Children's budget could result in significant overspends that will need to be funded from elsewhere within Children's Services or other parts of Norfolk County Council	16	8	31/03/2014	Amber	Sheila Lock
Environment Transport and Development	RM14113	Failure in the delivery of the Willows Power and Recycling Centre.	Failure in the delivery of the Willows Power and Recycling Centre leading to a contract termination would result in a financial impact to the County Council through the likely need for payment of compensation to the contractor, combined with the costs of securing and delivering alternative solutions and the loss of expected savings and potential for additional income.	20	6	01/04/2017	Amber	Tom McCabe

Area	Risk Number	Risk Name	Risk Description	Current Risk Score	Target Risk Score	Target Date	Prospects of meeting Target Risk Score by Target Date	Risk Owner
Environment Transport and Development	RM0201	Failure to implement Norwich Northern Distributor Route (NDR) and the Postwick Hub junction improvement	<p>NDR</p> <p>Failure to implement the NDR would result in the inability to implement significant elements proposed in the Norwich Area Transport Strategy (NATS) Implementation Plan including pedestrian enhancements in the city centre, public transport improvements (including some Bus Rapid Transit corridors), traffic management in the suburbs, reductions in accidents and would result in an increase in congestion affecting public transport reliability. It would also result in a reduction in our capacity for economic development and negatively impact on Norfolk County Council's reputation.</p> <p>Inability to deliver the NDR will also affect the growth planned as part of the Joint Core Strategy.</p>	12	8	01/11/2014	Amber	Tom McCabe
			<p>Postwick Hub</p> <p>The impact of an unsuccessful Public Inquiry on Postwick Hub Junction Side Road Orders (considered necessary by Government Office) will potentially affect the viability of the NDR and the benefits set out in relation to its delivery. It will also result in a failure to deliver immediate growth in employment and some housing development. In addition, the P&amp;R extension is not possible without the completion of Postwick Hub</p>					
Community Services Transformation	RM14079	Failure to meet the long term needs of older people	If the Council is unable to invest sufficiently to meet the increased demand for services arising from the increase in the population of older people in Norfolk it could result in worsening outcomes for service users, promote legal challenges and negatively impact on our reputation. With regard to the long term risk, bearing in mind the current demographic pressures and budgetary restraints, the Local Government Association modelling shows a projection suggesting local authorities may only have sufficient funding for Adult's and Children's care.	25	8	31/03/2030	Amber	Harold Bodmer
Community Services Transformation	RM0207	Failure to meet the needs of older people	If the Council is unable to invest sufficiently to meet the increased demand for services arising from the increase in the population of older people in Norfolk it could result in worsening outcomes for service users, promote legal challenges and negatively impact on our reputation.	12	8	31/03/2014	Green	Harold Bodmer
Corporate	RM0200	Capacity for change - Insufficient capacity for business transformation	The proposals require significant transformation and change to services and there is a risk that there will be insufficient capacity to re-design services and implement new ways of working. Insufficient capacity and resources in the organisation to make required business transformation resulting in change projects not being delivered on time and risk that business as usual could fail in some areas.	12	8	31/03/2017	Amber	Anne Gibson

Area	Risk Number	Risk Name	Risk Description	Current Risk Score	Target Risk Score	Target Date	Prospects of meeting Target Risk Score by Target Date	Risk Owner
HR Shared Services	RM13918	Staffing - The speed and severity of change in work activities.	The risk that skills and knowledge may be lost as people leave or are made redundant, and that staff morale is adversely affected. The speed and severity of the changes in service activities, service redesign and job cuts necessary to achieve budget savings targets could significantly affect the engagement and wellbeing of staff. This could lead to increased sickness absence, reduced engagement and a reduction in productivity and performance.	12	8	31/03/2017	Green	Audrey Sharp
HR Shared Services Business Continuity	RM14097	Shortage of personnel for a variety of reasons eg. illness, industrial action, inclement weather etc., including loss of key senior personnel	The risk of a shortage of personnel could result in inadequate capacity to deliver our services, reputational damage for the organisation, and litigation in the case of being unable to deliver our key statutory obligations. This is particularly the case with Payroll specialist and Oracle functional/ technical staff given the high level of payroll legislative changes (Real Time Information, Pension Scheme changes (LGPS 2014, TP & NHS 2015) ) impacting at the same time as extensive organisational change.	12	6	30/09/2014	Amber	Audrey Sharp
Environment Transport and Development Business Continuity	RM14098	Incident at key NCC premises or adjacent causing loss of access or service disruption	The risk that fire, flood or structural damage could cause disruption for services due to loss of the building or loss of access to the building.	9	6	31/03/2014	Amber	Tom McCabe
ICT Shared Services Business Continuity	RM14100	Loss of key ICT systems	Loss of core or loss of a key ICT systems, communications or utilities for a significant period could impact on delivery of critical services.	12	6	31/03/2014	Amber	Tom Baker
Information Management	RM13968	Failure to follow data protection procedures	Failure to follow data protection procedures can lead to loss or inappropriate disclosure of personal information resulting in a breach of the Data Protection Act and failure to safeguard service users and vulnerable staff, monetary penalties, prosecution and civil claims.	12	4	31/03/2014	Amber	Tom Baker
Resources Procurement	RM14080	Failure of tender process	If we do not manage the commissioning and tendering process effectively we may be subject to legal challenge from an unsuccessful bidder or we may appoint a bidder which is not capable of delivering the contract effectively.	8	4	31/03/2014	Green	Al Collier

Area	Risk Number	Risk Name	Risk Description	Current Risk Score	Target Risk Score	Target Date	Prospects of meeting Target Risk Score by Target Date	Risk Owner
Finance	RM14094	Failure to deliver planned budget savings in 2013/14	The risk that planned budget savings are not delivered in full and on time could lead to imposed in-year cuts and reductions in planned service delivery. This could impact on services delivered to the public, as well as generating adverse public and media comment if cuts are made in areas that were not included in the Big Conversation.	9	6	31/03/2014	Green	Peter Timmins
Finance	RM8680	Failure to recover outstanding funds from Icelandic banks	Norfolk County Council fails to recover monies outstanding from Icelandic banks.	5	5	31/03/2014	Green	Peter Timmins
Resources Corporate Programme Office	RM14146	Failure to effectively manage County Hall refurbishment and maintenance.	<p>Failure to effectively manage County Hall refurbishment and maintenance during the project may lead to:</p> <ul style="list-style-type: none"> <li>• Excessive dust and noise resulting in interruption to work-related activities</li> <li>• Release of asbestos resulting in the contamination of working areas and long term health issues.</li> <li>• Flooding, specifically of the server room, resulting in delays to service delivery.</li> <li>• Heightened risk of fire damage and personal injury due to inadequate fire alarm and evacuation systems.</li> </ul>	15	5	31/03/2016	New	Harvey Bullen

Risk Register - Norfolk County Council - Appendix 2																					
	Risk Register Name		Corporate Risk Register															Red			
	Prepared by		Stephen Andreassen and Steve Rayner									High					Amber				
	Date updated		16 December 2013									Med					Green				
	Next update due		31 January 2014									Low					Met				
CDGSTP	Area	Risk Number	Risk Name	Risk Description	Date entered on risk register	Inherent Likelihood	Inherent Impact	Inherent Risk Score	Current Likelihood	Current Impact	Current Risk Score	Tasks to mitigate the risk	Progress update	Target Likelihood	Target Impact	Target Risk Score	Target Date	Prospects of meeting Target Risk Score by Target Date	Risk Owner	Reviewed and/or updated by	Date of review and/or update
C	Children's Services	RM14147	Failure to improve at the required pace.	CS Teams do not show the improved performance at the speed which is acceptable to DfE and Ofsted.	01/12/2013	2	5	10	2	5	10	Additional capacity in leadership and management in place. Additional social worker capacity in place. Robust and systematic performance management structures and processes established.	Robust, systematic performance management structures and processes in place. Embedding of these is now the focus	2	4	8	31/01/2016	Amber	Sheila Lock	Helen Wetherall	10/12/2013
C	Children's Services	RM14148	Overreliance on interim capacity	Overreliance on interim capacity at leadership and management levels and in social worker teams leads to unsustainable performance improvement.	01/12/2013	4	5	20	4	5	20	Succession Planning. Skills and knowledge transfer from interim to permanent staff.	Succession planning begun. Soft market testing being carried out. Skills and knowledge transfer to full time permanent staff taking place although not yet embedded.	2	4	8	30/06/2014	Amber	Sheila Lock	Helen Wetherall	10/12/2013
C	Children's Services	RM13906	Looked After Children overspends	That the Looked After Children's budget could result in significant overspends that will need to be funded from elsewhere within Children's Services or other parts of Norfolk County Council	18/05/2011	4	4	16	4	4	16	LAC Reduction Strategy agreed by CSLT	Strategy agreed and implementation underway. LAC population to reduce by 200 by February 2014 and further target reductions to be agreed by CSLT in January 2014.	2	4	8	31/03/2014	Amber	Sheila Lock	Helen Wetherall	10/12/2013
C	Environment Transport and Development	RM14113	Failure in the delivery of the Willows Power and Recycling Centre.	Failure in the delivery of the Willows Power and Recycling Centre leading to a contract termination would result in a financial impact to the County Council through the likely need for payment of compensation to the contractor, combined with the costs of securing and delivering alternative solutions and the loss of expected savings and potential for additional income.	24/05/2013	4	5	20	4	5	20	Monitor the Public Inquiry, Planning Inspectorate and Department for Communities and Local Government (DCLG) processes relating to the Call In. Residual waste disposal contracts - keep existing extension options open and assess viable alternatives for medium term. Work effectively with contractor and monitor their performance. Work effectively with Defra. Retain suitable internal resources and external specialist advisors. Inspector's report on Inquiry, submitted to DCLG in September 2013. Secretary of State decision on planning, expected by 14 January 2014. Challenge period . Construction. Commissioning.	Contract awarded February 2012. Environmental permit approved July 2012. Resolution to grant planning permission given June 2012. Planning decision called in by DCLG August 2012. Public Inquiry ended 17 May 2013 and Inspector's report submitted to DCLG 30 September 2013. Defra removed the Waste Infrastructure Grant on 18 October 2013 due to failure to secure planning in 24 months, i.e. by 10 June 2013. Revised Project Plan to accommodate delay accepted 29 October 2013. Waste - Contingency planning paper accepted by Cabinet 4 November 2013 which was called in by Cabinet Scrutiny Committee on 19 November 2013. Secretary of State Decision due by 14 January 2014.	2	3	6	01/04/2017	Amber	Tom McCabe	Joel Hull	26/11/2013

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C	Environment Transport and Development	RM0201	Failure to implement Norwich Northern Distributor Route (NDR) and the Postwick Hub junction improvement	<p><b>NDR</b> Failure to implement the NDR would result in the inability to implement significant elements proposed in the Norwich Area Transport Strategy (NATS) Implementation Plan including pedestrian enhancements in the city centre, public transport improvements (including some Bus Rapid Transit corridors), traffic management in the suburbs, reductions in accidents and would result in an increase in congestion affecting public transport reliability. It would also result in a reduction in our capacity for economic development and negatively impact on Norfolk County Council's reputation. Inability to deliver the NDR will also affect the growth planned as part of the Joint Core Strategy.</p> <p><b>Postwick Hub</b> The impact of an unsuccessful Public Inquiry on Postwick Hub Junction Side Road Orders (considered necessary by Government Office) will potentially affect the viability of the NDR and the benefits set out in relation to its delivery. It will also result in a failure to deliver immediate growth in employment and some housing development. In addition, the P&amp;R extension is not possible without the completion of Postwick Hub</p>	01/04/2005	3	4	12	3	4	12	<p>Following confirmation of funding, complete work required by DfT to regularly report on-going project progress for the NDR and Postwick Hub to maintain funding allocation. Work on NSIP process for delivery of necessary Development Consent Orders for NDR. Work with Highways Agency to finalise the processes for Secretary of State approval for the side &amp; slip roads orders for Postwick Hub. Begin processes to prepare construction phase of the Hub. Respond as necessary to the outcome of the JCS legal challenge decision by the High Court. One element of the challenge was the NDR and the outcome of the decision was that the NDR is acceptable within the baseline of the JCS. However, there was a requirement to remedy an issue in relation to the Sustainability Appraisal and this still needs to be resolved by working with legal teams and GNDP team. JCS re-examination on remitted text completed in May, but further hearing was held in July 13.</p>	<p>The Transport Secretary announced on the 26 October 2012 that the NDR has been included in a 'Development Pool' of schemes. DfT have now reconfirmed funding for the NDR and Postwick Hub (max contribution of £86.5m). However the funding cannot be drawn down for the NDR until 'Full Approval' stage, which follows completion of statutory processes (planning consent and orders). Cabinet (3 December 2012) approved the option to utilise the Nationally Significant Infrastructure Projects (NSIP) route for the planning process. This consolidates the planning/land CPOs/highway Orders into one process overseen by the Planning Inspectorate. This provides more confidence in the timescales to deliver the NDR, with the potential to commence construction in the Spring of 2015 and open the NDR in 2017. DfT have completed consulting on changes to the NSIP criteria and changes to the Planning Act have been made, which affect the NDR, and this is being resolved with DfT through a Section 35 application. The Joint Core Strategy was adopted by all Councils on 22 March 2011. A legal challenge to the JCS was received and was heard in the High Court on 6/7 December 2011. Mr Justice Ouseley handed down his judgement on 24 February 2012 and has ruled that the inclusion of the NDR in the JCS is effectively sound as it should be included in the baseline model for future development and also that it is embedded within existing policies such as the East of England Plan, the Norwich Area Transport Strategy (NATS) and the Local Transport Plan.</p> <p>Planning consent was reconfirmed 18 Oct 2011. Public Inquiry for Postwick Hub Side Roads Orders had been postponed from its planned start date of 25 September 2012 and was rescheduled to start on 3 July 2013, and is now completed. The Inspectors report and the Secretary of State confirmation of the Orders are now awaited. This is the last step in the statutory process and assuming successful will mean construction starting later in 2013/early 2014 following draw down of £19m DfT Development Pool funding.</p>	2	4	8	01/11/2014	Amber	Tom McCabe	David Allfrey	03/12/2013
C	Community Services Transformation	RM14079	Failure to meet the long term needs of older people	<p>If the Council is unable to invest sufficiently to meet the increased demand for services arising from the increase in the population of older people in Norfolk it could result in worsening outcomes for service users, promote legal challenges and negatively impact on our reputation. With regard to the long term risk, bearing in mind the current demographic pressures and budgetary restraints, the Local Government Association modelling shows a projection suggesting local authorities may only have sufficient funding for Adult's and Children's care.</p>	11/10/2012	5	5	25	5	5	25	<ul style="list-style-type: none"> <li>• Take steps to protect the Purchase of Care budget when budget planning prior to 2014-17.</li> <li>• Invest in appropriate prevention and reablement services</li> <li>• Integrate social care and health services to ensure maximum efficiency for delivery of health and social care</li> <li>• The Building Better Futures Programme will realign and develop residential and social care facilities</li> <li>• Ensure budget planning process enables sufficient investment in adult social care particularly in year 3 of current plan.</li> <li>• Continue to: try and manage needs; to identify and deliver savings in the Adult Social Care budget plan; and to ensure the issues are understood and discussed corporately.</li> </ul>	<p>The Adult Social Care mitigating tasks are relatively short term measures compared to the long term risk, i.e. 2030, but long term measures are outside NCC's control, for example Central Government policy. Although steps have been taken to protect the Purchase of Care budget in previous budget planning, the proposals for 2014-17 have had to include savings from the Purchase of Care budget.</p> <p>The Draft Care and Support Bill including changes in social care funding will impact significantly: more people eligible for social care funding; less service user contributions; and it is not clear whether there will be additional/sufficient government funding.</p>	2	4	8	31/03/2030	Amber	Harold Bodmer	Janice Dane	12/12/2013



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C	Community Services Transformation	RM0207	Failure to meet the needs of older people	If the Council is unable to invest sufficiently to meet the increased demand for services arising from the increase in the population of older people in Norfolk it could result in worsening outcomes for service users, promote legal challenges and negatively impact on our reputation.	01/04/2011	3	4	12	3	4	12	<ul style="list-style-type: none"> <li>Invest in appropriate prevention and reablement services</li> <li>Integrate social care and health services to ensure maximum efficiency for delivery of health and social care</li> <li>The Building Better Futures Programme will realign and develop residential and social care facilities</li> <li>Ensure budget planning process enables sufficient investment in adult social care particularly in year 3 of current plan</li> </ul>	<p>Got 2012-13 Winter Pressures funding of £1.498m - carried forward to 2013-14. A review of the fees paid to the independent sector was undertaken in 2012-13 and informed the inflationary uplift discussions with provider representatives. Discussions ongoing about cost of care exercise in 2013-14. NHS Norfolk and Great Yarmouth are providing £1.3m of reablement monies in 2013-14 which is being used to help fund the Norfolk First Support, Night Owls and Swifts services. The service has also been re-engineered. Following the setting up of Norse Care in April 2011 the Building Better Futures 15 year transformation programme of the previous in house residential homes is starting with the reprovision of three residential homes in the Eastern Locality.</p> <p>There is a project on Support for Self Funders. The recent retender of some of the homecare tenders is trying to address rurality issues.</p> <p>The Integrated Community Equipment Service started in April 2013. The subsidy has been removed from all the meals on wheels services, day centres and luncheon clubs, and for meals provided in most Housing With Care schemes (end of July 2013). Savings have been delivered by: the Remodelling of In house day services; on transport through route reviews/ reprocurement; and through the Assessment and Care Management Review.</p>	2	4	8	31/03/2014	Green	Harold Bodmer	Janice Dane	13/12/2013
C	Corporate	RM0200	Capacity for change - Insufficient capacity for business transformation	The proposals require significant transformation and change to services and there is a risk that there will be insufficient capacity to re-design services and implement new ways of working. Insufficient capacity and resources in the organisation to make required business transformation resulting in change projects not being delivered on time and risk that business as usual could fail in some areas.	01/04/2011	3	4	12	3	4	12	<ul style="list-style-type: none"> <li>Corporate Programme Office established and rigorously reviews and reports progress of the Council's business transformation programme (Norfolk Forward) on a monthly basis within a formal governance and reporting structure.</li> <li>Capacity and resource planning is a key part of this agenda to ensure successful delivery of the strategic outcomes</li> <li>Any issues are addressed by the Norfolk Forward Strategic Programme Board through prioritisation of projects or where necessary the utilisation of the cost of change budget</li> <li>The corporate performance framework looks at four themes, (Managing change, Managing the budget, Quality and Performance of Services and Outcomes for Norfolk people). This enables us to assess the impact our change priorities have on our business as usual performance and resources.</li> </ul>	<p><b>Summary statement:</b> Good progress is being made in building resource and capacity management into management team discussions, with a particular focus on Shared Services. It has been agreed at COG (10/10/13) that resource issues impacting the delivery of the NCC change programme will be addressed at a departmental level in the first instance and where there are issues which require priority decisions or additional funding they will be escalated to a newly formed group, to be established by Debbie Bartlett, and if necessary to COG for resolution. <b>Process and Behaviour:</b> The resource dashboard, covering each department within Shared Services, is discussed on a monthly basis at RMT. <b>Planning:</b> A consolidated priority list was discussed at COG (10/10/13) and is due for ratification w/c 14/10. Based on this list a dashboard has been produced and communicated to COG and RMT. Two areas with 'significant unknowns' were highlighted to COG around the ability of the organisation to support the resource requirements of DNA and the Children's Services Improvement plan, COG members were asked to understand the implications of these two key priorities for their areas. It was agreed to discuss any future resource risks and issues on an escalation basis in the newly formed group to be led by Debbie Bartlett (see above). <b>Systems and Management Information:</b> A Portfolio and Resource Management System has been purchased and is currently in the design and planning stage for an initial rollout to the Corporate Programme Office and ICT by the end of the year.</p>	2	4	8	31/03/2017	Amber	Anne Gibson	Diana Dixon	16/12/2013

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C	HR Shared Services	RM13918	Staffing - The speed and severity of change in work activities.	The risk that skills and knowledge may be lost as people leave or are made redundant, and that staff morale is adversely affected. The speed and severity of the changes in service activities, service redesign and job cuts necessary to achieve budget savings targets could significantly affect the engagement and wellbeing of staff. This could lead to increased sickness absence, reduced engagement and a reduction in productivity and performance.	23/05/2011	3	4	12	3	4	12	<ul style="list-style-type: none"> <li>• The OD and HR workstream highlights a range of activities to ensure from a people perspective that we maintain a resilient, productive organisation ready to embrace and implement the changes.</li> <li>• The CC continues to :-               <ul style="list-style-type: none"> <li>(a) Set clear expectations of managers around leading change in their teams.(b) To provide targeted leadership &amp; management development to support our managers to be able to sustain both individuals and team engagement, wellbeing, resilience, productivity and performance. There was a particular focus this year around equipping managers to have high quality discussions with individuals through end of year Appraisal discussions - to prepare them for the future - (including developing new skills and planning their careers).</li> <li>(c) Ensure the on-going promotion and access to our wellbeing support (including for example the Norfolk Support line); provide sessions to build individual and team resilience (along with self help support on Peoplenet).</li> </ul> </li> <li>• The provision of a targeted package for employees leaving the organisation has been previously provided and well received.</li> <li>• There is in place regular tracking employees engagement and morale through a range of mechanisms and upwards feedback and ensuring any themes/issues are acted on. Attention will be paid to tracking this across all services across the CC. Also linking this data with on-going trends around sickness absence and range of proactive support for managers around managing attendance within their teams.</li> <li>• Further review and planning of the HR and OD support is underway to ensure the effective implementation of financial challenges / People First</li> </ul>	We continue to draw on and review the 'lessons learned' from all the different change we have implemented in order to improve our handling of future phases, such as involvement, communications and support mechanisms for staff. Previous Employee survey's and our tracking through the Manager Reference, Focus Group and TU feedback highlights good levels of employee engagement (against a backdrop of change and ongoing job security issues). Progress around sickness absence also reported regularly to COG and CROSP - end of year figures show overall reduction in sickness absence compared to previous years. Reviewed at COG on 22 August and again by risk owner on 14 October 2013 confirmed no change to prospects or current score.	2	4	8	31/03/2017	Green	Audrey Sharp	Kerry Furness	16/12/2013

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C	HR Shared Services Business Continuity	RM14097	Shortage of personnel for a variety of reasons e.g.. illness, industrial action, inclement weather etc., including loss of key senior personnel	The risk of a shortage of personnel could result in inadequate capacity to deliver our services, reputational damage for the organisation, and litigation in the case of being unable to deliver our key statutory obligations. This is particularly the case with Payroll specialist and Oracle functional/ technical staff given the high level of payroll legislative changes (Real Time Information, Pension Scheme changes (LGPS 2014, TP & NHS 2015) ) impacting at the same time as extensive organisational change.	01/04/2013	3	4	12	3	4	12	BCPE001 Business Partners / HR Service Manager / HR workforce planning team Ensure key skills for critical activities are documented to support redeployment of staff in the event of needing staff to support critical activities.	12 December 2013: New senior management structure approved by Full Council on 25 November. 10 October 2013: Interim appointments currently in place to cover senior management vacancies. Recruitment of permanent appointments for these posts expected to commence pending the outcome of the Acting Managing Director's review of the senior management structure currently underway. Careful management of Payroll legislative projects with the support of CPO to ensure delivery to time and standard. 08 August 2013: HR Workforce planning team are working with HR Business Partners to identify critical skills and roles to meet future challenges and service objectives.	3	2	6	30/09/2014	Amber	Audrey Sharp	Lucy Hohnen	12/12/2013		
												BCPE002 Lucy Hohnen - Maintain critical skills within NCC's Corporate HR system.	08 August 2013: Qualifications can now be added to an employee's personal record via self service. This is available to approx. 4000 employees and allows a wide range of qualifications to be recorded. Whilst this does not fully meet the need as it is not yet possible to record skills, just qualifications, a greater range of information is now available. Increased scope of both the available functionality and number of employees who can access self service is planned.										
C	Environment Transport and Development Business Continuity	RM14098	Incident at key NCC premises or adjacent causing loss of access or service disruption	The risk that fire, flood or structural damage could cause disruption for services due to loss of the building or loss of access to the building.	01/04/2013	3	3	9	3	3	9	BCPR001 John Ellis To ensure a corporate approach to work area recovery is agreed.	Update August 2013: Progress continues, Work Area Recovery (WAR) sites being visited. Engaged in County Hall Strategic Repair Project. BIA's results currently being analysed. Update September 2013: Assessments begun of existing NCC key premises and WAR requirements in order to progress new Corporate WAR proposal. October: Assessments begun of existing NCC key premises and WAR requirements in order to progress new Corporate WAR proposal.	3	2	6	31/03/2014	Amber	Tom McCabe	John Ellis	26/11/2013		
												BCPR005 Adrian Blakey Ensure robust out of hours arrangements for all premises access in the event of an incident exist.	In the short term, proposals for out-of-hours cover have been documented by NPS and agreed, this builds on existing arrangements, it includes all corporate properties not just County Hall. In the longer term this issue will be addressed by the NPS Service Level Agreement (SLA). Also includes out of hours contacts for premises managers and key holder details. Update August 2013: Still awaiting finalised SLA publication. Issue linked to contactability of premises managers and the wider issue of NPS out of hours arrangements.										
												BCPR007 Graham Wray To ensure evacuation procedures are in place which minimise disruption and support recovery.	Still preparing for changes in procedures including new signage for departmental assembly points. Sign have been obtained just waiting to test the location in a dry run evacuation. (took place 13.05.2013). Update August 2013: evacuation signs were erected however vandalised the same day and therefore requirements are being re-assessed. evacuation procedural documentation awaiting review by NPA. Report being produced by NPS following planned evacuation exercise on 14.07.2013. Update September 2013: new signage was erected but unfortunately vandalised the same day and had to be removed so further assessments need to be made of the available options. Still awaiting updated evacuation guidance from NPS October: new signage was erected but unfortunately vandalised the same day and had to be removed so further assessments need to be made of the available options. Still awaiting updated evacuation guidance from NPS.										

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												BCPR009 Andrew Crossley To create an alternative exit for CH for use in emergency.	Land has been cleared, instruction provided not to re-let mobiles blocking exit, Highways are happy. Currently being reviewed by planners to provide planning permission. August 2012. Update September 2013: this has been highlighted as a significant risk to NCC due to the strategic repair of County Hall. report went to Norwich City for consultation with cabinet which was due July 2013 but has now been postponed until November 2014. Results form this need to be obtained prior to resubmission of planning documents for consideration. Update October 2013: Resilience team involved in planning for power outage on 07.09.2013 and will be involved in future instances. Areas need to be developed around BC integration into Workstyle planning and considerations as well as information sharing on planning works / changes to office use configuration to ensure BC plans and procedures are kept up to date.										
C	ICT Shared Services Business Continuity	RM14100	Loss of key ICT systems	Loss of core or loss of a key ICT systems, communications or utilities for a significant period could impact on delivery of critical services.	01/04/2013	3	4	12	3	4	12	Task 001 - Ensure ICT solutions are designed, implemented and operated to provide the agreed level of resilience  Task 002 - Ensure the ICT dependencies and requirements of the business are fully understood and reflected in ICT operational services, ICT infrastructure / platforms, ICT continuity plans and ICT recovery processes  Task 003 - Ensure the increased availability of ICT platforms and services through planned migration of data centre services from County Hall and Carrow House to more appropriate and resilient environments  Task 004 - Ensure provision of appropriate ICT support for business services operating outside of standard business hours	07 August 2013 Ongoing. Changes to standard desktop, remote access, wireless and managed printing now making it easier for staff to work from other locations. 8 Oct 2013 - Continued roll out of wireless and managed print to support flexible working Dec 2013 - ongoing, new systems and major changes being delivered via ICT Programme comply with latest best practice to ensure agreed performance and  07 August 2013 Major incident communication process working well. ICT resilience measures in place for County Hall power outage scheduled for 7th Sept. Identification of critical ICT dependencies will start once BIA data available. 8 Oct 2013 - ICT resilience measures ensured continued availability of planned ICT services during planned County Hall Maint power outage Dec 2013 - ongoing, DNA programme of information and application discovery works now in progress to confirm baseline  07 August 2013 DNA project progressing well and contract award expected Oct 2013. Data Centre Resilience project complete and post project review report to be published Sept. Interim options to provide increased resilience until DNA solutions available being investigated. 8 Oct 2013 - DNA contract award due Nov, will include relocation and migration of ICT platforms from County Hall Dec 2013 - DNA contract awarded to HP, detail planning for migration of data centre services due early  07 August 2013 Ongoing, situation under review. Provision of a formal ICT out of hours support service is included within scope of DNA Programme. Maintaining existing stand-by provision to ensure ICT response to a major out of hours incident. 8 Oct 2013 - no change Dec 2013 - ICT out of hours support arrangements worked effectively during 'Storm surge' emergency incident	2	3	6	31/03/2014	Amber	Tom Baker	Ann Carey	13/12/2013		

CDGSTP	Area	Risk Number	Risk Name	Risk Description	Date entered on risk register	Inherent Likelihood	Inherent Impact	Inherent Risk Score	Current Likelihood	Current Impact	Current Risk Score	Tasks to mitigate the risk	Progress update	Target Likelihood	Target Impact	Target Risk Score	Target Date	Prospects of meeting Target Risk Score by Target Date	Risk Owner	Reviewed and/or updated by	Date of review and/or update
C	Information Management	RM13968	Failure to follow data protection procedures	Failure to follow data protection procedures can lead to loss or inappropriate disclosure of personal information resulting in a breach of the Data Protection Act and failure to safeguard service users and vulnerable staff, monetary penalties, prosecution and civil claims.	30/09/2011	3	5	15	3	4	12	An Information Compliance Group (ICG) has been set up with responsibility for developing policies and procedures and monitoring compliance with the DPA. New staff, volunteers, and contractors' employees do not have unsupervised access to the council's computer facilities or personal data until they have completed the data protection and information security courses (e-learning and workbook based options are provided). Refreshers at no longer than 3-year intervals are mandatory. Completion of courses is monitored and 'overdue' completions are reported to COG and line managers. In areas where sensitive personal data is held, a) rules have been introduced to ensure that recipient information is accurate before the data is sent out of the council, and b) communications plans to reminding staff A standard procedure for notifying, investigating, categorising the seriousness, and addressing the causes of, breaches of the DPA is now in place. Incidents are notified to and logged by the Corporate DP Officer who submits weekly reports to the Chief Information Officer and monthly updates to the ICG. COG, advised by the Chief Information Officer and the Monitoring Officer, is required to confirm whether a breach should be notified to the Information Commissioner. In future regular reports to be provided to Departmental SMTs	An Information Management Shared Service has been established to integrate all information activities, including Information Compliance and Information Security. Practitioners will be co-located, and common processes and procedures introduced where they do not already exist. Formal launch of the service took place on 02 May 2013. Appointments made to the new IM Shared Service. SLA developed and published in April 2013. 17 June 2013 A steady increase in the number of potential breaches reported indicated a maturing level of awareness of the risk and therefore a reduction to the current likelihood score may be considered in future. Reviewed 19 August 2013 - Reports now being issued COG and departments. Agreed no change to prospects or current scores. Reviewed 16 September 2013 - Recruitment issues within IM Shared Service being addressed to meet increasing demands. Concerns raised over a possible increase in future breaches due to reduced NCC staff numbers being put under pressure to perform more tasks. Reviewed 21 November 2013 - recommendations of Information Compliance Group presented to, and agreed by COG. Agreed no change to prospects and current scoring due to increased actions implemented and highlighted following recent breaches.	1	4	4	31/03/2014	Amber	Tom Baker	Stephen Livermore	21/11/2013
C	Resources Procurement	RM14080	Failure of tender process	If we do not manage the commissioning and tendering process effectively we may be subject to legal challenge from an unsuccessful bidder or we may appoint a bidder which is not capable of delivering the contract effectively.	16/10/2012	3	5	15	2	4	8	1) Implement a document automation system to make tender processes more consistent. 2) Further training for staff managing tender evaluation processes.	1) A product called HotDocs has been procured, implemented and to be to be rolled out by September 2013 2) Staff received 2 days of category management training in November. 3) Reviewed 30 July 2013 - no change to score - prospects remain green. 03 October 2013 Al Collier update - Transfer risk owner to Al Collier - HotDocs roll-out delayed due to other pressures. Scores to remain, however target date to be revised to 31 March 2014.	1	4	4	31/03/2014	Green	Al Collier	Joan Murray	13/12/2013
C	Finance	RM14094	Failure to deliver planned budget savings in 2013/14	The risk that planned budget savings are not delivered in full and on time could lead to imposed in-year cuts and reductions in planned service delivery. This could impact on services delivered to the public, as well as generating adverse public and media comment if cuts are made in areas that were not included in the Big Conversation.	31/01/2013	3	3	9	3	3	9	<ul style="list-style-type: none"> <li>Regular and robust monitoring and tracking of in-year budget savings by COG and members</li> <li>Regular finance monitoring reports to Cabinet and Scrutiny Panels</li> </ul>	Currently there are no indications that the required savings will not be delivered. The position will be continually monitored and reported to COG and Members during the year.	2	3	6	31/03/2014	Green	Peter Timmins	Harvey Bullen	10/12/2013



CDGSTP	Area	Risk Number	Risk Name	Risk Description	Date entered on risk register	Inherent Likelihood	Inherent Impact	Inherent Risk Score	Current Likelihood	Current Impact	Current Risk Score	Tasks to mitigate the risk	Progress update	Target Likelihood	Target Impact	Target Risk Score	Target Date	Prospects of meeting Target Risk Score by Target Date	Risk Owner	Reviewed and/or updated by	Date of review and/or update
C	Finance	RM8680	Failure to recover outstanding funds from Icelandic banks	Norfolk County Council fails to recover monies outstanding from Icelandic banks.	01/10/2008	3	5	15	1	5	5	<ul style="list-style-type: none"> <li>• Maintain a high level of scrutiny of the position by officers and Treasury Management Panel</li> <li>• Receive and critically review latest advice from the legal teams acting on behalf of all UK local authorities.</li> </ul>	On 28 October 2011, the Icelandic Supreme Court upheld the decision of the Icelandic District Court and confirmed priority creditor status for local authorities in the winding up of Landesbanki and Glitnir. The latest projected cash recovery for the three Icelandic banks is £32.376m. To date £22.845m has been recovered and a further £1.729m is subject to currency restrictions imposed by the Icelandic Government. The recovery process continues to be monitored by the Treasury Management Panel and is also reported to Cabinet.	1	5	5	31/03/2014	Green	Peter Timmins	Harvey Bullen	10/12/2013
C	Resources Corporate Programme Office	RM14146	Failure to effectively manage County Hall refurbishment and maintenance.	Failure to effectively manage County Hall refurbishment and maintenance during the project may lead to: <ul style="list-style-type: none"> <li>• Excessive dust and noise resulting in interruption to work-related activities</li> <li>• Release of asbestos resulting in the contamination of working areas and long term health issues.</li> <li>• Flooding, specifically of the server room, resulting in delays to service delivery.</li> <li>• Heightened risk of fire damage and personal injury due to inadequate fire alarm and evacuation systems.</li> </ul>	01/11/2013	3	5	15	3	5	15	Ensure the construction strategy regarding noise management is created in collaboration with client workstreams. Create and regularly test robust asbestos management plans before commencement of any construction activities. Ensure all staff and contractors are appropriately trained. Undertake a detailed assessment of existing water services, including identification of areas at high risk of failure. Create a management plan and approach to working on the system, including publishing and distributing an emergency handbook detailing the sequence of actions in the event of a discharge. Create an installation strategy to maintain effective systems of detection and alert. Fire Marshal team to be actively involved in the progress of works and included within the existing fire alarm testing regime, notifications, plans and systems. Communication plan in place to deliver weekly progress updates.	Cladding options have been developed which will reduce noise. Trial panel installed with minimal disruption to users. Out of hours working and planned noisy periods strategy being developed. Further options being developed to manage the impact of noise from the external works to the building. Asbestos management plan conforming to industry best practice, R&D surveys, specialised trained, contractors, conformance certification, pre-notification to HMRC, good separation between maintenance works and occupied areas of the building. Lessons learned from previous maintenance projects. Harvey Bullen confirmed as risk owner.	1	5	5	31/03/2016	New	Harvey Bullen	Mick Sabec	10/12/2013

CDGSTP	Area	Risk Number	Risk Name	Risk Description	Date entered on risk register	Inherent Likelihood	Inherent Impact	Inherent Risk Score	Current Likelihood	Current Impact	Current Risk Score	Tasks to mitigate the risk	Progress update	Target Likelihood	Target Impact	Target Risk Score	Target Date	Prospects of meeting Target Risk Score by Target Date	Risk Owner	Reviewed and/or updated by	Date of review and/or update

### **An overview of Risk Management at Norfolk County Council**

The documents “Well Managed Risk - Norfolk County Council Management of Risk Policy” and “Well Managed Risk - Norfolk County Council Management of Risk Framework” are the basis for risk management activity throughout Norfolk County Council and they identify the principles that we, as a County Council, aspire to and list the main benefits to be realised by appropriate and effective risk management. These two documents can be found on the risk management website, details of which are set out at the end of this report. The risk management principles reflect the guidance found in both the ISO 31000 International Standard Risk management – Principles and guidelines and HM Government M\_o\_R Management of Risk: Guidance for Practitioners.

By adhering to the principles set out in the framework the County Council is able to realise the benefits that an appropriate risk management process provides. The framework delivers a standardised, innovative approach to the management of enterprising and certain operational risks as well as adopting a more consistent approach to the reporting of risk to Full Council, Cabinet, Committees, Overview and Scrutiny Panels, Chief Officers, boards and management teams at all levels.

The risk management framework describes a five stage process that, when followed will guide all those engaged in risk management to identify risks, develop, monitor and review risk registers and enable risks to be escalated to the appropriate level. It also provides guidance on who has specific responsibilities within the risk management arena.

The five stages set out within the framework and known as the “Core Phase” and are described as follows:

- Establish the context – this defines the basic parameters for risk management.
- Identifying the risk – this stage identifies anything that may affect the achievement of the County Council’s objectives or bring opportunities
- Analyse the risk – this develops a greater understanding of the likelihood of the event occurring within defined timeframes
- Evaluate the risk – this stage determines the risk score from the likelihood and impact criteria. The framework contains the relevant guidance matrices to determine the appropriate likelihood and impact scores
- Treat the risk – this stage identifies how the risk will be managed. There are four options, to avoid the risk (stop doing the activity), reduce the risk (improved training, better or alternative systems), transfer the risk (share the exposure through insurance cover) or tolerate the risk (continue with the activity knowing the risks)

Risks are identified through a variety of methods, include Service planning workshops, brainstorming workshops, one-to-one interviews, reviewing historical information and lessons learnt logs. Risks are also categorised into areas such as political, economic, social, technological, legislative and environmental.



It is at this stage, once all the relevant information is collated, that a risk register can be compiled. The register will reflect those threats and opportunities that could hinder or enhance our objectives.

The register contains significant information such as:

- The risk description – a clear and precise description of the event
- The inherent risk score – this is the exposure arising from a risk before any action is taken
- The current risk score - the exposure at the time of review
- Tasks to mitigate the risk – those activities that will bring the risk score to the target risk score within the timeframe
- Progress update – the progress against the mitigation tasks the risk owners considers to have been made since the last review
- Target risk score - the exposure we are prepared to tolerate following additional treatments
- Target date – this timeframes the risk within the set time parameters
- Prospects of meeting the target score by the target date – the date at which the risk tolerance level is to be achieved
- The risk owner and the risk reviewer

Risk scores are calculated by multiplying the likelihood and the impact scores together using matrices contained within the framework and are colour coded for ease of reference as follows:

- Low 1-5 (Green) - Risks analysed at this level can be regarded as negligible, or so small that no risk treatment is needed.
- Medium 6-15 (Amber) - Risks analysed at this level require consideration of costs and benefits in order to determine what if any treatment is appropriate.
- High 16-25 (Red) - Risks analysed at this level are so significant that risk treatment is mandatory.

The risk registers are reviewed by the appropriate risk owners on a regular basis where they consider the current risk score and the prospects of the risk meeting the target score by the target date. The risk owner will take into consideration the mitigation tasks and the progress of those tasks to determine the prospects of achieving the target score by the target date. This is a reflection of how well the mitigation tasks are controlling the risk and is key to managing the risk. The position is visually displayed for ease in the “Prospects of meeting the target score by the target date” column as follows:

- Green – the mitigation tasks are on schedule and the risk owner considers that the target score is achievable by the target date.
- Amber – one or more of the mitigation tasks are falling behind and there are some concerns that the target score may not be achievable by the target date unless the shortcomings are addressed.
- Red – significant mitigation tasks are falling behind and there are serious concerns that the target score will not be achieved by the target date and the shortcomings must be addressed and/or new tasks are introduced.

This methodology provides an early warning indicator that there may be concerns when the prospect is shown as amber or red. In these cases further investigation or challenge may be required to determine the factors that have caused the risk owner to consider the target may not be met. It is also an early indication that additional resources may be required to ensure that the risk can meet the target score by the target date.

Risk registers are reported at various levels throughout the County Council:

- Corporate risk register – reviewed quarterly by Chief Officers Group and Audit Committee and by Full Council annually
- Departmental risk registers – reviewed at least quarterly by departmental and service management teams and at least twice yearly by other panels and committees

In addition to the member and chief officer scrutiny of the corporate risk register, the Strategic Risk Managers bring challenge and levelling to departmental risk registers by bringing reports to management team meetings and through discussions with risk owners. This process provides the vehicle to escalate risks from service and departmental risk registers to the corporate risk register if they are beyond the scope of individual departments to manage because they may have a significant impact on the objectives of more than one department.

To provide support and further embed the policy and framework the Strategic Risk Management intranet site has been developed. The site contains useful information including links to the current policy and framework, up-to-date tools, templates and a presentation as well as the most current Corporate Risk Register approved by Chief Officers Group.

To be used in conjunction with the intranet site a new e-learning course, 'How to Manage Risk' has been developed. The course is aimed at Members and officers at all levels and provides an opportunity to gain a better understanding of the County Council's management of risk policy, framework, principles and processes. The course may be accessed via our Learning Hub. Anyone with responsibilities for the risk management process should complete the course. Evidence shows that to date, since the introduction of the course in September 2013, more people have enrolled on this course than for the last three years of the previous course.

Below is a screenshot from the Strategic Risk Management intranet site showing the 'documents and tools' page. The site, which is reviewed and updated regularly, incorporates specific, easily accessible guidance with a variety of tips and hints as well as links to various appropriate tools, documents, templates and a presentation, suitable for elected members and staff at all levels.

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[Strategic Risk Management](#)

[Well Managed Risk Documents and Tools](#)

[Corporate Risk Register](#)

[Strategic Risk Management Team General Information](#)



## Strategic Risk Management Well Managed Risk

You are in: > [Home](#) > [Finance](#) > [Strategic Risk Management](#) > Well Managed Risk Documents and Tools

### Norfolk County Council Well Managed Risk Documents and Tools

To ensure the intellectual property rights of Norfolk County Council are protected please note that the entire contents of the [Strategic Risk Management site](#), including the 'Norfolk County Council Well Managed Risk documents and tools', are for the exclusive use by the employees of Norfolk County Council.

[Well Managed Risk - Management of Risk Policy](#)

[Well Managed Risk - Management of Risk Framework](#)

[Well Managed Risk at Norfolk County Council - PowerPoint Presentation](#)

[Well Managed Risk - Management of Risk Quick Process Guide](#)

[Risk Management Process - Core Phase Template \(Blank\)](#)

Risk Management Process - Core Phase evaluation tools:

- [Generic Risk Impact Criteria Model](#)
- [Likelihood Criteria Model](#)
- [Risk Matrix and Tolerance Levels](#)

[Risk Management Process - Risk Register - Template \(Blank\)](#)

[Risk Management Process - Risk Register - Review and Update Guide](#)

[Risk Management Process - Corporate Standard Column Widths for Risk Registers](#)

**Norfolk Audit Services Quarterly Report  
For the Quarter ended 30 September 2013**

Report by the Interim Head of Finance

**Summary**

The purpose of this report is to:

- summarise the results of recent work by Norfolk Audit Services (NAS), to give an overall opinion on the adequacy and effectiveness of risk management and internal control within the County Council and to give assurance that, where improvements are required, remedial action has been taken by Chief Officers.

- provide an update on:

Changes to the approved internal audit plan and the future schools audit offering; the preparations for an Audit Authority for the France Channel England Interreg VA Operational Programme.

**Recommendation**

The Audit Committee is asked to consider and comment on:

- the overall opinion on the effectiveness of risk management and internal control being 'Acceptable' and therefore considered 'Sound'

- the changes to the approved 2013-14 internal audit plan, described in Appendix D

- the Annual Audit Letter (previously published) at Appendix E

- satisfactory progress regarding the schools audit offering and the preparations for an Audit Authority for the France Channel England Interreg VA Operational Programme

**1. Background**

1.1 Audit work and reporting give assurance on the adequacy and effectiveness of Governance, Risk Management and Internal Control and forms part of the achievement of the Council's Plans and its Strategic Ambitions.

1.2 Internal Audit work on assurance for the second quarter, ended 30 September 2013, was set out in the half-year Internal Audit Plan presented to Chief Officer Group and approved by the Audit Committee at its April 2013 meeting and as amended at subsequent meetings. The Council has to undertake sufficient audit coverage to comply with the Accounts and Audit Regulations 2011. The allocation

of audit time was based upon a risk assessment and this is continuously reviewed throughout the year.

- 1.3 The work undertaken by Internal Audit complements the work of the external auditors. There is a good working relationship between Internal and External Audit such that in total they give adequate audit coverage to all areas of the Council's activities. Internal Audit is responsible for communicating the final results of their audit work to parties who can ensure that the results are given due consideration.
- 1.4 This report summarises internal audit's work for the quarter ended 30 September 2013 and includes (as required by Financial Regulation 4.3.2 and the Audit Committee Terms of Reference):
  - an opinion on the adequacy and effectiveness of the Council's internal control and risk management arrangements,
  - any corporately significant issues arising and
  - an assurance that action has been taken as necessary.
- 1.5 The External Auditor is required to check that those charged with governance (the Audit Committee) oversee management arrangements for identifying and responding to the risks of fraud and the establishment of internal control.
- 1.6 The Audit Committee oversees Chief Officer's arrangements for identifying and responding to the risks of fraud and the establishment of internal control. Norfolk Audit Services' work includes implicitly work that covers the prevention, detection and investigation of any fraud or corruption that may occur. Reports on the audit findings clearly set out those findings which increase the risk of fraud and who has responsibility for ensuring that recommendations are implemented and the risk of fraud minimised.
- 1.7 Awareness and understanding of the Anti Fraud and Corruption Strategy and associated documents by Members, staff and those we do business with is being promoted and is a key measure for their success.
- 1.8 After consideration of the risks from the austerity measures and organisational change, the Anti Fraud and Corruption planning and resources were considered sufficient. A revised Anti Fraud and Corruption strategy to incorporate the latest best practice and an update, appears separately on this agenda.
- 1.9 We continually review our performance and costs. We participate in the CIPFA Internal Audit Benchmarking Club which compares us to similar County Council Internal Audit teams. No significant exceptions have been noted.

## **2. Work Completed during the quarter**

- 2.1 Delivery of final reported audits for the quarter ended 30 September 2013 is considered satisfactory and sufficient and the internal audit plan is on target.

- 2.2 There were 27 final audit reports issued during this quarter, 15 schools audits and 12 non-schools. Ten grant claims were certified during the quarter. A list of these reports is attached as Appendix A. There were also five follow up reports completed in the quarter with no exceptions raised. A list of those reports is attached as Appendix B.
- 2.3 Audits of particular note for the quarter are described in detail at Appendix C and include the Information Management and Security of Data Follow Up Part II, which has already been reported to the Committee in the Annual Governance Statement 2012-13 in June 2013. The other audits of note were:
- Security of Assets – Buildings
  - Collection of Income from Residential and Commercial Properties Managed by NPS
  - Building Works Procurement (Non- NPS)
  - PFI Monitoring (Salt barns and Schools)
- 2.4 Norfolk Audit Services monitor the productive and non-productive time of the team on a regular basis to ensure delivery of an effective and efficient service. In 2012/13, 69.14% of NAS time was spent on “productive” activities, ie work which contributes to and supports the opinion of the Chief Internal Auditor. In 2013-14 the proportion of productive time for the first half of the year was 65.1% and this is considered satisfactory.
- 2.5 There have been no reported instances in the quarter of non compliance by Members with the Members Allowances rules or Chief Officers with their Expenses rules.
- 2.6 From time to time Internal Audit is notified of allegations. Allegations are managed in two stages, a preliminary assessment and then, if required, a formal investigation. Preliminary assessments may require significant work and can lead to an assessment report. Formal investigations will have terms of reference and a time budget. One formal investigation was started in the quarter and one has been started since the last quarter.

### **3. Changes to the Audit Plan 2013-14 and matters arising since the end of the quarter**

- 3.1 Changes have been made to the agreed Internal Audit Plan for 2013-14. There are 82 more days in the original plan that are subject to change. From those days 30 days have been re-allocated into new priority audit work and 52 were not reallocated on a risk assessed basis. There is a running total of 184 days subject to change including the 102 days and which were reported on in quarter one. The changes, which have been agreed with the then Head of Finance, are set out in Appendix D for the latest quarter.
- 3.2 At the April Audit Committee meeting it was requested that as the Internal Audit Team carry out spot checks. An audit of cash handling

was undertaken and as a result recommendations were made to strengthen some controls in some locations. The unannounced nature of the visits did not present any problems and provided valuable reassurance on controls that were in place.

- 3.3 On 10 June 2013 Cabinet approved the proposal to submit a Norfolk Bid for the France Channel England Interreg Programme as Managing Authority. That bid included running an Audit Authority to ensure that the programme is run in compliance with the regulations. Norfolk was successful with the bid and NAS was proposed as the Audit Authority for the programme. Preparations continue to be made to set up the Managing Authority, the Audit Authority and the Certifying Authority for the programme to manage the new programme from 2014. The project is being managed with assistance from the Corporate Programme Office. It was agreed that the Audit Committee will be kept informed of progress with preparations for the new Audit Authority. The activity to administer the programme is funded by the programme. The progress with the Audit Authority preparations at the time of reporting is considered satisfactory.
- 3.4 The External Auditor reported their Annual Audit Letter at the end of October 2013, see Appendix E. This was circulated to Members and was published on the Council's Internet site at the time. No further action is required.
- 3.5 Since the last quarter Chief Officers Group has received details of the High priority findings raised in our internal audit reports, which are being managed by Heads of Service. There were 134 High Priority Findings that are not yet due to be completed at the time of reporting as summarised in Table 1 below. Outstanding findings are RAG rated and all of these were rated Green at 10 January 2014. The high priority findings have been reported to the Chairman of the Audit Committee for information.

**Table 1:**  
**Summary of High Priority Findings per department at 10 January 2014**

Department	Green Rated	Exceptions
ETD	0	0
Children's Services	49	0
Community Services	16	0
Corporate	48	0
Finance	13	0
ICT	4	0
NFRS	4	0
<b>Total</b>	<b>134</b>	<b>0</b>

- 3.6 In developing the ICT audit plan for the next three years it has been agreed with the Head of ICT that for the corporately significant DNA project Norfolk Audit Services would report quarterly to this Committee. At this moment no audit work has been completed and the first substantive report will be to the April meeting of the Committee. The contract with HP, Microsoft and Vodafone, was

signed on 29 November 2013. On 4 December there was a meeting in the Forum to kick off the project to which over 100 interested parties attended. This included senior representatives of the contractor, representatives from all the Norfolk district councils and the UEA Vice Chancellor.

#### **4. NAS Reports having Corporate Significance**

- 4.1 The following criteria are used to assess whether reports are of corporate significance:
- The amount of money that is at risk, normally this will be material amounts
  - Any policy implications for the Council as a whole
  - Topical issues, having a potential political or public interest
  - Where it has not been possible at COG to reach agreement on significant issues or the action that is required to address the issues
  - Where agreed action has not been taken at the time of the follow-up audit.
- 4.2 There were no corporately significant reports in the quarter ended 30 September 2013.

#### **5. The difference we are making**

- 5.1 Audit findings have provided assurance or where necessary led to agreed actions to address any identified weaknesses in risk management and internal control. This demonstrates the Council's good Value for Money and thus supports the Council's Plan and its Strategic Ambitions. No actual savings or potential savings have been noted as a result of our audit work and grant claim certification in the last quarter.
- 5.2 Sufficient final and draft reports and follow up audits have been completed to inform the opinion detailed in paragraph seven below.
- 5.3 Norfolk Audit Services' work continues to give due consideration to the risk of fraud and corruption and to the controls in place to mitigate those risks. An update report on the Anti-Fraud strategy is reported elsewhere on this agenda.
- 5.4 Norfolk Audit Services have adopted a "Statement of Customer Pledge and Remedy" which is published on the Council's internet. NAS issues Customer Satisfaction Questionnaires with the draft reports and has received overall positive feedback from these questionnaires for the quarter ended 30 September 2013. Of the 27 reports issued in the quarter and ten grants signed off, 10 questionnaires were returned. Complimentary comments were made whereby the auditors were described as 'very thorough and took time to explain things'. Of the 10 questionnaires, 82 questions were asked. 48.78% of clients were very satisfied, 45.12% were satisfied and 6.1% were disappointed. There were no clients who were very



disappointed. We have followed up where there was an expression of disappointment to ensure we can improve our procedures and practice.

## **6. The Service Transformation Programme**

- 6.1 We have continued to work with colleagues in the Corporate Programme Office and provide advice, support and challenge in order to seek assurance on the continued good governance, internal controls and risk management of services that are subject to organisational change. To ensure a joined up approach, consistency and to avoid duplication, we are reporting to the Audit Committee our conclusions on the management of the change programme based upon our review of the existing reporting to Chief Officers and Members. If any exceptions are reported or we are requested by Chief Officers or the Committee we will consider if more detailed audit work is required. The performance management framework for Norfolk County Council is reported to Cabinet. The achievements from and any risks for the change programme are reported to Members and Chief Officers via a 'dashboard', risk registers and financial reporting. The key projects are supported and closely monitored by the relevant Finance Business Partners reporting to the Head of Finance.
- 6.2 In October 2013, the transformation programme was reshaped, in order to align it to the new “Putting People First” vision. Chief Officers were asked to approve the new list of priority projects, established through the use of the following criteria:
- in-flight’ projects (Big Conversation Yr3 savings)
  - Financial Savings (Year1)
  - Children’s Services Improvements (Ofsted)
  - Legislative changes.
- 6.3 The rating for the overall programme remains Amber, primarily due to timescales and some concerns around resource and budget. There are significant resourcing pressures within shared services, thus raising concerns over their ability to support the implementation of the changes within the service department, whilst also implementing changes within shared services themselves. Only four out of fifteen shared service areas are rated green for their ability to support the delivery of the high priority projects in quarter 3 and 4 of 2013-14. The Corporate Programme Office project management and Business Process Re-engineering areas are rated as Red.
- 6.4 Governance processes are in place to enable the effective management and prioritisation of resources.
- 6.5 My review of the reporting at September 2013 concludes that governance, controls and risk management for the service transformation programme are acceptable.

## **7. Overall Opinion**

- 7.1 All audit reports contain an overall audit opinion on the adequacy and effectiveness of risk management and internal control, indicating whether the area concerned is either 'acceptable' or if 'key issues need to be addressed'.
- 7.2 My opinion is that the adequacy and effectiveness of risk management arrangements and internal control within the Council is '**Acceptable**' and therefore considered 'Sound'.
- 7.3 My opinion is based upon:
- Final reports issued in the quarter (representing a proportion of the planned audit coverage for the year).
  - The results of any follow up audits.
  - The results of other work carried out by internal audit.
  - The corporate significance of the reports.

## **8. Environmental Implications**

- 8.1 Norfolk Audit Services makes every effort to reduce its carbon footprint. Distance travelled is taken into account when booking audits outside of the County Hall, booking auditors living closest to the venues. Our team uses all recycling facilities available to us working at County Hall in order to reduce consignment to landfill. We monitor our printing/photocopying usage half yearly and encourage people to reduce where they can.
- 8.2 This report does not contain any proposed change, which may have an environmental implication.

## **9. Equalities Impact, Resource and Other Implications**

- 9.1 There are no direct implications with respect to equalities or resources with respect to this report and there are no other implications.

## **10. Section 17 – Crime and Disorder Act and Anti Fraud and Corruption**

- 10.1 Under Section 17 of the Crime and Disorder Act, the Council has a statutory general duty to take account of the crime and disorder implications of all its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.
- 10.2 Internal Audit work helps with the aim of prevention of crime in Norfolk in that its work results in the likelihood of detection and prosecution increasing.
- 10.3 The profile of Anti Fraud and Corruption arrangements remains high and we are responding to the challenges that arise.

## **11. Risk Management**

- 11.1 This report has fully taken into account any relevant issues arising from the Council's policy and strategy for risk management and any issues identified in the corporate and departmental risk registers.

## **12. Conclusions**

- 12.1 27 final reports, five follow-up reports and ten grant claims have been issued in the quarter to support the opinion that the adequacy and effectiveness of the risk management and internal control within the council is 'acceptable' and therefore considered sound.
- 12.2 The High Priority Findings are being managed and satisfactory action has either been completed or is planned.
- 12.3 NAS has received positive feedback on audits during the quarter ended 30 September 2013.
- 12.4 The preparations for the future schools audit offering and the France Channel England Interreg VA Audit Authority are progressing satisfactorily.

## **13. Recommendation**

- 13.1 The Audit Committee is asked to consider and comment on:

- the overall opinion on the effectiveness of risk management and internal control being 'Acceptable' and therefore considered 'Sound'
- the changes to the approved 2013-14 internal audit plan, described in Appendix D
- the Annual Audit Letter previously published at Appendix E
- satisfactory progress regarding the schools audit offering and the preparations for an Audit Authority for the France Channel England Interreg VA Operational Programme

### **Officer Contact**

If you have any questions about matters contained in this report please get in touch with:

Adrian Thompson  
Chief Internal Auditor  
Norfolk Audit Services  
01603 222784  
e-mail: [adrian.thompson@norfolk.gov.uk](mailto:adrian.thompson@norfolk.gov.uk)



If you need this Report in large print, audio, Braille, alternative format or in a different language please contact Adrian Thompson 0344 800 8020 or 0344 800 8011 (textphone) and we will do our best to help.

### **Norfolk Audit Services Final Reports Issued in the Quarter Ended 30 September 2013**

There were 27 final reports and ten grant claims certified during the quarter. There were also five follow up reports completed in the quarter.

#### **Final Reports**

##### **Asset Management**

1. Security of Assets - Buildings
2. Collection of Income from Residential and Commercial Properties Managed by NPS

##### **Children's Services**

3. Information Management and Security of Data Follow-up Part II

##### **Contracts and Procurement**

4. Specific Contract Audit on Building Works For Schools
5. Building Works Procurement (Non-NPS)
6. PFI Monitoring Salt Barns
7. PFI Monitoring Schools

##### **Environment, Transport and Development**

8. Carbon Reduction Commitment - Energy Efficiency Scheme
9. Street Lighting Energy Reduction

##### **Finance**

10. Payroll (cyclical) Payments, Variations and Deductions
11. Accounts Receivable (cyclical)
12. External Trading Company - Hethel Innovation Ltd

##### **Schools**

13. Bradwell Woodlands Primary School
14. Clackclose Community Primary
15. Diss Infants & Nursery School
16. Long Stratton High School
17. Raleigh Infant School & Nursery
18. Smithdon High School

19. St. Andrew's CE VA Primary School
20. Stalham Junior School
21. Swaffham CE VC Junior School
22. Taverham VC Junior School
23. Terrington St John Primary School
24. The Hewett School
25. Tilney St Lawrence Community Primary School
26. Walpole Highway Community Primary School
27. West Walton Community Primary School

**Grants claims certified**

1. Apprenticeships
2. Family Focus (previously 'Troubled Families')
3. Leader
4. LGA (Local Government Association)
5. Police and Crime Panel (April 2013)
6. Police and Crime Panel (July 2013)
7. PRISMA (Promoting Integrated Sediment Management)
8. RINSE (Reducing the Impacts of Non-native Species in Europe)
9. RINSE LP
10. STEP (Sustainable Tourism in Estuary Parks)

### **Schedule of Follow Up Audits Completed in the Quarter ended 30 September 2013**

#### **Finance**

1. CareFirst Financials - Community Services - Residential Payments
2. Payroll BACS Bureau

#### **Schools**

3. Aylsham High School
4. Cliff Park High School
5. Gresham Village School & Nursery

## Appendix C

### **Audits of Note**

#### **Building Works Procurement For Schools (Non NPS)**

An audit was carried out of internal controls for Building Works Procurement for Schools (Non NPS) during March and April 2013.

The work concentrated on assessing the adequacy and effectiveness of internal control by measuring the systems in operation against control objectives. This has included detailed checking of records as appropriate. The level of risk resulting from any control weakness identified has been reviewed and recommendations have been made to reduce the risk to an acceptable level.

The audit generated two high priority findings. The report included a total of seven high priority recommendations.

High priority findings included:

- Compliance with Norfolk Scheme Finance in Schools - Contract Standing Orders and Contract specification
- Collaborative Procurement/Joint Working Arrangements.

The Head of Place, Planning and Organisation, Children's Services has reacted very positively and actions and deadlines for implementation have been agreed.

The recommendations for Collaborative Procurement/Joint working Arrangements were acted on by the Head of Place, Planning and Organisation, Children's Services and discussed with Procurement team.

## **Collection of Rental Income from Residential and Commercial Properties Managed by NPS**

An audit on the Collection of Rental Income from Residential and Commercial Properties managed by NPS was carried out during April and May 2013.

The work concentrated on assessing the adequacy and effectiveness of internal control by measuring the systems in operation against control objectives. This has included detailed checking of records as appropriate. The level of risk resulting from any control weakness identified has been reviewed and recommendations have been made to reduce the risk to an acceptable level.

The audit generated four findings, three of which were high priority. The report included a total of thirteen recommendations including eleven high priority recommendations.

High priority findings included:

- Occupation of property before a lease tenancy agreement was completed signed and approved
- Management and Exception Reporting
- Property Information System.

The Client Property Manager has reacted very positively and actions and deadlines for implementation have been agreed.

## **PFI Monitoring Arrangements (Salt Barns and Schools)**

An audit was carried out of internal controls for PFI Monitoring Arrangements for Salt Barns and Schools during June and July 2013.

The work concentrated on assessing the adequacy and effectiveness of internal control by measuring the systems in operation against control objectives. This has included detailed checking of records as appropriate. The level of risk resulting from any control weakness identified has been reviewed and recommendations have been made to reduce the risk to an acceptable level.

The audit did not generate any findings.

## **Security of Assets – Buildings**

An audit was carried out of internal controls for Security of Assets - Buildings 2013-2014 June and August 2013.

The work has concentrated on assessing the adequacy and effectiveness of internal control by measuring the systems in operation against control objectives. This has included detailed checking of records as appropriate. The level of risk resulting from any control weakness identified has been



reviewed and recommendations have been made to reduce the risk to an acceptable level.

The audit generated twelve findings, nine of which were high priority. The report included a total of twenty three recommendations including seventeen high priority recommendations.

High priority findings included:

- Standards and Performance Measures
- Policies and Procedures
- Risk Register
- Open Access - County Hall
- Staff Passes
- CCTV Notices
- Fire Evacuation - Re-entry
- Escorting Visitors
- Risks to Other NCC Buildings.

The Client Property Manager, the Security Working Group, the NPS Facilities Manager and the Internal Communications Team have reacted very positively and actions and deadlines for implementation have been agreed.

## Changes to the Internal Audit Plan 2012-13

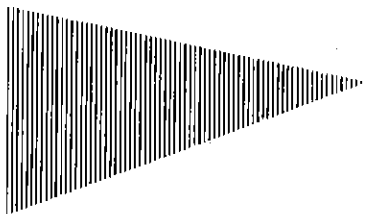
<b>Audit From Original Approved 2012-13 Plan</b>	<b>Department</b>	<b>Days Out</b>	<b>Reason For Change</b>	<b>New Audit Now in Plan</b>	<b>Days Re-applied</b>	<b>Reduction in the Approved Plan (days)</b>
Project Management – Project Initiation	Corporate Resources	22	Procedures for this area are being reviewed so it has been agreed to defer until 2014-15	N/A	0	22
Contract Register	Contracts	15	It has been agreed to defer this audit due to Quarter 4 of 2013-14	N/A	15	0
Recycling Centre Management	ETD	15	With the appointment of a new contractor it has been agreed to defer this audit to the next audit year	N/A	0	15
Public Health Contracts	Procurement	15	It has been agreed to defer this audit to until the Public Health Contracts are fully transferred to the Council	Contract Monitoring Audit – Public Health	15	0
Recurring payments through Carefirst	Finance	15	It has been agreed to defer this audit until Q1 of the new audit year due to other audits planned to take place in this service taking priority.	N/A	0	15
<b>Totals</b>		<b>82</b>			<b>30</b>	<b>52</b>

# Norfolk County Council

Year ending 31 March 2013

Annual Audit Letter

29 October 2013



Building a better  
working world

**DELIBERATELY LEFT BLANK FOR PRINTING PURPOSES**

The Members  
Norfolk County Council  
County Hall  
Martineau Lane  
Norwich  
Norfolk  
NR1 2DH

29 October 2013

Dear Members,

## Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Norfolk County Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Norfolk County Council in the following reports:

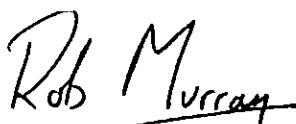
2012/13 Audit results report for Norfolk County Council	Issued 26 September 2013
--	--------------------------

2012/13 Audit results report for the Norfolk Pension Fund	Issued 24 September 2013
--	--------------------------

The matters reported here are the most significant for the Authority.

I would like to take this opportunity to thank the officers of Norfolk County Council for their assistance during the course of our work.

Yours faithfully



Rob Murray  
Audit Director  
For and behalf of Ernst & Young LLP  
Enc

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

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

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

# 1. Executive summary

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan we issued in April 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Norfolk County Council and its group; and Norfolk Pension Fund for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland).

On 30 September 2013 we issued an unqualified audit opinion on the financial statements of the Authority and its group.

On 30 September 2013 we issued an unqualified audit opinion on the financial statements of Norfolk Pension Fund.

Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.

On 30 September 2013 we issued an unqualified value for money conclusion.

Issue a report to those charged with governance of the Authority (the Audit Committee) communicating significant findings resulting from our audit.

On 26 September 2013 we issued our Audit Results Report (ISA 260) in respect of the Authority.

On 24 September 2013 we issued our Audit Results Report (ISA 260) in respect of the Pension Fund.

Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.

We reported our findings to the National Audit Office on 4 October 2013.

Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.

No issues to report.

Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.

No issues to report.



Executive summary

Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.

No issues to report.

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

On 4 October 2013 we issued our audit completion certificate.

Issue a report to those charged with governance of the Authority summarising the certification (of grant claims and returns) work that we have undertaken.

We are currently completing our certification work for the 2012/13 financial year and will issue our report in January 2014.

## 2. Key findings

### 2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 30 September 2013. In our view, the quality of the process for producing the accounts, including the supporting working papers continues to be of a good standard.

The main issues identified as part of our audit were:

---

#### Significant risk 1: Group accounts

Norse Group Ltd is a significant component company within the Norfolk County Council group. Norse Group Ltd is significant to the group based on both its size and other risk factors; specifically that it has a non-coterminous year end. Production of statements and disclosure notes for the group accounts and the closedown and consolidation process for Norse Group Ltd therefore presented a significant financial statement risk.

We liaised with Grant Thornton LLP, the external auditors of the Norse Group, issuing them with instructions that detailed the required audit procedures they are to undertake on the consolidation schedules prepared by Norse. Audit procedures were undertaken to ensure that the Norse Group Ltd consolidation schedules were correctly consolidated into the Norfolk County Group Accounts; adjusting for intra group transactions and balances. There were no issues arising from this work.

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#### Significant risk 2: Pension valuations and disclosures

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's Balance Sheet. The information disclosed is based on the IAS19 report issued to the Council by the actuaries to the administering body.

We liaised with the auditors of the administering authority, to obtain assurances over the information supplied to the actuary in relation to the Norfolk County Council. In addition, we assessed the conclusions drawn on the work of the actuary by the Consulting Actuary to the Audit Commission; and reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. There were no issues arising from this work.

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#### Other financial statement risk 1: Academies

Schools have continued to convert to academy status during 2012/13. This has implications for the treatment of the schools' property, plant and equipment, debtors, creditors, cash, balances and income (including dedicated schools grant) and expenditure within the Council's accounts. There is a risk that these schools' transactions and balances may be either incorrectly included or omitted.

Sufficient assurance was gained from audit procedures undertaken to conclude that the financial statements were not materially misstated in respect of accounting for the conversion of schools to academy status. One disclosure issue arose from this work; the draft financial statements did not contain a subsequent events note detailing those schools transferring to academy status in 2013/14. This omission was corrected.

---

#### Other financial statement risk 2: Risk of misstatement due to fraud and error

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

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

We have designed and implemented appropriate procedures to obtain reasonable assurance as to whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. There were no issues arising from this work.

The Council was 'green' rated in the latest NFI assessment. Good progress has been made on all NFI match reports across all datasets. The Council appear on track to complete NFI reviews/investigations in reasonable time.

---

We didn't identify any significant or other audit risks in relation to Norfolk Pension Fund.

## **2.2 Value for money conclusion**

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2012/13 our conclusion was based on two criteria:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We issued an unqualified value for money conclusion on 30 September 2013.

## **2.3 Whole of government accounts**

We reported to the National Audit office on 4 October 2013 the results of our work performed in relation the accuracy of the whole of government accounts consolidation pack prepared by the Authority. There were no significant issues to report.

## **2.4 Annual governance statement**

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. There are no issues to report regarding our work in this area.

## **2.5 Certification of grants claims and returns**

We will issue the Annual Certification Report for 2012/13 in January 2014.

### **3. Control themes and observations**

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit is not designed to express an opinion on the effectiveness of internal control we communicate to those charged with governance at the Authority and Pension Fund, as required, any significant deficiencies in internal control.

Our audit did not identify any control issues that we need to bring to your attention.

## 4. Fees update

A breakdown of our agreed fee for the audit of Norfolk County Council is shown below.

	Proposed final fee 2012/13 £'000	Scale fee 2012/13 £'000	Actual fee 2011/12 £'000
Total Audit Fee.– Code work	185,535	156,060	260,100
Certification of claims and returns	4,300	4,300	7,400

We communicated our planned fee to you within our Audit Plan issued in April this year; providing an estimated update within our Audit Results Report issued in September.

Our estimated final fee is £29,475 higher than the scale fee. This additional fee is in respect of:

- ▶ Instructing and liaising with group auditors regarding the audit risk arising from non-coterminous year ends within the Group (£15,100); and
- ▶ Considering and responding to issues raised by electors in relation to the Energy from Waste PFI Scheme (£14,375).

Our proposed final fee has been discussed with the Head of Finance and is subject to review by the Audit Commission who will determine a final scale fee which will not exceed the £185,535 above.

EY | Assurance | Tax | Transactions | Advisory

## Ernst & Young LLP

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**External Auditor - Certification of Claims and Returns 2012-13**

**Report by the Interim Head of Finance**

The purpose of this report is to brief members on the External Auditor's Certification of Claims and Returns 2012-13 letter, dated 16 January 2014.

A representative from our External Auditors (EY) will attend the meeting, speak to this report and answer members' questions.

The Audit Committee is recommended to consider the letter (Appendix A) and note that there were no recommendations.

**1 Background**

- 1.1 The External Auditor (EY) has issued its Certification of Claims and returns for 2012-13 letter (Appendix A).

**2 Annual Report Certification of Claims and Returns 2012-13**

- 2.1 The letter is attached at Appendix A for reference. Points to note are that:
- minor differences noted on reconciliations between entries on the return and the authority's payroll records were noted and the authority has now implemented procedures to resolve them
  - the fee of £4,300 reflects the Audit Commission's general reduction in certification fees of 40% in 2012-13.
- 2.2 A representative from our External Auditors (EY) will attend the meeting, speak about this report and answer members' questions.

**3 Section 17 Crime and Disorder Act**

- 3.1 Under section 17 of the Crime and Disorder Act, the Council has a statutory general duty to take account of the crime and disorder implications of all of its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.
- 3.2 Internal Controls, including those assessed under the use of resources, help by aiming to deter crime, or increase the likelihood of detection

through making crime difficult, increasing the risks of detection and prosecution and reducing rewards from crime.

#### **4 Risk Management**

- 4.1 This report has fully taken into account any relevant issues arising from the Council's policy and strategy for risk management and any issues identified in the corporate and departmental risk registers.

#### **5 Equalities Impact Assessment and other implications**

- 5.1 There are no equalities impacts or other implications arising from this report.

#### **6 Conclusion**

- 6.1 There were no recommendations arising.

#### **7 Recommendation**

- 7.1 The Audit Committee is recommended to consider the letter (Appendix A) and note that there were no recommendations.

Adrian Thompson  
Chief Internal Auditor  
01603 222784  
e-mail: [adrian.thompson@norfolk.gov.uk](mailto:adrian.thompson@norfolk.gov.uk).

**If you would like this report in large print, audio, Braille, alternative format or in a different language please contact Adrian Thompson on telephone 01603 222784 or 01603 223833 (minicom) and we will do our best to help.**





Audit Committee  
Norfolk County Council  
County Hall  
Martineau Lane  
Norwich  
Norfolk  
NR1 2DH

16 January 2014

Direct line: 01223 394485

Email: RMurray@uk.ey.com

Dear Member

## Certification of claims and returns 2012-13 Norfolk County Council

We are pleased to report on our certification work. This letter summarises the results of our work on Norfolk County Council's 2012-13 claims and returns.

### Scope of work

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

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. When such arrangements are made, certification instructions issued by the Audit Commission to appointed auditors of the audited body set out the work they must undertake before issuing certificates and set out the submission deadlines.

Certification work is not an audit. Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

In 2012-13, the Audit Commission did not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors undertook only limited tests remained at £500,000. Above this threshold, certification work took account of the audited body's overall control environment for preparing the claim or return. The exception was the housing and council tax benefits subsidy claim where the grant paying department set the level of testing.

Where auditors agree it is necessary audited bodies can amend a claim or return. An auditor's certificate may also refer to a qualification letter where there is disagreement or uncertainty, or the audited body does not comply with scheme terms and conditions.

## Statement of responsibilities

In March 2013 the Audit Commission issued a revised version of the 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission website.

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

This annual certification report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

## Summary

This section of the letter outlines the results of our 2012-13 certification work. We were required to check and certify only one claim; the teachers superannuation return. The details of this work are summarised below.

### Teachers' superannuation return

The Teachers' Pension Scheme is a contributory pension scheme run separately from the local government pension scheme and administered by Teachers' Pensions on behalf of the Department for Education. Councils must complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government. Auditors are required to carry out checks on the return made.

Scope of work	Results
Value of return presented for certification	£40,006,862
Limited or full review	Full
Amended	Yes; but very minor amendment.
Qualification letter	Yes
Fee - 2012-13	£4,300
Fee - 2011-12	£7,400
Recommendations from 2011-12:	Findings in 2012-13
None	Minor differences noted on reconciliations between entries on the return and the authority's payroll records

We found insignificant errors on the teachers' superannuation return which officers agreed to amend. The return was certified with a qualification regarding differences noted on reconciliations between

entries on the return and the authority's payroll records. These differences were minor in nature and the authority has now implemented procedures to resolve them.

The fees for our certification work on the teachers superannuation return are summarised above and reflect the Audit Commission's general reduction in certification fees of 40% in 2012-13.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee on 30 January.

Yours faithfully

A handwritten signature in black ink that reads "Rob Murray". The signature is written in a cursive style with a horizontal line underneath the name.

Rob Murray  
Audit Director  
Ernst & Young LLP



## **Work Programme**

Report by Head of Finance

The Committee is asked to consider the programme set out below.

It is proposed that each meeting is preceded by a short training session for Committee members, based on a topic from the Committee's Terms of Reference.

<b>April 2014</b>	
NAS Quarterly Report Quarter ended 31 December 2013	Interim Head of Finance
Risk Management Report	Interim Head of Finance
External Audit - Audit Plan	Interim Head of Finance/External Audit
Financial Regulations	Interim Head of Finance
Audit Committee Work Programme	Chairman
<b>June 2014</b>	
NAS Quarterly Report Quarter ended 31 March 2014	Interim Head of Finance
Monitoring Officer Annual Report 2013-14	Head of Law
Chairman's Annual Report 2013-14	Chairman
Statement of Accounts 2013-14 Update	Interim Head of Finance
Annual Internal Audit Report 2013-14	Interim Head of Finance
Risk Management Report	Interim Head of Finance
Audit Committee Work Programme	Chairman
<b>September 2014</b>	

NAS Quarterly Report Quarter ended 30 June 2014	Interim Head of Finance
Risk Management Report	Interim Head of Finance
Annual Governance Statement and the Review of the Effectiveness of the Governance Framework, including the System of Internal Control 2013-14	Interim Head of Finance
Statement of Accounts 2013-14 Approval	Interim Head of Finance
Letter of Representation for Statement of Accounts 2013-14, Annual Governance Report and Draft Annual Audit Letter	Interim Head of Finance/External Auditors
Internal Audit Plan for the second half of 2014-15	Interim Head of Finance
Audit Committee Work Programme	Chairman

**Officer Contact:**

**If you have any questions about matters contained in this report please get in touch with:**

Adrian Thompson, Chief Internal Auditor

01603 222784 e-mail: [adrian.thompson@norfolk.gov.uk](mailto:adrian.thompson@norfolk.gov.uk)



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**Anti Fraud and Corruption Strategy - January 2014 Edition**

**Report by the Practice Director Norfolk Public Law (NPLaw)**

The purpose of this report is to introduce the January 2014 version of the Anti-Fraud and Corruption Strategy at Appendices A to G. The Strategy has been reviewed and updated and has now been separated into the Strategy itself and five supporting Policies at Appendices B to F. Guidance is also available to support the Strategy and the Policies and is attached as Appendix G. It is proposed that the Committee will endorse the revised Strategy, the five Policies and that the Guidance will in future be approved and amended as appropriate by the Head of Law and Head of Finance and will be published on the Council's Internet and Intranet websites. The revised Strategy, Policies and Guidance contain all that was in the previous Strategy and this report highlights and comments on changes. The Strategy and its supporting Policies and Guidance are presented in the revised form for ease of reference and maintenance.

The Audit Committee is recommended to consider and endorse the revised format, the Strategy, its Policies and supporting guidance.

**1 Background**

- 1.1 The Anti-Fraud and Corruption Strategy was last approved in September 2011.
- 1.2 The report sets out the revised format of the Anti Fraud and Corruption Strategy at Appendix A, which promotes and aids the prevention and detection of fraud, corruption and bribery against the Council. The Strategy incorporates the latest best practice and regulations.
- 1.3 Appendices to this report are
  - the Strategy – Appendix A,
  - Policy 1 – Members – Appendix B,
  - Policy 2 – Employees – Appendix C,
  - Policy 3 – Contractors, Suppliers and Partners – Appendix D,
  - Policy 4 – NCC Owned Companies - Appendix E,
  - Policy 5 – The Public and External Organisations – Appendix F and
  - Guidance – Appendix G.

## **2 Revised Anti Fraud and Corruption Strategy January 2014 Edition**

- 2.1 The format of the Anti-Fraud and Corruption Strategy has changed for ease of reference and maintenance. Previously, in the most recent 2011-12 version, the format consisted of one document with the Strategy itself at Part 1 and the processes underpinning the Strategy at Part 2. The revised format consists of seven separate documents; the Strategy, its five supporting Policies and a Guidance document. All elements of the previous Strategy, the have been brought forward into the new documents and updated where appropriate.
- 2.2 The Strategy has been significantly streamlined to outline the Council's high level aspirations as to its approach to Anti-Fraud and Corruption. The strategy fulfills the Government's '[Fighting Fraud Locally](#)' principles and latest best practice.
- 2.3 The five Anti-Fraud and Corruption policies supporting the Strategy are specific to the different groups and stakeholders of the Council and outline each of their roles in respect of Anti-Fraud and Corruption.
- 2.4 The Guidance outlines the detailed processes for Anti-Fraud and Corruption.
- 2.5 There are certain changes that members of the Audit Committee may wish be appraised of
  - the Strategy is a high level document that should not change significantly over time. However as it is a significant NCC strategic document it will require review annually and as such the review should be less resource intensive for members,
  - the Policies and Guidance are more detailed and it is considered appropriate that the review and revision of these should be done as and when required by the Head of Law and the Head of Finance. This could be more frequently than annually and may be required urgently,
  - the Strategy, the Policies and this Guidance stress the importance of reporting concerns to the Chief Internal Auditor. This is in order that at the outset the Chief Internal Auditor can make an assessment of the risks and ensure that resources are properly and proportionately assigned to each incident; and
  - the Financial Regulations with respect to Anti-Fraud and Corruption refer to irregularities but do not include guidance with respect to theft, which is now included in this Guidance.

## **3 Section 17 Crime and Disorder Act**

- 3.1 Under section 17 of the Crime and Disorder Act, the Council has a statutory general duty to take account of the crime and disorder implications of all of its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.



- 3.2 Internal Controls, including those assessed under the use of resources, help by aiming to deter crime, or increase the likelihood of detection through making crime difficult, increasing the risks of detection and prosecution and reducing rewards from crime.

#### **4 Risk Management**

- 4.1 This report has fully taken into account any relevant issues arising from the Council's policy and strategy for risk management and any issues identified in the corporate and departmental risk registers.

#### **5 Equalities Impact Assessment and other implications**

- 5.1 There are no direct equalities impacts or other implications arising from this report.

#### **6 Conclusion**

- 6.1 The Audit Committee is recommended to consider and endorse
- the revised format of the Council's Anti-Fraud and Corruption Strategy
  - the revised Strategy its Policies and
  - delegation of the Guidance to the Head of Law and Head of Finance.
- 6.2 The Committee continues to develop its role and impact on Anti Fraud and Corruption governance through ongoing member training and the development of the Committee's work programme
- 6.3 The adequacy and effectiveness of the Anti Fraud and Corruption corporate framework, being the controls and risk management that support the Anti fraud and Corruption culture are considered to be satisfactory.

#### **7 Recommendation**

- 7.1 The Audit Committee is recommended to consider and endorse the revised format, the Strategy, its Policies and supporting guidance.

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# **Norfolk County Council**

## **Anti-Fraud and Corruption Strategy**

**January 2014 Edition**

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## **Anti-Fraud and Corruption Strategy**

### **Letter from the Leader of the Council and Acting Managing Director**

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To all Members, employees, partners, contractors, suppliers and members of the public:

The Council has established itself as an authority that puts probity and accountability high on its agenda and one that takes issues of fraud, corruption, theft and bribery seriously. Good corporate governance and the protection of public assets are a key priority for the Council.

We believe that the public is entitled to demand conduct of the highest standard, and our members, employees, partners, contractor and suppliers are expected to conduct themselves in accordance with the highest standards of political, professional and personal conduct.

The Council's Strategy set out in this document has now been simplified, and updated to ensure it reflects best practice. This Strategy puts into practice the values and actions recommended in [Fighting Fraud Locally](#), the Government's standard for such a strategy. We ask you to read the Strategy, seek clarification where necessary and apply and promote its principles to all of the Council's activities. Further guidance is set out in the detailed Policies and Guidance document available on the Council's web site.

We commend this Anti-Fraud and Corruption Strategy to you all.

**Signed**

**George Nobbs**

**Leader of the Council**

**Signed**

**Anne Gibson**

**Acting Managing Director**

**Signed**

**Ian Mackie**  
**Chairman of the Audit Committee**

30 January 2014

## Anti-Fraud and Corruption Strategy

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## 1 Introduction

Norfolk County Council is one of the largest organisations in the County, employing around 20,000 people and having gross expenditure of around £1.41bn in 2012-13.

While delivering its key ambitions, the County Council is committed to the eradication of fraud, corruption, theft and bribery and to the promotion of high standards of integrity. One pound lost to fraud, corruption or theft means one pound less for public services and the achievement of Norfolk County Council's ambitions. Fraud, corruption, theft or bribery are not acceptable and will not be tolerated.

This Strategy puts into practice the values and actions recommended in Fighting Fraud Locally, the Government's standard for such a strategy. It has been established to promote and facilitate the development of controls that will promote and aid the prevention and detection of fraud, corruption, theft or bribery. This Strategy will add value by consistently promoting efficient, economic and effective organisational behaviour. This will be achieved by providing guidelines, training, assigning responsibility for the development of controls and the conduct of investigations. Controls include Disciplinary Procedures, Contract Standing Orders, Financial Regulations, Codes of Conduct and Standards of Behavior.

To deliver the Council's ambitions we need to maximise the financial resources available to us. In order to do this we must reduce fraud, corruption, theft and bribery to an absolute minimum. The Council recognises its responsibility to protect public funds and we will endeavor to implement secure systems and promote high standards of conduct. We will investigate and seek the strongest possible sanctions against those who seek to defraud or steal from the Council. This includes our own Members, employees, contractors, partners, members of the public, other individuals and organisations the Council does business with.

Fraud, corruption and bribery risks are considered as part of the Council's strategic risk management arrangements.

Norfolk County Council, through Norfolk Audit Services, will measure the success of this Strategy against agreed criteria and report to the Council's Audit Committee.

The Council's financial affairs are open to scrutiny by a variety of external bodies and people, for example

- the External Auditor is required to audit the annual accounts and ensure that the Authority has adequate arrangements for the prevention of fraud and corruption,
- the Public:
  - as Council Tax payers

- as service users
- the Government, for instance as part of its transparency agenda requiring us to publicise data through Fighting Fraud Locally such as payments over £500
- the Business Community for instance in its annual business consultation for Non-Domestic Rates and
- Her Majesty's Revenue and Customs, through VAT and Corporation Tax.

We welcome external scrutiny as a demonstration of our commitment to this Strategy.

There is also internal scrutiny of services by

- elected Members through the Council's Scrutiny and Overview Panels and by the Audit Committee,
- the Audit Committee has direct oversight of this Strategy
- the Head of Finance, through Internal Audit, under Section 151 of the Local Government Act 1972 and the Accounts and Audit (England) Regulations 2011,
- the Standards Committee and
- the Monitoring Officer (Head of Law), under Section 5 of the Local Government and Housing Act, 1989.

## 2 Policies and Guidance

This Strategy will be supported by five separate policies and guidance on Anti-Fraud and Corruption. Each of the five policies has distinct features and outcomes and will be communicated to the relevant groups and stakeholders.

The five Anti-Fraud and Corruption policies cover:

- Members
- Employees
- Contractors and suppliers and their employees
- Wholly Owned Companies; and
- The Public and External Organisations.

These policies will be reviewed and approved by the Audit Committee alongside the Strategy.

The guidance will be reviewed and amended as appropriate by the Monitoring Officer and the Head of Finance.

The Council's Constitution, Financial Regulations, Contract Standing Orders, Whistleblowing Policy and Procedures, the Complements and Complaints Procedure and the Anti-Money Laundering Policy support the Anti-Fraud and Corruption arrangements. These policies are subject to review and approval as required.

### **3 Scope of the Strategy**

This Strategy and its supporting policies and guidance apply to any irregularity or suspected irregularity, involving all financial matters, by members, employees as well as consultants, suppliers, contractors, outside agencies doing business with the Council and employees of such agencies and/or any other parties with a business or in a formal partnership relationship with the Council, including the wholly owned companies.

Details on the arrangements for each of these groups are covered in the policies and guidance associated with this Strategy. In some cases the outlined arrangements will be a requirement, in others cases arrangements may differ and any such arrangements are encouraged to recognise and support the ethos of the arrangement in this Strategy, the Policies and Guidance.

Chief Officers are responsible for ensuring that internal controls are such that fraud, corruption or bribery will be detected and prevented, where possible, and the measures in the Anti-Fraud and Corruption Strategy are promoted within their area of responsibility. (Financial Regulations 4.5.3)

Each Chief Officer will

- Identify, be familiar with and assess the types and risks of fraud, corruption, theft or bribery that might occur within their area of responsibility,
- promote this Strategy and the associated policies and guidance, including publicity and relevant training to employees and bodies they do business with,
- be alert for any indication of fraud, corruption, theft or bribery and
- be ready to take appropriate action in a timely way, should there be a suspicion of fraud, corruption, theft or bribery and report any such action to the Head of Law (Monitoring Officer) and the Head of Finance (Chief Internal Auditor).

Success measures for this Strategy are set out in the Guidance to this Strategy.

### **4 Culture**

Norfolk County Council is determined that the culture and tone of the organisation is one of openness, honesty and opposition to fraud, corruption and bribery. There is an expectation and requirement that Council Members, Chief Officers and employees, at all levels, will lead by example in these matters and that all individuals and organisations associated in whatever way with the Council, will recognise this Strategy and its policies and how we want to work with them.

The Council takes a holistic approach to Anti-Fraud and Corruption measures. Fraud prevention and system security is an integral part of the development of



new systems, strategic and operational risk management and ongoing operations. Chief Officers will consider the fraud, corruption, theft and bribery threats and take advice where appropriate, when implementing any financial or operational system.

The holistic approach extends to the assessment of allegations and the prevention, detection and investigation of fraud, corruption, theft and bribery through system reviews. The Council's Internal Audit function acts to promote the deterrence, prevention, detection, investigation, sanctions and redress for fraudulent activities. Internal Audit conduct their own investigations or advise departments on allegations when they themselves carry out investigations. The arrangements also take into account relevant requirements and professional guidance relating to money laundering and terrorist financing. In addition the team will work with other agencies in the pursuance of the Council's Anti-Fraud and Corruption aims. Clear outcomes will be agreed, measured and reported to the Audit Committee.

Any investigation activity that is required will be conducted without regard to the suspected wrongdoer's position, length of service or relationship to the Council.

### **5 Allegations of activities constituting Fraud, Corruption and Bribery**

All allegations of fraud, corruption, theft and bribery should be reported to the Chief Internal Auditor. If there is any question as to whether an action constitutes fraud, corruption, theft or bribery the Chief Internal Auditor or Head of Law should be consulted and they will provide guidance. Definitions of the above terms are outlined in the guidance to this Strategy.

The Council's policies, including those concerning the Bribery Act 2010, will be communicated as part of this strategy. The requirements of the Bribery Act 2010 will be monitored and reviewed alongside the other measures for this Strategy.

### **6 Non Financial Irregularities**

Irregularities, including both financial and non-financial irregularities concerning elected Members are covered by the Members Code of Conduct and should be resolved by the Head of Law and the Council's Standards Committee. Details of any financial irregularities by elected Members should be reported to the Head of Law (Monitoring Officer) and the Head of Finance (Chief Internal Auditor).

Non-financial irregularities concerning an employee's moral, ethical, or behavioural conduct, for example nepotism, cronyism, bullying or other unprofessional conduct are covered by the Council's Standards of Conduct and Behaviour and should be resolved by departmental management and Human Resources, although Norfolk Audit Services can provide assistance with complex cases where required.

## **7 Deterrence – The Corporate Framework**

The Council takes ultimate responsibility for the protection of our finances and those that are administered on behalf of the Government or the Community. The Corporate Framework is set out in the Annual Governance Statement which is considered and approved by the Audit Committee annually. In turn Chief Officers have a duty to protect their service area on a risk assessed basis from losses due to fraud, corruption, theft or bribery and are responsible for implementing proper internal controls and risk management arrangements.

## **8 The Threats**

The Council is responsible for the proper administration of its finances and assets. This not only includes direct income and expenditure, but also funds that we administer on behalf of the Government, on behalf of our clients and that for which we are the responsible accountable body. All of these sources of income, expenditure and valuable assets are potentially at risk.

The impact of fraud and corruption on the morale of staff can be significant and should not be underestimated by managers.

The Government's Fighting Fraud Locally strategy describes the potential threats and the measures that may be taken to mitigate them.

The Council will be vigilant in all of these areas and will apply appropriate principles of risk assessed deterrence, prevention, detection, investigation, sanctions and redress across all its services. The Council will not be afraid to tackle difficult or uncomfortable cases and will take a robust line and seek the maximum appropriate sanctions and redress.

The cost of fraud, corruption, theft or bribery to the Council will be monitored by the Chief Internal Auditor.

The Council makes a proportionate investment in work to counter fraud, corruption, theft and bribery bearing in mind the risks that have been identified.

## **9 Whistleblowing**

The Council is committed to the highest possible standards of openness, integrity and accountability. It is expected employees, and others who have serious concerns about any aspect of the Council's work should come forward and voice those concerns internally.

Such concerns will be dealt with in confidence without victimisation, discrimination or disadvantage to those raising the concern.

The Council's Whistleblowing Policy and Whistleblowing Procedure will be communicated as part of this Strategy and they outline the responsibilities of

the Council's employees and the processes to be followed in instances of whistleblowing.

### **10     Contacting Us**

The Head of Law (Monitoring Officer) for Anti-Fraud and Corruption working closely with Chief Internal Audit. Any issues in relation to Anti-Fraud and Corruption should be directed towards either of these points of contact. For further information on contacting appropriate persons, see the 'Contacting Us' section of the guidance

# **Norfolk County Council**

## **Anti-Fraud and Corruption**

### **Policy 1 Members**

**January 2014 Edition**

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## 1 Introduction

This Policy should be read in conjunction with the [Anti-Fraud and Corruption Strategy](#) it's other four policies and the Guidance which are available on the Council's website:

Our Members are an important element in our approach to minimising the risk of fraud, corruption, theft or bribery and they are positively encouraged to raise any concerns that they may have on these issues where they are associated with the Council's activities.

The role of our Members with respect to Anti-Fraud and Corruption includes

- act in a manner which sets an example to the community whom they represent and to the employees of the Council,
- to conduct themselves in ways which are beyond reproach, above suspicion and are fully open and accountable,
- champion and promote the Council's Strategy and the zero tolerance culture towards fraud, corruption, theft and bribery,
- raise matters of concern that may come to their attention during their work,
- encourage the public to report concerns or to pass on concerns raised to the appropriate officer. Our Members will be provided with advice on how to respond if an allegation of fraud, corruption, theft or bribery is passed to them,
- participate in any reviews, disciplinary meetings or appeals as required and
- the Audit Committee will review, consider and approve the Strategy, and an Annual Report including delivery and performance measures. This Policy and the other four policies and guidance will be reviewed annually by the Head of Law (Monitoring Officer) and the Head of Finance (Chief Internal Auditor) annually.

## 2 Prevention

The Council will provide fraud awareness training to our Members and encourage an open and honest dialogue, generally and specifically with regard to Anti-Fraud and Corruption, between Members and officers.

Our Members are required to operate within the

- Sections 94 - 96 of the Local Government Act 1972,
- Local Authorities Members' Interest Regulations 1992 (S.I.618),
- The Council's Constitution,
- County Council Standing Orders and
- Members Code of Conduct.

These matters and other guidance are specifically brought to the attention of Members at the Induction Course for new Members and are in each Member's handbook. Also included in the induction process are rules on the declaration and registration with the Head of Law of potential areas of conflict between Members' County Council duties and responsibilities and any other areas of their personal, professional lives or other activities.

The Council will ensure that the processes that are particularly vulnerable such as planning, disposals, procurement and expenses are adequately protected through strong internal control mechanisms.

In 2013, an Anti-fraud and Corruption awareness course was implemented onto the Council's Learning Hub and is designed to improve awareness of the background of fraud and corruption in local authorities, what constitutes fraud and how to detect fraud. All members are encouraged to undertake the course.

### **3 Detection**

Through Internal Audit and Risk Management reviews and the work of the Monitoring Officer the Council will ensure that the possibility of fraud, corruption, theft or bribery is considered in all vulnerable areas and appropriate tests are devised and applied to detect them. All Members are encouraged to contact the Head of Law or the Head of Finance (Chief Internal Auditor) with any suspicions they have or are advised of.

### **4 Investigation**

Any allegations of fraud, corruption, theft or bribery made against our Members will be fully investigated in accordance with the provisions of the Local Government Act 2000 and any subsequent statute or codes of practice.

Following an appropriate investigation the Standards Committee is responsible for the initial assessment into Members misconduct.

The Council will fully assist the Standards Committee or other law enforcement agencies with any investigation concerning a Member. Allegations about Members that are received by Internal Audit will be referred immediately to the Monitoring Officer. The Monitoring Officer may utilise Internal Audit for the purposes of any investigation relating to financial matters.

## **5 Sanctions and Redress**

The Council will utilise its own Standards Committee to the fullest extent to promote high standards and regulate the conduct of our Members and will take action as they see fit.

## **6 Monitoring**

Our Members are encouraged to contact Internal Audit with any such suspicions they have or are advised of. Please see the 'Contacting us' section of the Guidance.

Action on prevention, detection, investigations and sanctions and redress will be reported to the Audit Committee or Standards Committee as appropriate.

# **Norfolk County Council**

## **Anti-Fraud and Corruption**

### **Policy 2 Employees**

**January 2014 Edition**

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## Anti-Fraud and Corruption Policy 2 Employees

### 1 Introduction

This Policy should be read in conjunction with [Anti-Fraud and Corruption Strategy](#), its four policies and the Guidance which are available on the Council's website:

Our employees are an important element in our approach to minimising the risk of fraud, corruption, theft and bribery and they are positively encouraged to raise any concerns that they may have on these issues where they are associated with the Council's activities.

The role of our employees with respect to Anti-Fraud and Corruption includes

- to conduct themselves in ways which are beyond reproach, above suspicion and are fully open and accountable,
- to set an example to their colleagues,
- to raise concerns in the knowledge that they will be treated in confidence and properly investigated. Normally concerns should be reported to their line manager or internal audit. In some circumstances it may be appropriate to report to the departmental Finance Business Partner, Procurement or the HR Advisor... However, if necessary, a route other than these may be used, see the 'Contacting us' section of the Guidance and
- for Chief Officers and Managers, to be aware of the Anti-Fraud and Corruption Strategy and its associated Policies and Guidance and other appropriate financial and procurement guidance relating to Anti-Fraud and Corruption and to be responsible for raising awareness of these strategies policies guidance and procedures and ensuring compliance with them, by the employees, suppliers, contractors etc. for whom they are responsible.

### 2 Prevention

The Council recognises that its systems are vulnerable from attack from within the organisation, particularly by those who may gain 'inside' knowledge of potential control weaknesses through their official position. Prevention is better than cure and all managers must ensure that as far as possible and on a risk assessed basis their systems are adequately protected by sound internal controls. It is the responsibility of all managers to establish and maintain systems of internal control and to ensure that the Council's resources are properly applied, including

- employees must comply with Section 117 of the Local Government Act 1972 regarding the disclosure of pecuniary interests in contracts relating to the County Council or the non-acceptance of any fees or rewards whatsoever other than their proper remuneration. These requirements are set out in the Council's Standards of Conduct and Behaviour,

## Anti-Fraud and Corruption Policy 2 Employees

- employees of the Council are expected to follow any Code of Conduct related to their Professional Institute and also comply with the Council's Standards of Conduct and Behavior,
- manager's duties include responsibility for the prevention and detection of fraud, corruption, theft and bribery and
- the Chief Internal Auditor will ensure that an adequate and effective internal audit is undertaken of the Council's systems and processes in accordance with the Accounts and Audit (England) Regulations 2011. Internal Audit assists managers to implement proper controls and remedy control failures. Further details appear in the Guidance to the Strategy. .

The Council has in place a Disciplinary Procedure for all categories of its employees.

The Council will ensure that procedures relating to recruitment, employee conduct and disciplinary processes are robust and are followed.

With regard to the vetting of new entrants, references will be taken in all cases and personal testimonials will not be accepted. Where qualifications are required for a particular post, candidates will be required to submit original certificates for checking. If a doubt arises as to the authenticity of a qualification, this will be verified with the examination board/professional body.

Managers are also responsible for ensuring that all new staff are eligible for employment.

All posts with substantial access to children and vulnerable adults are also subject to formal clearance with the Disclosure and Barring Service and other relevant statutory regulations.

As part of the longer term strategy Internal Audit proposes that the Council will identify those posts considered to be in key, high risk, financial/fraud sensitive positions. Further risk assessed options for vetting employees to a high standard to stop organised criminals infiltrating key departments will continue to be explored. Internal Audit will continue recommend to all Heads of Service that their employees who meet this criteria are considered for higher levels of pre-employment checks and more closely monitored for indicators of fraudulent behaviour, such as unusual leave and working patterns.

The role that appropriate employees are expected to play in the Council's framework of internal control features in employees Statements of Particulars (Contract of Employment).

With regards to theft prevention, all employees should consider controls such as stock takes and secure physical access to rooms and buildings.

In 2013, an Anti-fraud and Corruption awareness course was implemented onto the Council's Learning Hub. The content is designed to improve awareness to the background of fighting fraud, what constitutes fraud and

## Anti-Fraud and Corruption Policy 2 Employees

how to detect fraud. All employees are continuously being encouraged to undertake the course through various internal communications mediums.

### 3 Detection

It is the responsibility of Chief Officers, their managers and all employees to have systems and controls likely to detect fraud, corruption, theft or bribery. It is often the alertness of employees, Members and the public that enables detection to occur and the appropriate action to take place when there is evidence that such events may have been committed, or be in progress. Despite the best efforts of managers and auditors, instances of fraud, corruption, theft or bribery frauds are sometimes discovered by chance or “tip off”, and the Council has in place arrangements to enable such information to be properly dealt with, for example the Whistleblowing Policy. These are covered by the response plans covered in the Guidance to the Strategy.

The impact of fraud and corruption on the morale of employees can be significant and should not be underestimated by managers.

Through Internal Audit and Risk Management reviews and the work of the Monitoring Officer the Council will ensure that the possibility of fraud, corruption, theft or bribery is considered in all vulnerable areas and appropriate tests are devised and implemented to detect them.

All internal audit reviews have regard to the possibility of fraud, corruption, theft or bribery. Auditors receive training to ensure that they have a full understanding of systems controls and potential risk areas. Internal Audit undertake proactive audits in high risk areas with a view to identifying fraud, corruption, theft or bribery.

The Council has a Whistleblowing Policy and this may be used by those employees who wish to utilise the protection offered by the Public Interest Disclosure Act 1998. The Council encourages a strong ethical and anti-fraud culture for employees and for employees to have high levels of awareness and recognise their responsibilities to protect the organisation and its resources. It also encourages its employees, and others have confidence in the whistle-blowing arrangements and feel safe to make a disclosure.

The Council actively employees to whistle blow on colleagues Members, contractors suppliers partners and the general public who are suspected of committing fraud, corruption, theft or bribery. All employees are encouraged to contact Internal Audit with any suspicions where they will be treated in confidence.

### 4 Investigation

## Anti-Fraud and Corruption Policy 2 Employees

Norfolk Audit Services is charged with leading the Council's fight against fraud, corruption or bribery. The unit is led by the Chief Internal Auditor and will examine all allegations on a risk assessed basis.

Any allegations of fraud, corruption, theft or bribery made against our employees will be fully investigated in accordance with disciplinary procedures, statute or codes of practice. Following an appropriate investigation the Chief Officer or Governing Body is responsible for the initial assessment into employee misconduct.

The Council will fully assist law enforcement agencies with any investigation concerning an employee. Allegations about employees that are received by Internal Audit will be referred immediately to the Head of Finance. The Head of Finance may utilise Internal Audit for the purposes of any investigation relating to financial matters.

Internal Audit will investigate any allegation that may have a direct or indirect impact on the finances for which we are responsible. This will include cases where employees may have financial information relating to organisations which are or have been funded by the Council, or with whom the Council has a contract.

The Council will normally expect to deal with employees under the Disciplinary Procedures before referring a case to the Police. Referral to the Police is a matter for the Disciplinary Action Review Group (DARG) described in the Guidance to the Strategy, following consideration of the facts of each case. Referral to the Police will not prohibit action under the disciplinary procedures.

Where financial impropriety is discovered, the Council's presumption (unless there is a good reason not to) is that, subject to consideration by the DARG, the Police will be informed and arrangements made, where appropriate, for the prosecution of offenders by the Crown Prosecution Service

Employees have a duty to assist the Council with any matter under investigation. Failure to assist with an investigation may be considered as a breach of trust or failure to comply with financial regulations. This could lead to disciplinary action being taken.

## 5 Sanctions and Redress

The Council will seek the strongest available sanctions against any employee who commits fraud, corruption, theft or bribery against the Council or the public purse. The full range of sanctions will be considered in all cases and more than one sanction may be applicable. The Chief Officer will take appropriate disciplinary action against the individual. We will seek to use the full extent of the penalties or sanctions allowed for in the disciplinary procedures or through legal action if required.

## Anti-Fraud and Corruption Policy 2 Employees

### 6 Monitoring

All employees are encouraged to contact Internal Audit with any such suspicions they have or are advised of. Please see the 'Contacting us' section of the Guidance.

Action on prevention, detection, investigations and sanctions and redress will be reported to the Audit Committee or Standards Committee as appropriate.

# **Norfolk County Council**

## **Anti-Fraud and Corruption**

### **Policy 3 Contractors, Suppliers and Partners**

**January 2014 Edition**

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## Anti-Fraud and Corruption Policy 3 Contractors, Suppliers and Partners

### 1 Introduction

This Policy should be read in conjunction with the [Anti-Fraud and Corruption Strategy](#) its four other policies and the Guidance which are available on the Council's Internet website:

Our suppliers, contractors and partners will be expected to:

- have adequate recruitment procedures and controls when their staff are handling finance on behalf of the Council.
- be responsible for any losses affecting Council funds attributable to their employees.

These expectations will be written into all contract terms and agreements where appropriate. We ask our partners to recognise the Council's Strategy and how we want to work with them.

Chief Officers and Managers are expected to be aware of the appropriate financial procurement and other anti-fraud regulations and to be responsible for raising awareness of policies, procedures and ensuring compliance with them, by contractors, suppliers and partners, for whom they are responsible.

Those organisations supplying or undertaking work on behalf of the Council are expected to maintain the strong Anti-Fraud and Corruption principles as set out in this Strategy. Through contract documentation we will ensure that our partners take the issue of fraud, corruption, theft or bribery seriously.

### 2 Prevention

The Council encourages a strong ethical and anti-fraud culture and that contractors, suppliers and partners have high levels of awareness and recognise their responsibilities to protect the organisation and its resources. It also encourages staff within contracting organisations, have confidence in the whistle-blowing arrangements and feel safe to make a disclosure.

The Council expects our suppliers, contractors and encourages partners to have adequate controls in place to prevent, minimize and detect fraud, corruption, theft or bribery. The Council provides leaflets, available from our internet pages. We will also provide support and training to our community partners to help them implement proper controls and protect the funds they administer.

### 3 Detection

All contractors, suppliers and partners are encouraged to contact Internal Audit with any suspicions.

**Anti-Fraud and Corruption Policy 3 Contractors, Suppliers and Partners**

Where our suppliers, contractors and partners are involved with the administration of our finances, or those for which we have responsibility they are responsible for:

- ensuring there are adequate and effective systems of internal control and risk management in place to give a reasonable expectation that fraud, corruption, theft or bribery would be detected
- providing adequate evidence of suitably qualified reviews on functions and transactions concerning our finances or to allow us to conduct internal audit reviews and pro-active fraud, corruption, theft or bribery detection exercises as we would for our own service areas.

**4 Investigation**

Our suppliers and contractors will be expected to and we encourage our partners to participate fully with any investigation by the Council or Police investigation and provide full access to their financial records as they relate to our finances.

System weaknesses identified as a result of fraud, corruption, theft or bribery investigations will be highlighted by Internal Audit. Suppliers and contractors will be expected to and partner organisations will be encouraged to address these issues in a timely way. Failure to implement adequate system controls will be the subject of a report to the Chief Officer, Head of Procurement, and/or Committee.

Staff of our suppliers, contractors and partners will be asked to assist fully with any investigation and prosecution if required. These conditions will be included in any contract terms or agreements where possible.

At the conclusion of each investigation, the Investigator will produce a report. The manager whose responsibility encompasses the area of that investigation will formally accept the report and take the appropriate action (disciplinary or other). If the Chief Internal Auditor is not satisfied that the appropriate action has been undertaken, they will refer the matter to the relevant Commissioning /Contract Manager and ultimately the Chief Officer for the relevant service and the Head of Law.

The decision to refer the matter on for further action, such as reporting the matter to the Police, will be taken by the Head of Procurement and Chief Officer.

**5 Sanctions and Redress**

We will seek the strongest available sanctions against any supplier or contractor's staff who commit fraud, corruption, theft or bribery against the Council or the public purse and we will encourage partners to do the same. The full range of sanctions should be considered in all cases and more than



**Anti-Fraud and Corruption Policy 3 Contractors, Suppliers and Partners**

one sanction may be applicable. We will request that the organisation takes appropriate disciplinary action against the individual and/or we will require that they are removed from the Norfolk County Council account. We will seek to use the full extent of the penalties or sanctions allowed for in the contract, service level agreement, partnership agreement or through legal action if required.

**6 Monitoring**

Our Contractors, Suppliers and Partners are encouraged to contact Internal Audit with any such suspicions they have or are advised of. Please see the 'Contacting us' section of the Guidance.

Action on prevention, detection, investigations and sanctions and redress will be reported to the Audit Committee or Standards Committee as appropriate.

# **Norfolk County Council**

## **Anti-Fraud and Corruption**

### **Policy 4 NCC Owned Companies**

**January 2014 Edition**

**If you would like this document in large print, audio, Braille, alternative format or in a different language please contact the Chief Internal Auditor on telephone 01603 222784 or 01603 223833 (minicom) and we will do our best to help.**



## Anti-Fraud and Corruption Policy 4 NCC Owned Companies

### 1 Introduction

This Policy should be read in conjunction with the [Anti-Fraud and Corruption Strategy](#) its four other policies and the Guidance which is available on the Council's website:

Annex A sets out the companies in which Norfolk County Council has an interest, together with the extent of its holding.

All of these companies should be compliant with the requirements of the Companies Act 1987, including requirements with regards to governance arrangements.

NORSE accounts are incorporated with Norfolk County Council's in the published group accounts annually and it's governance arrangements are included in the statutory Annual Governance Statement.

All of these companies should recognise this Strategy, the policies and Guidance and apply the principles to their trading activities where appropriate.

Norfolk County Council has elected member and officer representation in all of these companies to some extent.

### 2 Prevention

NORSE has a staff handbook and reference to it's whistle blowing policy is include in it. Other companies are encouraged to follow suit.

Staff of any of the companies who become aware of impropriety, dishonesty or maladministration, are encouraged to draw this to the attention of their line manager or for NORSE the Group HR director and for other companies the equivalent.

### 3 Investigation

For all of the companies it is the responsibility of managers to establish and maintain systems of internal control and to ensure that the Council's resources are properly applied.

Any allegations of fraud, corruption, theft or bribery made against the employees of wholly owned companies will be fully investigated in accordance with disciplinary procedures, statute or codes of practice. Following an appropriate investigation the company's Managing Director or equivalent is responsible for the initial assessment into employee misconduct.

### 4 Sanctions and Redress

The Council will seek to ensure that the strongest available sanctions against any employee of a wholly or partially owned company who commits fraud, corruption, theft or bribery against the company, Council or the public purse.

**Anti-Fraud and Corruption Policy 4 NCC Owned Companies**

The Chief Officer will take appropriate disciplinary action against the individual. We will seek to use the full extent of the penalties or sanctions allowed for in the disciplinary procedures or through legal action if required.

**5 Monitoring**

Our Companies are encouraged to contact Internal Audit with any suspicions they have or are advised of. Please see the 'Contacting us' section of the Guidance.

Action on prevention, detection, investigations and sanctions and redress will be reported to the Audit Committee or Standards Committee as appropriate.

**Annex A****Schedule of Norfolk County Council owned companies****1 Wholly Owned companies**

- A Norse Group Limited is the parent company of
- NPS Property Consultants Limited,
  - Norfolk Environmental Waste Services Limited,
  - Norse Commercial Services Limited and
  - Norse Care Limited.
- and each of these companies have their own subsidiaries.

Collectively these are referred to as NORSE.

- B Norfolk Energy Futures Limited  
C Hethel Innovation Limited

**2 Partially Owned companies**

The Great Yarmouth Development Company Limited - 50% owned

# **Norfolk County Council**

## **Anti-Fraud and Corruption**

### **Policy 5 The Public and External Organisations**

January 2014 Edition

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## Anti-Fraud and Corruption Policy 5 The Public and External Organisations

### 1 Introduction

This Policy should be read in conjunction with the [Anti-Fraud and Corruption Strategy](#) and Guidance which is available on the Council's website:

Members of the public may receive financial assistance from the Council through a variety of sources. Unfortunately, all of these areas are vulnerable to attack by fraudsters. Fraud, corruption, theft or bribery means less money is available for those in genuine need. Our Anti-Fraud and Corruption efforts will be balanced against our desire to ensure genuine service users receive their full entitlement. We will apply the same principles in dealing with fraud, corruption or bribery in all of areas of expenditure, We will promote the Strategy, its Policies and Guidance and ask that every organisation that works with the Council recognises our Strategy and its principles. Members of the public and organisations that work with the Council have an important role to alert the Council to any concerns about the potential for fraud, corruption, theft or bribery that they may become aware of. Not every organisation has a formal contract with the Council. The Council also has a Whistleblowing Policy which is available on its website. With the rapid increase in recent years of frauds perpetrated against a variety of local authorities, usually involving fraudsters having multiple identities and addresses, the necessity to liaise between organisations has become paramount. The County Council has existing liaison and will make arrangements for this purpose with:

- The National Frauds Initiative office,
- Norfolk Constabulary, including the Economic Crime Unit,
- Society of County Treasurers,
- Home Counties Chief Internal Auditors Group,
- County Chief Auditor Networks (regional and national),
- Norfolk Financial Officers Association,,
- Norfolk Chief Internal Auditors Group
- Eastern Fraud Forum,
- National Anti-Fraud Network (NAFN) and
- CIPFA Better Governance Forum.

### 2 Prevention

The Audit Commission has lead arrangements to encourage the exchange of information between the Council and other agencies on national and local fraud and corruption activity in relation to Local Authorities through, for example, data matching.

We will implement strong systems of verification of all claims for all types of financial assistance. We will utilise all data available to corroborate information given by applicants for the purposes of prevention and detection of fraud. We will also monitor and review grants and assistance given to external organisations to ensure applications are genuine. All our employees involved in assessing applications will be given on-going fraud awareness training.

## **Anti-Fraud and Corruption Policy 5 The Public and External Organisations**

### **3 Detection**

Through Internal Audit and Risk Management reviews and the work of the Monitoring Officer the Council will ensure that the possibility of fraud, corruption, theft or bribery is considered in all vulnerable areas and appropriate tests are devised to detect them.

It is the responsibility of Members, Chief Officers, their managers and all employees to encourage the public and external organizations to prevent and detect fraud, corruption or bribery. It is often the alertness of employees, Members and the public that enables detection to occur and the appropriate action to take place when there is evidence that such events may have been committed, or be in progress.

We will utilise formal referral procedures for all employees making assessments of clients for Council services and encourage early referral of suspected cases for investigation. We will participate in national and local initiatives, including data matching and work with all Government agencies to detect and prevent fraud and other crimes affecting the well-being of our community.

We will analyse fraud trends in order to identify high risk areas and undertake pro-active anti-fraud drives based on that analysis.

### **4 Investigation**

Any matters that are raised will be considered and if appropriate formally investigated or referred to the Police.

### **5 Sanctions and Redress**

The Council will seek the strongest sanctions against anyone found to have committed fraud, corruption or bribery against the Council.

### **6 Monitoring**

The public and external organisations are encouraged to contact their local Member or if they prefer Internal Audit with any such suspicions they have or are advised of. Please see the 'Contacting us' section of the Guidance. Action on prevention, detection, investigations and sanctions and redress will be reported to the Audit Committee or Standards Committee as appropriate.



# **Norfolk County Council**

## **Anti-Fraud and Corruption**

### **Guidance**

**January 2014 Edition**

If you would like this document in large print, audio, Braille, alternative format or in a different language please contact the Chief Internal Auditor on telephone 01603 222784 or 01603 223833 (minicom) and we will do our best to help.



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## Anti-Fraud and Corruption Guidance

### 1 Introduction

This Guidance should be read in conjunction with the Strategy and the Policies associated with it.

The Strategy and Policies are supported by the whole of the Internal Control and risk framework which is set out in the Annual Governance Statement approved by the Audit Committee.

The Head of Law in consultation with the Head of Finance is responsible for the administration, revision, interpretation and application of this Guidance. In order to strengthen the Councils systems and procedures, the Chief internal Auditor will annually review and recommend revisions to the Strategy and the associated Policies and this Guidance. The Strategy will be reviewed every year or more frequently if required in accordance with any legislative changes, latest professional guidance or best practice and any findings of Internal Audit or External Audit reviews.

This Guidance provides more detail in respect of the information outlined in the Strategy and it's supporting Policies.

The Guidance also includes as Annexes

- a table of specific responsibilities,
- sources of information, bibliography and links,
- details of how and who to contact and
- a glossary.

### 2 Dealing with Discovery of or Allegations of Fraud, Corruption, Theft or Bribery

Chief Officers are responsible for following up any discovery of or allegation of fraud, corruption, theft or bribery and will do so through clearly defined procedures which are covered below and in the more detailed Fraud Response Plan. Chief Officers are expected to deal swiftly and firmly with those who may have defrauded the Council, or may have acted corruptly. The Council will be robust in dealing with financial malpractice. There is a need to ensure that

- any investigation process is not misused and, therefore, any abuse (such as raising unfounded malicious allegations) may be dealt with as a disciplinary matter and
- the duty to encourage and support whistleblowers is promoted.

In general terms and in support of the more detailed Manager's Response Plan Chief Officers are responsible for following up any allegation of fraud, corruption, theft or bribery received and in general will do so by contacting the Chief Internal Auditor and/or the Head of Law as soon as possible after they become aware of any such allegation or suspicion.

## Anti-Fraud and Corruption Guidance

When Norfolk Audit Services are contacted with reference to any irregularity they will conduct a fraud risk assessment to ensure that appropriate action is taken and advise the Chief Officer of the outcome. See the Fraud Response Plan below. This further action can include

- investigation by management,
- investigation by Norfolk Audit Services and
- no further action.

Subject to the advice given the Chief Officer has the responsibility for

- arranging for the allegation to be investigated promptly,
- recording all evidence received ensuring that evidence is sound, adequately supported and secure,
- if appropriate calling a meeting of a Disciplinary Action Review Group (see below) by contacting the Head of Organisational Development and Human Resources,
- liaison with the police, if it is considered a criminal matter (2.4 see page 41),
- notifying the Council's Strategic Risk team and
- implementing Council Disciplinary Procedures where appropriate.

Norfolk County Council might be viewed as having limited exposure to money laundering but is certainly not immune and on a "best practice" basis we take proportionate measures.

The Council's Anti-Money Laundering procedures and guidance detail the Anti-Money Laundering stance which is taken by NCC, the instances in which money laundering can potentially occur and what the possible signs of money laundering are.

Any suspicions of money laundering activities should be reported to the Head of Law.

### **3 Investigation of Suspected Fraud, Corruption, Theft or Bribery by Norfolk Audit Services**

Great care must be taken in the investigation of suspected improprieties or irregularities so as to avoid mistaken accusations or alerting suspected individuals that an investigation is under way.

Where an investigation is undertaken by internal audit then members of the Internal Audit Team have

- free and unrestricted access to all Council records, including personnel, and premises, whether owned or rented and
- the authority to examine, copy and/or remove all or any portion of the contents of files, desks, cabinets and other storage facilities on the premises without prior knowledge or consent of any individual who

## Anti-Fraud and Corruption Guidance

might use or have custody of any such items or facilities when it is within the scope of their investigation.

These arrangements for Internal Audit's access to partnership's records and should be included in all partnership agreements.

### 4 The Rights of the Suspect

During any investigation the rights of the suspect (be they Member, Employee or third party) will be respected and care will be taken to ensure that investigations are fair, proportionate and in accordance with statute, procedures and best practice. This will include: Employment rights, Human Rights and Data Protection rights. Human Resources will ensure that any person under investigation or disciplinary action, including suspension, has access to advice, guidance (PeopleNet), support schemes (Norfolk Support Line), their trade union and a Human Resources representative as required.

### 5 Role of the Audit Committee

The Audit Committee of the Council has in place reporting arrangements so that it can form a view on the overall effectiveness of internal controls and risk management. These arrangements will include regular reports from internal and external audit and responses from Chief Officers on cases where ineffective internal control has been highlighted.

### 6 Role of Norfolk Audit Services

The Annual Internal Audit Plan includes resources to undertake pro-active detection work. We will utilise all methods available to detect fraud, corruption, theft or bribery. This includes data matching, open source research, surveillance and intelligence led investigation where appropriate. We will also actively participate in the National Fraud Initiative (NFI). Weaknesses identified by all of these methods will be reviewed to ensure that all appropriate action is taken including strengthening the internal control arrangements. The need for fair processing notification on application forms for the Council's services which permit data sharing will be continuously reviewed by Internal Audit particularly as the NFI extends into new areas.

The array of preventative systems, particularly internal control systems within the Council, has been designed to provide indicators of any fraud, corruption or bribery activity and generally they are sufficient in themselves to deter such activity. Norfolk Audit Services are happy to provide advice to Chief Officers regarding internal control.

Chief Officers are required by Financial Regulations to report all suspected irregularities to the Head of Finance. Normally reporting is to the Chief Internal Auditor who manages Norfolk Audit Services within Finance Shared Services.

Reporting all concerns is essential to the success of the Anti-Fraud and Corruption Strategy and ensures

- a proper professional response to fraud allegations or suspicions,

## Anti-Fraud and Corruption Guidance

- a proper and proportionate investigation,
- consistent treatment of information regarding fraud, corruption, theft or bribery,
- the optimum protection of the County Council's interests through proactive anti-fraud audits,
- consideration and application of appropriate sanctions, including disciplinary actions and reference to the police with a view to criminal prosecution,
- optimal recovery action for Norfolk County Council and
- there is a focal point for gathering information and noting emerging trends.

Depending on the nature and anticipated extent of the allegations, Norfolk Audit Services will work closely with Chief Officers and other agencies, such as the police, to ensure that

- all allegations and evidence are properly investigated and reported upon,
- maximum recoveries are made for the Council,
- appropriate sanctions are imposed,
- appropriate strengthening of internal controls are considered and implemented.

An initial assessment will be made on whether an investigation is appropriate and if so what form that should take. If an investigation by Norfolk Audit Services is to take place SMART Terms of Reference will be drafted and will specify the results to be achieved by investigations. We plan to introduce performance indicators to assess our success. We will improve efficiency by including estimates of resources required and deadlines in plans for investigations. Plans will be monitored and updated.

We will establish a maximum duration for investigations. The Chief Internal Auditor and Head of Finance will ensure that the overall duration of assessments and investigations is reduced to a minimum.

Where an investigation is not undertaken by Norfolk Audit Services we will encourage Chief Officers adopt the approach set out above. Those leading disciplinary and audit investigations into fraud, corruption or bribery will be professionally trained and accredited for their role and attend regular refresher training to ensure they are aware of new developments and legislation. Investigating Officers are appointed to lead disciplinary investigations. Local manager investigation or internal audit investigations support the Investigating Officer as 'witnesses of fact'.

We seek to increase the training of employees leading or undertaking investigations in investigative techniques, legislation and report-writing skills. The Council's Disciplinary Procedures will be used where the outcome of the investigation indicates inappropriate behaviour by our employees.

## Anti-Fraud and Corruption Guidance

Investigations by internal audit will be conducted in accordance with best practice and where appropriate with regard to statutory requirements, e.g. Police and Criminal Evidence Act, Regulation of Investigatory Powers Act, Data Protection Act and by appropriately trained employees. The Chief Internal Auditor holds the CIPFA Investigative Practices Certificate. Internal Auditors taking part in investigations are either studying for or qualified to suitable levels of technical or professional competencies. Investigations are managed by either a qualified IIA auditor or qualified accountant. We seek to promote and follow procedures to protect the rights of individuals at all stages of the investigation and to ensure the legality of the investigative acts which are planned or then in progress.

The Audit Team will

- maintain a time recording system linked to work plans with estimates of time to be spent on investigations to align workload with resources and to avoid delays and
- provide information on effectiveness by reporting performance statistics on investigations activity, potential and real results.

Internal Audit will highlight any system weaknesses that are identified as a result of an investigation. These will be addressed through an agreed action plan. The relevant service area manager is responsible for implementing the plan. Internal Audit will monitor implementation of agreed actions. Failure to implement adequate system controls following a loss to fraud, corruption, theft or bribery will be the subject of a report to the relevant Chief Officer, Chief Officer Group and/or the Audit Committee. All potential misconduct cases must be handled using the Authority's Disciplinary Procedure and Internal Audit's investigating officers will liaise with line managers and Human Resources advisers to ensure effective use of the Authority's procedures. The Head of Law has two roles. Firstly, to monitor the legality of decisions and is the statutory 'Monitoring Officer'. Secondly, to advise on Corporate Standards which seek to ensure a minimum level of compliance and understanding of the legal context in which the Council and individual departments operate.

The Council has developed and is committed to continuing with systems and procedures which incorporate efficient and effective internal controls and risk management. These include adequate separation of duties to minimise the risk of error or impropriety. Chief Officers are required to ensure that such controls, including those in a computerised environment, are properly maintained and documented. The existence, appropriateness, and effectiveness of these internal controls and risk management are independently monitored by Norfolk Audit Services.

Norfolk Audit Services (NAS) employees will be involved in investigating most allegations of fraud, corruption, theft or bribery. It is important, therefore, that auditors should be experienced and trained to do so. The Chief Internal Auditor will ensure that training and development plans for internal audit employees reflect this requirement.

## Anti-Fraud and Corruption Guidance

Training on fraud and corruption will also be made available to Members.

### 7 Role of the External Auditors

The external auditor also has powers to independently investigate fraud and corruption, and the County Council can use his services for this purpose. The external auditor also needs to have an understanding of how the Audit Committee exercises oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them. They must seek written representations to properly discharge their responsibilities under the relevant standards and make enquiries for a 'letter of representation' for that purpose. Any such arrangements will be reported to the Audit Committee as part of the Internal Audit Annual Report. Council Standing Orders and Financial Regulations provide direction and require employees, when dealing with the Council's affairs, to act in accordance with best practice.

### 8 Role of Head of Finance

The Head of Finance has a statutory duty under Section 151 of the Local Government Act 1972 to ensure the proper arrangements of the Council's financial affairs and has developed Financial Regulations, as part of the Constitution, which outline the systems, procedures and responsibilities of employees in relation to the Council's financial activity. The Head of Finance maintains a Head of Profession role within the Council and through this exercises quality control on financial administration throughout the Council.

### 9 Role of Strategic Risk

The Strategic Risk Team is responsible for leading on risk management within the Council, promoting, coordinating and reporting on risk, including that of Fraud, Corruption or Bribery, to scrutiny panels and to the Audit Committee. Strategic Risk will lead and advise on the risk profiling of functions and roles overseen by Chief Officers that are considered to have a higher risk potential. The Council, through the Strategic Risk Team, will develop a fraud profile and fraud risks will be identified with mapping of compensating controls with on-going monitoring.

### 10 The Disciplinary Action Review Group (DARG)

It should be noted that the responsibility for proceeding with disciplinary matters lies primarily in the hands of the relevant Chief Officer. Further details regarding the DARG process can be found on the HR Shared Services intranet website '[PeopleNet](#)'.

Matters of concern will be reported via the processes described above. Where the matter concerns an employee and potential disciplinary action the Head of Human Resources and Organisational Development (OD and HR) has been informed of suspected misconduct or other matter having a corporate significance, they will according to the value and significance of the



## Anti-Fraud and Corruption Guidance

concerns provide advice or if appropriate arrange a meeting of a DARG as soon as possible.

A DARG consists of representatives of the Head of Law, the Head of HR and OD, the Chief Officer and, in cases involving financial matters, the Chief internal Auditor for the Head of Finance.

The DARG will seek to agree whether Disciplinary Procedures should begin, whether further investigations should be carried out, if an investigating officer should be appointed and whether the case should be referred to the police.

The DARG will clarify responsibilities for ensuring that action is taken to avoid future similar situations occurring.

### 11 Confidentiality

Anyone who suspects dishonest or fraudulent activity should immediately report this. All such reports will be treated confidentially. Normally such reports should be made to the line manager; however there may be times when this is not appropriate and more details are set out in the following paragraph and in 'Contacting Us' at Annex C.

There should be no attempt to personally conduct investigations or interview/interrogate anyone relating to any suspected act of fraud, corruption theft or bribery nor should there be any discussions about the case, facts, suspicions, or allegations with anyone unless specifically asked to do so by NPLaw or Internal Audit.

If, arising from a notification, there is an Investigation, the results of that work will not be disclosed or discussed with anyone other than those who have a legitimate need to know. This is important in order to avoid damaging the reputations of persons suspected but subsequently found innocent of wrongful conduct and to protect the Council from potential civil liability.

All inquiries concerning the activity under investigation from the suspected individual, their legal advisor attorney or representative, or any other inquirer should be directed to Norfolk Audit Services or the Legal Department. No information concerning the status of an investigation should be given out without proper authority.

The proper response to any general inquiries is: "I am not at liberty to discuss this matter". Under no circumstances should any reference be made to any allegation or any other specific details.

### 12 Reporting Procedures for Employees

An employee who discovers or suspects that fraud, corruption, theft or bribery has or may have taken place should either report their concerns immediately to their line manager or if that is not felt appropriate to the Chief Internal Auditor or a member of Norfolk Audit Services. If it is felt that neither of these routes are acceptable then other possible persons might be, in order of preference, the Head of Law, Head of Finance, Finance Business Partner, HR Business Partner or by any of the methods set out in 'Contacting Us' at Annex C.

## Anti-Fraud and Corruption Guidance

An employee who wishes to remain anonymous could use the Public Concern at Work route, but it is generally more helpful to the investigation if contact with the reporting employee is possible.

### 13 Sanctions and Redress

We will seek to apply the strongest available sanctions against employees who commit fraud, corruption, theft or bribery against the Council, its clients or the public purse. This will include disciplinary action, Criminal or civil prosecution and seek recovery through all possible means including from pension contributions.

Employees found guilty of fraud, corruption, theft or bribery under the disciplinary process will be guilty of gross misconduct and may be subject to dismissal. This applies to employees who improperly benefit from the Council as a corporate body and not just those who steal funds from their own department it also applies to employees who commit fraud, corruption, theft or bribery with respect to the Council's clients. We will also take disciplinary action against employees who commits fraud, corruption, theft or bribery against other Local Authorities or any other agency administering public funds.

At the conclusion of each investigation, the Investigator will produce a report. The manager whose responsibility encompasses the area of that investigation will formally accept the report and take the appropriate action, (disciplinary or other). If the Chief Internal Auditor is not satisfied that the appropriate action has been undertaken they will refer the matter to the Head of Law and the Head of Finance. As with all disciplinary matters, the level of proof required is that of the balance of probability. Disciplinary cases involving allegations of fraud, corruption, theft or bribery will be dealt with on this basis.

The decision to refer the matter on for further action such as prosecution will be taken by the Disciplinary Action Review Group. Decisions to prosecute or refer the investigation results to the appropriate law enforcement and/or regulatory agencies for independent investigation will be made in conjunction with legal counsel and senior management.

The Council is developing a clear strategy, success measures and monitoring on the recovery of losses incurred from fraud and corruption including the use of criminal and civil law to the full. These will be reported in the Annual Report to the Audit Committee.

Norfolk Audit Services participate in CIPFA benchmarking which has covered

- the number of investigations,
- the percentage of investigations closed where there was no action,
- unproven or exonerated cases,
- internal disciplinary action,
- dismissal,
- referral to the police and
- civil recovery action.

The Council's insurance team will also provide advice on the recovery of losses through the Council's insurers.

## Anti-Fraud and Corruption Guidance

**14 Publicity and Training**

The Head of Law, supported by the Chief Internal Auditor, will lead the promotion of the Strategy, the Policies and this Guidance through a programme of training, publicity and 'Bite Sized' leaflets to be available to elected members, employees, partner bodies, contractors and the public. The Head of Law will be supported by the Chief Internal Auditor in raising awareness and understanding of the Strategy, the Policies and this Guidance. Links to the Strategy, the Policies and this Guidance will be published on both the internal and public facing Council websites incorporating links (see Sources of Information, Bibliography and Links at Annex C) to allow any concerns to be raised, including those by whistleblowers.

The Council recognises that the continuing success of the Strategy, the Policies and this Guidance and its general credibility will depend largely on the effectiveness of its anti-fraud publicity campaigns, programmed training and responsiveness of employees and Members throughout the Council. The Council will have a comprehensive communications plan for the Strategy, the Policies and this Guidance including

- awareness raising events,
- posters,
- ['bite sized' leaflets](#),
- surveys,
- e-learning,
- items in employees newsletters,
- items in Members Insight and
- team briefings.

The Council can evidence that it is creating a strong deterrent effect, including publicising

- successful cases of proven fraud, corruption, theft or bribery,
- the likelihood of proportionate sanctions being applied should fraud, corruption or bribery be detected and losses recovered and
- the extension of NFI to new areas with the appropriate 'fair processing notifications' on forms, notified data subjects of the use of data for NFI purposes; and promptly conducted NFI investigations to prevent prolonged exposure.

To facilitate awareness and understanding of the Strategy, the Council supports the concept of e-learning training, particularly for employees involved with internal control systems, to ensure that their responsibilities and duties are regularly highlighted and reinforced. An e-learning course on Fraud Awareness is available on the Learning Hub for all employees. Disciplinary action may be taken against employees who ignore such training and guidance.

## Anti-Fraud and Corruption Guidance

### 15 Success Measures

The following measures will demonstrate the success of the Strategy.

- high Member awareness of the risks, controls and consequences of fraudulent or corrupt acts measured through member feedback/surveys,
- high employee awareness of the risks, controls and consequences of fraudulent or corrupt acts measured through employee feedback/surveys,
- high contractor, NORSE and partner awareness of the risks, controls and consequences of fraudulent or corrupt acts measured through client side monitoring,
- public, particularly service users and external organization, awareness of the risks, controls and consequences of fraudulent or corrupt acts measured through feedback,
- delivery of a plan of Anti-Fraud and Corruption preventative and detective audits in the Annual Internal Audit Plan agreed by the Audit Committee,
- professional investigation of identified frauds measured and confirmed through internal and independent review,
- consideration and reporting of the cost of each investigation and loss reported to the Audit Committee,
- recovery of losses and
- control and reduction in the overall duration of and resources for investigations.

Progress with these will be reported to the Audit Committee.

### 16 Prosecution Policy

#### 16.1 Introduction

The Strategy sets out our aims and objectives with regard to tackling, fraud, corruption, theft or bribery. It states that we will seek the strongest possible sanction against any individual or organisation that may cause the Council loss. The use of sanctions will be governed by the following principles which shall apply equally to any fraud, corruption, theft or bribery against the Council or against funds for which the Council has responsibility.

#### 16.2 Objectives

The objectives are to ensure that

- the Council applies the full range of sanctions in a fair and consistent manner,
- sanctions are applied in an effective and cost efficient manner and

## Anti-Fraud and Corruption Guidance

- the sanction decision making process is stringent, robust, transparent and fair.

These principles are designed to provide a framework within which to ensure the most appropriate resolution to a case is reached. The sanction decision will have regard at all times to the Council's Disciplinary Policy and the Strategy objectives, the individual circumstances of each person concerned and the overall impact of the punishment to both the individual and the community.

A range of sanctions is available to the Council. These include

- disciplinary action,
- civil proceedings,
- criminal proceedings, official cautions and
- administrative penalties.

The Council will in all cases consider referral for criminal prosecution to the police. We recognise that this is a serious step to take and the decision to refer cases for prosecution will not be taken lightly. In most cases, the eventual decision on prosecution will be taken by the Crown Prosecution Service. This will be as a result of a referral of cases to the police. We will utilise the police in cases where their additional powers are required to secure evidence or recovery of funds or where the matter is considered too serious to be pursued in-house.

We will utilise NP Law to support and undertake civil action if appropriate. In these cases, the decision to refer cases for civil action will be taken by the Head of Law, in consultation with the Head of Finance and the Chief Officer. In appropriate cases, we will also utilise the prosecution arm of other public agencies. This will usually be for cases involving joint investigations. When considering referring a case for prosecution, it is generally accepted that there are two "tests" to be applied – the evidential test and the public interest test. Only when both these tests are satisfied can a case be considered suitable for prosecution.

### 16.3 Evidential Test

*Is there enough evidence to provide "a realistic prospect of conviction"?*

In order to ensure that a "realistic prospect of conviction" exists, the investigating officers team will at all times ensure that investigations are conducted in accordance with relevant legislation and in line with published Codes of Practice and Guidance with regard to evidence gathering, interviewing and rules of disclosure.

To ensure the cost effectiveness of actions the evidence obtained needs to be of a standard to make the prospect of a conviction or successful civil action highly likely.

The evidence gathered will be examined in the first instance by the

## Anti-Fraud and Corruption Guidance

investigator and their manager. When both are satisfied that sufficient evidence exists to successfully prosecute and that the Public Interest test is also satisfied, in consultation with the Council's Legal Team and a Disciplinary Action Review Group, the case file will be passed on to the police for investigation. Both the Council's Legal team and the CPS will apply their own inspection of the evidence to ensure that a realistic prospect of conviction exists.

### 16.4 Public Interest Test

In order to ensure consistency and correctness when considering a case for Sanction/Prosecution, the guidelines applied by the Crown Prosecution Office – as detailed in Section 10 Prosecution of Offences Act 1985 will be followed by officers of the Investigations team. In addition, the guidance provided by relevant Government agencies on prosecution will also be considered. The public interest factors include

- a conviction is likely to result in a sentence,
- the defendant was in a position of authority or trust, particularly with respect to “vulnerable “ clients,
- the evidence shows that the defendant was a ringleader or an organiser of the offence,
- there is evidence that the offence was premeditated,
- there is evidence that the offence was carried out by a group,
- the defendant's previous convictions or cautions are relevant to the present offence, if known,
- there are grounds for believing that the offence is likely to be continued or repeated, for example, by a history of recurring conduct; or the offence, although not serious in itself, is widespread in the area where it was committed, and
- aggravating and mitigating factors will be taken into consideration when deciding on the appropriate sanction.

### 16.5 Member and Officer Fraud and Corruption

In the case of Members any concerns will be managed by the Head of Law on behalf of the Council's Standards Committee.

In all cases of fraud, corruption, theft or bribery, serious and intentional breach of financial regulations and corruption committed by members we will seek parallel disciplinary action. The normal recommendation would be gross misconduct. Fraud, corruption, theft or bribery committed by officers will also be considered for criminal prosecution.

Where a financial loss has been identified, we will always seek to recover this loss either through the civil or criminal process. We will also seek recovery of losses from pension entitlements where appropriate.

The factors that will affect our decision to refer for prosecution will be based on the evidential and the public interest test, as described above.

We will seek prosecution in all cases involving theft from vulnerable clients or where there is evidence of corruption of public officials.

**Anti-Fraud and Corruption Guidance****17 Fraud Response Plans**

Where managers identify or are informed of suspicions of fraud or corruption they must act promptly. The general steps that need to be taken are set out in the Strategy, the Policies and this Guidance. More detailed steps that should be taken will be set out in a detailed Manager's Fraud Response Plan. It is not intended to publish the detailed Manager's Fraud Response Plan. The plan will be circulated separately to the appropriate Service Area Managers when they are required to undertake an investigation. There is also a separate Fraud and Corruption Response Plan for the internal audit section, this will not be published either. Both Response Plans will be reviewed and approved annually by the Head of Finance and the Head of Law.

**18 Instances of Bribery**

Within the Strategy, it's Policies and this Guidance where appropriate "Fraud and Corruption" shall include bribery.

**19 Instances of Theft**

Within the Strategy, it's Policies and this Guidance where appropriate "Fraud and Corruption" shall include theft. However any instances of theft should generally be reported and dealt with internally to Chief Officers. Only significant instances of theft should be reported to Internal Audit and the action to be taken by Internal Audit will be considered on a risk assessed basis.

**20 Instances of Money Laundering**

Within the Strategy, it's Policies and this Guidance where appropriate "Fraud and Corruption" shall include money laundering.

## Annex A

## Annex A - Table of Specific Responsibilities

Stakeholder	Specific Responsibilities
Members	<p>To support and promote the development of a strong Anti-fraud, corruption, theft or bribery culture by working to</p> <ul style="list-style-type: none"> <li>• champion and promote the Council's Strategy and the zero tolerance culture towards, fraud, corruption, theft or bribery,</li> <li>• to raise matters of concern that may come to their attention during their work,</li> <li>• review, consider and approve the Strategy and its performance measures annually,</li> <li>• consider the Annual Report of the delivery against the Strategy's performance measures,</li> <li>• to encourage the public to report concerns or to pass on concerns raised by the public to the appropriate officer and</li> <li>• to participate in any reviews, disciplinary meetings or appeals as required.</li> </ul>
Managing Director (including NORSE and other Norfolk County Council companies)	Ultimately accountable for the effectiveness of the Council's arrangements for countering fraud, corruption, theft or bribery.
Monitoring Officer	To advise Councillors and officers on ethical issues, standards and powers to ensure that the Council operates within the Law and statutory Codes of Practice. Assisted by advice from the Chief Internal Auditor to lead on the promotion of the Strategy including training and publicity. To review the Strategy as required and report annually to the Audit Committee.
Head of Finance (Section 151 Officer)	To ensure the Council has an adequately resourced and effective Internal Audit and Strategic Risk Service including adequate anti-fraud, corruption, theft or bribery activities.
Audit Committee	<p>To Champion the anti-fraud and corruption arrangements including the Strategy, it's Policies and the Guidance.</p> <p>To review, consider, approve and monitor the Strategy and consider the adequacy and</p>



## Anti-Fraud and Corruption Guidance

	effectiveness of the arrangements for anti-fraud and Whistle-blowing.
Standards Committee	The Committee monitors and advises upon the content and requirement of Codes, Protocols and other procedures relating to standards of conduct throughout the Council, with particular reference to members. The Committee needs to be aware of this Strategy, its Policies and Guidance.
External Audit	Statutory duty to ensure that the County Council has in place adequate arrangements for the prevention and detection of fraud, corruption, theft or bribery.
Norfolk Audit Services	To Champion the anti-fraud and corruption arrangements. Responsible for implementing the Strategy and investigating any issues reported under this and the Confidential Reporting (Whistleblowing) Policy. To ensure that all suspected or reported irregularities are dealt with promptly and in accordance with the Strategy and that action is identified to improve controls and reduce the risk of recurrence. To report on Anti-Fraud and Corruption arrangements to the Audit Committee in its Annual Report.
Chief Internal Auditor	To support and advise the Head of Law and include an assurance statement on Anti-Fraud and Corruption controls in the Internal Audit Annual Report to the Audit Committee. To develop on-going measuring and monitoring techniques to evaluate, remedy and continuously improve fraud, corruption, theft or bribery prevention and detection. The measurable criteria and results are to be reported to the Audit Committee. To ensure that anti-fraud and corruption work is risk assessed and adequately staffed. To risk assess allegations as they arise and investigate where appropriate
Strategic Risk Team	To lead on the risk assessments and risk registers in relation to fraud, corruption, theft or bribery risks.
Head of Democratic Services	To monitor action and respond to whistle blowers as required.
Managers	To promote employee awareness and ensure that all suspected or reported irregularities are immediately referred to Internal Audit or Head of Law. To ensure that there are mechanisms in place within their service areas to assess the risk of fraud, corruption, theft or bribery and to reduce these risks by implementing robust internal controls and

## Anti-Fraud and Corruption Guidance

	monitoring these controls. To report suspicions or incidents promptly.
Employees	To comply with Council policies and procedures, to be aware of the possibility of fraud, corruption, theft or bribery and to report promptly any genuine concerns to the appropriate management or the Chief Internal Auditor or the Head of Law or the Managing Director or the Head of Finance as appropriate.
Public, Partners, NORSE, Suppliers, Contractors & Consultants	To be aware of the possibility of fraud, corruption, theft or bribery against the Council and report any genuine concerns or suspicions promptly.

## Annex B

### Annex B - Sources of information, Bibliography and Links

[Norfolk County Council Anti-fraud & Corruption Strategy November 2011-12 Edition](#)

[Norfolk County Council Constitution](#)

[Norfolk County Council Whistleblowing Policy](#)

[Norfolk County Council Standing Orders](#)

[Norfolk County Council Members Code of Conduct](#)

[Standards of Conduct and Behaviour Policy](#)

[Norfolk County Council Employee Disciplinary Policy and Procedure](#)

[PeopleNet and Schools' PeopleNet](#)

[Fighting Fraud Locally](#)

[Fighting Fraud Together](#)

[Sections 94 - 96 of the Local Government Act 1972,](#)

[Local Authorities Members' Interest Regulations 1992 \(S.I.618\),](#)

[The Bribery Act 2010](#)

[The Localism Act 2011](#)

[The Accounts and Audit \(England\) Regulations 2011](#)

[Section 10 of the Prosecution of Offences Act 1985](#)

[Protecting the Public Purse – Audit Commission](#)

[European Court of Auditors Follow Up of Special Report No 1/2005](#)

[Concerning the management of the European Fraud Office](#)

[CIPFA Better Governance Forum 'Managing the Risk of Fraud: Actions to Counter Fraud & Corruption', October 2006 and 'Red Book 2' October 2008 \(Link currently inaccessible\)](#)

[Fraud Act 2006](#)

[Tackling Staff Fraud and Dishonesty: Managing and Mitigating the Risks, CIFAS, CIPD 2007](#)

[ICT Fraud and Abuse 2004 – Audit Commission](#)

[Managing the Business Risk of Fraud: A Practical Guide, IIA/ACFE/AICPA](#)

[Use of Resources Guidance, Audit Commission](#)

[Money laundering and terrorist financing 08/09](#)

## Annex C

## Annex C - Contacting Us

Anyone concerned about possible fraud, corruption, theft or bribery in respect of the Council, its partner bodies or wholly owned companies are encouraged to report concerns. The Council has a Whistle-Blowing Policy which can be found on our website and this Policy protects whistleblowers.

Contact can be

- in person during normal working hours, asking for the Chief Internal Auditor or a member of the internal audit team at County Hall, Martineau Lane Norwich NR1 2DW or
  - by letter to the Chief Internal Auditor or Head of Law, County Hall, Martineau Lane, Norwich, Norfolk, NR1 2DW or
  - by E-mail to: [Chief.Internal.Auditor@norfolk.gov.uk](mailto:Chief.Internal.Auditor@norfolk.gov.uk) or
  - by telephone to
    - Chief Internal Auditor (01603) 222777\*
    - Head of Law (01603) 223415
    - Managing Director (01603) 222609
    - HR Direct (01603) 222212
    - Customer Service Centre (0344) 800 8020
- \* there is an answer phone for out of hours

Contact could also be made to your Local County Council Member.

We will treat your concerns seriously, confidentially and explain to you what will happen next. If you prefer to remain anonymous we will understand but it may significantly limit our ability to investigate your concerns and respond back to you.

If you do feel unable or uncomfortable to raise your concerns through any of these routes, then you may wish to raise them through Public Concern at Work, [www.pcaw.org.uk](http://www.pcaw.org.uk), a registered charity whose services are independent, free and strictly confidential

- by email at: [whistle@pcaw.org.uk](mailto:whistle@pcaw.org.uk) or
- by telephone on: 0207 404 6609.

These options will be included on the Council's Website with a link to enable reporting of suspicions or allegations via the internet for convenience.

**Annex D****Annex D – Glossary****Annual Governance Statement**

The Annual Governance Statement is a statutory requirement of the Accounts and Audit (England) Regulations 2011. It is the platform to formally state an opinion on the systems of internal control including the arrangements for the management of risk with recommendations given for future improvements to the systems.

**Audit Committee**

The Audit Committee oversees the environment of internal control, risk management and anti-fraud and corruption arrangements within the Council. They consider the Annual Governance Statement and Annual Statement of Accounts and quarterly reports from Internal and External Audit to ensure effectiveness of this environment.

**Bribery**

Bribery is offering something of value for the purpose of influencing the action of a person when they are undertaking their public or legal duties.

**Chief Internal Auditor**

The Chief Internal Auditor reviews the effectiveness of the system of internal control throughout the year and reports annually to the Audit Committee via the Annual Governance Statement.

**Chief Officers**

are the senior managers of the Council. Currently they are

- Acting Managing Director,
- Director of Community Services,
- Interim Director of Childrens Services,
- Interim Director of Environment Transport and Development,
- Head of Planning, Performance and Partnerships,
- Head of Customer Services and Communications,
- Monitoring Officer/Director of nplaw,
- Interim Head of Finance,
- Acting director of Public Health
- Acting Head of Human Resources
- Chief fire Officer,
- Managing Director NPS
- Managing Director NORSE

**Anti-Fraud and Corruption Guidance****Corruption**

Improper and usually unlawful conduct intended to secure a benefit for oneself or another.

**Financial Regulations**

Financial Regulations provide the framework for managing Norfolk County Council's financial affairs, provide clarity about the financial accountabilities of individuals and set out overarching financial responsibilities. The Financial Regulations link with the Financial Procedures in setting out the details and responsibilities of the Statutory Finance Officer and Chief Officers.

**Financial Procedures**

To ensure Norfolk County Council's business is efficiently managed, satisfactory financial management policies (procedures) are required to be in place that are strictly adhered to. The Financial Procedures link with the Financial Regulations in setting out the details and responsibilities of the Statutory Finance Officer and Chief Officers.

**Fraud and Corruption**

When these terms are used in conjunction, their definition can include acts such as abuse of position, bribery, collusion, concealment of material facts, conspiracy, deception, embezzlement, extortion, false representation, forgery, giving or accepting of an advantage, misappropriation or theft.

**Fraud Response Plans**

The Fraud Response Plan sets out how allegations of Fraud and Corruption are dealt with.

**Fighting Fraud Locally**

A strategic approach developed by local government, for local government, and addresses the need for greater prevention and smarter enforcement.

**Internal Control**

A process affected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives

**Irregularity**

An irregularity is a breach of a convention or normal procedure

**Money Laundering**

The process by which proceeds of crime or terrorism funds are legitimised. It relates to both the activities of organised crime but also to those who benefit financially from dishonest activities such as receiving stolen goods.

**Monitoring Officer**

The Monitoring Officer is appointed under Section 5 of the Local Government and Housing Act 1989 and the Local Government Act 2000. The role is

**Anti-Fraud and Corruption Guidance**

further defined in the Council's Constitution. Currently this role is held by the Practice Director of nplaw

**SMART**

SMART stands for Specific, Measurable, Attainable, Relevant and Timely. These are the attributes that plans should aspire to. Additional attributes are also defined in some instances.

**Section 151 Officer**

As required by the Local Government Act 1972, the Section 151 Officer is nominated to take responsibility for making arrangements for the proper administration of a local authority's financial affairs including advising on anti-fraud and corruption strategies and measures. Norfolk County Council's Section 151 Officer is the Head of Finance.

**Theft**

Theft is a criminal act in which property belonging to another person is taken without that person's consent.

## Anti-Fraud and Corruption Update

### Report by the Practice Director Norfolk Public Law (NPLaw)

This report provides an update for the Committee on the Council's Anti-Fraud and Corruption Strategy (the Strategy) and how it adds value.

The Audit Committee should consider:

- the work to date and that there has been adequate progress,
- the plan for future work as set out in section 8,
- the revised Strategy is consistent with Fighting Fraud Locally, best practice and that
  - it still meets both internal measures and external inspection requirements,
  - is effective,
  - adds value (see section 9.3) and
  - that it has been considered in light of the austerity and service transformation agenda and is considered to be adequate,
- the Council's Whistle-blowing and Money Laundering Policies are adequate and effective although minor amendments are required with respect to updates to the legislation and
- deferring full consideration of the Audit Commission's publication Protecting the Public Purse until the April meeting of the Committee (see section 2.3).

## 1 Introduction

1.1 The Audit Committee approved the 2011-12 edition of the Anti-Fraud and Corruption Strategy (the Strategy) in September 2011, and is being asked to approve the January 2014 edition elsewhere on this agenda.

1.2 This report provides an update for the Committee on

- the approach,
- progress,
- measures and
- effectiveness

of the Strategy through the work on prevention, detection, investigation and sanctions and how it adds value. The report includes the proposed plan for future work (see 8 below),



- 1.3 This report covers the period June 2013 to December 2013. The last update report was presented to the Committee in June 2013.

## **2 Background**

- 2.1 The Committee understands its role in relation to the risks of Fraud and Corruption. It critically challenges and reviews the approach and that the work adds value.
- 2.2 The Strategy sets out the arrangements, both general and those specific for the Council, Members, employees, contractors, suppliers and partners, the public and external organisations. NORSE has its own arrangements for anti-fraud and corruption, which is based on NCC's Strategy. Chief Officers are responsible for the prevention and detection of theft, fraud and corruption within the areas of their responsibility.
- 2.3 In November 2013 the Audit Commission published the latest edition of [Protecting the Public Purse](#), (click on text to view) and a copy is attached as Appendix C. This report indicates that the Audit Commission will be providing an individually tailored briefing to our external auditor in early January 2014 and that in due course our external auditor will feed this back to the Committee... It also contains two recommendations that we should,
- use the checklist for Councilors and others charged with governance to review our counter-fraud arrangements and
  - actively pursue potential frauds identified through their participation in the National Fraud Initiative (NFI).

It is suggested that further consideration of this report should be deferred until the next meeting of the Committee when the external auditor can be invited and a completed checklist presented. Appendix 2 of this report provides details of our activities with respect to the NFI exercise.

- 2.4 The Council is required to report annually to the Audit Commission as part of the Commission's Annual Fraud Survey with respect to fraud activity and did so in May 2013. There were two reported frauds during the year which were not considered significant.
- 2.5 The Local Government Fraud Strategy - Fighting Fraud Locally was published by the National Fraud Authority in April 2012. A checklist for that Strategy was presented to the April 2013 meeting of this Committee and an action plan was agreed. The agreed actions are covered in this report. The [latest newsletter](#) can be found by clicking the text.
- 2.6 There have been no changes to the Council's Whistle-blowing or Money Laundering policies.

- 2.7 From the 1 April 2013 the Council took over Public Health services. As part of the integration of the service a risk register has been drawn up and the fraud and corruption risks will be considered and if necessary included on the next review of the register.

### 3 **Prevention**

- 3.1 The primary objective for prevention is high staff and member awareness of the risks, controls and consequences of fraudulent or corrupt acts measured through staff and member feedback.
- 3.2 Anti Fraud best practice is sought. Norfolk Audit Services has membership of the London Audit Counter Fraud Group and the Eastern Fraud Forum and regularly reviews fraud updates, such as the National Fraud Authority and best practice advice from others parties such as CIPFA.
- 3.3 With effect from Monday 2<sup>nd</sup> December 2013 the procurement team are enforcing the Councils No Purchase Order No Payment Policy and thus using the e-procurement system to enforce segregation of duties which helps prevent fraud. The use of coding grids and expenditure payment forms (EPF's) will no longer be accepted for invoice payments.
- 3.4 The County Council has clear procedures for the checks that need to be performed on new members of staff including identity, right to work, references and qualifications.
- 3.5 We continue to use our Termly [schools newsletter](#) (click on text to view the latest edition) to promote Fraud and Corruption messages and information to schools. Weaknesses that are identified from either Preliminary assessments or formal investigations are fed back to departments or schools, so that lessons can be learned. The Audit Commission's Anti-Fraud Guidance to School Governors was included again in the summer term 2013 newsletter. An [Anti-Fraud leaflet](#) is available on our website (click on text to view).
- 3.6 The 'Key Financial Controls' course continues to be offered by the Schools Finance Team designed in conjunction with NAS. This course is for operational finance staff and contains guidance on anti-fraud and corruption for schools. Since June 2013 the course has been presented to 20 participants. A 'Protecting Public Money' course is also offered to School Governors and Headteachers which contains guidance on the Anti-fraud Strategy and Whistleblowing Policy. Since June 2013 the course has been presented to 50 delegates. Further courses of these are planned. There are no charges for these courses if the school has purchased a Finance Support Package for 2013-14.

- 3.7 The Strategic Risk, Insurance and Internal Audit teams continually assist Chief Officers to assess the risks from fraud and corruption. The Strategic Risk Team will, when reviewing risk registers ensure that the risks from fraud and corruption have been considered by the risk owners. No specific additional fraud or corruption risks have been identified due to the impact of the recession and the economic climate in Norfolk. As part of the process to prevent and stop fraudulent claims, insurance claims are reviewed for potential fraud at key points during the claims handling process.
- 3.8 The Practice Director NPLaw and Director of Environment, Transport and Development Cabinet presented a revised version of the policy and guidance document for Regulation of Investigatory Powers Act 2000 (RIPA) to Cabinet Members, which was approved at their meeting on 7 October 2013. The changes to the RIPA regime were made by the Protection of Freedom Act 2012 and by an order to RIPA itself. These changes mean that it is only possible to authorise covert surveillance to prevent or detect crime that is punishable by a maximum term of at least six months imprisonment.
- 3.9 A review of the application of the Code of Conduct, the Register of Interests and the Gifts and Hospitality Register has concluded that adequate controls have been in place in 2013-14 with regards to managing the risk of conflicts of interests, gifts and hospitality. New declarations were obtained in May 2013 from all Members. Most declarations related to other public mandates, investment properties or current employment with no obvious links to the activities of NCC. The most significant declaration of interest was in respect of being providers of services to community services, with regards to caring for vulnerable adults and connections with the NORSE Group (one non executive director and an occasional supplier). The review of the Gift and Hospitality register for both Members and Officers identified a low level of hospitality and gifts being received and did not highlight any that were inappropriate.
- 3.10 Our planned audit work, the Anti-Fraud and Corruption Strategy and audit resources are considered appropriate. An e-learning package "Fraud Awareness in Local Government" to raise all staff and member awareness has been implemented. Information for Members about this package was included on Members Insight in October 2013, and promoted to Managers in the October 2013 edition of Norfolk Managers. Take up of the course has not been particularly successful and it is planned to make the course more 'user friendly' next year.

- 3.11 A survey to assess manager and staff awareness and understanding of the Anti-Fraud and Corruption Strategy, Whistleblowing Policies and other related policies was undertaken between 27 November and 13 December 2013. The results indicate that improvements can be made to promote overall awareness of the Anti-fraud and Corruption Strategy, and to increase understanding on how the Strategy, and other corporate policies, are effective in minimising the likelihood of fraud within the Council. Further details are provided in Appendix A.
- 3.12 NAS will promote the updated Anti-fraud and Corruption Strategy and associated policies (see report elsewhere on this agenda) once approved by the Audit Committee.
- 3.13 Plans are also in place to update the Norfolk Audit Services Web pages and the Fraud Awareness e-learning package and introduce a more detailed e-learning course for managers with respect to the prevention and detection of fraud. These will then be promoted through planned “road shows”, emails, newsletters and internet updates throughout the year.
- 3.14 The effectiveness of prevention is difficult to measure since detected cases of fraud are thankfully rare and there can be a long lead time before the impact may be observed.
- 3.15 Where we can publish information on successful sanctions such as disciplinary, prosecutions or recovery of losses and lessons learned we will do so as widely as possible.
- 3.16 Benchmarking confirmed for 2011 -12 that our prevention procedures were sound and actions are in place to meet best practice standards, see 8.2 below. However the benchmarking exercise did not take place for 2012-13. It will be reinstated for 2013-14.
- 3.16 A Fraud Resilience Self-Assessment Tool has been developed by BDO in collaboration with University of Portsmouth which ranks our resilience against their database and predicts potential losses from this data. An assessment will be made using this tool and presented in the next update report to the Committee.

#### **4 Detection**

- 4.1 Norfolk Audit Services' primary objective is for the delivery of the Internal Audit plan as agreed by the Audit Committee. Some of the audits included in the plan will specifically include reviewing controls with respect to anti-fraud and corruption and as such may help to detect fraud or corruption. During the year in response to member requests some un-announced spot checks have been undertaken. That audit was helpful in highlighting good practice and areas where controls needed to be strengthened for cash handling which is a significant risk area for theft and fraud.

- 4.2 The promotion of the responsibilities of Chief Officer's and their managers in relation to detecting fraud and corruption is a key part of the prevention Strategy explained above and is clearly stated in internal audit reporting, and this role is now further supported with the availability of the Fraud Awareness in Local Government e-learning package (3.10 & 3.13).
- 4.3 The main and most effective means of detecting fraud or corruption is through the Council's own governance, internal control and risk management arrangements. Where Chief Officers have put in place adequate arrangements and these are followed in a diligent, timely way by local managers any error, accidental or deliberate, should be promptly discovered to allow appropriate investigation and correction. Budgetary control, reconciliations, internal check and 'hands on' supervision and checks are the best means to support teams by discouraging and detecting wrongdoing. Management checks do uncover a small number of cases, which are investigated.
- 4.4 The Audit Commission runs the National Fraud Initiative exercise (NFI) to help detect fraud, overpayments and errors. Data matches for the current NFI exercise (2012/13) continues to make good progress. Investigative work has been completed for pension, insurance and concessionary travel data, and results have shown no irregularities, which may result in Fraud or Corruption, or lead to a financial or reputational loss to the Council. In early 2014 we will also be participating in the extended Personal Budget pilot, where our data will be matched against DWP deceased persons data. We will continue to ensure the NFI data matches are followed up effectively, and will report to future meetings of the committee progress and outcomes. Further detail on the progress being made can be seen in Appendix B.
- 4.5 Internal Audit work does identify and specifically report control weaknesses in processes or systems that may increase the risk of fraud or corruption, however it provides only a very limited level of detection as sample sizes are generally small. Our Internal Audit planning is informed by best practice including the Fighting Fraud Locally Strategy. High Priority Findings are now reported to Chief Officers Group to track their completion to deadlines that have been agreed.
- 4.6 If potential frauds, theft, corruption or bribery are detected, the Council has effective lines of reporting to ensure that timely and proportionate investigations can take place and losses recovered. Detection controls are part of normal good governance, leadership and management arrangements and the Strategy complements and adds value to that activity.

- 4.7 Many frauds or corrupt acts are identified through whistle blowing and our procedures in this area are sound and meet best practice. This was confirmed through the benchmarking exercise.
- 4.8 Benchmarking also suggested that we have less fraudulent or corrupt acts detected as might be expected from an authority of our size and spend profile. The benchmarking will be considered for any potential correlation of the proportion of incidents to the relative level of audit resources.

## **5 Investigation**

- 5.1 The Council's primary objective is professional investigation of identified frauds measured and confirmed through internal and independent review.
- 5.2 The Council approaches investigations in a proportionate and professional way in consultation with the Police where appropriate. Norfolk Audit Services has an 'Allegation Response Plan' which
- complements the Council's Whistle blowing Policy,
  - complements the Compliments and Complaints Policy and
  - provides guidance for managing allegations, including anonymous or wishing to remain anonymous and allegations that may be considered vexatious.
- 5.3 When allegations are made Norfolk Audit Services (NAS) undertake a preliminary assessment, in accordance with the NAS Fraud Response Plan, of the situation to assess if an investigation is required. There have been two new allegations where a preliminary assessment has been made for the six month period ended 31<sup>st</sup> December 2013.
- 5.4 Where requested by Chief Officers the team may use their experience and skills to support relevant adhoc disciplinary investigations or corporate complaints with a significant financial element, fulfilling an 'Investigating Officer' role. Lessons learned help inform the Council's audit needs assessment planning. There were no such requests during the reporting period.
- 5.5 Preliminary assessments and investigations are managed by staff that are suitably trained or supervised. Investigations are subject to internal review by the Chief Internal Auditor who holds the CIPFA Certificate in Investigatory Practice. Training for Senior Auditors on specific aspects, such as investigative interview techniques, preparing statements and investigative reporting will be considered during 2014-15.

- 5.6 Investigations have led to successful and effective disciplinary action or criminal prosecutions and are therefore considered to be effective and add value. Investigations commenced from 2012 had an estimate of time to be spent and the time taken, potential results and actual results were to be reported to this committee. There is one ongoing investigation and the budget needs an extension due to additional witnesses being added to the terms of reference.
- 5.7 The Benchmarking exercise showed NCC with a very low number of investigations compared to other comparators.

## **6 Sanctions**

- 6.1 The Council's primary objective is to seek the strongest possible and most appropriate sanction against any individual or organisation that defraud or seek to defraud the Council. This is complemented by rigorous loss recovery where it is possible and economic.
- 6.2 We have referred cases to the Police where appropriate and successful prosecutions have taken place in the past. Disciplinary sanctions are completed, even where an employee resigns. The Council seeks to recover losses by any means available; these include
- court orders,
  - insurance cover,
  - voluntary repayments,
  - payroll deduction,
  - debtor invoice,
  - Proceeds of Crime Act (POCA) and
  - recovery from pension fund.
- Recovery may be sought by more than one of these means.
- 6.3 Sanctions are, where appropriate, reported in the local media and act as a deterrent to those who might consider committing fraudulent or corrupt acts.
- 6.4 During the reporting period advice was requested from a County Council regarding recovery under the Local Government Pension Scheme provisions. This request was following the publicity of our earlier recovery success. [recovery success](#) (click text to view)
- 6.5 Benchmarking suggested that our processes for applying sanctions where fraud or corruption is detected are robust when compared to other comparators.

## **7 Benchmarking**

- 7.1 We have promoted the benefits of Anti Fraud benchmarking to other Council's during the year which will hopefully increase participation and the quantity of comparators. Benchmarking will continue for the reporting of 2013-14 activity.

## **8 The Plan**

- 8.1 For each element of the Strategy there are various actions planned and these are set out below. Resources have been allocated to this plan from within the existing audit team and are considered adequate.

### **8.2 Prevention Actions included**

- We completed the introduction of an e-learning package "Fraud Awareness in Local Government" was introduced and promoted in October 2013,
- We completed an Anti-Fraud Finance Briefing to a departmental management team on 'Red Flags and Rolled up Sleeves' by the Chief Internal Auditor took place in June 2013, and further sessions are planned for 2014,
- We are soon to complete an audit included in the 2013-14 Internal Audit Plan to review personal budget arrangements to ensure that safeguarding and whistleblowing arrangements are proportionate to the fraud risk, including strengthening links between the safeguarding team and Internal Audit; under the auspices of the Audit Commission NFI pilot scheme for data matching for personal budgets we are intending to participate and it is expected that the results will be available before the end of the financial year,
- We completed an unannounced 'Spot' visits on cash handling and further checks are included in the 2014-15 audit planning
- We completed the 2013-14 review of Norfolk Museums income collection, banking and reconciliation processes; the audit work included consideration of the management controls in place and how they support the Councils Anti-fraud and Corruption agenda in the prevention and detection of fraud as well as unannounced checks on cash holdings,
- We completed an Anti-Fraud and Corruption survey of managers, with an invitation to managers to extend to other staff which was undertaken in December 2013 (see Appendix A)
- audits of the 'Top 100 value' for overtime, expenses claims and Schools Procurement Cards remain to be completed by March 2014
- an audit based on the NFA's "Procurement Fraud in the Public Sector (October 2011)" guidance is planned to be completed by March 2014,
- To continue to seek to improve our use of data, information and intelligence to further focus our counter-fraud work, in partnership with other teams within NCC, including the Strategic Risk team,



- continue to follow good practice and match the successes of others via networks and technical updates, especially the Fighting Fraud Locally publication,
- investigate promotion of the Strategy via the 'Internal Fraud Awareness campaign toolkit (NFA)' and to partner organizations and suppliers via the Council's Internet, I-Procurement and email, by March 2014
- investigate encouraging the introduction of Anti-Fraud and Corruption champions within departments,
- complete a member survey of anti fraud and corruption arrangements during 2014,
- an e-learning package for managers has been designed and is expected to be available before 31 March 2014,
- participate in the 2014 CIPFA benchmarking exercise to measure progress achieved during the year, The Anti Fraud benchmarking will be considered for any potential correlation of the proportion of incidents to the relative level of audit resources by March 2014
- complete a review of the internal audit web pages (both internet and intranet) anti-fraud and corruption content, particularly to promote the successes of the Strategy to raise awareness of the value it adds to the organisation, highlight specific aspects of the Strategy and provide examples on the Internal Audit website of how the Strategy affects behaviour at work by January 2014; and
- continue to work with the wholly owned companies, including NorseCare Ltd, to maintain consistent prevention measures.

8.3 Detection Actions include resolution, with other departments of NCC of "matches" from the 2012-13 NFI exercise (see Appendix B)

8.4 Investigations Actions include

- the an independent review of our investigation methodology and our reports, by end of March 2014 and
- Review the Fraud Response plans by end of March 2014.

8.5 Sanctions Actions include to continue to progress, and where possible, complete loss recovery plans.

## **9 Impact of the Audit Committee's work and Adding Value**

9.1 The Audit Committee plays a central role in providing good governance and ensuring that the Anti-Fraud and Corruption Strategy is effectively implemented. Our external auditors receive copies of final reports including investigations. Frauds over £10,000 are required to be reported to the Audit Commission annually and we last reported in May 2013.

- 9.2 Elsewhere on the agenda the Committee is being asked to agree the Annual Internal Audit Plan for 2014-15 which includes the resources to deliver the Anti-Fraud and Corruption measures set out in this report. The Committee have asked for the unannounced 'Spot' visits to be more explicitly considered as part of internal audit planning and the audit plan includes these.
- 9.3 The Strategy adds value by
- supporting the Council's reputation for good governance, internal control and value for money,
  - reducing the potential cost, burden and operational disruption when frauds or corruption are avoided and so do not need to be investigated and
  - keeping insurance premiums lower.

The Strategy has been reviewed to ensure that it remains consistent with Fighting Fraud Locally, best practice and that it still meets both internal measures and external inspection, and the Committee has been asked elsewhere on this agenda for approval to a revised Strategy, and the Policies and Guidance associated with it.

- 9.4 Chief Officers and the Council's Audit Committee have responsibility for reviewing the Anti-Fraud and Corruption arrangements. The Audit Committee oversees Chief Officer's arrangements for identifying and responding to the risks of fraud and corruption and the establishment of internal control. After consideration of the risks from the austerity and service transformation agenda the Anti-Fraud and Corruption planning and resources are considered sufficient.
- 9.5 Awareness and understanding of the Anti-Fraud and Corruption Strategy and associated documents by members, staff and those we do business with is being positively promoted.

## **10 Equalities Impact, Resource and Other Implications**

- 10.1 There are no direct implications with respect to equalities or resources with respect to this report and there are no other implications.
- 10.2 It is considered that with the proposed changes to Local Public Audit by the Government the scope of Internal Audit's work for public interest matters, such as fraud or corruption, may well become more significant as the External Auditor's role is limited through cost considerations to the mandatory and regulatory requirements.
- 10.3 Our resources for are set out in the Audit Plan presented elsewhere on the Agenda. It includes 60 days for the "provision of advice and assistance", which is largely aimed at raising awareness and prevention. There is also provision of 40 days to provide specific audits

that seek to detect Fraud. We have made no provision for investigations, although we may become involved in some during the course of the year and where we do we will in the first instance charge the relevant service, but there may be a charge on the contingency. Should there be a major investigation additional resource may be sought.

## **11 Section 17 - Crime and Disorder Act**

- 11.1 Under section 17 of the Crime and Disorder Act the Council has a statutory general duty to take into account the crime and disorder implications of all of its work, and to do all that it reasonably can to prevent crime and disorder in Norfolk.
- 11.2 The Anti-Fraud and Corruption Strategy is directly aimed at fulfilling this statutory duty and this report sets out the current position and future plans with respect to this work.

## **12 Risk Management**

- 12.1 This report has fully taken into account any relevant issues arising from the Council's policy and Strategy for risk management and any issues identified in the corporate and departmental risk registers.

## **13 Conclusions**

- 13.1 This report has summarised the Anti Fraud and Corruption work of the Committee and officers between June 2013 and December 2013, confirmed that the approach is consistent with Fighting Fraud Locally , best practice, that it meets both internal measures and external inspection requirements and has demonstrated the effectiveness and value of the Strategy.
- 13.2 The Committee continues to develop its role and impact on Anti-Fraud and Corruption governance through ongoing member training and the development of the Committee's work programme.
- 13.3 Elements of the on-going plan completed and in-progress are set out in paragraph 8.2 of this report. Anti Fraud and Corruption resources have been considered. Resources have been allocated to the plan from within the existing audit team and are considered to be adequate (9.2).
- 13.4 There was an Annual report to this Committee detailing an assessment against the Local Government Strategy – Fighting Fraud Locally and the checklist provided in April 2013(2.5)

- 13.5 The risk of fraud and corruption is specifically considered in the Council's overall risk management process (12.1)
- 13.6 The Council has put in place controls to detect fraud and corruption and this is reported to the Committee (3 and 4 above).
- 13.7 The Council has put in place arrangements for Codes of Conduct, Register of Interests and a Gifts and Hospitality Register. Members and staff are aware of the disclosures that need to be made. (3.9)
- 13.8 Suitable vetting arrangements are in place (3.4)
- 13.9 Weaknesses revealed by fraud are looked at and fed back to Departments to fraud proof systems (3.3)

## **14 Recommendations**

- 14.1 The Audit Committee should consider
- the work to date and that there has been adequate progress,
  - the plan for future work as set out in section 8,
  - the revised Strategy is consistent with Fighting Fraud Locally, best practice and that
    - it still meets both internal measures and external inspection requirements,
    - is effective,
    - adds value (see section 9.3),
    - that it has been considered in light of the austerity and service transformation agenda and is considered to be adequate and
  - the Council's Whistle-blowing and Money Laundering Policies are adequate and effective although minor amendments are required with respect to updates to the legislation
  - deferring full consideration of the Audit Commission's publication Protecting the Public Purse until the April meeting of the Committee (see section 2.3).

If you have any questions about matters contained in the report please get in touch with

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If you need this Report in large print, audio, Braille, alternative format or in a different language please contact Adrian Thompson 0344 800 8020 or 0344 800 8011 (textphone) and we will do our best to help.



## Detailed Anti-Fraud and Corruption Survey Results

### 1. Summary

A survey to assess manager and staff awareness and understanding of the Anti-Fraud and Corruption Strategy, Whistleblowing Policies and other related policies was undertaken between 27 November and 13 December 2013. The results indicate that improvements can be made to promote overall awareness of the Anti-fraud and Corruption Strategy, and to increase understanding on how the Strategy, and other corporate policies, are effective in minimising the likelihood of fraud within the Council.

NAS will promote the updated Anti-fraud and Corruption Strategy and associated policies in the New Year once approved by the Audit Committee. Plans are also in place to update the NAS Web pages (both Internet and Intranet) and the Fraud Awareness e-learning package and introduce a more detailed e-learning course for managers covering prevention and Detection of Fraud and Corruption. These will then be promoted through planned “road shows”, email, newsletter and internet updates throughout the year.

### 2. Background:

Norfolk County Council agreed its Anti-Fraud and Corruption strategy in 2009, and updated it in 2012. One aspect of the Strategy is to raise awareness within the council in an attempt to prevent it.

Since the last survey carried out on Anti-Fraud and Corruption, three years ago, the council have been promoting the Strategy through a number of activities including

- updating the Audit web page, adding a link to the Anti-Fraud Strategy,
- publicising the latest edition of Anti-Fraud and Corruption Strategy in ‘Norfolk Managers’ and ‘Member Insight’
- establish joint working relationship with other departments,
- annual Anti-Fraud & Corruption Strategy promotion events,
- lunch Time Briefing with Norfolk managers and
- inclusion of E-learning Fraud Awareness course.

During December 2013, a survey was conducted to look at the effectiveness of this promotion activity within the council and staff perceptions of the effectiveness of the Anti-Fraud & Corruption Strategy.

There have been a greater number of responses to our survey this year (777 responses, of which 250 said they were line managers), compared to in 2010 (427 responses). This is thought to be due to the increased communication regarding this survey; via email to managers, ‘Norfolk Managers’ and on the news feed of the Intranet. Details results from the survey are presented below.

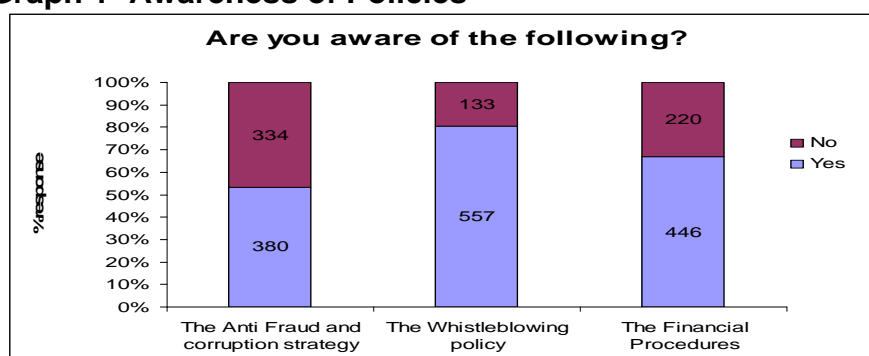
## Detailed Anti-Fraud and Corruption Survey Results

### 3. The Anti-Fraud & Corruption Strategy

**3.1. Awareness:** Around half (53%) of the respondents said they were aware of the Anti-Fraud and Corruption Strategy. Of those that are managers, there is a greater awareness at 61%. However, overall this has decreased since 2010, where there was a high level of awareness (around 77%)

These were mostly made aware through the council's website and staff inductions. See Graph 1 below.

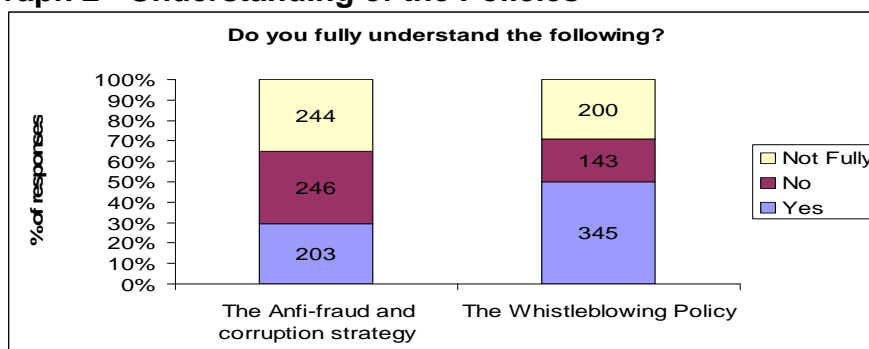
**Graph 1- Awareness of Policies**



**3.2.** Even of those who said they were not aware of the council's Anti-Fraud and Corruption Policy, 40% believed the council have arrangements in place to prevent and detect fraud and corruption. And from the comments in the survey, some people have suggested they have not come across a fraudulent case, but would investigate the policies as and when it came up.

**3.3. Understanding:** around 65% understood some, if not all the principles of the Strategy. When looking at just the managers' responses in 2013, the results show a similar percentage of people not understanding, but with more managers answering they understood all principles, as opposed to just some. This can be compared to the previous question, in 2010, of whether or not they understood the key principles of the Strategy, of which 42% agreed. See Graph 2 below.

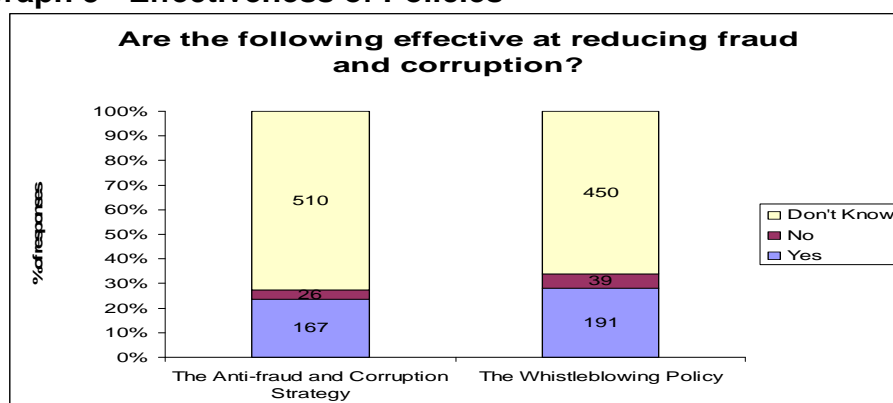
**Graph 2 - Understanding of the Policies**



## Detailed Anti-Fraud and Corruption Survey Results

**3.4. Effectiveness:** The majority of people (72%) answered that they do not know whether or not the Strategy is effective in reducing the number of incidences and just under half don't know if the council has made a positive difference to the prevention of fraud and corruption. See Graph 3 below.

**Graph 3 - Effectiveness of Policies**



**3.5. Communication:** Of those who said they are a line manager; 19% said they have recently explained the Anti-Fraud and Corruption Strategy to their team. See Graph 4 below.

**Graph 4 – Communication of Policies**



## 4. Whistle blowing

**4.1. Awareness:** There is a high level of awareness of the whistle blowing policy (81%). And an even higher level amongst line managers (92%) which is the same as when asked in 2010. These were mostly made aware through the council website and staff inductions. (see Graph 1 at 3.1)

**4.2.** The majority of respondents believe there are clear and confidential arrangements for them to express concern. Even of those that were not aware of the whistle blowing policy, 20% believed they were appropriate arrangements for them.



## Detailed Anti-Fraud and Corruption Survey Results

- 4.3. **Understanding:** Overall 79% of respondents said they understood some, if not all principles of the whistle blowing policy. At manager's level, this increases to 87% understanding. This is consistently high, as in the previous survey, respondents seemed to understand the purpose well. (see Graph 2 at 3.3)
- 4.4. **Effectiveness:** 66% of respondents said they did not know whether or not the whistle blowing policy is effective in reducing the incidences and impact on fraud and corruption (see Graph 3 at 3.4)
- 4.5. **Communication:** Of those that said they were a line manager; 20% said they have recently explained the Whistle Blowing Policy to their team. This is similar to the results in 2010, where 17% had recently explained it to their team. (see Graph 4 at 3.5)

## 5. Policies and Procedures

- 5.1. **Financial Regulations:** Around 66% are aware of the financial regulations and how they affect the individuals work, however amongst managers, this percentage increases to around 83%, creating approximately the same percentage as in 2010 (81%)  
Prompt changes of which are communicated more towards managers (53% agree) than to non-managers (30% agree)  
62% of respondents said they did not know whether or not the financial regulations was effective in preventing fraud and corruption (see Graph 1 at 3.1)
- 5.2. **Internal Audit Page:** There is a common lack of awareness of the auditor's internet/intranet pages, with an average of around 28% saying they are aware. This has decreased since 2010, when around half the respondents said they were aware.  
However, of those that have visited the auditor's page, around 88% found the information useful. This has increased since 2010, where 30% of the visitors found the Auditors page useful. Most likely due to the update to the Audit web page, which respondents had previously said were not user-friendly and hard to find the relevant information
- 5.3. **The Council's External Business Partners:** A concern from the previous survey showed that there was some belief that our external business partners are not made aware of our policies and procedures (27%) and they are not expected to adhere by them (18%) however, in 2013, respondents showed a decrease in this, down to just 6% believing they are not made aware, and 2% believing they are not expected to adhere by them.

## Detailed Anti-Fraud and Corruption Survey Results

- 5.4. **Other Policies and Procedures:** There is a very high level of awareness (between 96-99%) of various staffing policies and procedures, with the majority of respondents agreeing that they are effective in preventing fraud and corruption (between 63-70%). The majority also responded positively to whether or not they had read and understood the information in these areas.
- 5.5. There is also a high level of awareness (between 81-91%) regarding the Council's Audit and Standards Committee and the annual accounts. However respondents were generally unsure whether or not these are effective in preventing fraud and corruption (between 41-47% answering 'Don't know')
- 5.6. There is a general lack of awareness (42-58% aware) around the existence of the Annual Governance Statement, the Register of Pecuniary Interests and the Register of Gifts and Hospitality. Managers were generally more aware, (between 55-75% aware) but all respondents were generally unsure whether or not these are effective in preventing fraud and corruption.

## 6. Conclusion

- 6.1. The fact that there has been a greater number of participant in this survey means that a greater number of people, who may not have previously been aware, now know of the Anti-Fraud and Corruption Strategy and some survey comments suggested they would then go and investigate more into this area and communicate this with their team.
- 6.2. Even amongst managers there seems to be a lack of awareness and understanding of the principles of the Anti-Fraud Strategy. This could be part of the reason there is consistent lack of communication about it to their team.
- 6.3. The update on the Internal Audit web pages has proven to be an improvement. Of those that have visited the sites, more people are finding the information useful. However, few people are actually aware of their existence.
- 6.4. There are a large number of responses saying they 'don't know' about the effectiveness of most of the policies. There were also a lot of comments in the survey which suggested stronger communication regarding effectiveness of the Strategy is needed.

## Detailed Anti-Fraud and Corruption Survey Results

### 7. Recommendations

- 7.1. Promote the 2014 Anti-fraud and Corruption Strategy across the authority, via Intranet, road shows, manager forums, Chief Officer Group, and promotional leaflets/posters, and also to our external business partners.
- 7.2. Promote the Internal Audit's new web pages, and e-learning packages for all staff and Managers
- 7.3. Encourage greater emphasis on the Anti-Fraud and Corruption training for new employees and managers, and the promotion of the new staff and Manager Anti-fraud learning packages available on e-learning.
- 7.4. Introduce periodic Anti-fraud updates to Managers to remind them of their responsibilities in ensuring adequate controls are in place to minimise the risk of fraud, and for them to ensure that their staff are also aware of their responsibilities. This may be via email, Norfolk Manager, manager forums and intranet messages.  
Information should include:
  - Highlighting specific aspects of the Strategy and how it is used to prevent fraud.
  - A link to certain documents, such as the Whistleblowing, Register of Pecuniary Interests and the Register of Gifts and Hospitality policies.
  - Highlight the success of the Strategy to raise awareness of the value it adds to the organisation.

Frances Jenkins  
Audit Assistant, Norfolk Audit Services.

**NFI Update 17<sup>th</sup> December 2013**

The National Fraud Initiative (NFI) is a national exercise run by the Audit Commission every two years and requires <sup>[1]</sup> data to be extracted for matching with other authorities data to identify possible fraudulent activities.

Appropriate staff have been identified and nominated within departments to investigate matches.

All matches for Pensions, Concessionary Travel and Insurances claimants have been investigated, and no overpayments, actual or suspected frauds have been identified.

Significant progress has been made for Blue Badge, Payroll, Creditors and Private Residential Care matches. Outcomes are being monitored regularly, by NAS, using the National Fraud Initiative database. The attached table shows the number of cases in each of these areas where investigations have been completed, or investigation work is in progress.

Audit Commission deadlines are being met.

In November 2013 NCC were invited to participate, at no cost, in the extended pilot for matching personal budget data against DWP deceased person's data; it has been agreed that relevant NCC data will be submitted to the Audit Commission in early 2014. Progress and outcomes relating to these matches will be reported in future NFI updates. 21 local authorities participated in the initial pilot and collectively they have recorded outcomes in excess of £140,000. One authority alone is in the process of recovering in excess of £30,000 relating to payments that had continued after the death of the recipient.

**Conclusion:** No actual or suspected overpayments, irregularities or frauds have been identified at the time of this report. Progress for investigating outstanding matches continues to be made in line with Audit Commission deadlines and guidance.

Participation in the extended Personal Budget pilot will give the opportunity for NCC to consider its controls and processes as a result of the matching results, and could potentially lead to recovery of overpayments, which may have otherwise not been identified timely, and led to a loss of money to the authority.

NFI Update 17<sup>th</sup> December 2013

The following table summarises the data matching reports and progress to date (17/12/2013):

Dataset	Number of matches (Number of high quality)	Report Status	Number of cases processed (Closed – no further action) at 17/12/2013 (Number of high quality)	Number of Frauds identified at 17/12/2013	Number. of errors identified at 17/12/2013 (number of high quality)	Notes
Pensions/Pension Gratuity to DWP Deceased.	119 (4)	Investigation Complete	119 (4)	0	0 (0)	
Deferred Pensions to DWP Deceased.	21 (15)	Investigation Complete	21 (15)	0	3 (3)	note(a) below
Pensions to Payroll.	449 (132)	Investigation Complete	449 (132)	0	0 (0)	
Pensions to Injury benefits.	2 (0)	Investigation Complete	2 (0)	0	0 (0)	
Payroll to Payroll.	78 (1)	Investigation Complete	78 (1)	0	4 (0)	note(b) below
Payroll to In-Country Immigration & UK Visas.	2 (2)	Investigation Complete	2 (2)	0	0 (0)	
Payroll to Housing Benefit Claimants.	1 (0)	Investigation Complete	1 (0)	0	1 (0)	note(b) below

NFI Update 17<sup>th</sup> December 2013

Payroll to Pensions.	4 (0)	Investigation on-going	1 (0)	0	0 (0)	
Payroll to Creditors.	303 (178)	Investigation on-going	4 (0)	0	0 (0)	
Blue Badge Parking to Blue Badge Parking.	48 (21)	Investigation on-going	42 (16)	0	9 (0)	
Blue Badge Parking Permit to DWP Deceased.	1990 (1767)	Investigation Complete	31 (2)	0	29 (27)	note(c) below
Concessionary Travel Passes to DWP Deceased.	4398 (2716)	Investigation Complete	4398 (2716)	0	2525	
Private Residential Care Homes to DWP Deceased.	362 (22)	Investigation Complete	362 (22)	0	0 (0)	
Insurance to Insurance.	41 (8)	Investigation Complete	41 (8)	0	0 (0)	
Payroll to Amberhill Data.	2 (0)	Investigation on-going	0 (0)	0	0 (0)	
Creditor Standing Data.	1652 (0)	Investigation Complete	940 (0)	0	0 (0)	
Creditor History Data.	12040 (4352)	Investigation Complete	5 (3)	0	0 (0)	

Note <sup>[1]</sup> Norfolk County Council (NCC), are required under section 6 of the Audit Commission Act 1998 to participate in the NFI data matching exercise, and therefore have a legal obligation to send data from all NCC payrolls, pensions payroll, creditors, blue

**NFI Update 17<sup>th</sup> December 2013**

badges, private care home residents, insurance claimants and Concessionary travel databases to be matched with data from other authorities for the prevention and detection of fraud, and to investigate any matches that are found.

Data was submitted to the Audit Commission in October 2012 and the majority of data matching results were available from 29 January 2013. However due to a technical issue at DWP, matches to deceased persons records were not available until 14 February 2013.

The Audit Commission NFI secure web page provides online training videos for investigators to give guidance on the suggested approach to take for investigating matches, and recording outcomes. NAS has recommended that these are watched by Investigators prior to undertaking the work.

NAS has also provided a copy of the NFI Web Application 2012-13 Guidelines to Investigators and highlighted parts of the document that may be of interest or assistance to the Investigator for their data set.

Note (a) Notification of death not received. No financial impact as in relation to preserved benefits not yet in payment.

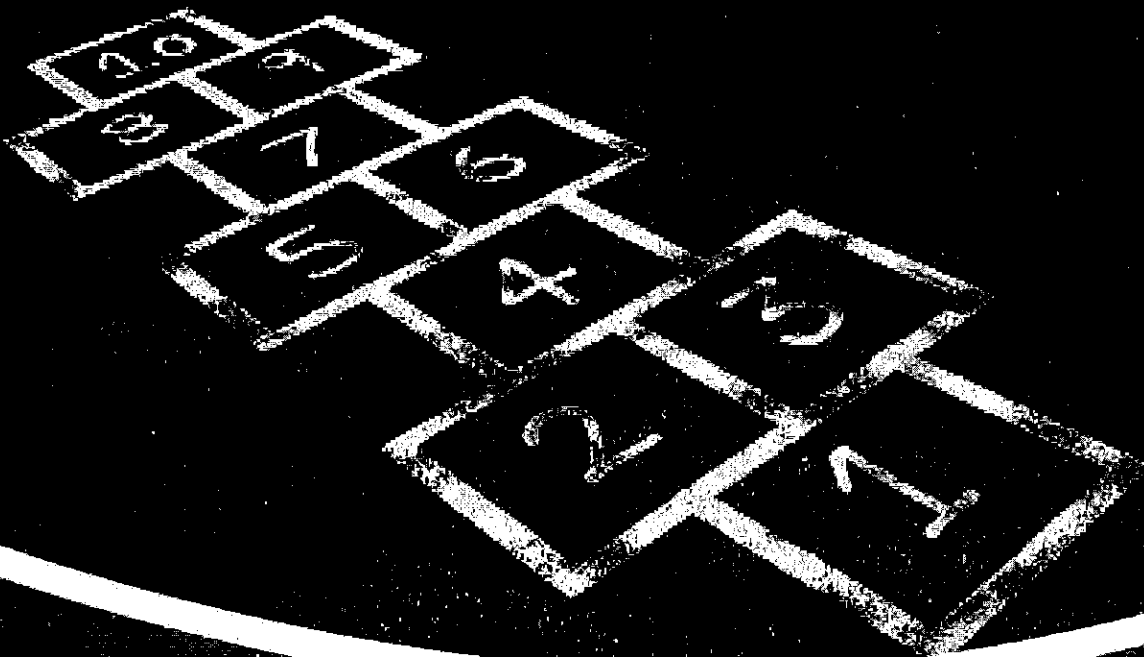
Note (b) National Insurance Numbers held were wrong. No financial impact to the authority.

Note (c) Notification of death not received. Blue Badge cancelled. No financial impact to the authority. Consideration of appropriate action to address social impact of matches is in progress.

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# **Protecting the public purse 2013**

**Fighting fraud against local government  
November 2013**





**The Audit Commission's role is to protect the public purse.**

**We do this by appointing auditors to a range of local public bodies in England. We set the standards we expect auditors to meet and oversee their work. Our aim is to secure high-quality audits at the best price possible.**

**We use information from auditors and published data to provide authoritative, evidence-based analysis. This helps local public services to learn from one another and manage the financial challenges they face.**

**We also compare data across the public sector to identify where services could be open to abuse and help organisations fight fraud.**

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# Summary and recommendations

## Summary

**This report shows those responsible for governance in local government bodies how they can fight fraud more effectively.**

- Fraud costs the UK public sector more than £20 billion a year and local government more than £2 billion.
- In a time of austerity, preventing fraud is even more important to protect the public purse.
- Every pound lost through fraud cannot be spent on providing public services.

**Local government bodies detected fewer frauds in 2012/13, excluding housing tenancy frauds, compared with the previous year. For these frauds:**

- local government bodies detected 107,000 cases, with a value of £178 million, down by 14 per cent and 1 per cent respectively compared with 2011/12;
- housing benefit (HB) and council tax benefit (CTB) fraud accounted for over two-thirds of the total fraud loss value in 2012/13, at £120 million, but only 44 per cent of the total cases detected;
- the average value of all detected non-tenancy frauds increased by 15 per cent in 2012/13; and
- had local government bodies detected the same number of cases as in 2011/12, the reported loss would have been far greater.

**107,000  
cases, with a  
value of  
£178m**

**London boroughs detected more fraud than in 2011/12.**

- London boroughs increased both the number and value of frauds detected by 36 per cent in 2012/13.
- But most non-London regions showed a decline in the number of detected fraud cases in 2012/13, ranging from 6 per cent to 46 per cent.

**The pace of local authority activity to tackle housing tenancy fraud is accelerating.**

- Local authorities recovered over 2,600 homes from tenancy fraudsters, a 51 per cent increase since 2011/12.
- London councils detected over half (58 per cent) of all tenancy fraud, although the capital accounts for only a quarter of all council housing in England.
- Councils outside London more than doubled the number of tenancy fraud cases they detected, reflecting their increasing commitment to, and success in, tackling this fraud.

**There is significant variability in detected non-benefit fraud levels between similar councils.**

- Over three-quarters (76 per cent) of all detected non-benefit fraud cases are found by one quarter (25 per cent) of councils.
- Some councils, notably 79 district councils, reported no detected non-benefit fraud.

**76% of all non-benefit frauds found, were detected by 25% of councils**

**Some councils' capacity to investigate fraud is reducing. All councils need to consider how they prioritise resources.**

- In all regions, more councils reduced investigative capacity in 2012/13 than increased it, although most stayed the same.
- London boroughs have done more than other councils to re-focus their counter-fraud resources towards non-benefit frauds.

**Some councils are starting to focus more attention on those fraud risks that are growing. In 2012/13, they detected:**

- 102 cases of Right to Buy fraud, up 168 per cent since 2011/12; and
- 200 cases of social care fraud worth £4 million, a 64 per cent increase in cases and 82 per cent increase in value since 2011/12.

**200 cases of social care fraud, worth £4m, were found in 2012/13**

**Councils face reduced funding and new national counter-fraud arrangements. They need to assess fraud risks effectively to target resources where they will produce most benefit. They should:**

- maintain their capacity to investigate non-benefit fraud following the introduction of the Single Fraud Investigation Service (SFIS);
- follow the lead of London boroughs and focus more effort on detecting non-benefit fraud, which directly affects their revenue; and
- ensure they have the right skills to investigate all types of fraud, which vary in complexity.

**Councillors have a crucial role in supporting the right approach to deter and detect fraud. They can draw on a wide range of assistance to help them do so. They can:**

- ensure their council understands local fraud risks;
- compare their council's performance in countering fraud with similar councils;
- ensure their council deploys counter-fraud resources proportionate to risk and focuses on areas of greatest local harm;
- encourage their council to focus more on deterrence, by widely publicising action against fraudsters; and
- increase staff confidence in whistle-blowing arrangements by providing corporate leadership of, and support for, whistle-blowers.

## Recommendations

### All local government bodies should:

- use our checklist for councillors and others responsible for governance (Appendix 2) to review their counter-fraud arrangements; and
- actively pursue potential frauds identified through their participation in the National Fraud Initiative (NFI).

### Councils in particular should:

- Actively promote a **vigorous counter-fraud culture** (para 110) by:
  - enforcing robust sanctions for fraud and publicise the action taken, to enhance local deterrence (para 115);
  - encouraging councillors to play an enhanced role in managing the risk of fraud effectively (para 71 & 113); and
  - reviewing their own whistle-blowing arrangements in line with current best practice and applying the lessons learned from the findings of the 2013 Public Concern at Work research on whistle-blowing (para 133).
- Develop a **clear strategy** to tackle fraud by:
  - reviewing their own counter-fraud strategies in the context of the national Fighting Fraud Locally (FFL) strategy to tackle local authority fraud (para 120); and
  - reviewing their own arrangements against FFL good practice guidance to be issued in 2013 and 2014 about frauds in schools, business rates and personal budgets (para 123).
- **Work in partnership** to reduce fraud by:
  - considering how best to maximise the benefit of the Prevention of Social Housing Fraud Act, including closer partnership working with local housing associations (para 63);
  - exploring joint working with other councils, particularly smaller councils with limited investigative capacity (para 43); and
  - realising the benefits of county councils and district councils working together to tackle blue badge fraud (disability parking) in two-tier areas (para 94).
- Prepare effectively for the introduction of the **Single Fraud Investigation Service** by:
  - considering the impact that SFIS will have on their capacity to tackle non-benefit frauds (para 45);
  - maintaining a capability to investigate non-benefit related fraud, proportionate to the risk (para 35);
  - working with SFIS to ensure the approach taken to tackling benefit fraud continues to reflect local priorities and risks (para 46).

- Allocate **sufficient resources** to tackling fraud by:
  - focusing more on detecting and recording non-benefit fraud, particularly district councils (para 25); and
  - targeting their counter-fraud resources where they will produce the most benefit, assessing the risk of harm against the measures needed to reduce it (para 18).
  
- Improve their use of **data to measure their performance** in tackling fraud by:
  - challenging their performance in tackling non-benefit frauds, in particular against the results achieved by the top performing councils (para 25);
  - considering whether to apply the National Fraud Authority's (NFA's) Annual Fraud Indicator methodology to assess the local impact of the most financially significant frauds (para 18);
  - maximising the benefits of reporting frauds through the Action Fraud website (para 146); and
  - requesting an individual fraud briefing from their external auditor (para 144).

**The Department for Communities and Local Government should consider:**

- extending powers for councils to investigate all frauds, to protect the public purse (para 49); and
- what arrangements need to be put in place to collect and publish data on detected fraud against local public bodies, after the closure of the Audit Commission (para 152).

**Action Fraud** should provide regular and timely feedback to all local government bodies that use the Action Fraud reporting arrangements (para 147).

## Chapter 1: Introduction

**This report is the latest in the Protecting the public purse (PPP) series, the Commission publishes, on the extent of fraud against local government. It is for those responsible for governance in local government. Others involved in fighting fraud in the public sector will also find it of interest.**

1 Fraud<sup>i</sup> is a crime that the NFA estimated costs the UK public sector £20.6 billion each year, of which over £2 billion is against local government (Ref. 1).

2 The harm caused by fraud is not just financial. It damages local people and communities. For example, fraudulently sub-letting a council home for profit denies a local family the chance to have a home of their own. It also damages organisations' reputations, and undermines trust in public services and the political process.

3 In a time of austerity, preventing fraud becomes even more important. The 2010 Spending Review (Ref. 2) contained a 28 per cent fall in grant income to local government up to 2014/15. The government has announced a further 10 per cent decrease for 2015/16 (Ref. 3). In response, local government bodies<sup>ii</sup> have increased eligibility thresholds for some services, restructured others and shed staff.

4 Every pound lost through fraud cannot be spent on providing services. It is vital that local government bodies have strong counter-fraud cultures and effective counter-fraud arrangements. Through better information and deterrence, many local government bodies manage fraud risks more effectively and prevent harm to local communities.

**Over £2 billion of fraud every year against local government**

i We define fraud as an intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss. We include cases where management authorised action has been taken, including, but not limited to, disciplinary action, civil action or criminal prosecution.

ii The organisations described as 'local government bodies' in this report are organisations covered by Schedule 2 of the Audit Commission Act 1998 and include, among others, local councils, national parks, police and crime commissioners and police forces, and fire and rescue authorities.



## Report structure

5 This report is produced for those responsible for governance in local government, particularly councillors. It is intended to help them protect valuable and increasingly scarce public resources. It covers these important themes:

- the scale and value of fraud detected by local government bodies in 2012/13 (Chapter 2);
- whether fraud is in decline (Chapter 3);
- trends in housing tenancy and council tax discount fraud (Chapter 4);
- trends and threats in other significant fraud types (Chapter 5); and
- national developments impacting on local government counter-fraud (Chapter 6).

6 In addition, this report:

- gives details of detected frauds and losses by region (Appendix 1);
- updates our checklist for those responsible for governance (Appendix 2); and
- highlights a series of questions to help councillors challenge and inform their own organisation's approach to fighting fraud (Appendix 3), designed to be used in conjunction with our programme of individual fraud briefings.

## Chapter 2: Detected fraud against councils and related bodies

### **Local government bodies detected fewer frauds overall in 2012/13 compared with the previous year. Similar councils detect varying amounts of fraud.**

7 In our 2012/13 detected fraud and corruption survey, we received responses from 493 local government bodies: a 100 per cent response rate. These results:

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

8 Table 1 shows that the total number of cases of detected fraud (excluding housing tenancy fraud) has fallen by 14 per cent in 2012/13 to 107,000, albeit by only nearly 1 per cent in value to £178 million. About two-thirds (67 per cent) of this amount comes from fraud related to HB and CTB; although such frauds represent only 44 per cent of all fraud cases detected.

9 The average value of all non-housing tenancy frauds has increased by 15 per cent compared with the previous year. Table 1 shows that HB and CTB fraud increased by 18 per cent and 6 per cent respectively. Other frauds combined increased by 41 per cent, but this varied by each type of fraud. Had local government bodies detected the same number of cases as in 2011/12, the value of total reported losses would have been far greater this year.

**14% drop in the number of cases of fraud detected since last year**

Table 1: **Main findings of our surveys of detected fraud in local government, excluding housing tenancy fraud, in 2012/13 and 2011/12 highlighted that the number of cases detected fell whilst the average value per case rose.**

	2012/13	2011/12	Percentage difference
<b>Total fraud</b>			
Total value	£178,000,000	£179,000,000	-1
Number of detected cases	107,000	124,000	-14
Average value per case	£1,664	£1,444	+15
<b>Housing benefit/ council tax benefit</b>			
Total value	£120,000,000	£117,000,000	+3
Number of detected cases	47,000	54,000	-13
Average value per case	£2,553	£2,167	+18
<b>Council tax discounts</b>			
Total value	£19,600,000	£21,000,000	-7
Number of detected cases	54,000	61,000	-12
Average value per case	£363	£344	+6
<b>Other frauds</b>			
Total value	£38,400,000	£41,000,000	-6
Number of detected cases	6,000	9,000	-33
Average value per case	£6,400	£4,556	+41

Source: Audit Commission (2013)

10 The 33 per cent reduction in cases of 'other' frauds is striking. Our survey also highlights a notable (12 per cent) decrease in the number of council tax discount frauds detected. This should not necessarily be interpreted as reflecting a fall in the amount of such frauds being committed. We explore this issue in more detail later in Chapter 3.

11 Table 1 excludes housing tenancy fraud, because the survey records the number of properties recovered by councils, but not their value. In 2012/13, councils recovered 2,642 homes from tenancy fraudsters, a 51 per cent increase on the previous year. To build a similar number of homes from new would have cost the public purse nearly £400 million<sup>i</sup>. We provide a detailed assessment of the loss to social housing providers from tenancy fraud in Chapter 4.

<sup>i</sup> See paragraph 54 on calculating the replacement cost of social housing

**2,642 homes were recovered from tenancy fraudsters in 2012/13**

12 The percentage of detected fraud in each region broadly reflects the region's spend. The exceptions are London, the South East and the North West. London accounts for 21.2 per cent of local government spend in England but disproportionately detected 27.7 per cent of all fraud cases.

13 In contrast, the South East accounts for 14.2 per cent of expenditure nationally, and detected only 10.7 per cent of all cases by English local authorities. The North West accounts for 13.6 per cent of expenditure, and detected only 8.7 per cent of cases.

14 There is no evidence that there should be different levels of frauds as a proportion of regional total spending. On this basis, this suggests that some councils in the South East and North West can do more to make a contribution to national efforts to tackle local authority fraud. See Table 5 and Table 15, in Appendix 1, for more detail on regional detected fraud levels and spending.

15 Table 2 highlights the eight largest frauds in the 'other' group in Table 1, which between them account for £31 million of the £38.4 million in this group. These are considered in detail in Chapter 5.

**London detected a disproportionate 27.7% of fraud, as they only account for 21.2% of local government spend**

Table 2: Other frauds against councils in 2012/13 and 2011/12

Fraud type	Cases 2012/13	Value 2012/13 (£ million)	Cases 2011/12	Value 2011/12 (£ million)	% Change in value 2011/12 to 2012/13
Business rates <sup>i</sup>	149	7.2	319	2.6	+177
Right to Buy	102	5.9	38	1.2	+392
Abuse of position*	283	4.5	297	5.6	-20
Social care	200	4.0	122	2.2	+82
Payroll, pensions, expenses*	493	3.0	640	3.5	-14
False insurance claims	74	3.0	132	2.1	+43
Disabled parking concessions (blue badges)	2,901	1.5	4,809	2.4	-38
Procurement	203	1.9	187	8.1	-77
<b>Total</b>	<b>4,405</b>	<b>31.0</b>	<b>6,187</b>	<b>23.9</b>	<b>+30</b>

Source: Audit Commission (2013)

\* trends in these frauds are considered in more detail in 'Internal fraud' in Chapter 5.

<sup>i</sup> The figure for 2012/13 is inflated by a single fraud in one council: see paragraph 78 for more information.

## Non-benefit frauds

16 Non-benefit frauds – such as those in council tax discounts, housing tenancies and social care – directly cause a financial loss to councils. Benefit fraud, on the other hand, principally represents a loss to the national exchequer. Action to tackle benefit fraud is mainly funded by central government. Non-benefit frauds warrant particular attention by councils, since they bear the main loss.

17 We encourage local authorities to adopt a response to fraud that is proportionate to the level of financial loss. This may not currently be the case across all local government bodies. For example, according to the NFA (see Table 3) HB fraud accounts for just 15 per cent of the total annual loss to all fraud in local government. But our 2012/13 survey shows that detected benefit fraud accounts for 67 per cent of the value and 44 per cent by cases of all detected fraud reported by local government bodies.

**15%** of annual loss is from housing benefit fraud, for 2012/13 it contributed to **67%** of the total value detected

Table 3: Estimated annual loss to fraud in local government

Category	Annual loss (million)	Fraud level (%)
Procurement	£876	1% of spend
Housing tenancy	£845	4% of housing stock in London, 2% outside London, multiplied by £18,000 per property
Housing benefit <sup>I</sup>	£350	0.7%
Payroll	£154	Not disclosed by NFA
Council tax discount	£133	4% on discounts and reliefs claimed
Blue badges	£46	20% of badges misused
Grants	£35	1% of spend
Pensions	£7.1	N/A – based on NFI detection levels

Source: NFA Annual Fraud Indicator 2013

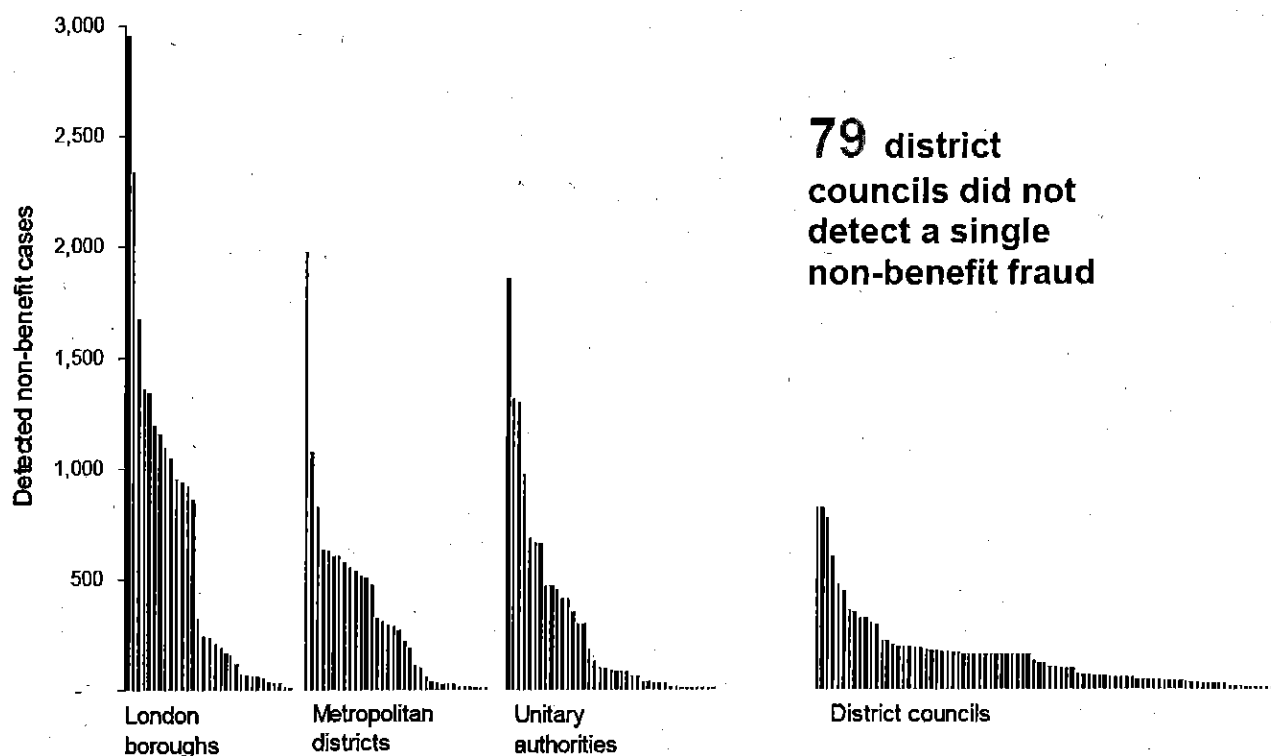
18 Councils could consider applying the percentage fraud levels adopted nationally by the NFA and shown in Table 3, to local activities. This will establish a baseline of potential loss that can be addressed locally.

19 In previous PPP reports we have highlighted overall national improvements in the efficiency and effectiveness of local authorities to tackle fraud. However, significant variations in the individual performance of similar types of councils remain, even between neighbouring councils of similar size, services and socio-economic composition.

<sup>I</sup> Housing benefit is recorded under loss to central government in the NFA's Annual Fraud Indicator, 2013

20 Figure 1 shows that the number of reported detected non-benefit frauds varies widely across and within council types<sup>1</sup>. It excludes county councils, as they do not generally provide high-volume services such as council tax.

Figure 1: Number of detected non-benefit fraud cases arranged by council type (excluding county councils) 2012/13



Source: Audit Commission (2013)

21 Some variation in reported fraud between councils in the same group is inevitable. It results partly from differences in the scale of the services they provide, based on the needs of the populations they serve.

22 But we do not believe that all the variation within council types in Figure 1 reflects this difference. It must to some extent be due to the way they record fraud, but particularly the different priorities that councils in each group place on detecting fraud.

23 For example, it is striking that 79 district councils did not detect a single non-benefit fraud. In contrast, only nine councils among all London boroughs, metropolitan districts and unitary authorities combined did not detect any non-benefit fraud.

<sup>1</sup> One London Borough has been omitted from Figure 1. It reported over 6,200 non-benefit fraud cases. This is more than twice as many as the London Borough with the next highest return and distorts the overall presentation of the results graphically.

24 Table 4 shows the average number of non-benefit fraud cases detected in 2012/13 by those with the highest detection rates for each authority type.

Table 4: **Levels of detected non-benefit fraud in the top quartile of councils**

Council type	Proportion of cases detected by top quartile councils in each group	Average number of cases detected by top quartile councils in each group.
London boroughs	70%	2,288
Metropolitan districts	63%	829
Unitary authorities	88%	734
District councils	90%	234
County councils*	76%	37
All councils	76%	549

Source: Audit Commission (2013)

25 All local authorities should compare their own non-benefit fraud figures against the average number of cases detected by councils in the top quartile. In particular, councils who report little or no non-benefit fraud detection should consider whether they have enough investigative capacity, and are using it as effectively as possible.

- i We recognise that some councils in each local authority type do not provide exactly the same services. Thus, the average number of cases detected per top quartile will vary slightly, particularly in relation to detected tenancy fraud, as not all authorities have the same amount of social housing.

26 In Table 5 we highlight regional performance in fraud detection. With the exception of London and the North-East, all other regions report some decline in the number of cases detected in 2012/13 compared to last year. One region, the North West, reported a decline of 46 per cent year on year.

Table 5: Reported value and number of detected frauds by region in 2012/13 and 2011/12

Table header	2012/13 value (£ million)	2011/12 value (£ million)	Change 2011/12 to 2012/13 (%)	2012/13 cases (‘000)	2011/12 cases (‘000)	Change 2011/12 to 2012/13 (%)
East Midlands	9.3	16.9	-45	8.3	12.7	-35
East of England	16.6	17.8	-7	11.3	15.5	-27
London	61.8	45.4	+36	29.6	21.8	+36
North East	6.7	8.5	-21	7.5	7.5	0
North West	19.6	19.3	+2	9.3	17.2	-46
South East	23.5	26.9	-13	11.6	14.4	-19
South West	12.5	15.5	-19	8.8	10.7	-18
West Midlands	15.6	17.2	-9	10.9	13.9	-22
Yorkshire and the Humber	12.4	11.5	+8	9.7	10.3	-6
<b>Total</b>	<b>178</b>	<b>179</b>	<b>-1</b>	<b>107</b>	<b>124</b>	<b>-14</b>

Source: Audit Commission

27 London region has increased both the number and value of frauds detected by 36 per cent. Without this performance by London boroughs, the national fraud detection picture would be one of significant decline.

28 This is the first year since the PPP series restarted in 2009 that councils have reported fewer detected frauds compared to the previous year. The next chapter explores some possible reasons.

**36% increase in number and value of frauds detected in London**



## Chapter 3: Is fraud declining?

**It is not possible to say whether the decline in detected fraud represents lower levels of fraud committed, or less detection by councils. In some councils, it may signal the effect of reduced investigatory resources.**

29 There has been a 14 per cent decline in the number of detected fraud cases in 2012/13, compared with the previous year<sup>i</sup>.

30 The amount of fraud an organisation detects will reflect the range of services it provides, the size of the population it serves, and how well it prevents and deters fraudsters. But we believe that fraud is endemic and that the level of detected fraud is significantly affected by:

- the level of resources councils devote to identifying and investigating fraud;
- how effectively they use those resources; and
- how effectively they record fraud.

31 Organisations that do not look for fraud, or do not look in the correct way, will not detect it. Organisations and individuals are often embarrassed to admit they have been defrauded. This attitude continues to hinder effective action against fraud.

32 The different priority councils place on detecting fraud leads to substantial variation within and between council types. But variation may also be caused by changes in capacity, as councils restructure to make savings, or to prepare for national changes in counter-fraud arrangements.

33 One view held by many counter-fraud professionals is that "there is no such thing as a small fraud, just a fraud that has been caught early". In other words, older frauds will generally be of higher value than newer frauds because they have been running for longer.

34 Thus, where there has been effective action to tackle specific fraud types, their average value should reduce over time, other things being equal. For example, if the number of frauds detected remains broadly unchanged over time, but councils detect them earlier, councils will lose less money.

35 We have no evidence that councils have substantially improved their fraud prevention arrangements. Although most councils say they have maintained their levels of investigative capacity in 2012/13, others have reduced it. Councils should always seek to maintain a capacity to detect fraud, proportionate to risk.

<sup>i</sup> Detected fraud cases are a more reliable indicator of the changes in the extent of fraud than changes in values, as single, high-value cases can distort trends.

## Changes in investigative capacity

36 In our survey this year, nearly four times as many councils reported that their investigative capacity decreased than increased in 2012/13.

37 Our survey findings tally with research by the Local Authority Investigating Officers Group (LAIOG), which found that the total number of specialist fraud investigators across all English local authorities has reduced by a fifth since 2010 (Ref. 4).

38 Table 6 shows, by region, the proportions of councils that report a reduction in their investigative capacity in 2012/13 compared with the previous year.

Nearly **4X** as many councils, reported a fall, rather than rise, in investigative capacity in 2012/13

**Table 6 - Percentage of local authorities in each region reporting a change in investigative capacity 2012/13**

Region	Percentage of councils in region reporting an increase in investigative capacity	Percentage of councils in region reporting no change in investigative capacity	Percentage of councils in region reporting a decrease in investigative capacity
East Midlands	2	76	22
East of England	2	85	13
London	18	42	40
North East	8	50	42
North West	5	58	37
South East	7	75	18
South West	2	93	5
West Midlands	3	73	24
Yorkshire and the Humber	9	64	27
<b>Total all councils in England</b>	<b>6</b>	<b>72</b>	<b>22</b>

*Source: Audit Commission (2013)*

39 Across every region in the country more councils reported reducing (22 per cent) rather than increasing (6 per cent) investigative capacity, but most (72 per cent) stayed the same. This was the first year our survey collected information on changes in investigative capacity. It is possible that some councils had reduced it in previous years.

40 It is not possible to identify a statistical relationship between self-reported changes in investigative capacity and levels of detected fraud. But as this is the

first year in which our survey measured changes in capacity, it may be that it is too early to point to any relationship. It is possible that there is a 'time lag' between cutting counter-fraud staff and the amount of fraud they detect. Counter-fraud professionals have expressed concern to us that their councils' cuts in investigative resources will mean they will detect less fraud.

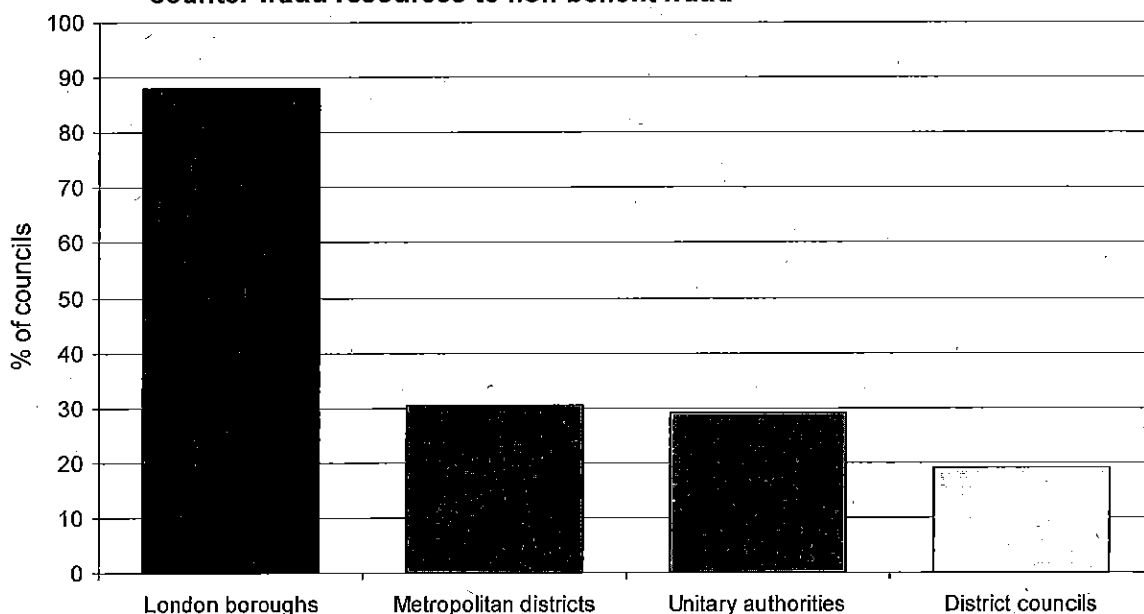
41 These reductions, coupled with the major structural changes in counter-fraud responsibilities (para 45), mean that councils face a significant risk that they will be unable to detect fraud as effectively as in past years. The survey results for PPP 2014 may provide further insight.

42 The risk may be particularly acute in councils, notably district councils, that have small fraud investigation teams to start with. This may help to explain why 79 district councils did not report any detected non-benefit fraud in 2012/13. Any cuts in a small team could have a disproportionate and adverse effect on their ability to detect fraud.

43 Smaller councils, with limited investigative capacity, may want to explore how to work more effectively with other local authorities in their region to provide a more effective response to local fraud risks.

44 As well as changes in investigative capacity, councils also vary in their fraud focus. Figure 2 shows that most London boroughs (88 per cent) focus over a quarter of their specialist investigators on non-benefit fraud. Other types of councils - metropolitan districts (31 per cent), unitary authorities (29 per cent) and district councils (18 per cent) - are all less likely to use their investigators in this way.

**Figure 2: Proportion of councils devoting more than 25 per cent of counter-fraud resources to non-benefit fraud**



*Source: Audit Commission (2013)*

45 Benefit fraud is a substantial loss to the national public purse, but has less impact on council budgets. The introduction of the SFIS will affect councils'

priorities in tackling fraud<sup>1</sup>. Because SFIS will investigate benefit fraud, councils have an opportunity to focus more resources on other frauds, such as housing tenancy fraud, that have a local impact.

46 Councils that have prepared for the introduction of SFIS will be better placed to deal with non-benefit fraud risks. To a large extent, London boroughs have done this. Unless councils follow their example, they will lose much of their capability to investigate non-benefit fraud once the SFIS starts. This would be a mistake, as non-benefit frauds cause much greater financial loss and harm. Effective local engagement with SFIS will also be required to ensure action taken to tackle benefit fraud continues to reflect local priorities and risks.

47 Councils should consider whether they have the skills they need to investigate different frauds. For example, tackling procurement fraud can sometimes be more complex than investigating other types of fraud. It often requires knowledge of company accounts and contracts, as well as risks of possible corruption.

48 As well as the right skills, counter-fraud specialists in local government need sufficient powers to detect fraud. In April 2013, CTB was replaced by the council tax reduction (CTR) scheme. However, unlike CTB, CTR does not fall under benefit legislation.

49 In May 2013, the government provided councils with CTR-specific investigative powers, including requiring employers, banks and utilities to provide financial details to aid investigations. Councils will shortly have similar powers to tackle tenancy fraud. This leaves a gap in terms of other frauds. Councils need equivalent powers for all fraud types to protect the public purse effectively.

50 The need to make savings combined with national changes to counter-fraud arrangements make it even more important that councils have effective fraud risk management.

51 Housing tenancy and council tax discount represent two of the most significant areas of financial loss and harm from fraud to local government. In Chapter 4 we describe national and local issues and trends for both.

**Housing tenancy  
and council tax  
discount fraud  
are two significant  
contributors to  
financial loss  
from fraud in local  
government**

<sup>1</sup> The roll-out of SFIS will start in April 2014. SFIS will combine benefit fraud investigators from councils, the Department of Work and Pensions and Her Majesty's Revenue and Customs into a single welfare benefits fraud investigation service.

## Chapter 4: Housing tenancy and council tax discount fraud

**Councils have substantially increased the number of properties they recovered from tenancy fraudsters in 2012/13 compared with the previous year. London boroughs continue to lead the way, but other councils are making good progress. Councils detected fewer council tax discount frauds.**

### Housing tenancy fraud

52 Housing tenancy fraud is committed when people occupy social housing unlawfully, and can include:

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

53 Quantifying housing tenancy fraud is not straightforward. In PPP 2012 (Ref. 5), we reported that:

- at least 4 per cent of social housing stock in London is typically subject to some form of tenancy fraud;
- at least 2 per cent of social housing stock outside London is typically subject to some form of tenancy fraud;
- nationally at least 98,000 social homes in England are subject to some form of tenancy fraud;
- the NFA adopts a national average loss to the public purse of £18,000 per property subject to tenancy fraud; and
- the cost of building a social housing unit from new is £150,000.

**98,000 social homes in England are subject to some form of tenancy fraud**

**(PPP 2012)**

54 The NFA estimates that housing tenancy fraud represents the second largest financial loss to fraud in local government, costing £845 million in 2013. When combined with the loss to tenancy fraud suffered by housing associations, the total value of such fraud in England is £1.8 billion. This is approximately five times the annual loss due to HB fraud.

### Case study 1

#### Case Study: housing tenancy fraud

- In 2002, an individual made a homeless application, providing supporting documentation to confirm identity, address history and income. This included utility bills, medical records, bank statements, provisional driving licence and Home Office correspondence confirming legal status. Based on this information, the applicant was offered a secure tenancy for a council flat.
- As part of a Council-wide campaign to tackle social housing fraud, which began in 2012, the Council reviewed historic and current documentation provided in support of housing applications. This review revealed that the documentation provided was fraudulent in this case.
- The fraudster was convicted of providing false information to fraudulently obtain a council flat and was jailed for 6 months.
- This is one of a series of cases the council is investigating under an initiative to expose people who use deception and false documentation to obtain council homes. To date, 14 people have been successfully prosecuted under this initiative and 26 properties recovered.

*Source: Audit Commission (2013)*

55 In 2012/13, social housing providers recovered 2,642 homes (Table 7), an increase of 51 per cent compared with the previous year. The number of councils detecting at least one tenancy fraud has risen from 90 in 2011/12 to 107 in 2012/13. In addition every region of the country increased the number of properties recovered from tenancy fraudsters in 2012/13. This improvement demonstrates what can be achieved through commitment by councils, sharing of good practice, and refocusing investigative resources.

**51% more  
homes recovered  
by social housing  
providers  
compared with  
last year**

**Table 7: Properties recovered from tenancy fraudsters in the last four years, by region**

Region	Number of properties in housing stock (percentage of total)	2012/13 Number of properties recovered (percentage of total)	2011/12 Number of properties recovered	2010/11 Number of properties recovered	2009/10 Number of properties recovered
London	434,310 (25)	1,535 (58)	1,209	1,337	1,349
West Midlands	207,794 (12)	416 (16)	211	101	6
East of England	159,880 (9)	133 (5)	82	82	12
South East	171,037 (10)	132 (5)	74	56	30
North West	95,293 (6)	126 (5)	39	57	86
Yorkshire and the Humber	235,075 (14)	108 (4)	49	53	26
East Midlands	183,036 (11)	102 (4)	21	54	10
South West	101,431 (6)	56 (2)	31	35	5
North East	116,983 (7)	34 (1)	32	3	53
<b>Total</b>	<b>1,704,839 (100)</b>	<b>2,642 (100)</b>	<b>1,748</b>	<b>1,778</b>	<b>1,577</b>

*Source: Audit Commission (2013)*

56 This progress is encouraging. The number of properties recovered from fraudsters and the number of councils taking action is accelerating. However, when compared to the total social housing stock in each region, more can still be done to match the success of the better performing regions (see Appendix 1, Figure 4).

57 London councils continue to detect more tenancy frauds than councils in other parts of the country. London accounts for a quarter of all council homes in England, but detects 58 per cent of all tenancy frauds. In 2012/13, detected tenancy frauds in London were the equivalent of 0.35 per cent of total London council house stock. By comparison, councils in Yorkshire and the Humber detected the equivalent of 0.046 per cent of their housing stock.

58 In PPP 2012, our research indicated unlawful sub-letting for profit was the most common type of tenancy fraud in London, but other types of tenancy fraud were more prevalent outside the capital. This suggests different strategies may be required in different parts of the country.

**25% of England's council homes are in London, but its councils accounted for 58% of all the tenancy frauds detected**

59 The analysis of detected tenancy fraud types in 2012/13 (Table 8) reinforces the findings of that initial research. Unlawful sub-letting for profit still remains a concern outside London. However councils in non-London regions could benefit by adjusting their detection approach to address the types of tenancy fraud more likely to be prevalent in their own geographic areas.

**Table 8: Differences in tenancy fraud type between London and all other regions 2012/13 and 2011/12**

Year	London Number of fraudulently sub-let properties recovered	London Number of other tenancy fraud properties recovered	All other regions Number of fraudulently sub-let properties recovered	All other regions Number of all other tenancy fraud properties recovered
2012/13	1147	338	310	847
2011/12	932	277	273	266

*Source: Audit Commission (2013)*

60 One reason why detection rates have risen across all regions in 2012/13 may be the increased support available to social housing providers to tackle tenancy fraud, in particular the:

- expansion of the Tenancy Fraud Forum (TFF), a free-to-join membership organisation that coordinates 15 regional partnerships to tackle tenancy fraud;
- freely available guidance and assistance from specialist advisors at the Chartered Institute of Housing (formerly known as the Making Best Use of Stock team); and
- non-ring fenced government funding for some councils to tackle tenancy fraud.

61 In 2013, the government provided additional non-ring fenced funding of £9.5 million over two years, resulting in 49 councils receiving approximately £100,000 per year to tackle tenancy fraud. It is important that councils use this funding for its intended purpose.

62 More important than funding is the commitment of councils and partner housing associations to take effective action. One of the most notable examples is Huntingdonshire District Council (HDC). The Council has no social housing stock itself, but still took action.



## Case study 2

### Case Study: Huntingdonshire District Council (HDC)

- HDC had long standing concerns about tenancy fraud, linked to other frauds the council tackled. In particular benefit fraud and council tax discount fraud. Some social landlords in the area appeared unable to adequately tackle the tenancy fraud problem.
- HDC worked with the largest housing provider (Luminus Group) in the area to develop a data sharing agreement and joint working approach to identify tenancy and other frauds. The support of councillors and officers from both organisations was critical to the successful launch of the programme.
- Several initiatives were undertaken to identify tenancy frauds, including a database allowing data matching across both organisations, joint publicity, a shared website and a public 'hotline' to report suspicions of fraud. This last initiative was particularly successful.
- In 2013, the partnership was expanded to include other councils and housing providers in Cambridgeshire, and a shared webpage to report suspicions of fraud. Since summer 2010, there have been four successful criminal prosecutions for tenancy fraud and 25 properties recovered. Building an equivalent number of properties from new would cost the public purse around £3.75 million.
- HDC attributes the success of this approach in part to linking tenancy and non-tenancy frauds (such as council tax discount fraud). Money recovered from these frauds more than covered the cost of the partnership initiatives.

*Source: Audit Commission (2013)*

63 In 2013, the government passed legislation that criminalises sub-letting fraud (Ref. 6). On conviction, tenancy fraudsters face up to two years in prison or a fine of £50,000. The legislation also allows local authorities to prosecute tenancy fraudsters on behalf of housing associations. Councils should consider how best to maximise the benefit of this legislation, including closer partnership working with local housing associations.

### Tenancy Audit

64 Social housing providers often use tenancy audits to identify tenancy frauds. They involve direct checks on properties. Some providers check over 20 per cent of their stock each year. If these do not detect frauds, providers may conclude they need take no further action.

65 But other research (Ref. 7) raises concerns about the effectiveness of many housing tenancy audits. In particular, this found that tenancy audits were responsible for detecting just 0.9 per cent of a purposive sample of proven tenancy frauds.

66 Who carries out tenancy audits is important. This research also found that counter-fraud specialists or housing officers with enhanced fraud awareness training are ten times more likely to identify a tenancy fraud than non-specialists. Further information on good practice in tenancy audits can be obtained from specialist advisors at the Chartered Institute of Housing.

## **Council tax discount**

67 Councils in England raised over £22 billion from council tax in 2012/13 (Ref. 8). Fraudulently claimed discounts and exemptions directly increase local taxation for people in the fraudsters' own communities and neighbourhoods.

68 There are many different types of discounts and exemptions that can be claimed. The most common is single person discount (SPD), where a 25 per cent discount can be claimed for sole occupiers, which can rise to 100 per cent when the occupier is a full time student<sup>i</sup>. Our research found that, typically, between four and six per cent of SPD claims are fraudulent.

69 Such fraud directly affects local taxation, but detected cases fell by nearly 12 per cent in 2012/13 (Table 1). This may be because some councils prefer to align their detection activities to the two-yearly NFI data matching timetable.

70 Most councils do not treat SPD fraud as a criminal offence. Some just cancel the discount in the year they detect a fraud. But councils can recover funds lost to SPD fraud, which individually can be worth thousand of pounds over several years. They can also apply a penalty for fraudulently claimed discounts, although not all routinely do so.

71 Councillors have a role to play in ensuring that local authorities manage this fraud risk effectively. They may want to consider the sanctions policy of their organisation and the impact it has on deterrence (see Chapter 6 for more on deterrence).

72 Recent experience has shown that student discount fraud is a growing problem for some councils. Building on its success in identifying £1.9 million of student discount fraud (Ref. 9). Bristol City Council has effectively challenged the validity of 584 cases (32 per cent of high risk cases investigated) in 2012/13 to generate potential additional revenue of £900,000.

**4-6% of single person discount claims are fraudulent**

**(PPP 2010)**

**Most councils do not treat single person discount fraud as a criminal offence**

i To qualify for a single person discount, residents must be 18 or over and be the only member of a household. However, they can also apply for this discount if anyone else living at this address falls into certain categories that allow them not to be counted as 'other occupiers'.

**73** The London Borough of Southwark (LBS) has approximately 2,400 properties occupied by students. In 2012/13, a data matching exercise found that 750 student discount claimants had a high fraud risk. Subsequent investigations established that 423 of these (56 per cent of the sample, 18 per cent of all claimants) had claimed the discount fraudulently. LBS were able to increase billing by over £500,000.

**74** Local authorities should consider the size of their local student population and the potential financial loss to such fraud, when developing a proportionate response to this risk.

**75** Tenancy fraud and council tax discount fraud are two of the biggest areas of financial loss to local government. But other frauds also present risks. Chapter 5 describes these in more detail.



**Tenancy fraud and council tax discount fraud are two of the biggest areas of financial loss to local government**

## Chapter 5: Trends and developments in other fraud risks

**Other fraud risks cause harm. Even though their overall value is lower than housing tenancy fraud and council tax discount fraud, they warrant attention from local government bodies.**

### Business rates

76 In 2012/13, councils in England contributed nearly £22 billion in non-domestic (business) rates to central government (Ref. 10). The government distributed this money across councils. Business rate fraud includes:

- falsely claiming mandatory or discretionary rate relief or empty property exemptions;
- failure to declare occupancy of a property;
- falsely claiming insolvency status to evade payments; and
- not disclosing relevant information, for example, about the size of the company, to gain rate relief.

77 The total value of business rate fraud detected in 2012/13 is £7.2 million from 149 cases. This includes one case of over £5 million, which shows the financial risk such frauds can pose to the public purse.

78 Councils continue to report significant increases in applications for relief and incentive schemes for business rates; in particular charitable relief. Such arrangements may be legal, but fraudsters could potentially exploit them. The Charity Commission issued updated guidance in 2013 to help prevent abuse of charitable status (Ref. 11).

79 Until April 2013, councils passed on all the business rates they collected to the government, which then redistributed them across English councils. Accordingly, councils had little direct incentive to detect this fraud as they did not benefit financially. From April 2013, councils keep a proportion of the business rates income they collect. This creates a financial incentive for councils to be more pro-active in addressing this fraud risk, particularly in relation to charitable and empty property relief, which are the largest in value.

80 Charities can claim relief on business rates<sup>i</sup>. Although the vast majority of charities occupying business and shop premises provide a genuine service, the potential for fraudsters to exploit this arrangement remains. Any losses now directly reduce the money available for council services.

<sup>i</sup> Most (80 per cent) charitable business rate relief is mandatory, with some (20 per cent) within the discretion of a public body.

**Keeping some income they generate, councils now have greater incentive to tackle business rate frauds**

## Right to Buy

81 Right to Buy (RTB) fraud occurs when someone occupying a property unlawfully applies for a discount, or when a legitimate tenant provides false information on application.

82 In April 2012, the government significantly increased the RTB discount in England up to a maximum of £100,000 in London and £75,000 elsewhere. In PPP 2012, we suggested that this may unintentionally increase the financial incentive to commit RTB fraud. In 2012/13, we report a 168 per cent rise in detected RTB cases, compared with 2011/12 (Table 9).

83 This year on year increase is likely to be as a result of two principal factors: generally increased activity against tenancy fraud combined with more attempted RTB frauds arising as a result of the increased discounts.

The detection of Right to Buy fraud cases rose by **168%** in 2012/13 compared to the previous year

Table 9: Detected RTB fraud cases 2009/10 to 2012/13

Cases 2012/13	Cases 2011/12	Cases 2010/11	Cases 2009/10
102	38	49	34

Source: Audit Commission (2013)

## Social care (including direct payments)

84 Social care fraud can occur at any point in the process. Open-ended responses in the annual detected fraud survey 2012/13 suggest that direct payments is one of the biggest emerging fraud risks for some councils. Frauds include diverting a client's direct payments for a fraudster's (sometimes the carer's) use, or continuing to claim direct payments after a client dies.

85 The fraudulent redirection of monies intended for social care can have an immediate and harmful impact on the care of those most in need. Early identification and action is required to ensure that where such fraud does occur, it does not result in harm to those receiving the care.

### Case study 3

#### Direct payments fraud

- The mother of a child with severe learning difficulties received direct payments to pay for a range of care services for her daughter. Payments totalling nearly £150,000 over six years were paid into a bank account set up specifically to pay for the daughter's care.
- The mother was required to provide details of how the direct payments were being spent, but failed to do so until payments were suspended. In an attempt to get payments restarted, she submitted bank statements. These highlighted that funds were being spent on items unrelated to her daughter's care, such as on-line bingo, computer games and in various retail outlets.
- An investigation discovered that, over the previous four years, only £20,000 had been spent on the daughter's care. The mother had given false information about the level of care being provided.
- The Council has implemented changes to the way in which it administers direct payments as a result of this case.
- The mother was convicted for stealing nearly £125,000 and sentenced to a two-year community order and a two-year supervision order.

Source: Audit Commission (2013)

86 Direct payments have increased from 8 per cent of all community service expenditure in 2007/08 to 21 per cent in 2012/13 (Ref. 12). Over that period, the total value of spending on direct payments (adjusted to 2012/13 prices) rose from £523 million to £1.3 billion. Such a significant increase in activity increases the risk that monitoring arrangements designed to tackle such fraud could be stretched.

87 Table 10 shows the average value of a detected social care fraud has exhibited some volatility in the last four years, although the general trend is upwards. The number of cases has also increased by 64 per cent, the total value of detected losses by 82 per cent, compared with the previous year.

**82% increase**  
in the total value  
of detected  
social care fraud  
compared with  
the previous  
year

Table 10: Cases and values of social care fraud between 2009/10 and 2012/13

	2012/13	2011/12	2010/11	2009/10
Cases (number)	200	122	102	131
Total value (£ million)	4.0	2.2	2.2	1.4
Average case value (£)	19,859	18,033	21,569	10,687

Source: Audit Commission (2013)

88 In previous PPP reports, we have acknowledged the need for councils to adopt a balanced approach to protecting public funds, and introduce proportionate measures that do not reduce the choice and control that direct payments (as part of personal budgets) aim to bring.

## False insurance claims

89 Councils face insurance claims for many things, including personal injury arising from accidents on public footpaths. In 2012/13, the value of fraudulent insurance claims against local authorities increased by £1 million to £3 million compared to the previous year. However, the number of cases has continued to drop over the last three years (Table 11).

**In 2012/13, fraudulent insurance claim costs to councils had risen, since the previous year, by £1million**

Table 11: Cases and values of insurance fraud between 2009/10 and 2012/13

	2012/13	2011/12	2010/11	2009/10
Cases (number)	74	132	149	72
Total value (£ million)	3.0	2.0	3.7	2.9
Average case value (£)	40,541	15,152	24,832	40,278

Source: Audit Commission

90 With an average value of £40,541 per detected case, insurance fraud is a risk that continues to warrant attention.

## Disabled parking concessions (blue badges)

91 The NFA estimates that 20 per cent of all blue badges in circulation are abused (Ref. 1). But blue badge fraud does not represent a major financial loss to councils, which may explain why detection rates have fallen by 40 per cent in 2012/13 (Table 12).

Table 12: Detected disability parking concession (blue badge) fraud cases 2009/10 to 2012/13

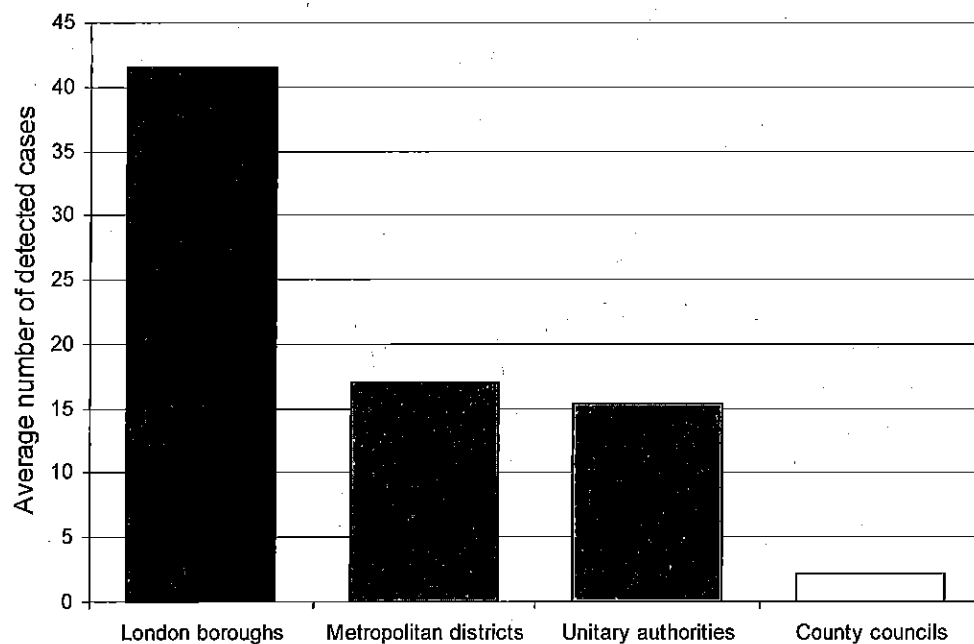
Year	2012/13	2011/12	2010/11	2009/10
Number of cases	2,901	4,809	3,007	4,097

Source: Audit Commission (2013)

92 The average number of cases of blue badge fraud varies by council type, although they are relatively few in number overall (Figure 3). However, despite the relatively low financial value of such fraud, the individual harm caused should not be forgotten. Fraudulent use of blue badges causes inconvenience

and sometimes direct harm by depriving an individual in genuine need and genuine entitlement to disabled parking facilities. In addition such frauds reduce public confidence in the blue badge system. As councils prioritise their counter-fraud activities, they should consider the social as well as financial harm of blue badge fraud.

Figure 3: **Average number of cases of blue badge fraud detected by council type 2012/13**



Source: *Audit Commission (2013)*

93 In two-tier areas, county councils have administrative responsibility for issuing blue badges and, therefore, reporting such detected frauds. However, it is district councils in those county areas that face reduced car parking income as a result of the fraudulent abuse of blue badges.

94 The relatively low level of detected blue badge frauds reported by county councils suggests they have little incentive to detect it, to the detriment of district councils in their area. District councils may want to explore how best to work in partnership with their county council to tackle such fraud.



## Procurement

95 In 2012/13, the NFA estimates procurement fraud cost local authorities £876 million, making it the single largest area of financial loss to fraud in local government (Ref: 1). In 2012/13, the total value of detected procurement fraud by local authorities was £1.9 million. This suggests that far greater attention should be given to tackling procurement fraud.

96 Fraud is possible at any stage in the procurement and contracting process. In procurement, it can occur because of:

- collusion between staff and bidders to award contracts and specify favourable terms and conditions;
- collusion between bidders to agree that they will not bid competitively for a particular contract; and
- bidders failing to tender in accordance with contract specifications, and then submitting false claims for extra costs under the contract.

97 Once a contract is in place, fraud can occur where contractors:

- provide goods and services of inferior quality than specified in the contract to lower their costs;
- intentionally ignore minimum statutory pay and health and safety regulations for financial gain;
- provide inflated performance information to attract greater payments than are due; and
- present false invoices.

98 The London Public Sector Counter-Fraud Partnership has published a good practice guide on combating invoicing fraud (Ref. 13). Local government bodies can use this tool to help prevent and detect invoicing fraud.

## Schools

99 Schools can suffer a wide range of frauds. Staff can embezzle money from the school accounts, defraud their expenses, commit payroll fraud and alter cheques. Externally, schools may be victims of mandate fraud and procurement fraud.

100 This is the first year in which we have required local authorities to report detected frauds against schools in our annual detected fraud and corruption survey. It collects data only on maintained schools, as free schools, foundations and academies are outside the Commission's remit.

101 In 2012/13, councils reported 191 cases of fraud in schools, worth £2.3 million. Of these, 86 cases with a value of £1.9 million involved internal fraud. The results suggest that schools may not have the same level of supervisory checks and controls as large organisations such as councils and may, therefore, face a greater risk of internal fraud.

102 Once councils have had time to embed data collection arrangements for fraud committed against schools, the number of reported detected schools fraud may rise.

**£2.3m of  
fraud committed  
against schools,  
£1.9m  
involved internal  
fraud**

## Internal fraud

103 All organisations face the risk that staff may commit fraud. Table 13 shows that, since 2009/10, it has remained a low proportion of all detected fraud (just over 1 per cent in 2012/13). But it regularly accounts for a much higher proportion of the value of all detected fraud (over 9 per cent in 2012/13).

Table 13: **Cases and value of internal fraud committed by staff in local government bodies from 2009/10 to 2012/13**

Financial year	Number of cases (and as a % of total cases of fraud)	Value of cases (and as a % of total value of fraud)
2012/13	1,315 (1.2)	£16.5m (9.3)
2011/12	1,459 (1.2)	£15.5m (8.7)
2010/11	1,581 (1.3)	£19.5m (10.0)
2009/10	1,333 (1.1)	£6.6m (4.9)

*Source: Audit Commission (2013)*

104 Internal fraud includes abuse of position and fraud related to payroll, pensions and expenses, described in Table 2. It also includes staff frauds in other areas such as HB.

105 Councils have in part responded to reduced funding in recent years by cutting staffing levels, flattening management structures and implementing changes in internal control arrangements. All these have the potential to increase the risk of internal fraud.

106 Local authorities should ensure that adequate and appropriate internal checks and controls have been maintained, proportionate to the level of fraud risk.

## Economic and third sector

107 Economic and third sector fraud involves the false payment of grants, loans or financial support by local government bodies to private individuals, companies, charities, and non-governmental organisations. Examples include grants to landlords for property regeneration, donations to local sports clubs, and loans or grants to charities. Such payments will increase as councils provide fewer services themselves.

#### Case study 4

### Grants fraud

- A council awarded an £80,000 grant to a charity, to purchase and refurbish a double-decker bus as a mobile multimedia youth centre for young people in the local community.
- The charity worker, who made the application for this funding, provided invoices to substantiate the money had been spent for the purpose intended.
- However, a subsequent investigation by the council established the invoices were forgeries and that £40,000 had been transferred from the charity bank account to the fraudster's personal account. The fraudster was able to do this by exploiting her position as the sole signatory for the bank account of the charity.
- The fraudster pleaded guilty to the acquisition, use or possession of criminal property. She received an 18 month suspended sentence, 180 hours of unpaid community work and a 3 month curfew.
- The Council has introduced additional control measures to try to combat fraud in this area, including an approved supplier list for voluntary bodies requesting grants.

*Source: Audit Commission (2013)*



The Council introduced an approved supplier list for voluntary bodies requesting grants

108 In 2012/13, there were 36 economic and third sector frauds with a value of £1.3 million, down from 45 cases worth £1.8 million in 2011/12. Table 14 shows the trend in average value of such frauds. Although relatively few cases have been reported, the high average value suggests that such fraud is a risk that warrants continuing vigilance.

**Table 14: Cases and values economic and third sector fraud between 2009/10 and 2012/13**

Year	2012/13	2011/12	2010/11	2009/10
Cases (number)	36	45	51	47
Total value (£ million)	1.3	1.8	1.3	0.9
Average case value (£)	35,491	40,000	25,490	19,149

*Source: Audit Commission (2013)*

109 Whatever the local priorities for fighting fraud and the resources available, the right culture to detect and deter fraud remains fundamental to effective local action. Chapter 6 describes how councils and other local government bodies can achieve this, through local leadership and the support of the Audit Commission.

## Chapter 6: National and local developments in fraud detection and deterrence.

**Councillors have a crucial role in supporting the right culture to deter and detect fraud and encourage staff to raise concerns. They can draw on a wide range of support to help them, including from the Audit Commission.**

### Counter-fraud policy - awareness and implementation

110 A strong counter-fraud culture, with clear principles, ethical standards, and zero tolerance of transgression, is the foundation of an effective response to fraud. Each organisation should sum up its approach in a counter-fraud policy. But a policy on its own does not ensure the right culture.

111 The 'tone from the top' is fundamental to establishing a robust and accepted counter-fraud culture. This helps to ensure that all staff are aware of the counter-fraud policy, know, accept and abide by the standards the policy contains.

112 Our research over many years suggest that only 56 per cent of all public sector staff are aware that their organisation has a counter-fraud policy, and a similar proportion (51 per cent) say they know their counter-fraud responsibilities under the policy<sup>1</sup>.

**'tone from the top' is fundamental to establish a robust, accepted, counter-fraud culture**

### Councillors' role in the fight against fraud

113 Councillors have an important role in shaping a corporate and strategic response to fraud that balances local and national priorities to minimise the harm fraud causes within their local community. They can:

- ensure their council understands the local fraud risks it faces;
- compare their council's performance in countering fraud with similar councils; and
- require their council to deploy counter-fraud resources proportionate to risk and focused on areas of greatest local harm.

114 In our 2012/13 detected fraud survey, half of all councils reported they had a councillor with portfolio responsibility for fighting fraud. One example is Westminster City Council, where a councillor now fulfils the role of "Anti-fraud Tsar".

<sup>1</sup> These figures come from unpublished research by the Audit Commission, based on our Changing Organisational Culture toolkit. This covered approximately 100,000 individual respondents over more than 10 years.

## Case study 5

### Westminster City Council (WCC): effective councillor involvement in fighting fraud

- The councillor with the role of “Anti-fraud Tsar” provides political leadership for an authority-wide, integrated and coordinated fraud response across cabinet portfolios. This provides a conduit for front-line services to decision makers as part of a joined-up approach to countering fraud (this is of particular importance when enhanced investigative capacities of other agencies may be required, or where the financial incentive to tackle different fraud types does not fall principally on local authorities).
- One of their first initiatives addressed local concerns about suspected tenancy and benefit fraud in a number of private housing blocks. Through the councillor’s involvement, WCC launched a coordinated and multi-agency investigation across a number of targeted private housing blocks.
- This found that between 61 and 95 per cent of the HB-funded tenancies in each block were unlawfully sub-let. In one block alone, the Council detected over £200,000 of fraudulently claimed HB.

*Source: Audit Commission (2013)*

## Deterrence

115 Historically, councils have adopted a mainly reactive approach to fighting fraud, involving detection, investigation, sanction and redress. But with reducing resources, more focus on pro-active prevention and deterrence is needed.

116 Counter-fraud professionals have always viewed deterrence as one of most important and cost-effective means of tackling fraud. Effective deterrence depends on a number of factors, including:

- a reasonable likelihood that the fraudster will be caught;
- a likelihood that the fraudster will be appropriately punished; and
- widely publicising results, to deter other potential fraudsters.

117 A good example of effective deterrence involves council tax SPD fraud. Nationally, one in three households claims SPD, but this varies from council to council. Part of this variation is due to fraudulent SPD claims. Five years ago, 23 councils in England reported that 40 per cent or over of the households in their authority claimed the discount. In one of those authorities, nearly half (48 per cent) of households claimed SPD.

118 Since then, greater national and local publicity about successful investigations has led to a fall in the number of councils with a substantially higher than average number of households claiming SPD. By 2012, nine councils in the country reported that of over 40 per cent of all households in their area claimed SPD. The highest is now 42.5 per cent. This represents a significant reduction in SPD claimants at a number of councils. Case studies 6 and 7 highlight what can be achieved at a local level.

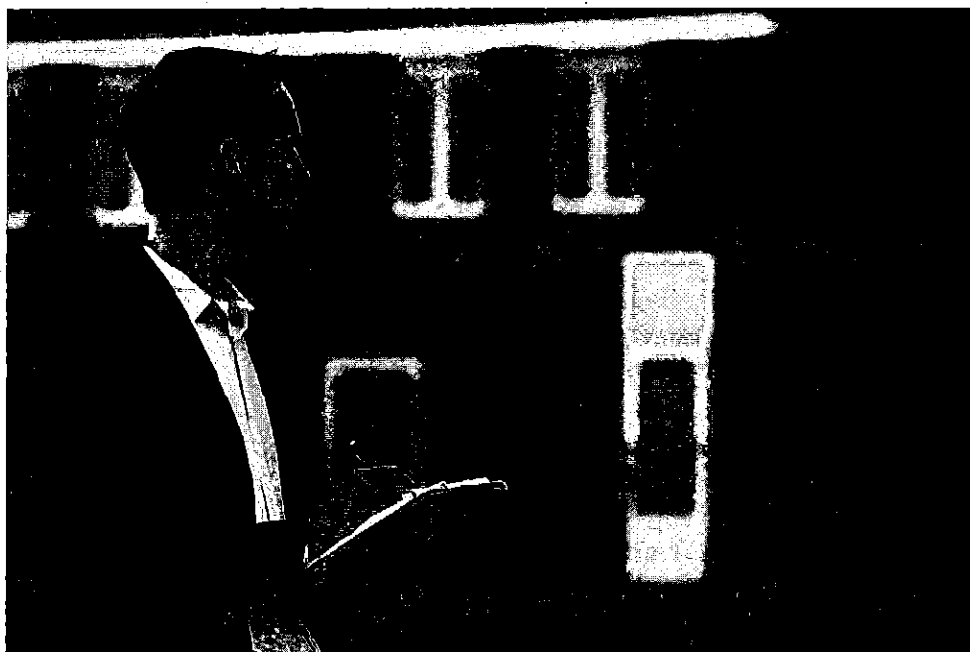
**23 to 9, the fall, in five years, of councils reporting 40% or more households in their authority claim single persons discount**

#### **Case study 6**

##### **Liverpool City Council: SPD fraud deterrence and detection**

- In 2010, Liverpool City Council had an SPD claimant level of over 46 per cent of households. The Council had hitherto taken limited action to identify SPD fraudsters.
- The council's subsequent action to tackle SPD fraud included publicising in the local press, a range of measures that it was taking. By 2012, only just over 40 per cent of households in Liverpool claimed the discount.

*Source: Audit Commission (2013)*



**Successful investigations has led to a fall in the number of councils with a substantially higher than average number of households claiming SPD**

## Case study 7

### Nottingham City Council - SPD fraud deterrence and detection

- In 2009, Nottingham City Council had the second highest claimant level for SPD in England, at over 47 per cent of households. The Council had undertaken activities to detect SPD fraud en masse in a limited way and had relied on individual notification of changes to manage SPD awards.
- In 2010/11, the Council adopted a more pro-active stance and invested in a private/public service approach to identifying SPD fraud, stopping 3,705 SPDs and investigating a further 3,473 where CTB was being paid. This resulted in additional collectable council tax of approximately £1.2 million.
- The cancelled SPDs represented 6.5 per cent of the total number of such claims. The council also publicised the action taken. Two years later, only 39 per cent of households claimed the discount.

*Source: Audit Commission (2013)*

119 Taken in combination with effective detection, this suggests that deterrence can have a significant impact on the willingness of individuals to commit fraud. Publicity about cases of fraud may also help to raise awareness of people's responsibilities to notify their council of changes in circumstances.

### Fighting Fraud Locally

120 In April 2012, the FFL strategy (Ref. 14) was published. It was the first strategy developed in partnership with local government to tackle fraud committed against local government. The report focused on non-benefit fraud areas. In particular, FFL called on local government to adopt a strategic response to fraud that:

- acknowledges the threat of fraud and the potential for savings that exists;
- prevents fraud by improving fraud controls and developing a counter-fraud culture; and
- pursues fraudsters with robust enforcement, to deter others.

121 Our 2012/13 survey found that over 90 per cent of London boroughs, metropolitan districts, unitary authorities and county councils have reviewed their counter-fraud arrangements in the context of FFL, compared with 63 per cent of district councils.

122 This suggests strong support across local authorities for the strategy. All councils can benefit from reviewing their arrangements in the context of this strategy.



123 In 2013, the FFL partnership launched a number of initiatives to increase understanding of different fraud types and ways of managing risks of fraud in business rates, schools and personal budgets. Other initiatives focus on addressing key fraud enablers and effective whistle-blowing. The results of these initiatives will be available in late 2013 and early 2014.

## **Whistle-blowing**

124 Whistle-blowing remains a key component in effectively managing the risk of fraud. In 2008, the British Standards Institute published a Code of Practice, which remains the accepted standard for whistle-blowing arrangements (Ref. 15). In 2012/13, the proportion of councils reporting that they reviewed their arrangements annually in line with the Code was 60 per cent, up from 51 per cent in 2010/11.

125 We also collect data on whistle-blowing disclosures recorded by local government bodies. In 2010/11 and 2011/12, these disclosures totalled around 2,000 each year. In 2012/13, they dropped by 29 per cent to 1,408.

126 Such a reduction in formal disclosures can be difficult to interpret. This fall may in part reflect the positive impact that increasing implementation of the BSI Code of Practice is having, with staff at some councils more confident in reporting concerns through line management rather than formal whistle-blowing arrangements.

127 However, councils should not be complacent. There is a possibility that, for some individual councils, any reduction in disclosures may instead reflect less trust and confidence in local arrangements.

128 Research published in May 2013 by Public Concern at Work (PCaW), the whistle-blowing charity, highlighted concerns about the treatment of whistleblowers and the potential impact this has on discouraging others to raise concerns (Ref. 16).

129 This research has important implications for councils. In particular, PCaW concluded that "those working in local government have the lowest expectations that the wrongdoing will be stopped and that the investigation will be satisfactory throughout the process of raising a concern" (Ref. 16, page 6). This suggests some local authorities can do more to strengthen their whistle-blowing arrangements.

130 It is also possible that a lack of staff confidence in whistle-blowing arrangements at some local authorities may have contributed to the 29 per cent fall in the number of formal disclosures made to councils in 2012/13.

131 Councils are reducing staff numbers, and de-layering staff structures. Combined with changes in service delivery and greater local autonomy for some services, whistle-blowing is increasingly recognised as one of the key means of identifying fraud.

**Increasingly,  
whistle-blowing  
is recognised as an  
important means of identifying fraud**

132 Thus local authorities should obtain assurance that staff:

- are aware of the whistle-blowing arrangements in their organisation
- have confidence in the confidentiality of those arrangements; and
- have assurance that any concerns will be addressed appropriately.

133 Councillors should seek assurance that their councils comply with good practice in whistle-blowing, and that they provide sufficient resources to investigate possible fraud and corruption<sup>i</sup>.

## Support to Audited Bodies

134 In 2013, the influential Fraud Advisory Panel (FAP)<sup>ii</sup> issued guidance encouraging senior management of all organisations to support investment in counter-fraud measures (Ref. 17) .

135 The Audit Commission agrees with the FAP's guidance and this report contains two sources of information that can help local government bodies direct their investment where it is most needed:

- the counter-fraud checklist in Appendix 2 will help those responsible for governance focus on the main issues in their organisation; and
- the questions for councillors in Appendix 3 will help them challenge how well their council addresses fraud risks in the main services their organisation provides. It is intended to be used in conjunction with individual fraud briefings.

136 The Commission runs the NFI and provides fraud briefings to auditors.

## National Fraud Initiative

137 The Audit Commission has run the NFI for 17 years. The NFI compares data held by 1,300 public sector and 77 private sector organisations. These include other regulators in Scotland, Wales and Northern Ireland, as well as government departments and other national agencies. The NFI flags up inconsistencies in data that may indicate fraud, signalling the need for investigation.

138 The NFI helps participating organisations detect one-off individual frauds or error. It helps find patterns in fraud activity that might be missed at a local level, for example, where the fraudsters use the same false identities over a large geographical area. It helps provide a national picture of fraud and highlights some emerging fraud risks.

i Currently, the Audit Commission is a prescribed body under whistle-blowing legislation.

ii A national charity that works across the private, public and voluntary sectors to raise awareness of fraud

139 Since it started in 1996, the NFI has helped to:

- identify over £1 billion of potential loss to fraud, overpayment or error across the UK;
- detect around 15,000 cases of pension overpayments worth £450 million;
- identify 100,000 cases of incorrect council tax single person discounts totalling £160 million and over £250 million of housing benefit overpayments; and
- find nearly 69,000 blue badges and almost 98,000 concessionary travel passes that have been cancelled as a result of NFI data matching.

**£1 billion of potential loss due to fraud, overpayment or error detected by the NFI since it started in 1996**

140 In 2013, the NFI introduced real-time and flexible matching modules alongside the traditional two-yearly national matching exercise. These new modules align with the government's policy of focusing on protecting the UK economy from fraud. The NFI now allows a participant to hunt for frauds more often and to tailor their search to best suit their needs, for example, by undertaking regular data matching to target tenancy fraud in a geographical area.

## **Fraud briefings**

141 The Commission makes available individually tailored fraud briefings to support external auditors' communications with those responsible for governance in each council. The briefings contain comparative information on each council's fraud detection results. External auditors may provide these briefings on request, and on a confidential basis to ensure that the information they contain is not available to fraudsters.

142 Fraud briefings will:

- be available to the independent external auditor to present to councillors and officers with governance responsibilities;
- provide contextual and comparative benchmark data;
- be available to London boroughs, metropolitan districts and unitary authorities from December 2013; and
- be available to county councils and district councils in early 2014.

143 Each individual fraud briefing has been developed by the Audit Commission. They are designed to be used together with the questions for councillors in Appendix 3.

144 Fraud briefings can only be obtained from the external auditor for each individual local authority. We encourage all councils to discuss their briefings with their external auditor.

## Other sources of help

145 Action Fraud<sup>i</sup> is the national reporting centre for fraud and internet crime. As a central point of contact for information, Action Fraud is able to link seemingly unrelated crime from around the country and identify organised criminal networks. All information provided to Action Fraud may prove to be of value and contributes to the national fight against fraud.

146 Through the analysis of these fraud reports, information packages are produced for police forces and other agencies to investigate. From early 2013, local authorities have been able to report fraud directly to Action Fraud rather than local police forces. Councils should use Action Fraud reporting facilities.

147 In turn, Action Fraud should provide timely feedback to all local authorities who report frauds to them, to develop greater confidence in the reporting mechanism and encourage wider participation.

148 Another example is Operation Sterling<sup>ii</sup> (Ref. 18) the Metropolitan Police initiative to tackle economic crime. Public organisations can access the website for good practice guidance and fraud alerts that notify possible risks of types or patterns of fraud. Although focused on London fraud threats, the alerts and guidance also apply to non-London councils.

149 Councils can also access fraud intelligence through membership of the National Anti-Fraud Network (NAFN), which provides fraud warning bulletins and other counter-fraud focused services to member bodies.

i See website: <http://www.actionfraud.police.uk/>

ii See website: <http://content.met.police.uk/Site/alerts>

## Looking ahead

150 The Local Audit and Accountability Bill contains provision for the closedown of the Audit Commission in March 2015.

151 The government has announced that the NFI data matching exercises will be transferred to the Cabinet Office on 1 April 2015. This will allow the NFI to continue to provide two-yearly data matching activities and the real-time and flexible matching modules. In advance of this transfer the national report for the NFI 2012/13 will be published in June 2014.

152 The Audit Commission has made a commitment to publish its final report in the *Protecting the public purse* series in 2014, based on the 2013/14 detected fraud and corruption survey. At the time of writing, no decision has been made as to whether, or if, any organisation will assume responsibility for carrying out this survey, producing the national PPP reports, or any of the other Commission counter-fraud activities after March 2015.

153 Local government bodies detected less fraud in 2012/13. PPP 2014 will consider whether this represents a trend, or a single exception to rising detected fraud levels in recent years. But faced with continuing financial pressure, and new roles and responsibilities associated with national counter-fraud arrangements, local government bodies must keep their focus on reducing losses from fraud.

154 Local government bodies will have more effective counter-fraud arrangements if they bear in mind that:

- detected fraud provides indicative rather than definitive information on levels of fraud;
- the more they look for fraud, and look in the right way, the more they are likely to find;
- how much fraud they detect depends on how well they use their investigative resources; and
- fraud prevention and deterrence are more cost-effective than fraud detection.

**less fraud  
detected  
in 2012/13,**

**a new trend or an exception to the rise in  
detected fraud in recent years?**

## Appendix 1: Detected frauds and losses by region

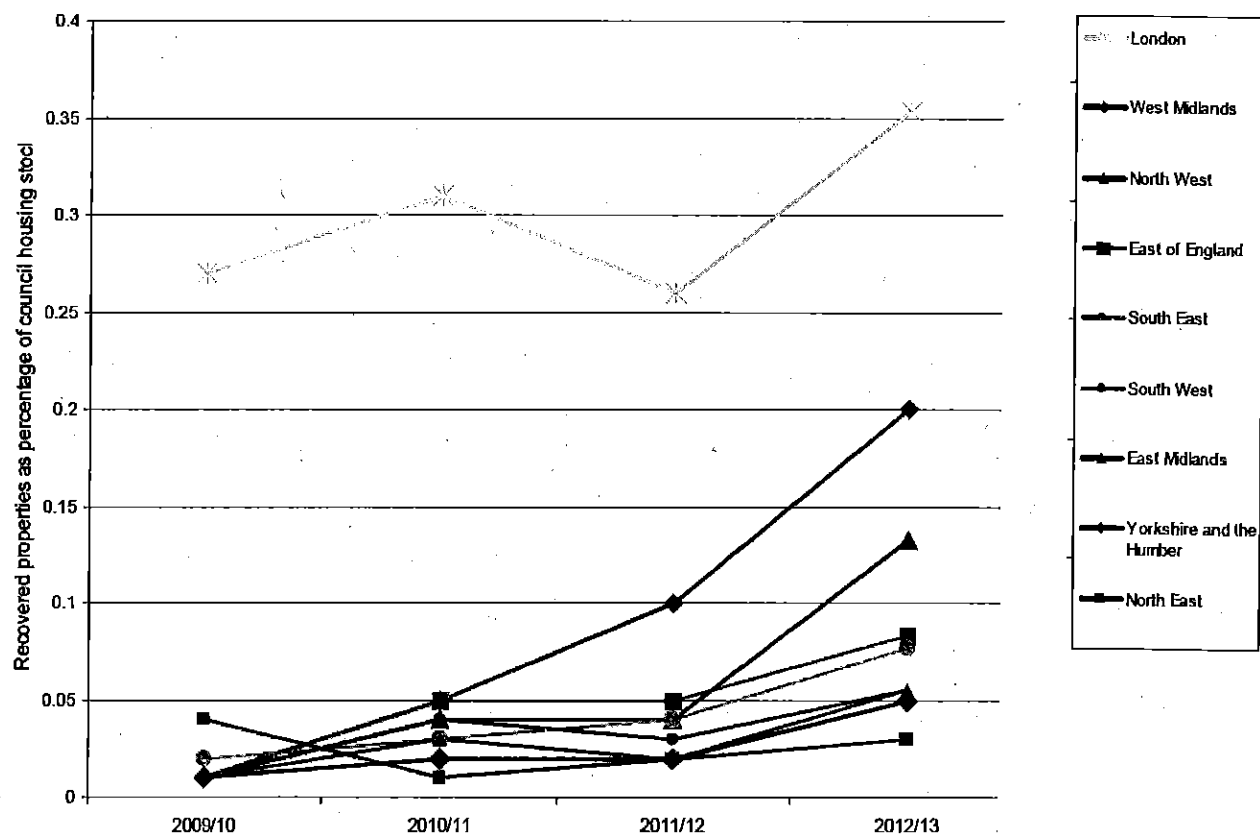
This Appendix contains more data on detected fraud in regions

Table 15: Reported value and number of detected frauds in 2012/13 by region compared to regional spend by councils

Region	Regional spend as % of total spend	Value of regional detected frauds as % of total	Number of regional cases of detected fraud as % of total
East Midlands	7.6	5.2	7.8
East of England	9.7	9.3	10.6
London	21.2	34.8	27.7
North East	5.3	3.9	7.1
North West	13.6	11.0	8.7
South East	14.2	13.2	10.7
South West	8.7	7.0	8.2
West Midlands	10.1	8.7	10.2
Yorkshire and the Humber	9.7	6.9	9.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Audit Commission (2013)

**Figure 4: Properties recovered from tenancy fraudsters, as a percentage of regional housing stock**



Source: Audit Commission (2013)

## Appendix 2: Checklist for councillors and others responsible for governance

General	Yes	No
<p><b>1. Do we have a zero tolerance policy towards fraud?</b></p> <p>Previous action</p> <p>2013 Update</p>		
<p><b>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></b></p> <p>Previous action</p> <p>2013 Update</p>		
<p><b>3. Do we have dedicated counter-fraud staff?</b></p> <p>Previous action</p> <p>2013 Update</p>		
<p><b>4. Do counter-fraud staff review all the work of our organisation?</b></p> <p>Previous action</p> <p>2013 Update</p>		
<p><b>5. Does a councillor have portfolio responsibility for fighting fraud across the council?</b></p> <p>Previous action</p> <p>2013 Update</p>		
<p><b>6. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?</b></p> <p>Previous action</p> <p>2013 Update</p>		
<p><b>7. Have we assessed our management of counter-fraud work against good practice?</b></p> <p>Previous action</p> <p>2013 Update</p>		



**General****Yes****No**

**8. Do we raise awareness of fraud risks with:**

- new staff (including agency staff);
- existing staff;
- elected members; and
- our contractors?

**Previous action**

**2013 Update**

**9. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?**

**Previous action**

**2013 Update**

**10. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?**

**Previous action**

**2013 Update**

**11. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?**

**Previous action**

**2013 Update**

**12. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on our outcomes?**

**Previous action**

**2013 Update**

**13. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?**

**Previous action**

**2013 Update**

**General****Yes****No****14. Do we have effective arrangements for:**

- reporting fraud?; and
- recording fraud?

**Previous action****2013 Update****15. Do we have effective whistle-blowing arrangements? In particular are staff:**

- aware of our whistle-blowing arrangements?
- have confidence in the confidentiality of those arrangements?
- confident that any concerns raised will be addressed?

**Previous action****2013 Update****16. Do we have effective fidelity insurance arrangements?****Previous action****2013 Update****Fighting fraud with reduced resources****No****No****17. Have we reassessed our fraud risks since the change in the financial climate?****Previous action****2013 Update****18. Have we amended our counter-fraud action plan as a result?****Previous action****2013 Update****19. Have we reallocated staff as a result?****Previous action****2013 Update**

Current risks and issues	Yes	No
<b>Housing tenancy</b>		
20. Do we take proper action to ensure that we only allocate social housing to those who are eligible?		
Previous action		
2013 Update		
21. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?		
Previous action		
2013 Update		
<b>Procurement</b>		
22. Are we satisfied our procurement controls are working as intended?		
Previous action		
2013 Update		
23. Have we reviewed our contract letting procedures since the investigations by the Office of Fair Trading into cartels, and compared them with best practice?		
Previous action		
2013 Update		
<b>Recruitment</b>		
24. Are we satisfied our recruitment procedures:		
<ul style="list-style-type: none"> <li>■ prevent us employing people working under false identities;</li> </ul>		
<ul style="list-style-type: none"> <li>■ confirm employment references effectively;</li> </ul>		
<ul style="list-style-type: none"> <li>■ ensure applicants are eligible to work in the UK; and</li> <li>■ require agencies supplying us with staff to undertake the checks that we require?</li> </ul>		
Previous action		
2013 Update		

**Current risks and issues****Yes****No****Personal budgets**

25. 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?

Previous action

2013 Update

26. Have we updated our whistle-blowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?

Previous action

2013 Update

**Council tax discount**

27. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?

Previous action

2013 Update

**Housing benefit**

28. When we tackle housing benefit fraud do we make full use of:

- National Fraud Initiative;
- Department for Work and Pensions Housing Benefit matching service;
- internal data matching; and
- private sector data matching?

Previous action

2013 Update

**Emerging fraud risks****Yes****No**

**29. Do we have appropriate and proportionate defences against emerging fraud risks:**

- business rates;
- Right to Buy;
- Social Fund and Local Welfare Assistance;
- council tax reduction;
- schools; and
- grants?

**Previous action**

**2013 Update**

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*Source: Audit Commission (2013)*

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## **Appendix 3 - Questions for councillors to support 2013 individual fraud briefings**

**These questions are designed to be used in conjunction with individual fraud briefings for local authorities.**

**Together, they will help councillors do more to improve public confidence in their council's efforts to tackle fraud in a range of areas.**

### **Tenancy fraud**

- Has my organisation attempted to quantify the scale of tenancy fraud that our housing stock is subject to (at least 4 per cent in London, 2 per cent outside London)?
- Does my organisation have a strategic plan to tackle tenancy fraud?
- Does my organisation have any dedicated investigative resources specifically allocated to tackling tenancy fraud?
- Are the resources dedicated to tackling tenancy fraud proportionate to the scale of the problem?
- Did my organisation receive any non-ring fenced government funding, for 2013 and 2014, to tackle tenancy fraud?
- If yes, has all that funding been allocated to tackle tenancy fraud?
- If yes, have my organisation engaged with local housing associations to maximise the benefit of such funding for the community?
- Is my organisation a member of Tenancy Fraud Forum, including any regional forum group?
- Does my organisation maximise the benefits of participating in data matching, such as the National Fraud Initiative, to identify tenancy frauds?
- What assurances are there that any tenancy audits undertaken are robust, specifically intended to identify tenancy frauds and follow recognised best practice?
- Has my organisation considered the Prevention of Social Housing Act, including the scope for greater partnership with housing associations?

### **Council tax discount**

- How effectively does my organisation use data matching activities to tackle council tax discount fraud, including the National Fraud Initiative?

- How well does my organisation use all forms of sanction and punishment, including penalties, criminal action and targeting previous years' fraudulently obtained discounts?
- Is my organisations policy on applying sanctions to deter council tax discount fraud effective?

#### **Right to Buy**

- Does my organisation review all applications for Right to Buy discounts?

#### **Housing benefit fraud**

- Has my organisation considered the impact of Single Fraud Investigation Service (SFIS) implementation from April 2014, on capacity to investigate non-benefit fraud?
- Has my organisation considered how best to work with SFIS to ensure local priorities and risks continue to be reflected in local activities to tackle benefit fraud?

#### **Council tax reduction**

- Does my council have a strategy to tackle Council tax reduction fraud?
- How well does this strategy combine proactive and reactive approaches to tackling fraud?

#### **Social care**

- How effective is my council's fraud awareness training for all staff working in social care (including those working for contracted providers), to identify suspected social care fraud?
- How good are my council's whistle-blowing arrangements for all staff working in social care?

#### **Business rates fraud**

- How effective is my council in maximising its income by tackling business rates fraud?

#### **Blue badge fraud (disability parking concessions)**

- How effectively does my council take action to tackle abuse of blue badge and other parking concessions?

#### **Preventing other frauds**

- How confident am I that staff in my council are aware of the risks of other high value, low frequency frauds and routinely apply all necessary controls to ensure that they do not occur?

#### **Deterrence**

- How effectively does my council detect fraud?
- How appropriate are the punishments we apply for fraud?
- How well does my council publicise its success in detecting fraud?

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<http://content.met.police.uk/Site/fraudalert>



**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.gsi.gov.uk](mailto:nationalstudies@audit-commission.gsi.gov.uk)**

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## **Norfolk Audit Services**

### **Review of the Internal Audit Terms of Reference and Code of Ethics**

#### **Report by the Interim Head of Finance**

The purpose of this report is to review the Internal Audit Terms of Reference and the Code of Ethics in accordance with the new CIPFA and IIA's UK Public Sector Internal Audit Standard, which came into force on 1 April 2013.

The Audit Committee is recommended to consider and approve the amended Terms of Reference set out in Appendix A and the Code of Ethics as set out in Appendix B.

#### **1 Background**

- 1.1 The Council is required under the Accounts and Audit Regulations (England) 2011 to make provision for internal audit in accordance with proper practices in relation to internal control previously defined in the Guidance as the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The UK Public Sector Internal Audit Standard (UK Standard) (the Standard) came into force on 1 April 2013 and replaced the CIPFA Code of Practice. CIPFA, in collaboration with the IIA have also published the Local Authority Guidance Note for the Standards
- 1.2 The Standard broadly requires the same supporting documents as the previous code, including an Internal Audit Terms of Reference (Audit Charter), a Code of Ethics and a Strategy. This report does not, as in previous years deal with the Strategy element but that is included elsewhere on the agenda. Compliance is regularly reviewed and the subject of assessment by the External Auditor.
- 1.3 The Internal Audit Terms of Reference and Code of Ethics were last approved at the January 2013 Audit Committee meeting.

#### **2 Internal Audit Terms of Reference**

- 2.1 The UK Standard requires that the purpose, authority of and responsibility for Internal Audit should be formally defined by the Council in Terms of Reference. It also required that the Terms of Reference include: independence; relationships and staffing; and training and development.

Minor changes, as underlined, were made to the Internal Audit Terms of Reference this year as shown at Appendix A. The Terms of Reference meet new Standard. (See 1.2)

### **3 Internal Audit Code of Ethics**

- 3.1 The Standard contains requirements to set minimum standards for the performance and conduct of all internal auditors and includes five main principles; Integrity, Objectivity, Competence, Confidentiality and Professional Behaviour.
- 3.2 The current Internal Audit Code of Ethics appears at Appendix B and no significant changes are considered necessary. This continues to be based on best practice, the CIPFA publication "Ethics and You" (2006) but are compatible with the Standard.

### **4 Resources**

- 4.1 There are no resource implications if the Committee approve the Internal Audit Terms of Reference and Code of Ethics as presented in this report. If there are additional significant changes to these documents then there may be staffing implications.

### **5 Section 17 Crime and Disorder Act**

- 5.1 Under section 17 of the Crime and Disorder Act, the Council has a statutory general duty to take account of the crime and disorder implications of all of its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.
- 5.2 Internal Audit helps with this by aiming to deter crime, to increase the likelihood of detection through making crime difficult, to increase the risk of detection and prosecution and to reduce the rewards from crime.
- 5.3 Internal Audit's Terms of Reference and Code of Ethics have been drafted in order to cover higher risk areas, including where weaknesses in controls might increase the risk of theft, fraud or corruption. An action plan is agreed for any weaknesses that are identified during audits, including any which might increase the risk of theft, fraud or corruption. Consideration has been given to the present economic downturn and the Anti-Fraud and Corruption plan and resources are considered adequate.

## **6 Risk Implications**

- 6.1 These documents underpin the operational performance of Norfolk Audit Services and hence significant changes to these documents would impact on the delivery of the audit service and may put at risk the good reputation of the service. The External Auditor places reliance on the work of internal audit which helps to lower their fees to the Council.

## **7 Conclusion**

- 7.1 The Internal Audit Terms of Reference and Code of Ethics meet best practice as required by the UK Standards under the Accounts and Audit (England) Regulations 2011 and the UK Public Sector Internal Audit Standard..

## **8 Recommendation**

- 8.1 The Audit Committee is recommended to consider and approve the amended Terms of Reference set out in Appendix A and the Code of Ethics as set out in Appendix B.

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If you need this Report large print, audio, Braille, alternative format or in a different language please contact Adrian Thompson 0344 800 8020 or 0344 800 8011 (textphone) and we will do our best to help.



### Norfolk County Council

#### Internal Audit - Terms of Reference

##### **1 Responsibilities and Objectives**

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

##### **2 Reporting lines and relationships**

- 2.1 Internal Audit forms part of the Resources Directorate team and within this is part of the Finance Shared Service. The Chief Internal Auditor reports directly to the Section 151 Officer (Head of Finance), who in turn reports to the Chief Executive.
- 2.2 The Council has an Audit Committee and the Chief Internal Auditor reports to the Audit Committee on a quarterly and annual basis, through the Head of Finance. The Chief Internal Auditor's Annual Report includes an 'opinion' on the adequacy and effectiveness of risk management and internal control within the authority.
- 2.3 The Audit Committee is responsible for endorsing the Annual Internal Audit Plan. The quarterly and annual reports from the Chief Internal Auditor show progress against the Plan through a summary of audit work over the period. Quality feedback from questionnaires received from clients following audits is also presented to the Audit Committee.
- 2.4 The Audit Committee Chairman meets separately and privately with the Chief Internal Auditor and with the Council's External Auditor from time to time.

##### **3 Independence and accountability**

- 3.1 Internal Audit is independent of the activities that it audits which enables the auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and unbiased recommendations. Internal auditors have no operational responsibilities.

## **Norfolk County Council**

### **Internal Audit - Terms of Reference**

- 3.2 Internal Audit determines its priorities in consultation with the Audit Committee. The Chief Internal Auditor has continual direct access to Council records, officers and reports and the ability to report independently and impartially if required. Accountability for the response to the advice and recommendations of Internal Audit lies with Chief Officers and Heads of Service, who either accept and implement the advice or choose another course of action on a risk assessed basis.

## **4 Statutory role**

- 4.1 Internal Audit is a statutory service in the context of the Accounts and Audit Regulations (England) 2011, which state in respect of Internal Audit that:  
‘A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Any officer or member of a relevant body must, if the body requires make available such documents and records as appear to that body to be necessary for the purposes of the audit; and supply the body with such information and explanation as that body considers necessary for that purpose. A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit. The findings of the review referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control referred to in regulation 4(3), by the committee or body referred to in that paragraph’.
- 4.2 The statutory role is recognised and endorsed within the Council’s Financial Regulations (Appendix 16 of the Constitution), which provide the authority for Internal Audit’s access to officers, members, premises, assets, documents and records and to require information and explanation as necessary. These rights of access also extend to partner organisations.

## **5 Consultancy or advisory reviews**

- 5.1 In addition to formal audit work, Internal Audit perform consultancy or advisory reviews as part of the annual internal audit plan, or on an ad hoc basis when requested by management. All such advisory work will be clearly identified in the Internal audit Plan. Where a significant consultancy or advisory service is required, either within or external to the Council approval will be sought from the Audit Committee. Reports from this type of work contain findings, audit views and recommendations and whilst no formal opinion is given this work does

### Norfolk County Council

#### Internal Audit - Terms of Reference

inform the Chief Internal Auditor's overall opinion on the adequacy and effectiveness of internal controls.

### 6 Internal Audit Standards

- 6.1 There is a statutory requirement for Internal Audit to work in accordance with 'proper audit practices'. These 'proper audit practices' are in effect 'the Standards' for local authority internal audit. The guidance accompanying the Accounts and Audit Regulations 2011 made it clear that the Standards were those shown in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Standards have been adopted by Internal Audit.
- 6.2 CIPFA and the IIA have now published the UK Public Sector Internal Audit Standard which comes into force from 1<sup>st</sup> April 2013. CIPFA has also published in consultation with the IIA a Local Government Application Note with respect to the Standards. Our Internal Audit Terms of Reference, Code of Ethics are compliant with the Standard and Guidance.

### 7 Internal Audit Scope

- 7.1 The scope for Internal Audit is 'the control environment comprising risk management, control and governance'. This means that the scope of Internal Audit includes all of the Council's operations, resources, services and responsibilities including those where the Council works with other bodies. This definition shows the very wide scope of Internal Audit's work.
- 7.2 In order to turn this generic description of scope into actual subjects for audit, the Chief Internal Auditor uses a risk assessment to identify high-risk areas. This risk assessment includes an assessment of the effectiveness of the systems of internal audit, reviewing the adequacy and effectiveness of risk management and reviewing corporate and departmental risk registers. This process inevitably identifies the Council's fundamental financial systems as being 'high risk', but other non-financial systems and functions are also identified as important areas for review by Internal Audit, for example project management/ICT and Health and Safety.

### 8 Internal Audit Resources

- 8.1 The Chief Internal Auditor has ensured that the resources of the Internal Audit Section are sufficient to meet its responsibilities and achieve its objectives. If a situation arises whereby the Chief Internal

### Norfolk County Council

#### Internal Audit - Terms of Reference

Auditor concludes that resources are insufficient, he must formally report this to the Section 151 Officer.

- 8.2 The Chief Internal Auditor has been responsible for appointing the staff of the Internal Audit Section and has ensured that appointments have been made to achieve the appropriate mix of qualifications, experience and skills.
- 8.3 Internal Audit is appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the Standards. Internal Auditors are properly trained to fulfil their responsibilities and maintain their professional competence through appropriate development programmes.
- 8.4 Where skills do not exist within the team, the Chief Internal Auditor buys in resources from external sources to provide an adequate, effective and professional service, for instance with respect to ICT or Health and Safety audits.
- 8.5 If Internal Audit staff are appointed from operational roles elsewhere in the Authority, they do not undertake an audit in that operational area during the first year of their appointment, except by prior agreement between the Chief Internal Auditor and the relevant Head of Service.

### 9 Fraud and Corruption

- 9.1 The Anti Fraud and Corruption Strategy was revised and updated in light of the Bribery Act that came into force on 1 July 2011 and endorsed by the Audit Committee at its September 2011 meeting. The Strategy sets out the responsibilities of the various parties. These include, amongst other things, that the promotion of and revision to the Strategy lies with Monitoring Officer (Head of Law) advised by the Chief Internal Auditor. Managing the risk of fraud and corruption is the responsibility of Chief Officers; Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. Internal Audit may be requested by management to assist with fraud related work. A training programme to develop fraud investigatory skills within the team is included within the development plans.
- 9.2 The Chief Internal Auditor advises Chief Officers on fraud and corruption issues.



### Norfolk County Council

#### Internal Audit - Terms of Reference

- 9.3 The Chief Internal Auditor has made arrangements to be informed of all suspected or detected fraud, corruption or improprieties so that he can consider the adequacy of the relevant controls, and evaluate the implications for the opinion on the internal control environment.

#### 10 Reporting Accountabilities

- 10.1 A written report is prepared for every internal audit in accordance with the appropriate standards. The report is agreed with the Chief Internal Auditor before being issued to the responsible Assistant Director or Head of Service. The reports include an 'opinion' on the adequacy and effectiveness of risk management and internal controls in the area that has been audited.
- 10.2 Internal Audit make practical recommendations based on the findings of the work and discuss these with management to establish an appropriate action plan.
- 10.3 The Assistant Director or Head of Service is asked to respond to the report's recommendations within an agreed timescale. The response must show what actions have been taken or are planned in relation to each recommendation. If a recommendation is not accepted by the manager, this is also stated. The Chief Internal Auditor assesses whether the managers response is adequate.
- 10.4 Any reports with an audit opinion of 'Key Issues to be addressed' are subject to follow-up action by Internal Audit, normally within six months of its issue. This is in order to ascertain whether the agreed actions have been implemented. As a minimum, Chief Officers are asked to confirm action has been taken for the findings with a High and Medium priority. Results of follow-ups are reported to Chief Officers Group. If actions have not been implemented satisfactorily by the agreed dates, the Chief Internal Auditor will make a risk based assessment to determine what further follow-up audit and subsequent reporting to Chief Officers Group is required.
- 10.5 Any reports that, in consultation with Chief Officers, are judged to be "Corporately Significant" based upon agreed criteria are reported to the Audit Committee. These reports are subject to a full follow up audit.
- 10.6 The Chairman can request a sample of audit reports to review periodically.

#### 11 Responsibilities

- 11.1 In meeting its responsibilities, Internal Audit activities are conducted in accordance with Council strategic objectives and established policies and procedures. In addition, Internal Auditors shall comply with the

### Norfolk County Council

#### Internal Audit - Terms of Reference

Code of Ethics and the Code of Practice for Internal Audit in Local Government promulgated by CIPFA and other such codes of professional bodies of which internal auditors are members, such as the Chartered Institute of Internal Auditors.

- 11.2 Internal Audit co-ordinate their work with that of the external auditors and assist the external auditors as required to ensure that appropriate reliance can be placed on Internal Audit's activities; Internal Audit may also place reliance upon the work of the external auditors.
- 11.3 Internal Audit will work in partnership with other bodies to secure robust internal controls that protect the Council's interests.

#### 12 Related Documents

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

**Anti-Fraud and Corruption Strategy**

**Whistle-Blowing Policy**

**Code of Conduct for Members and Co-opted Members**

**Officers Code of Conduct.**

#### 13 Definitions

In terms of the PSIAS and the LGAN:-

**Audit Charter** –these Terms of Reference for Internal Audit represent the Audit Charter.

**Senior Board** – functions are exercised by the Audit Committee

**Senior Management** – functions are exercised by the Chief Officer Group

**PSIAS** - CIPFA and IIA's UK Public Sector Internal Audit Standard, which came into force on 1 April 2013 The PSIAS and the Local Government Application Note (the Application Note) together supersede the 2006 CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom* (the 2006 Code).

**LGAN** - Local Government Application Note published by CIPFA in collaboration with the IIA in April 2013

# Norfolk County Council

## Internal Audit – Code of Ethics

### Introduction

A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control, and governance. This code is complementary to, and should be read in conjunction with the CIPFA “Ethics and You” A Guide to the CIPFA Standard of Professional Practice on Ethics (June 2006). This code is compatible with the new UK Public Sector Internal Audit Standard.

The Code of Ethics is based on five pillars,

**Integrity,  
Objectivity,  
Confidentiality,  
Competency and  
Professional Behaviour.**

### The Five Pillars

#### 1. Integrity

The integrity of internal auditors is founded upon trust and thus provides the basis for reliance on their judgement. Internal auditors will never use their authority or office for personal gain. They will seek to uphold and enhance the standing of the profession. Internal auditors will maintain an unimpeachable standard of integrity in all their business relationships both inside and outside the organisations in which they are employed. They will reject any business practice, which might reasonably be deemed improper.

Internal auditors:

- 1.1. Will perform their work with honesty, diligence, and responsibility.
- 1.2. Will observe the law and make disclosures expected by the law and the profession.
- 1.3. Will not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation or themselves in their professional capacity. The fact that an action is legal does not necessarily mean that it is ethical.
- 1.4. Will declare any personal interest, which may impinge or might reasonably be deemed by others to impinge on impartiality in any matter relevant to his or her duties.
- 1.5. Will respect and contribute to the legitimate and ethical objectives of the organisation.
- 1.6. Will be trustworthy, truthful and honest. They should also promote and support these fundamental principles by leadership and example.

### Norfolk County Council

#### Internal Audit – Code of Ethics

## 2. Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Internal auditors:

- 2.1. Will not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2. Will not accept anything that may impair or be presumed to impair their professional judgement
- 2.3. Will disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review or distort their reports or conceal unlawful practice.
- 2.4. Will at all times maintain their professional independence. They must be fair and must not allow prejudice or bias, conflict of interest or the influence of others to override their judgement and actions.

## 3. Confidentiality

Internal auditors respect the value and ownership of information they receive and do not hold or disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Internal auditors:

- 3.1 Will be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Will not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.
- 3.3. Will respect the proper confidentiality of information acquired during the course of performing professional services: information given in the course of duty should be true and fair and never designed to mislead
- 3.4. Will not use or disclose any such information without specific authority unless there is a legal or professional right or duty of disclosure.

## **Norfolk County Council**

### **Internal Audit – Code of Ethics**

#### **4. Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services. Internal auditors foster the highest possible standards of professional competence amongst those for whom they are responsible optimising the use of resources for which they are responsible to provide the maximum benefit to their employing organisation

Internal auditors:

- 4.1. Will engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Will continually improve their proficiency and the effectiveness and quality of their services.
- 4.3. Will perform professional services with due care, competence and diligence, and have a continuing duty to maintain their professional knowledge and skill at a level required to ensure that an employer or client receives the advantage of a competent professional service based on up-to-date developments in practice, legislation and techniques.
- 4.4. Will carry out professional services in accordance with the relevant technical and professional standards.

#### **5. Professional Behaviour**

Internal auditors comply with standards and laws and must not bring the reputation of the profession into disrepute in their behaviour and actions.

Internal auditors:

- 5.1 will behave in a professional manner both during their day to day work and activities outside of work.

## **Audit Committee Terms of Reference**

Report by the Chairman

The purpose of this report is to propose that the Terms of Reference, agreed at the Audit Committee meeting of 26 September 2013, are considered as part of a regular formal review.

The Audit Committee is requested to consider the revised Terms of Reference and commend them to the Council for agreement.

### **1 Background**

- 1.1 The Committee last considered its Terms of Reference on 26 September 2013. The terms of reference include that the Committee should 'Review the Committee's own terms of reference to ensure they are current'. The Committee's Terms of Reference form part of the Council's Constitution (Appendix 2): Composition and Terms of Reference of Regulatory and Other Committees.
- 1.2 Following a review of best practice, further minor changes are required to the Terms of Reference. Attached at Appendix A are suggested revised Terms of Reference with the minor changes underlined. These revised Terms of Reference are compliant with the requirements of the Public Sector Internal Audit Standards 2013 and the Local Authority Guidance Note of April 2013 (PSIAS) and help to ensure that the Council complies with best practice guidance identified in the CIPFA publication 'A toolkit for Local Authority Audit Committees'.

### **2 Resource Implications**

- 2.1 There are no resource implications arising from this report.

### **3 Section 17 - Crime and Disorder Act**

- 3.1 There are no relevant issues under this Act.

### **4 Equalities Impact and Other Implications**

- 4.1 There are no direct implications with respect to equalities with respect to this report and there are no other implications.

### **5 Risk Implications**

- 5.1 This report has fully taken into account any relevant issues arising from the Council's policy and strategy for risk management and any issues identified in the corporate and departmental risk registers.

## 6 Conclusion

- 6.1 Following a review of best practice, including the UK Public Sector Internal Audit Standards, minor changes are proposed for the Committee's Terms of Reference, as indicated in Appendix A.

## 7 Recommendation

- 7.1 The Audit Committee is requested to consider the revised Terms of Reference and commend them to the Council for agreement.

Ian Mackie  
Chairman

If you have any questions about matters contained in the report please get in touch with

Adrian Thompson  
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If you need this Report in large print, audio, Braille, alternative format or in a different language please contact Adrian Thompson 0344 800 8020 or 0344 800 8011 (textphone) and we will do our best to help.



## TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

### A Governance

- 1 Consider the Annual Governance Statement, and be satisfied that that this statement is comprehensive, properly reflects the risk and internal control environment, including the System of Internal Audit, and includes an agreed action plan for improvements where necessary.

### B Internal Audit and Internal Control

- 1 With Chief Officers, to provide proactive leadership and direction on audit governance issues and champion audit and internal control throughout the Council.
- 2 Consider annually the effectiveness of the system of internal audit including internal audit's strategy, plan and performance and that those arrangements are compliant with all applicable statutes and regulations, including the Public Sector Internal Audit Standards and the Local Authority Guidance Note of 2013 and any other relevant statements of best practice.
- 3 Consider an annual report and quarterly summaries of internal audit reports and activities which include an opinion on the adequacy and effectiveness of the Council's internal controls including risk management , any corporately significant issues arising, and receive assurance that action has been taken as necessary.
- 4 Consider reports showing progress against the audit plan and proposed amendments to the audit plan.
- 5 Ensure there are effective relationships between internal audit and external audit, other inspection agencies and other relevant bodies and that the value of the audit process is actively promoted.

### C Risk Management

- 1 Provide proactive leadership and direction on risk management governance issues and champion risk management throughout the Council and ensure that the full Council is kept sufficiently informed to enable it to approve the Council's risk management Policy and Framework and that proper insurance exists where appropriate.
- 2 Consider the effectiveness of the system of risk management arrangements
- 3 Consider an annual report and quarterly reports with respect to risk management including, an opinion on the adequacy and effectiveness of the Council's risk management, any corporately significant issues arising, and receive assurance that action has been taken as necessary.
- 4 Receive assurances that action is being taken on risk related issues identified by both internal and external auditors and other inspectors.
- 5 Independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk.
- 6 Report annually to full Council as per the Financial Regulations.



## **D Anti-Fraud and Corruption**

- 1 Provide proactive leadership and direction on Anti-Fraud and Corruption and champion Anti-Fraud and Corruption throughout the council.
- 2 Consider the effectiveness of the Council's anti-fraud and corruption arrangements.
- 3 Consider an annual report and other such reports, including an annual plan on activity with respect to Anti-Fraud and Corruption performance and receive assurances that action is being taken where necessary.

## **E Annual Statement of Accounts**

- 1 Consider the external auditor's reports and opinions, relevant requirements of International Standards on Auditing and any other reports to members with respect to the Accounts, including the Norfolk Pension Fund and Norfolk Fire-fighter's Pension Fund, and approve the Accounts on behalf of the Council and report required actions to the Council. Monitor management action in response to issues raised by the external auditor.
- 2 Consider the External Auditor's Annual Governance Report and endorse the action plan contained in this Report and approve ~~the~~ a Letter of Representation with respect to the Accounts.

## **F External Audit**

- 1 Consider reports of external audit and other inspection agencies
- 2 Ensure there are effective relationships between external audit and internal audit
- 3 Consider the scope and fees of the external auditors for audit, inspection and other work.
- 4 ~~Liaise with the Audit Commission over the appointment of the Council's external auditor~~

## **G Norfolk NCG Pension Fund**

- 1 Following presentation to the Pensions Committee and with due regard to any comments and observations made, consider the relevant Governance reports of the Norfolk Pension Fund.

## **H Treasury Management**

- 1 Consider the effectiveness of the governance, control and risk management arrangements for Treasury management and ensure that they meet best practice.

## **I Administration**

- 1 Review the committee's own terms of reference no less frequently than annually and where appropriate make recommendations to the Council for changes.
- 2 Ensure members of the committee have sufficient training to effectively undertake the duties of this committee.
- 3 Consider the six monthly and Annual Reports of the Chairman of the Committee.

**Norfolk Audit Services**

**Internal Audit Strategy, Approach, Strategic Plan  
2014-2017 and Annual Internal Audit Plan 2014-2015**

**Report by the Interim Head of Finance**

The purpose of this report is to set out the Internal Audit Strategy, the approach and Strategic Plan for the three year period from 2014-15 to 2016-17 and the detailed Annual Internal Audit Plan for 2014-15.

In accordance with the terms of reference for the Audit Committee, to meet statutory regulations, relevant standards and best practice (including the CIPFA publication 'A toolkit for Local Authority Audit Committees') the Audit Committee is recommended to consider and approve the Internal Audit Strategy (Appendix A), the Approach (Appendix B), the Proposed Delivery of the Internal Audit Strategy for 2014-15 (Appendix C), the Strategic Plan to support the audit opinion for 2014-2017 (Appendix D) and the Annual Internal Audit Plan 2014-15 (Detailed) at Appendix E.

**1. Background**

- 1.1 Internal Audit provides assurance on risk management, internal control and governance which support the Council in achieving its priorities. Internal audit contributes to those aims by helping to promote a secure and robust internal control environment, including the management and reporting of performance which enables a focus to be maintained on those priorities. This is more important to the Council than ever as it attempts to address the significant governance and control issues that have been identified and reported in some parts of the Council recently. The local government environment continues to change and adapt to external drivers, including financial pressures bringing greater risks for the Council to manage and also the proposed statutory changes to Local Public Audit arrangements. The need for robust and effective Anti-Fraud activity including prevention, detection and investigation continues and the planning makes provision for this.
- 1.2 The overall planned internal audit days for the Council have reduced by 60% from the 2008-09 baseline as a result of planned and managed savings in the Council total resources. The team have achieved significant savings in the actual net cost of the service over that time. There has been a 33% reduction in the internal audit net expenditure since the 2008-09 baseline. During 2014-15 and going forward the Council requires a very strong internal audit function that is able to

operate in a much wider and strategic way, assisting the organization by helping it put in place a more efficient and effective control, performance and governance environment. Work on progressing and reporting the resolution of High Priority Internal Audit Findings is developing and making an impact. Our planning for 2014-15 recognises the development of the France Channel England Audit Authority by the internal audit team, the traded schools service and work to reorganise the team to exploit any potential collaboration or contracting opportunities that may arise.

- 1.3 The Council is required under the Accounts and Audit Regulations (England) 2011 to make provision for internal audit in accordance with “proper practices in relation to internal control”. CIPFA, in collaboration with the Chartered Institute of Internal Auditors (CIIA) have produced the UK Public Sector Internal Audit Standards (the Standards) which came into force on 1 April 2013 and replaced the CIPFA Code of Practice. CIPFA, in collaboration with the CIIA, also published in April 2013 the Local Authority Guidance Note (LAGN) for the Standards.
- 1.4 The Audit Committee should consider annually,
  - the effectiveness of the system of internal audit including internal audit’s strategy, plan and performance,
  - that those arrangements are compliant with all applicable statutes and regulations, including the Standards and the LAGN, and any other relevant statements of best practice, and
  - the adequacy of the Council’s strategic risk management, internal control and governance processes.
- 1.5 The Standards set out the expected professional standards for internal audit in local government and the requirement for a risk based internal audit plan. This report sets out the Strategic Plan 2014-2017 and is the basis for the Annual Internal Audit Plan for 2014-15 prepared in accordance with the Standards.
- 1.6 The Strategic Plan has been devised following a risk based approach using the following.
  - the Corporate Risk Register,
  - departmental Risk Registers,
  - engagement with senior officers,
  - review of the External Audit and Inspections reports,
  - a review of corporate strategies,
  - concerns from Members
  - cumulative audit knowledge and experience,
  - engagement with other Heads of Audit and
  - professional judgement on the risk of fraud and error.
- 1.7 Using the above sources of information, the plan has been drafted to balance the following,
  - the requirement to give an objective and evidence based opinion on all aspects of governance, risk management and internal control,

- the requirement for External Audit to place reliance on internal audits of the key financial systems for their annual opinion on the financial statements,
  - identified control and governance issues,
  - the requirement to inform and support the production of the Annual Governance Statement for the Council,
  - best practice is that Internal Audit adds value through improving controls and streamlining processes. The work should have a balance of breadth and depth of scope
  - the allocation of time required for responding to queries on control issues,
  - the allocation of time required for responding to fraud queries and
  - the resource and skill mix available to undertake the work.
- 1.8 In addition, there are a number of major changes taking place across the organisation that will come into force during the period of this audit plan such as the reorganisation and transformation of the type of services that the Council provides and the way in which those services are delivered. These changes have been a significant consideration in the preparation of the audit plan and will continue to have a major on-going impact on its delivery on account of the impact that these changes will have on the structure, culture, operational and internal control and risk environment of the Council.
- 1.9 As a result of these on-going changes the audit plan will continue to be constantly revisited during the year and any necessary adjustments made to reflect the changing environment. Chief Officers, senior managers and Members will all have a role to play in this and it is my intention to ensure that regular scheduled meetings take place to discuss these developments, any emerging risks identified as a result of this and any required changes to the plan resulting.
- 1.10 Contingency days have also been identified within the plan to address any emerging risks identified during the lifecycle of the Annual Internal Audit Plan.
- 1.11 The Internal Audit Strategy was last approved at the January 2013 Audit Committee meeting.

## 2. Internal Audit Strategy

- 2.1 Attached as **Appendix A** is the proposed Internal Audit Strategy. This Strategy is largely as approved by the Audit Committee in January 2013. Additions to the Strategy are underlined and deletions are struck through to show the changes.
- 2.2 The strategy remains as in previous years to ensure we deliver a quality audit service to all our clients whilst complying with the legislation and standards. A summary chart of how the strategy is planned over the next three years is shown below in Table 1.

Table 1: The Internal Audit Strategy over the three years 2014-5 to 2016-17  
(See also Appendix C and D)

<b>Audit</b>	<b>2014/15 Audit days</b>	<b>2015/16 Audit days</b>	<b>2016/17 Audit days</b>
Total Corporate Governance	80	80	80
Total Core Financial Systems	150	180	180
Total Service Specific	839	826	861
Total ICT	41*	41*	41*
Total Counter Fraud	60**	60	60
Total Advisory	50	50	50
Reporting	58	58	58
Total Contingency	90	73	38
<b>Total Audit Days</b>	<b>1,368</b>	<b>1,368</b>	<b>1,368</b>

\* 21 of the above days for ICT represent contractor management time only, delivered from NAS resources. Additional technical resources will be bought in annually, estimated at 40 days of contractor time.

\*\* note that this only represents days dedicated to supporting the Anti-fraud strategy. Audit days within the Total Service Specific may also be providing assurance on anti-fraud controls. In 2014-15, an additional 112 audit days will provide such assurance and 40 days will be used from contingency for specific Anti Fraud related audits.

### **3. Internal Audit Approach for 2014-15**

- 3.1 Attached as **Appendix B** is the Internal Audit Approach for 2014-15.
- 3.2 Our approach continues with a plan based on a reduced number of audit days whilst maintaining an effective internal audit in compliance with the legislation and relevant standards. There has been a 33% reduction in the internal audit net budget (in actual terms) since the 2008-09 baseline. A breakdown of how this reduction has been achieved has been included as Table 1 within Appendix B.
- 3.3 Throughout the budget reduction process, an adequate and effective internal audit function has been maintained, as per the requirements of the Accounts and Audit Regulations 2011 and providing the necessary assurance to Members and the external auditors.

- 3.4 It is our current assessment that the review of all internal processes has delivered all the anticipated reductions in audit days. The generation of additional income may further reduce the net costs in the internal audit budget. Given the background described at point 1.1 above, no additional reductions in coverage can be generated, without compromising quality or coverage of audit risks to the organisation.
- 3.5 A summary of the Strategic Audit Plan is given in **Appendix C (2014-15) and Appendix D (2014-2017)**. Following a sustained series of reductions (see Figure 1 below) the expenditure over the next three years is planned to remain relatively static at 2013-14 levels.

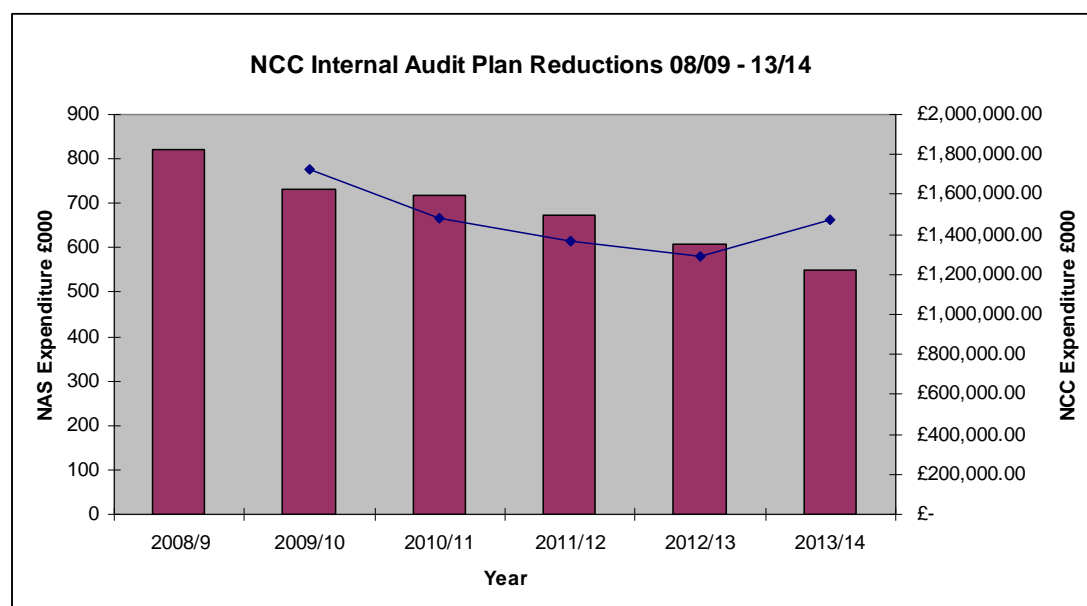


Figure1: Internal audit net expenditure 2008/09 to 2016/17. The right hand axis shows the gross expenditure for NCC. This is shown as a blue line on the graph.

- 3.6 The main points and changes to note are,
- a move to a three year strategic internal audit plan – the rationale here is to ensure that Internal Audit takes a wider strategic view of risk and to ensure that audit effort is utilised as efficiently and effectively as possible to mitigate risk in a changing environment. The Strategic Plan is designed to inform this process providing relevant assurance opinions on systems either in place or developing and providing directional assessments regarding actions required to implement any of the necessary improvements.
  - The plan reflects an unchanged resource requirement except for the work as European Union Audit Authority for the France-Chanel-England (FCE) programme where the cost of the additional resource will be offset by EC income. The involvement of NCC as a Managing Authority for the programme was endorsed by Cabinet on 10 June 2013, as supported by a report highlighting the risks and benefits of such an initiative. The involvement of NAS as an Audit Authority will not only support the successful overall management of the programme but also generate an income for Norfolk Audit

Services, some of which will cover existing staffing costs, where existing members of staff are redeployed to the project.

#### 4. Annual Internal Audit Plan

- 4.1 Attached as Appendix C is the Annual Internal Audit Plan for 2014-15 which shows the proposed delivery of the Internal Audit Strategy for 2014-15. **Appendix E** shows the detailed audit work to support the opinion.
- 4.2 In order to support the improvement and organisational change we have allowed 50 days of advisory work in the plan.
- 4.3 The proportion of internal and external (chargeable) work is shown in Figure 3 below. The external work supports local public audit, helps recover fixed overheads for the service and maintains overall resilience.

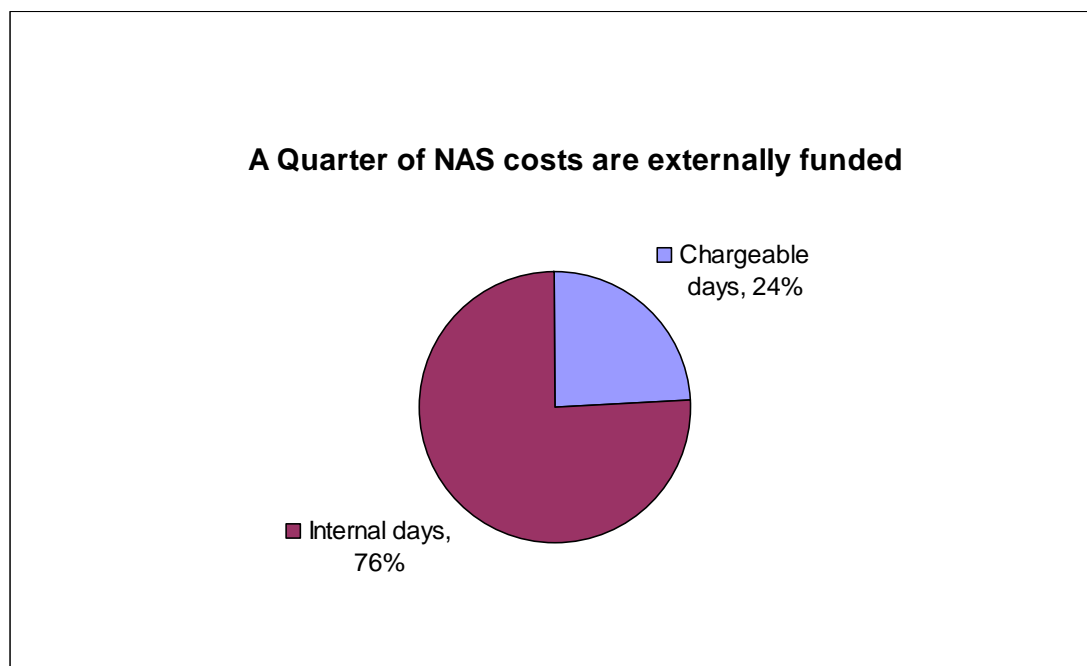


Figure 3: The proportion of audit days and chargeable days proposed for 14-15

- 4.4 The proportion of coverage for each of the main audit areas is shown in Figure 4 below. The largest area includes our audits of support services and corporate governance which support all of the front line services.

## Breakdown of Audit days to support the Audit opinion

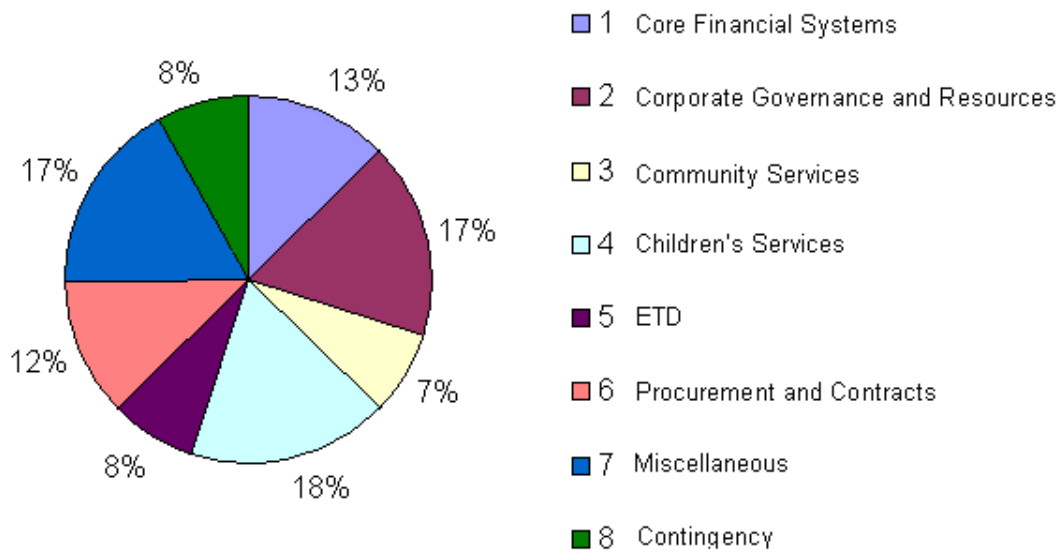


Figure 4: The breakdown by department of audit days to support the Audit opinion.

- 4.5 The Annual Audit Plan for 2014-15 focuses approximately half of the audit resources on ensuring finances are adequately managed. Audit days are also allocated to the themes of good governance and management of resources as shown in Figure 5 below. Contingency and days allocated to investigations are shown as "Other".

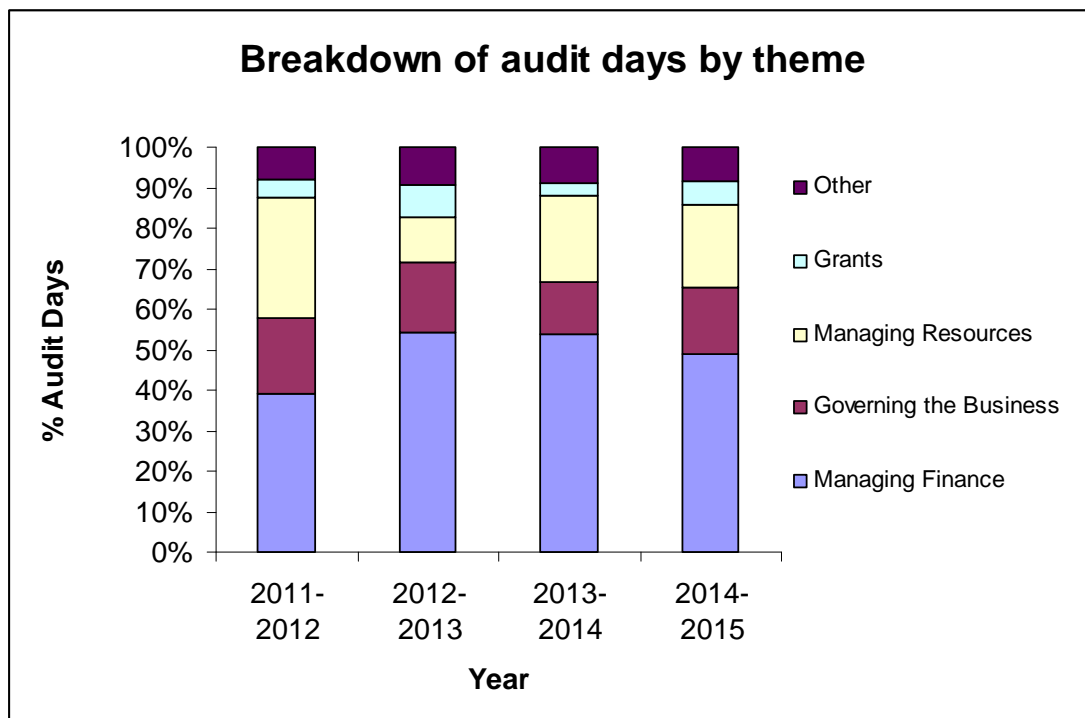


Figure 5: allocation of resources across the themes of Managing Finance, Governing the Business and Managing Resources.



4.6 The themes of good governance are as follows:

- Managing Finance includes financial systems, budgetary controls and transactions
- Managing resources includes the management of assets such as land, buildings, plant, equipment and stock
- Governing the business includes the management of information, conduct of members and staff, risk and business continuity

4.7 The Annual Internal Audit Plan for 2014-15 provides an overview of the assurance that will be obtained through each audit, the exact scopes of the audits will be agreed with Senior Management prior to commencement of the audit to ensure that the key current risks are being addressed.

4.8 The Annual Internal Audit Plan for 2014-15 will remain flexible, and will be regularly reviewed and a formal review will be undertaken after six months to ensure it is in line with emerging risks.

## **5 Risk Implications**

5.1 If appropriate systems are not in place or are not effective there is a risk of,

- the Council failing to achieve its corporate objectives,
- the Audit Committee not complying with best practice and thereby not functioning in an efficient and effective manner and
- not meeting statutory requirements to provide adequate and effective systems of internal audit.

5.2 These documents underpin the operational performance of Norfolk Audit Services and hence significant changes to these plans would impact on the delivery of the audit service and may put at risk the good reputation of the service. The External Auditor places reliance on the work of internal audit which helps to lower their fees to the Council.

## **6 Section 17 Crime and Disorder Act**

6.1 Under section 17 of the Crime and Disorder Act, the Council has a statutory general duty to take account of the crime and disorder implications of all of its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.

6.2 Internal Audit helps with this by aiming to deter crime, to increase the likelihood of detection through making crime difficult, to increase the risk of detection and prosecution and to reduce the rewards from crime.

6.3 Internal Audit's Terms of Reference and Code of Ethics have been drafted in order to cover higher risk areas, including where weaknesses in controls might increase the risk of theft, fraud or corruption. An action plan is agreed for any weaknesses that are identified during audits, including any which might increase the risk of theft, fraud or corruption.

Consideration has been given to the present economic downturn and the Anti-Fraud and Corruption plan and resources are considered adequate.

## **7 Resource Implications:**

- 7.1 There are resources implications if the Committee does not approve the Internal Audit Strategy, Approach and Strategic Plan 2014-2017 as presented in this report. Significant changes to the Strategy, Approach and Plan may result in staffing and cost implications. A reduction in resources may expose the County Council to inadequate internal audit coverage and in turn to the risk of financial or reputational loss.
- 7.2 There are no direct assets implications arising from this report.

## **8 Legal Implications**

- 8.1 Internal audit work should fulfil the requirement for an internal audit function as described in the Accounts and Audit Regulations 2012, namely "A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control."

## **9 Equality Implications**

- 9.1 There are no implications with relevance to equality from this report.

## **10 Conclusion**

- 10.1 Internal Audit provides assurance on risk management, internal control and governance which support the Council in achieving its priorities. Internal audit contributes to those aims by helping to promote a secure and robust internal control environment, including the management and reporting of performance which enables a focus to be maintained on those priorities. This is more important to the Council than ever as it attempts to address the significant governance and control issues that have been identified and reported in some parts of the Council recently. The overall audit days for the Council have reduced by 60% from the 2008-09 baseline as a result of planned and managed reductions in resources. During 2014-15 the Council requires a very strong internal audit function that is able to operate in a much wider and strategic way, assisting the organization by helping it put in place a more efficient and effective control and governance environment.
- 10.2 It is our current assessment that the review of all internal processes has delivered all the anticipated reductions in audit days. The generation of additional income may further reduce the net costs in the internal audit budget. Given the background described at point 1.1 above, no additional reductions in coverage can be generated, without compromising quality or coverage of audit risks to the organisation.

10.3 The Internal Audit Strategy (Appendix A), the Approach (Appendix B), the Strategic Plan 2014-15 to 2016-17 (Appendix C) and the Annual Internal Audit plan 2014-15 appendix D) meet the statutory requirements, comply with the appropriate standards and best practice to deliver an adequate and appropriate internal audit coverage for the Council.

## **11 Recommendation**

11.1 In accordance with the terms of reference for the Audit Committee, to meet statutory regulations, relevant standards and best practice (including the CIPFA publication 'A toolkit for Local Authority Audit Committees') the Audit Committee is recommended to consider and approve the Internal Audit Strategy (Appendix A), the Approach (Appendix B), the Proposed Delivery of the Internal Audit Strategy for 2014-15 (Appendix C), the Strategic Plan to support the audit opinion for 2014-2017 (Appendix D) and the Annual Internal Audit Plan 2014-15 (Detailed) at Appendix E.

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If you need this Report large print, audio, Braille, alternative format or in a different language please contact Adrian Thompson 0344 800 8020 or 0344 800 8011 (textphone) and we will do our best to help.



Norfolk County Council

**Internal Audit Strategy, Approach, Strategic Plan  
2014-2017<sup>1</sup> and Annual Internal Audit Plan 2014-2015**

**Internal Audit Strategy**

**Introduction**

The Internal Audit Strategy for 2014-15, effective from this Committee's approval, focuses on the delivery of the assurance (opinion) and the internal audit plan to support this opinion. This strategy reflects Internal Audit's contribution to the Council's Core Priorities in the wake of the Government's Comprehensive Spending Review in October 2010 and fully supports the Council's ambitions. The strategy incorporates best practice from CIPFA and the CIIA.

The mission of the Internal Audit Team is to provide value for all our stakeholders. There are three ways that we achieve this by providing:

- Assurance,
- Objectivity; and
- Insight

The assurance is provided through three elements:

- Governance,
- Internal Control; and
- Risk Management

Our objectivity is provided by our:

- Integrity,
- Accountability; and
- Independence

The insight we deliver is through our:

- Analysis,
- Assessment; and
- Action plans

We aim to deliver the right work, of the right quality, to the right people at the right time and for the right price. There are some overarching strategies to support the delivery of all our services, these include:

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<sup>1</sup> This document contains tracked changes to illustrate the amendment made to the 2013-16 Audit Strategy document, as approved at the January 2013 Audit Committee meeting

**9. To support and promote the Council's vision, ambitions, value and objectives in all we do, whilst considering changes resulting from the Organisational Review.**

Our strategy is to ensure that our delivery of all our services has been influenced by and positively contributes to these developments together with the growing need for wider ranging assurances in all aspects of the Council's operations. We will consider and review the impact of these changes on the Council's Governance, internal control and risks.

As part of this we aim over the next 3 years to continue to fulfil, the financial savings required of the team, the audit delivery targets and the various changes to our processes that are planned or already in progress. We aim to exercise our professional judgement in giving assurance, which points to the future capability of the system of risk management and internal control to help deliver success.

**Our success is measured through review of the outcomes from audits and the difference we make as reported in the Chief Internal Auditor's Annual Internal Audit Report.**

**9. To plan, organise and control the delivery of all our services to professional standards (UKPSIAS).**

We work to add value through providing reliable objective assurance and insight on the effectiveness and efficiency of governance, risk management and internal control processes. We aim to challenge and inspire colleagues to improve.

We aim to create and communicate high quality information about the effective operation of management's controls over risks.

Our annual audit planning identifies essential and desirable audits based on an audit needs assessment and these are considered and matched to our resources in consultation with the Head of Finance, Chief Officers and Members before approval by the Audit Committee.

Changes to the approved Internal Audit Plan are also agreed as above and notified to the Audit Committee throughout the year.

We use our combined experience and knowledge to provide helpful and practical insight and recommendations, We are a catalyst for improving the Council's effectiveness and efficiency based on analysis and assessments of data and business processes.

The team has a comprehensive set of procedures and templates that are regularly reviewed and approved to ensure a consistent approach to our work.

Audit work is reviewed to ensure that it is evidenced based, independent, technically compliant, risk based, timely, has impact and is efficient. We deliver all our services in compliance with the Standards CIPFA Code of Practice (2006). We employ quality controls, quality monitoring and quality reviews of our work. ~~CIPFA and the IIA have consulted on a draft and it is expected this will be issued in early 2013.~~ Our Internal Audit Terms of Reference, Code of Ethics and this Strategy meets the new Standards.

We identify audit resources (staff or contractors) with the appropriate skills to deliver the audit service, which meets required professional standards. We are committed to integrity, accountability and high customer care standards. This can involve the use of internal and/or external resources. All members of the team above the Senior Auditor level should be professionally qualified. All Auditors and Senior Auditors are required to be Association of Accounting Technicians (AAT) or part IIA or CAAB qualified. We provide assistance with training and continuing professional development appropriately for all members of the team. The Authority and the audit team subscribe to professional support forums. The Chief Internal Auditor is a member of the County Chief Internal Auditor Network (CCAN), the Home Counties Chief Internal Auditor Group (HCCIAG) and the Norfolk Chief Internal Auditor Group in order to utilise the peer support that these groups provide. We have a Quality Assurance Improvement Plan (QAIP) as required by the Standard.

**Our success is measured through meeting the Standards and the delivery of the annual Internal Audit Plan within planned resources as reported in the Chief Internal Auditor's Annual Internal Audit Report.**

#### **9. To fulfil our Terms of Reference.**

Our strategy fully meets and supports the requirements of our Internal Audit Terms of Reference which has been approved by the Audit Committee ~~is set out in Appendix A of this report to this Committee.~~

**Our success is measured through the review of the outcomes from audits and the difference we make as reported in the Chief Internal Auditor's Annual Internal Audit Report.**

#### **9. To comply at all times with our Code of Ethics.**

Our strategy fully meets and supports the requirements of our Code of Ethics which has been approved by the Audit Committee ~~is set out in Appendix B of this report to this Committee.~~

**Our success is measured through the review of the outcomes from audits and the difference we make as reported in the Chief Internal Auditor's Annual Internal Audit Report.**

#### **9. To raise the profile of Internal Audit.**

Our strategy is to strive to raise the profile of the team in a positive way at all times. The ways that we do this include:

- Professional advice and support to Members, Chief Officers and the Head of Finance.
- Delivery of our principal services including quality audit reports (draft and final) and Committee reports.

- Contributing to Finance's publications and the production of termly school newsletters.
- Issuing Client Satisfaction Questionnaires for all work that we undertake and analysing and understanding the responses and acting on the messages contained within such questionnaires.
- Maintaining good client relations and to this end
  - We maintain web pages on the Council's websites to explain the role of the internal audit team and provide links to relevant information and advice.
  - There is provision within the audit plan for advice and assistance with respect to internal control for all our clients.
  - Detailed terms of reference are prepared for each audit based on close liaison with clients.
  - We have a Pledge and Remedy statement, published on our web page ( [www.norfolk.gov.uk/auditservices](http://www.norfolk.gov.uk/auditservices) )
- Active and full participation in corporate initiatives.

**Our success is measured through the feedback both formally and informally and requests for additional or ad hoc audit work and advice from our "auditees", the Head of Finance, Chief Officers and the Audit Committee.**

## **9. To add value in our work and to contribute to ensuring Value for Money for the Council**

Our strategy is to support good value for money in all we do.

Our work

- is designed to help in the promotion of continuous performance and internal control improvement through the issue of reports containing recommendations and action plans,
- helps to ensure that the Council delivers its Plan,
- supports effective Financial Management,
- ~~on Anti-Fraud and corruption~~ helps to prevent fraud and corruption, assists in the safeguarding of assets and includes to undertake investigations where requested to do so by Chief Officers,
- generally acts as a deterrent against fraud and corruption and
- includes participation in benchmarking to measure our performance and value for money against peer organisations.

**Our success is measured through the review of the outcomes from audits and the difference we make as reported in the Chief Internal Auditor's Annual Internal Audit Report.**

## **9. To manage Internal Audit resource**

- Our approach is to continuously review our financial budget and any required savings to ensure that we remain in control and that there are no overspends. We take every opportunity to minimise our spend whilst maintaining or improving our service.

- We plan, record and monitor the time spent on all audit activities (audit and non-audit) to manage our staffing resources efficiently and economically.
- Our strategic planning includes to change both the staffing and financial resources within Finance Shared Services and our success in managing our resources will be measured against those targets

Our approach to additional non-statutory work is generally to accept such work on the basis of full cost recovery with the proviso that such work is not excessive. Such an approach therefore allows us to recover some of our overheads.

**Our success is measured through the delivery of the internal audit plan, whilst remaining within our budget allocation and delivering the corporate budgetary targets when required.**

**9. The table below sets out the services we deliver and the particular strategies for the delivery of these services:**

<b>Service</b>	<b>Particular Audit strategy for delivery/Measures of Success</b>
Reporting to the Audit Committee, quarterly and annually.	Production and delivery of reports to a professional standard. Attendance at all meetings by the appropriate officers.
Reporting to the Norfolk Joint Museums and Archaeology Committee.	Production and delivery of reports to a professional standard. Attendance at meetings by the appropriate officers.
Facilitation of the delivery of the Annual Governance Statements to the Audit Committee and the Joint Committees.	Manage the process for the delivery of the Annual Governance Statement in particular ensuring adequate and timely consultation with appropriate senior officers and members.
Provision of assurance to the Head of Finance (Section 151 Officer) with respect to the systems of governance/internal control and risk management throughout the authority and the Joint Committees.	Consider all aspects of governance, internal control and risk management throughout the authority or joint committee and arrive at a reasoned opinion.  Report this to the Head of Finance and the appropriate committees.
Undertaking audit work to support the opinion; this work produces draft and final reports which include recommendations for improvements in internal controls and an action plan This work also includes a deterrence element generally and “managed audit work” for the External Auditor with	In each audit carried out: Our audit findings are categorised into high, medium and low priority Action plans are agreed with management to mitigate risks for medium and high priority findings Any findings of low priority are



respect to key systems.	<p>reported on as discussion points within audit reports</p> <p>We assess the findings to form an overall opinion of 'Acceptable' or 'Key issues that need to be addressed'.</p> <p>All opinions are moderated by an Audit Opinion Group.</p> <p>We assess the corporate significance of the audit</p>
Provision of advice and assistance with respect to Internal Control to Chief Officers and other Senior Officers.	<p>Our annual resource plan provide for general liaison with Chief Officers and other Senior Officers particularly in the formulation of the audit plan.</p> <p>We provide advice on new systems and answers queries in respect of internal control.</p>
Provision of advice and assistance with respect to Anti Fraud and Corruption particularly to the Head of Law.	<p>We review, with the Head of Law, the Anti Fraud and Corruption Strategy on an annual basis and update it as necessary. The Strategy was last updated in June 2012.</p> <p>A performance report with respect to Anti Fraud and Corruption is made to the Audit Committee half-yearly.</p>

Provision of an Internal Audit Service to Schools.	<p>We have completed a four year plan to complete an audit of every school over a four year period. The strategy for auditing schools from April 2012 has been agreed with the Audit Committee and was incorporated into the 2012-13 audit plan.</p> <p>Our proposals for marketing internal audit services to maintained schools and academies were included in a report to the January 2012 Audit Committee.</p>
Provision to undertake investigations where requested to do so by Chief Officers.	To deliver professional and objective evidence based reports to assist with effective and efficient disciplinary or criminal proceedings.
Provision of an Internal Audit Service to the Norfolk Pension Fund.	<p>We provide an internal audit service to the Norfolk Pension Fund on a risk assessed basis.</p> <p>We provide these services on a full cost recovery basis which enables us to absorb the cost of some of our senior management and other overheads.</p>
Provision of advice and assistance to the Eastern Inshore Fisheries and Conservation Authority.	<p>Provision of advice and assistance with respect to the Annual Governance Statements and other internal control issues.</p> <p>We provide this service on a full cost recovery basis which enables us to absorb the cost of some of our senior management and other overheads.</p>
Undertaking Grant Certification work particularly with respect to EU grants.	We provide this service on the required charges the required charges basis which enables us to absorb the cost of some of our senior management and other overheads.
Setting up and delivering the Audit Authority function for the France-Chanel-England INTERREG 5a programme	This work supports the Council's operation of the Managing Authority and Certifying Authority giving assurance on their controls and is externally funded.

## **9. Reporting the success of the strategy**

The results of the strategy are reported to the Audit Committee in the Chief Internal Auditor's reports annually and in summary each quarter. The Head of Finance, Chief Officers and the Audit Committee provide scrutiny and challenge to this strategy.

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**Appendix B**

**Approach**

**1 Background**

- 1.1 The Audit Committee approved an Internal Audit Strategy at its meeting in January 2013 and the Strategy for 2014 -15 is set out in Appendix A to this report. The Approach set out in this appendix translates the Internal Audit Strategy into the planned work and aligns budget and workforce planning. Consideration is given in this report to both regulatory and standard requirements and the financial and organisational changes taking place within the Council.
- 1.2 The UK Public Sector Internal Audit Standard (the Standard) came into force on 1<sup>st</sup> April 2013 and CIPFA's guidance the LAGN on the Standard was also published in April 2013. This Standard and the Guidance replace the CIPFA Code of Practice for Internal Audit.

**Regulatory Requirements**

- 1.1 The Standard requires that the 'Head of Internal Audit' for Norfolk, the Chief Internal Auditor, should prepare a risk based internal audit plan designed to implement an Internal Audit Strategy. The plan should 'take account of the adequacy and outcomes of the organisation's risk management, performance management and other assurance processes'. The Chief Internal Auditor has a duty to promote good governance, share best practices and review the internal controls within the authority. With regards to the Local Audit and Accountancy Bill 2013 Central Government is undergoing a consultation currently with respect to the secondary legislation that will be required should the bill become law and Norfolk has responded to that consultation. The impact is unlikely to be significant with respect to internal audit.
- 1.2 CIPFA have published a statement on the 'Role of the Head of Internal Audit' and the Local Government version of that document includes; "the Chief Internal Auditor must lead and direct an internal audit service that is resourced to be fit for purpose". It goes on to say, "the resources available must be proportionate to the size, complexity and risk profile of the authority and must be enough for the Chief Internal Auditor to give a reliable opinion on the authority's control environment. Responsibility for ensuring that an effective and appropriately resourced internal audit

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service is in place rests with the authority". As Section 151 Officer, the Head of Finance has a duty to consider the adequacy of the internal audit coverage. The Head of Finance's relationship with the Chief Internal Auditor is imperative in ensuring the value and quality of the systems within internal control.

**Financial and organisational changes**

- 1.3 Following a review of the Internal Audit function in the spring of 2010, the approach taken to Internal Audit work, the resources and our methodology have been reviewed and strengthened to ensure 'Better ways of Working' are adopted to ensure adequate and effective audit coverage, albeit within a reduced internal audit resources.
- The Council continues to face significant organisational and financial challenges in 2014 -15 and beyond. The changes that the Council has made and those that are planned are fully considered in our internal audit planning approach. The Government has made it clear that the level of spending reductions over the next few years is expected to continue beyond 2014-15.
- 1.4 The minimum coverage required for internal audit comprises both the 'Managed Audit' work, to support our external auditor, as well as the other internal work needed to comply with the Accounts and Audit (England) Regulations 2011 and to form an opinion with respect to the system of internal control and risk management.
- 1.5 During 2013-14 the Audit Plan was initially set for six months (to allow for the transition) and then approved quarterly in advance for that quarter would allow greater flexibility, increased relevance and avoid inefficiency of any aborted planning. In practice this approach was not efficient. This annual plan contains sufficient flexibility to cope with the inevitable changes that are required throughout the year, with such changes being reported to the Audit Committee in the Chief Internal Auditor's quarterly reports with a formal review at the half year.
- 1.6 The detailed Internal Audit Plan for 2014 -15 has been prepared and is presented in Appendix D of this report.

**2 Approach to the Audit Plan for 2014-15**

- 2.1 The Internal Audit Team has continually reduced its workforce and headline audit days as illustrated in **Table 1** below. The team has also

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restructured its management accordingly over the past few years reducing the overall unit costs. A Principal Client Manager post and a Client Manager have been deleted. The role of Senior Auditors to support managers has increased as has Audit Assistant roles and Apprentice Auditor roles are being developed. Graduate placements are being developed under the council's "Get Britain Working " scheme. Plans to continue the reduction in resource continue with the objective that unit costs are minimised while coverage and quality are maintained.

**Table 1: Internal Audit Plan Reductions 2008-09 to 2014-15**

<b>Year</b>	<b>Net Budget (Planned)</b>	<b>Net Expenditure (Actual)</b>	<b>Notes</b>
2008-09	£765k	£822k	Base year (excludes external client days)
2009-10	£774k	£732k	Reduction mainly managed through the reorganisation and contracting out of ICT and Health and Safety work.
2010-11	£774k	£718k	Reduction achieved through the introduction of risk based internal auditing.
2011-12	£756k	£674k	Reduction achieved through Business process Reengineering of our schools audits methodology and reporting and strengthening of risk based auditing aligned with management of vacancies and increased chargeable grant work.
2012-13	£704k	£609k	Reduction through continued use of Risk Based Internal Auditing i.e. lower days per audit assignment and empowering of audit staff.
2013-14	£672k	£548k	Current forecast for the actual outturn budget. Reduction achieved through targeting audits to key risk areas in the new organisational operating model and the management of vacancies.
2014-15	£549		Overall reduction of £274k from base year in actual terms (33%)

2.2 The key messages in this approach are:

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- only the 'essential' audit work, which our risk and needs assessment, undertaken with departments, identifies, will be met from the available resources,
- understanding what audit work will not feature in the plan and accepting the risks arising from that.

2.3 The Annual Internal Audit plan is kept under review through regular assessment by the Chief Internal Auditor, including assessing performance with delivery, and amended as appropriate to reflect changing priorities and emerging risks which are report to the Audit Committee.

### **3 Scoping for 2014-15**

The total requirement for the full services we deliver, are presented in our Internal Audit Strategy (a separate report to this Committee). The Chairman and Vice Chairman of the Audit Committee will be consulted with respect to proposed changes during the year.

- 3.1 With our existing audit team, a mix of permanent and temporary staff, and reduced specialist contractor audit days, we propose that there should be **1,368** delivered days (1,840 equivalent days in 2013 -14) available.
- 3.2 The audit plan will be based on an audit universe of both essential and desirable audits. These are risk assessed in consultation with Chief Officers. Essential audits will be defined as those with the highest risk and the detailed plan developed to match the resources available. It is expected that only audits deemed 'essential' will be included in the plan. The work to support the provision of the opinion to the Head of Finance contains:
- Discretionary audits agreed with Chief Officers
  - Managed audit work for external auditors; and
  - Schools audit work
  - Specialist ICT and Health and Safety work.
- 3.3 The managed audit work to support the external auditor's assurance is fixed in nature and timing. We are consulting our new external auditor to confirm their requirements for assurance work from us.
- 3.4 We will continue to engage specialist auditors for complex and highly technical audits within the cash limited budget of £20,000. These are currently identified as ICT and Health and Safety. Regarding ICT

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following a mini competition exercise we will continue for up to a further five years with PWC. For Health and Safety we have used Mott MacDonald through the strategic partnership agreement and this arrangement will continue through 2014-15.

- 3.5 Benchmarking is difficult in times where there are significant changes taking place. The audit resources are however still considered to be comparable and reasonable for the size of the authority. On an annual basis using CIPFA guidance, relevant data is benchmarked against the “most similar authorities” within the UK to ensure the comparison is meaningful. Data benchmarked includes auditor qualifications, chargeable audit days and cost per auditor. The CIPFA questionnaire is completed after data is compiled and after a detailed analysis the department can assess how efficient and cost effective it is against other similar authorities.
- 3.6 We continue to develop customer care and as part of this we ensure that our quality control and assurance procedures are met and are reviewed and updated as necessary.
- 3.7 The Audit Committee promote the value and quality of the systems of internal audit and support the Head of Finance in maintaining appropriate resources and direction of the audit work. The Chairman’s Half Yearly report explains how this is achieved.

#### **4 Conclusions**

- 4.1 There are requirements for an adequate and effective internal audit function to meet statutory, best practice and aspirational requirements, including the external auditor’s value for money opinion.
- 4.2 The internal audit planning needs to recognise, accommodate and be sufficiently flexible to fit with the authority’s financial and organisational changes during the life of the plan. Changes may be necessary to reflect the audit needs for the developing change programme and Business Process Re-engineering or unplanned due, for example, to unexpected changes in key staff, who manage key risks.
- 4.3 The authority’s own audit days available for 2014-15 should be 1,434 (1,840 in 2013-14), which is considered sufficient to allow the Chief Internal Auditor to form an opinion on the authorities control environment, taking into account the authorities’ risk management, performance



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management and other assurance procedures. This follows a trend in significant resource reduction being managed since 2008-09.

- 4.4 We will continue to seek and promote greater value for money in our audit delivery while maintaining sufficient coverage and quality standards.
- 4.5 The Audit Committee have a key role in promoting the value and quality of the systems of internal audit and in supporting the Head of Finance in maintaining appropriate resources and direction of the audit work.

**5 Resource Implications**

- 5.1 Internal audit vacancies will continue to be managed flexibly with a mix of temporary and permanent staff under the corporate vacancy management policy. Plans for the introduction of an Apprentice Auditor role and increasing the number of Audit Assistant roles (instead of Auditor roles) in the structure are being developed. Resourcing needs identified from the rolling internal audit planning will be reviewed on an ongoing basis and reported to the Committee.

**Appendix C**

**Proposed Delivery of Internal Audit Strategy for 2014-15**

**Appendix D**

**Audit Work to Support the Audit Opinion Summary of the strategic  
3 – year audit plan 2014-17**

**Appendix E**

**Proposed Internal Audit Plan 2014-15**

## Proposed Delivery of Internal Audit Strategy for 2014-15

Note: Figures in brackets ( ) are present approved plan

Element of Strategy	Proposed Quarter 1 and 2	Proposed Quarter 3 and 4	Total Proposed Audit Days for 14-15	13-14 Comparative (actuals)
Reporting to the Audit Committee, quarterly and annually	20	20	40	40
Reporting to the Joint Committees (Norfolk Records Committee, Norfolk Joint Museums and Archaeology Committee) annually	3	0	3	3
Facilitation of the delivery of the Annual Governance Statements to the Audit Committee and the Joint Committees	0	5	5	5
Provision of assurance to the Head of Finance (Section 151 Officer) with respect to the systems of governance/internal control and risk management throughout the authority and the Joint Committees	5	5	10	10
Undertaking audit work to support the internal audit opinion ( <b>Appendix E</b> )**	607	679	1,200	1,605
Provision of advice and assistance with respect to Internal Control to Chief Officers and other Senior Officers	25	25	50	65
Provision of advice and assistance with respect to Anti Fraud and Corruption particularly to the Head of Law	30	30	60	60
Provision to undertake investigations	0	0	0	64
*Provision of chargeable Internal Audit Service to Schools			10	0
*Provision of an Internal Audit Service to Norfolk Pension Fund	30	50	80	108
*Provision of advice and assistance to the Eastern Sea Fisheries Joint Committee/EIFCA		8	8	10
*Undertaking Grant Certification work particularly with respect to EU grants (25 days non chargeable)	90	78	168	176
*Setting up and delivering the Audit Authority Function to the FCE programme			170	
<b>Gross Total</b>			1,804	2,146
*Less Delivered to external Clients			436	294
<b>Total to be Delivered to NCC</b>			1,368	1,852

\*\*Plus £20,000/ 40 days of contractor time prorata

**Audit Work to support the Audit Opinion**  
**Summary of the strategic 3-year audit plan**  
**2014-15**

**Appendix D**

Assurance area	2014/15 Audit Days	2015/16 Audit Days	2016/17 Audit Days	2014-15	
				Direct Services	Support Services
Total Corporate Governance and Transformation	120	120	80		120
Total Core Financial Systems	153	180	180		153
Total Corporate Resources	123	120	140		123
<b>Total Community Services</b>	84	95	95	84	
<b>Total Children's Services</b>	114	105	105	114	
<b>Total Schools</b>	100	100	100	100	
<b>Total ETD</b>	90	90	90	90	
Total Procurement and Contracts	147	140	140		147
Total ICT*	41	41	41		41
Total Health & Safety**	20	20	20		20
<b>Total Fire and Rescue Services</b>	25	25	25	25	
Total Communications and Customer Services	0	0	15		0
Information Management	46	45	45		46
Asset Management	51	60	60		51
High priority findings	36	36	36		36
Contingency	50	23	28		50
<b>Total Audit Days (See Appendix E)</b>	<b>1200</b>	<b>1200</b>	<b>1200</b>	<b>413</b>	<b>787</b>
Available days per Appendix C	1200				

\* half of these represent management time for external contractor work.

\*\* 100% management time only. Specialist contractor days not included.

**Norfolk Audit  
Proposed Internal  
Audit Plan 2014-15**

**Appendix E**

**Audit Work to  
Support the Audit**

Assurance area and audit topic	Allocated days	Brief description of the audit scope and purpose	(E)ssential/ (D)esirable / (F)unded by the Department	Q1 and Q2	Q3 and Q4
Corporate Governance				Y	Y
Strategic Planning	12	Ongoing review of the management of how the main priorities in the corporate plan have been translated into departments' plans.	E	Y	
Transformation Programme - Project management	10	Ongoing check point audit of two projects in first 6 months	E	Y	
Transformation Programme - Watching Brief	4	Watching brief over governance arrangements and reporting for the overall programme of change.	E	Y	
Transformation Programme - Project management	10	Ongoing check point audit of two projects in last 6 months	E		Y
Transformation Programme - Watching Brief	4	Watching brief over governance arrangements and reporting for the overall programme of change.	E		Y
Code of Conduct	10	High level audit looking at how management assure themselves the code of conduct is being complied with.	E		Y

Assurance area and audit topic	Allocated days	Brief description of the audit scope and purpose	(E)ssential/ (D)esirable / (F)unded by the Departmen t	Q1 and Q2	Q3 and Q4
Review of effectiveness of the system of internal controls	15	Annual review of the effectiveness of the system of internal control in the authority, including compliance checks against UK PSIAS.	E	Y	
Control Self Assessments	15	To support the development of self assessment of departmental systems of internal controls by Chief Officers	E	Y	
<b>Area total</b>	<b>80</b>				
<b>Core Financial Systems</b>				Y	Y
Completion of 2013-14 audits	26			Y	
Follow -ups	0				
Accounts Payable (cyclical)	17	Assurance on key computer system controls for information security. This will cover the i-proc system and other systems, newly introduced, which interface with the Finance Information Management System.	E		Y
Accounts Payable (cyclical)	15	Obtaining assurance over the controls in place over payments processed and managed outside of the key financial systems.	E		Y
Accounts Receivable (cyclical)	18	Assurance on controls over the billing process through Carefirst, for both residential and non-residential care.	E	Y	
Payroll (cyclical)	15	Computer systems on IHRIS and interfaces, system controls, reconciliations, exception reporting etc.	E	Y	

Assurance area and audit topic	Allocated days	Brief description of the audit scope and purpose	(E)ssential/ (D)esirable / (F)unded by the Departmen t	Q1 and Q2	Q3 and Q4
Recurring payments through Carefirst (Annual)	15	Supporting the work of the external auditors - Looking at 13-14 transactions. Currently required annually now absorbed as part of the Supporting the AGS work.	E	Y	
Budget setting	15	Looking at what goes to cabinet and then what get divided up.	E	Y	
Supporting the AGS	12	Looking at all the material financial system to help support the external auditors. 2013-14 transactions to be looked at.	E	Y	
TPA teachers pensions agency	20	Currently required annually by the external auditors.	E	Y	
<b>Area total</b>	<b>153</b>				
<b>Corporate Resources</b>				y	y
Follow -ups	10			Y	
Public Health - performance planning	20	Assurance over the target setting and monitoring process, over the quality of data used for monitoring performance. Checking how we obtained the required data from contracted services and manage their contribution to NCC's objectives.	E	Y	
Knowing your costs for full cost recovery	17	Corporate wide audit looking at a sample of income generating activities but not officially branded as traded services. Eg Democratic Services, Comms, Fire Services	E		Y

Assurance area and audit topic	Allocated days	Brief description of the audit scope and purpose	(E)ssential/ (D)esirable / (F)unded by the Departmen t	Q1 and Q2	Q3 and Q4
Member Expenses	7	Assurance on controls over Member expenses submitted online and adequate retention of supporting evidence.	E		Y
Financial Arrangements with Group Companies	12	Assurance over controls in place to support financial arrangements entered into post set up of group companies, from the initial business case to the monitoring of covenants and repayments.	E	Y	
Unannounced checks of departmental cash floats	15	Assurance on controls around cash floats held by departments and teams across the county council, including offices in remote locations.	D		Y
Pensions reform	10	High level assurance that IT systems and processes have been adjusted to ensure compliance with the new requirement brought in by the Pension Reform.	E		Y
Temporary staff	15	Assurance on the procurement of temp and interim staff, compliance with corporate frameworks and CSO but also compliance with HMRC ruling on self-employed.	E		Y
HR - Resource Management System	17	Assurance on the computer based controls supporting the integrity of the new authorisation process.		Y	
<b>Area total</b>	<b>123</b>				
<b>Community Services</b>				y	y

Assurance area and audit topic	Allocated days	Brief description of the audit scope and purpose	(E)ssential/ (D)esirable / (F)unded by the Departmen t	Q1 and Q2	Q3 and Q4
C/Fwd 13/14 Care Arranging Service	2	Fieldwork due to start mid Feb - poss some reporting to finalise	E	y	
Commissioning and Procurement of Care Follow up 14-17 Budget Savings (Personal Budgets)	2	Analysis of payments thru FIMs to approved provider list to ensure no unapproved providers are being used Assurance that mechanisms, systems and processes have been reviewed, implemented and are working effectively in order to ensure that £6m savings for Personal budgets for 14-15 will be achieved.	E	Y	
Mental Health and Learning Disabilities (Direct Payments)	15	Assurance MH clients receiving care under S75 MH Act are identified by NCC as eligible for Direct Payments and NCC procedures/processes are followed completely, accurately, timely etc, and to meet Government Targets.	E	y	
Role of QA	15	Assurance that the quality assurance team undertake sufficient work to provide satisfactory assurance over meeting statutory requirements.	E	y	
Quality of contracted out care services for MH/LD and Res Care (Excluding Part B services)	20	Assurance that the quality of service provided by contractors is measured, monitored and reported	E		y



Assurance area and audit topic	Allocated days	Brief description of the audit scope and purpose	(E)ssential/ (D)esirable / (F)unded by the Departmen t	Q1 and Q2	Q3 and Q4
Adult Education Commissioned Services	10	Assurance that the quality of service provided by commissioned Adult Education training services is measured, monitored and reported.	D	y	
<b>Area total</b>	<b>84</b>				
<b>CHILDREN'S SERVICES</b>					
<u>Schools</u>				y	y
High risk schools - first 6 months	22	Individual school audit visits for 4 high risk schools (3 High and 1 Primary) in the first 6 months	E	Y	
High risk schools - last 6 months	22	Individual school audit visits for 4 high risk schools (3 High and 1 Primary) in the last 6 months	E		Y
Thematic School audits	40	Thematic schools audits x2 including SFVS returns and AN other.	E		Y
Liaison meetings, newsletters, advice - 1st half	8		E	Y	
Liaison meetings, newsletters, advice - 2nd half	8				Y
<b>Schools total</b>	<b>100</b>				
<u>Children's Services operational areas</u>				y	y
Completion on 2013-14 audits:				y	y
16-19 funding	3		E	Y	
LAC audit	3		E	Y	

Assurance area and audit topic	Allocated days	Brief description of the audit scope and purpose	(E)ssential/ (D)esirable / (F)unded by the Departmen t	Q1 and Q2	Q3 and Q4
Information Governance	3	Methods used to identify audit themes and functionality of the QA team to ensure it is matching the needs of Children's Services and following up on recommendations made in it's reports	E	Y	
Functionality of QA team	15	Processes in place to identify service users within Children's Services, to ensure processes are in place to identify them for the correct support services at the correct time. To exclude troubled family identification as covered elsewhere.	E		Y
Identification of service users (SEND children, LAC and those at risk - safeguarding) - including PSN system for notification from various organisations	20	Ensuring effective safeguards are in place to ensure trust monies or monies paid for the LAC to receive, are paid over to the child and not withheld by the carer, to reduce the risk of allegations of 'financial abuse'.	E		Y
LAC security of children's funds	15	Governance arrangements to ensure MASH is working within the remit of safeguarding cases only.	E	Y	
Multi Agency Safeguarding Hub (MASH) governance	15	Supporting signing of the grant by Section 151 Officer	E	Y	
16 - 19 grants	10	Achievement of the Ofsted improvement plans, ensuring clear trackable targets are being set, monitored and reported. Will exclude the 'Raising standards' Ofsted report in Education as audited in 2013/14.	E		Y
Effectiveness of Ofsted improvement plans	20		E	Y	

Assurance area and audit topic	Allocated days	Brief description of the audit scope and purpose	(E)ssential/ (D)esirable / (F)unded by the Departmen t	Q1 and Q2	Q3 and Q4
SEND cluster follow up	5			Y	
Monitoring in non-maintained schools (SEN) - follow-up	5			Y	
<b>Children's Services operational areas total</b>	<b>114</b>				
<b>Area total</b>	<b>214</b>				
<b>Asset Management</b>				y	y
Disposal of Property	15	Assurance that systems and financial controls are in place and operating effectively.	E		Y
County Farms Management	10	Assurance that systems and financial controls are in place to ensure the completeness and accuracy of the collection of rental income and effective management of the estate.	D	Y	
Desirable Portable Assets	15	Assurance that management and controls are in place, operating effectively and complied with.	E	Y	
Inventory Management	9	High level review of controls	D		Y
Completion of 2013-14 Audit	2	Premises Manager Responsibilities		Y	
<b>Area total</b>	<b>51</b>				
<b>ETD</b>				y	y
CRC Energy Efficiency Scheme	15	To meet the Carbon Reduction Commitment and the legislative requirements to produce the annual audit letter.	E	Y	

Assurance area and audit topic	Allocated days	Brief description of the audit scope and purpose	(E)ssential/ (D)esirable / (F)unded by the Departmen t	Q1 and Q2	Q3 and Q4
Management of Travellers Sites	15	Management of sites is now NCC responsibility again. To gain assurance over the new system and controls.	E		Y
Sustaniable Drainage Systems (SUDS) Scheme For New Developments.	15	To obtain assurance over systems and financial controls and ensure that the new SUDs scheme is operating as defined and within budget.	E	Y	
Recycling Centre Management	15	To obtain assurance over the systems and financial controls for the new contract arrangement.	E		Y
Highways Agency Agreement Smart Ticketing Project	15	To obtain assurance that the new HAA is operating as specified and financial and management controls are in place and complied with.	E		Y
	15	To obtain assurance that systems and financial controls for the new ticketing system are in place and complied with.	E		Y
Completion of 2013-14 Audit	0				
<b>Area total</b>	<b>90</b>				
<b>Procurement and Contracts</b>				Y	Y
<b>Procurement</b>				y	y
EU Regulations	15	Assurance that systems and controls are in place and operating effectively to ensure EU Regulations are implemented and complied with.	E		Y

Assurance area and audit topic	Allocated days	Brief description of the audit scope and purpose	(E)ssential/ (D)esirable / (F)unded by the Departmen t	Q1 and Q2	Q3 and Q4
iProcurement	15	Assurance that systems and financial controls are in place and operating effectively.	E	Y	
Public Health Procurement	15	Assurance that NCC systems and controls are in place and operating effectively.	E		Y
Framework Arrangements	15	Assurance that systems and controls are in place and operating effectively.	E	Y	
Completion of 2013-14 Audit	5	Procurement Cards		Y	
<b>Contract</b>				Y	Y
Contract Audit - County Hall	15	Assurance that the project is on target to be completed within timescales and budget and to specification.	E		Y
Contract Audit - Public Health	15	Assurance that new contracts meet CSO and the supplies and services that are contracted for are received as specified.	E		Y
Controlled Entities Management	15	Assurance that financial controls are in place and complied with over NCC controlled entities and that they are effectively managed.	E	Y	
Completion of 2013-14 Audits	7	Contract Register,		Y	
	3	Contract Monitoring Community Services		Y	
	7	Contract Administration Children's Services		Y	

Assurance area and audit topic	Allocated days	Brief description of the audit scope and purpose	(E)ssential/ (D)esirable / (F)unded by the Departmen t	Q1 and Q2	Q3 and Q4
Contract Monitoring - Block contracts	20	Assurance that block contracts in place are used and monitored effectively, providing value for money. This supports the work currently undertaken to reduce costs via improved monitoring and better use of	E		Y
<b>Area total</b>	<b>147</b>				
<b>Information Management</b>				y	y
Records Management	15	Assurance that systems and controls are in place and operating effectively.	E	Y	
Information Governance	15	Assurance that defined management structure and systems are in place to control information management.	E	Y	
Paper and Telephone Communications	15	Assurance that systems and controls are in place to manage the communication of information and that they are complied with.	E		Y
Completion of 2013-14 Audit	1	Data Protection		Y	
<b>Area total</b>	<b>46</b>				
<b>ICT</b>				y	y
Business Continuity & Resilience	5	Contractor management time. Scope to be further defined. Est 5 days	E	Y	
Oracle EBS	5	Contractor management time. Cyclical coverage of all modules. Est 5 days	E	Y	
DNA - Watching Brief - first 6 months	10	Delivered with in-house resources. To review the governance arrangement to support the successful delivery of the DNA project. Est 10 days	E	y	

Assurance area and audit topic	Allocated days	Brief description of the audit scope and purpose	(E)ssential/ (D)esirable / (F)unded by the Departmen t	Q1 and Q2	Q3 and Q4
DNA - Watching Brief - last 6 months	10	Delivered with in-house resources. To review the governance arrangement to support the successful delivery of the DNA project. Est 10 days	E		Y
Internal Audit Needs Assessment	1	Annual review and refresh. Est 1 day	E		Y
ICT Governance Review	5	Contractor management time. Scope to be further defined. Est 5 days	E		Y
Wireless/VPN/Remote Access	5	Contractor management time. Scope to be further defined. Est 5 days	E		Y
<b>Area total</b>	<b>41</b>				
<b>Health and Safety</b>				y	y
Training	0	Estimate 10 days		y	
Lone working	0	Estimate 10 days			y
Contractor management	20			y	y
<b>Area total</b>	<b>20</b>				
<b>Fire and Rescue Services</b>				y	y
Budget Monitoring	15	Adequacy in controls to ensure any potential overspends is identified timely.	E	Y	
Collaboration	10	Watching brief on progress and plans developed.	D		Y
<b>Area total</b>	<b>25</b>				
<b>Customer Services and Communications</b>				y	y

Assurance area and audit topic	Allocated days	Brief description of the audit scope and purpose	(E)ssential/ (D)esirable / (F)unded by the Departmen t	Q1 and Q2	Q3 and Q4
Area total	<u>0</u>				
High Priority findings follow up				Y	Y
First 6 months	18	Follow up of management action on findings issued in previous audit reports and given a high priority rating.	E	Y	
Last 6 months	<u>18</u>	Follow up of management action on findings issued in previous audit reports and given a high priority rating.	E		Y
Area total	<u>36</u>				
Remaining to allocate in Q3 and Q4	90				Y
Total per half-year				607	593
<b>Total (In-house) days to support opinion</b>	<u><u>1,200</u></u>				

Note: Annual requirement for spot checks covered by the cash floats spot checks +



## **Norse Group - Transfer of Pensions Risk**

### **Report by the Interim Head of Finance**

The purpose of this report is to brief members on Cabinet's agreement for the Council to accept the transfer of Pensions Risk from Norse Group and how this relates to their role of consideration and approval of the Council's Annual Statement of Accounts.

The Audit Committee is recommended to consider and comment on the report.

## **1 Background**

- 1.1 The Terms of Reference of the Audit Committee include at part E1 Annual Statement of Accounts, 'Consider the external auditor's reports and opinions, relevant requirements of International Standards on Auditing and any other reports to members with respect to the Accounts...'
- 1.2 The Cabinet approved, at its meeting on 2 December 2013 to the transfer of Pension Risk from Norse Group to the Council. That item appears at Appendix A.

## **2 Transfer of Pension Risk**

- 2.1 The Cabinet item appears at Appendix A.
- 2.2 The item comments that, 'In the medium to longer term, when further actuarial valuations takes place, the risk of variability in pension funding costs would now rest with the County Council rather than the Norse Group. That risk could be positive or negative depending upon the movement in that cost.
- 2.3 The estimated pension liability at 31 January 2013 was £47.7m.
- 2.4 The Managing Director of the Norse Group has since confirmed that the transfer of FRS17 pension is a one-off and does not have implications

for the investment plans the Norse Group but will improve its standing with the lenders so will help in achieving a commercial rate of borrowing.

- 2.5 As those charged with governance and approving the council's Annual Statement of Accounts, the Committee should consider the transfer of risk and how it is managed.

### **3 Section 17 Crime and Disorder Act**

- 3.1 Under section 17 of the Crime and Disorder Act, the Council has a statutory general duty to take account of the crime and disorder implications of all of its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.
- 3.2 Internal Controls, including those assessed under the use of resources, help by aiming to deter crime, or increase the likelihood of detection through making crime difficult, increasing the risks of detection and prosecution and reducing rewards from crime.

### **4 Risk Management**

- 4.1 This report has fully taken into account any relevant issues arising from the Council's policy and strategy for risk management and any issues identified in the corporate and departmental risk registers.

### **5 Equalities Impact Assessment and other implications**

- 5.1 There are no equalities impacts or other implications arising from this report.

### **6 Conclusion**

- 8.1 As those charged with governance and approving the council's Annual Statement of Accounts the Committee should consider the transfer of pension risk and how it is managed. Cabinet accepted the report and the risks as set out by the Interim Head of Finance in his report.

### **7 Recommendation**

- 7.1 The Audit Committee is recommended to:
  - The Audit Committee is recommended to consider and comment on the report.

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**If you would like this report in large print, audio, Braille, alternative format or in a different language please contact Adrian Thompson on telephone 01603 222784 or 01603 223833 (minicom) and we will do our best to help.**



# Cabinet

Date: **Monday 2 December 2013**

Time: **10.30am**

Venue: **Edwards Room, County Hall, Norwich**

## SUPPLEMENTARY AGENDA

Please find enclosed the reports marked 'to follow' on the original agenda.

### 12. **Transfer of Pension Risk**

(page **A3**)

Approve the transfer of the pension risk from the Norse Group balance sheet to the County Council's single entity balance sheet.

Date Published: 28 November 2013

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## **Transfer of Pension Risk**

Report by the Interim Head of Finance

### **Summary**

The Norse Board has approached the County Council regarding the possibility of transferring the pension funding risk relating to companies that provide services to the County Council from Norse to the County Council.

This will enable historic pension arrangements between Norse and the County Council to be put on the same basis as the recent Norse Care contract.

The removal of future pension funding risk (variability in the cost of sponsoring its final salary pension scheme obligations) from the Norse Group accounts will strengthen the Norse Group balance sheet, this will:

- provide Norse with the legal capacity to pay a formal dividend to the County Council, which had this applied to the 2012/13 accounts would have amounted to a dividend of some £0.600m.
- improve Norse's prospects of winning profitable contracts in the future from which it would be excluded by the current weak position
- enable Norse to obtain better credit facilities and reduces the risk of withdrawal of existing facilities

Transferring the net pension liability back onto the County Council single entity balance sheet is a transfer of risk and will increase the Council's liability disclosure and therefore reduce its net assets. There is no intention to transfer staff from Norse back to the County Council and the risk transfer will not involve an immediate cash transaction.

At the group balance sheet level, transferring pension risk between the County Council single entity balance sheet and the Norse Group balance sheet makes no difference to the liability disclosure as the Norse liabilities are consolidated with the Council.

### **Recommendation**

Cabinet is asked to:

Approve the transfer of the pension risk from the Norse Group balance sheet to the County Council's single entity balance sheet, subject to satisfactory agreement regarding the accounting treatment being reached with the external auditors of the County Council and Norse, the respective companies being Teckal compliant and a legal agreement being entered into between the County Council, Norse and the Pension Fund.

## **1.0 Introduction**

- 1.1 The Norse Board has approached the County Council regarding the IAS 19 Pension Liability on the Norse Group Balance Sheet.
- 1.2 At 31 January 2013 the estimated pension liability was £47.7m. This exceeded the Group's Net Assets at the same date, resulting in an overall Net Liability position of £1.8m.
- 1.3 Of this total pension liability, £29.3m relates to the liabilities of the following companies, the employees of whom primarily provide services to Norfolk County Council:
  - NPS Property Consultants
  - NPS South East
  - Norse Commercial Services
  - Norse Eastern
  - NCS Transport
- 1.4 The pension liability relates to approximately 1,100 staff and of this total less than 5% undertake work for non Norfolk County Council clients, but this work makes a positive contribution to the overall profitability of these companies. The remaining pension liability of £18.4m relates to Norse companies employees who provide services to other Norse customers.

## **2.0 Background**

- 2.1 At the actuarial valuation of the Norfolk Pension Fund at 31<sup>st</sup> March 2001 showed the funds assets at 103% of the liabilities. In the intervening period, most pension funds are now reporting a deficit, i.e. the reported assets held are less than the reported liabilities.
- 2.2 When NCS Ltd (now Norse Commercial Services) and NPS Property Consultants were formed as legal entities on 1<sup>st</sup> April 2002, from trading accounts within the County Council, a number of staff transferred to the new companies along with their pension arrangements. These companies pension arrangements, along with subsequent companies, were set up as 100% funded using the prevailing actuarial assumptions at that time.
- 2.3 There have been substantial developments in the financial reporting of pension positions since the companies were established in 2002. At this time pension liabilities were not recorded on the face of the Council's or the companies' balance sheet. Accounting reporting requirements have subsequently changed and following the introduction of Financial Reporting Standard 17 (international equivalent is IAS 19), it is now a requirement that pension assets and liabilities are recorded on the balance sheet.

- 2.4 In recent years there has been a much greater understanding by all parties of the risks that defined benefit pension obligations can hold for employers. Generally in the current environment, contractors undertaking outsourcing arrangements for public bodies are unwilling to take on these pension risks from the bodies transferring staff to them. This is due to the uncertainty of the cost of funding defined benefit pension schemes and the impact on balance sheets of accounting disclosure requirements for defined benefit pension arrangements. As a result they will be unwilling to bid for work or will price this risk at a level that is not economically viable for the letting organisation.
- 2.5 Norfolk County Council has recognised the implications of this as part of its procurement strategy. The standard approach now taken for letting contracts that require Local Government Pension Scheme (LGPS) participation by the successful bidders, is to provide pension indemnification via the commercial contract with the contracting organisation. This allows bids to be made with greater certainty of cost by contractors, with the aim of achieving a more commercially advantageous price. The indemnification takes the form of a fixed contribution rate for the employers (any change in contribution rate required by the Pension Fund is dealt with as a contract pricing adjustment (+/-)) and indemnification from any capital cessation liability that may arise at the end of the employer participation in the Fund i.e. when the contract ends. Any cessation sum that the contractor needs to provide will be met by the County Council.

### **3.0 Issue**

- 3.1 The pension liability is impacting on the Norse's ability to:
- Instigate a formal dividend policy to the County Council
  - Tender for future contracts due to the weakness of the balance sheet position
  - Access external bank or other funding owing to the weakness of the balance sheet

### **4.0 Norse Board Proposal**

- 4.1 The proposal is that the pension arrangements for these companies are amended to a "pass-through" basis under which they will be required to make contributions to the Local Government Pension Scheme (LGPS) at an agreed fixed rate. This change will put earlier contract arrangements for pensions on the same basis as the recent Norse Care contract.
- 4.2 Fixing contribution rates at an agreed level will prevent these companies having an open ended liability to the LGPS for future changes in the deficit. The current deficit disclosure and pension risk would be transferred to the County Council and sit on its single entity balance sheet.



## **5.0 Benefits to Norse**

5.1 The benefits of this change to Norse are:

- Elimination of the pension scheme liabilities of the companies in paragraph 1.3 from Norse Group accounts (Norse Group will still report some pension liabilities from its other companies).
- Improved prospect of winning profitable contracts in the future through an improved balance sheet position.
- Removing the risk of withdrawal of, or less favourable, external credit facilities.

5.2 Under the Companies Act, a company is unable to pay a dividend unless it has made a profit and has positive distributable reserves. Removal of £29.3m of pension liability from Norse's balance sheet at 31<sup>st</sup> January 2013, would have resulted in positive distributable reserves and this, allied with the generation of post tax profits of over £4m in 2012/13 would have satisfied these requirements and therefore enabled the Norse Board to consider the payment of a dividend to Norfolk County Council for that year.

5.3 Improving the distributable reserves of the Norse Group balance sheet does not automatically mean that a dividend would be paid as the Directors need to consider the future requirements of the company, for example future investment plans. However, they also need to take account of the need to create shareholder value, a key element of which is to provide a reasonable and progressive rate of return on capital invested.

5.4 After taking full consideration of the factors outlines in paragraph 5.3, an annual dividend of up to 15% of post tax retained profits could be paid to Norfolk County Council. This dividend would be paid in addition to the existing rebate arrangements with the County Council.

## **6.0 Impact on NCC**

6.1 The benefits of this change to NCC are:

- It enables Norse to declare a dividend in the future which it would otherwise be prevented from doing so.
- Improved balance sheet position for Norse which strengthens the company which increases the possibility of winning profitable new business and providing dividend payments to County Council.

- 6.2 In terms of accounting treatment, pension assets and liabilities are included within the County Council's single entity balance sheet and the Norse Group balance sheet. These amounts are then combined and then included within the County Council's group balance sheet. At the group balance sheet level, transferring pension risk between the County Council single entity balance sheet and the Norse Group balance sheet makes no difference. The group balance sheet shows that the pension liability ultimately rests with the County Council. If the Norse Group were to get into severe financial difficulties, the Norfolk Pension Fund would expect the County Council to fund any pension liabilities.
- 6.3 The proposal would incorporate the contribution rates arising for the Norse companies from the latest actuarial valuation (31 March 2013). This valuation sets the contribution rates payable by individual employers for the three year period commencing 1 April 2014 therefore in the short term transferring the pension funding risk does not result in a cash flow impact on the County Council. The next actuarial valuation of the Pension Fund is due at 31 March 2016 and will set the employers contribution rates payable for the three year period from 1 April 2017.
- 6.4 However, in the medium to longer term, when further actuarial valuations takes place, the risk of variability in pension funding costs would now rest with the County Council rather than the Norse Group. That risk could be positive or negative depending upon the movement in that cost. As an example at the 2013 valuation initial indications are that there are a number of existing contracts where pension funding costs have fallen compared to the employer contribution rates currently in payment.
- 6.5 If the pension liability disclosure remains on the Norse Group balance sheet reflecting the future funding risk it is unlikely that it will legally be able to pay a dividend to the County Council for some considerable time.

## **7 Resource implications**

- 7.1 Other than those identified above, there are no finance, staff, property or IT implications arising from this report.

## **8 Other Implications**

- 8.1 There are no legal issues arising provided that this arrangement is only put in place in respect of Norse companies that meet the requirements of the Teckal exemption under procurement law.
- 8.2 There are no environmental, human rights, and communication implications arising from this report. The contents of this report do not directly impact on equality, in that it is not making proposals that will have an impact on equality of access or outcomes for diverse groups.

## **9 Section 17 – Crime and Disorder Act**

- 9.1 There are no direct implications of the report for the S17 Crime and Disorder Act

## **10 Risk Implications/Assessment**

- 10.1 In the medium to longer term, when further actuarial valuations takes place, the risk of variability in pension funding costs would now rest with the County Council rather than the Norse Group. That risk could be positive or negative depending upon the movement in that cost.

## **11 Alternative Options**

- 11.1 An alternative option would be to maintain the existing arrangements and reject the proposed pension risk transfer. This option has been disregarded as it does not strengthen the Norse balance sheet and delays the possibility of the County Council receiving a dividend from its investment in Norse.

## **12 Reason for Decision**

- 12.1 Transferring the pension risk to the County Council from Norse Group will improve the Council's investment in the Norse Group by strengthening its balance sheet. It will also ensure that the pension arrangements for all contracts between the County Council and the Norse Group are on the same basis and enable the Norse Group to pass cash to the County Council in the form of a dividend.

## **13 Recommendation**

- 13.1 Cabinet is asked to:
- Approve the transfer of the pension risk from the Norse Group balance sheet to the County Council's single entity balance sheet, subject to satisfactory agreement regarding the accounting treatment being reached with the external auditors of the County Council and Norse, the respective companies being Teckal compliant and a legal agreement being entered into between the County Council, Norse and the Pension Fund.

### **Officer Contact**

If you have any questions about matters contained in this paper please get in touch with:

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**Norfolk Pension Fund – Governance reports relevant to the Audit Committee**

**Report by the Interim Head of Finance**

The purpose of this report is to brief members on Norfolk Pension Fund governance reports relevant to the Audit Committee in accordance with the Audit Committee's Terms of Reference.

The Audit Committee is recommended to consider and comment on the report and note that there are no exceptions to report.

**1 Background**

- 1.1 The Audit Committee's Terms of Reference include that 'Following presentation to the Pensions Committee and with due regard to any comments and observations made, consider the relevant Governance reports of the Norfolk Pension Fund'.
- 1.2 This report advises the Committee of relevant matters reported to the Norfolk Pension Fund Committee between October and December 2013.

**2 Relevant governance reports of the Norfolk Pension Fund**

- 2.1 The Norfolk Pension Fund Committee met in December 2013 and received reports on audits and matters of governance which are considered relevant governance reports to be reported to and considered by the Audit Committee.
- 2.2 The relevant parts of the agenda\* are:
  - Administration report – by the Head of Finance and Head of Pensions page 13
  - Public Sector Pensions Reform – by the Head of Finance and Head of Pensions , page 43
  - Risk Register – by the Head of Finance and Head of Pensions, page 80

\*

[http://www.norfolk.gov.uk/Council\\_and\\_democracy/Your\\_Council/Committees/DisplayResultsSection/Papers/index.htm?Committee=Pensions Committee](http://www.norfolk.gov.uk/Council_and_democracy/Your_Council/Committees/DisplayResultsSection/Papers/index.htm?Committee=Pensions Committee)

- 2.3 The Administration report includes an update on internal audit work at part 11, page 21. No exceptions were noted.
- 2.4 The minutes of that meeting have not been published at the time of reporting.

### **3 Section 17 Crime and Disorder Act**

- 3.1 Under section 17 of the Crime and Disorder Act, the Council has a statutory general duty to take account of the crime and disorder implications of all of its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.
- 3.2 Internal Controls, including those assessed under the use of resources, help by aiming to deter crime, or increase the likelihood of detection through making crime difficult, increasing the risks of detection and prosecution and reducing rewards from crime.

### **4 Risk Management**

- 4.1 This report has fully taken into account any relevant issues arising from the Council's policy and strategy for risk management and any issues identified in the corporate and departmental risk registers.

### **5 Equalities Impact Assessment and other implications**

- 5.1 There are no direct equalities impacts or other implications arising from this report.

### **6 Conclusion**

- 6.1 There are no exceptions to report to the Audit Committee.

### **7 Recommendation**

- 7.1 The Audit Committee is recommended to consider and comment on the report and note that there are no exceptions to report.

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## Cabinet

Date: **Monday 2 December 2013**

Time: **10.30am**

Venue: **Edwards Room, County Hall, Norwich**

### SUPPLEMENTARY AGENDA

Please find enclosed the reports marked 'to follow' on the original agenda.

**12. Transfer of Pension Risk**

(page **A3**)

Approve the transfer of the pension risk from the Norse Group balance sheet to the County Council's single entity balance sheet.

Date Published: 28 November 2013

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## **Transfer of Pension Risk**

Report by the Interim Head of Finance

### **Summary**

The Norse Board has approached the County Council regarding the possibility of transferring the pension funding risk relating to companies that provide services to the County Council from Norse to the County Council.

This will enable historic pension arrangements between Norse and the County Council to be put on the same basis as the recent Norse Care contract.

The removal of future pension funding risk (variability in the cost of sponsoring its final salary pension scheme obligations) from the Norse Group accounts will strengthen the Norse Group balance sheet, this will:

- provide Norse with the legal capacity to pay a formal dividend to the County Council, which had this applied to the 2012/13 accounts would have amounted to a dividend of some £0.600m.
- improve Norse's prospects of winning profitable contracts in the future from which it would be excluded by the current weak position
- enable Norse to obtain better credit facilities and reduces the risk of withdrawal of existing facilities

Transferring the net pension liability back onto the County Council single entity balance sheet is a transfer of risk and will increase the Council's liability disclosure and therefore reduce its net assets. There is no intention to transfer staff from Norse back to the County Council and the risk transfer will not involve an immediate cash transaction.

At the group balance sheet level, transferring pension risk between the County Council single entity balance sheet and the Norse Group balance sheet makes no difference to the liability disclosure as the Norse liabilities are consolidated with the Council.

### **Recommendation**

Cabinet is asked to:

Approve the transfer of the pension risk from the Norse Group balance sheet to the County Council's single entity balance sheet, subject to satisfactory agreement regarding the accounting treatment being reached with the external auditors of the County Council and Norse, the respective companies being Teckal compliant and a legal agreement being entered into between the County Council, Norse and the Pension Fund.

## **1.0 Introduction**

1.1 The Norse Board has approached the County Council regarding the IAS 19 Pension Liability on the Norse Group Balance Sheet.

1.2 At 31 January 2013 the estimated pension liability was £47.7m. This exceeded the Group's Net Assets at the same date, resulting in an overall Net Liability position of £1.8m.

1.3 Of this total pension liability, £29.3m relates to the liabilities of the following companies, the employees of whom primarily provide services to Norfolk County Council:

- NPS Property Consultants
- NPS South East
- Norse Commercial Services
- Norse Eastern
- NCS Transport

1.4 The pension liability relates to approximately 1,100 staff and of this total less than 5% undertake work for non Norfolk County Council clients, but this work makes a positive contribution to the overall profitability of these companies. The remaining pension liability of £18.4m relates to Norse companies employees who provide services to other Norse customers.

## **2.0 Background**

2.1 At the actuarial valuation of the Norfolk Pension Fund at 31<sup>st</sup> March 2001 showed the funds assets at 103% of the liabilities. In the intervening period, most pension funds are now reporting a deficit, i.e. the reported assets held are less than the reported liabilities.

2.2 When NCS Ltd (now Norse Commercial Services) and NPS Property Consultants were formed as legal entities on 1<sup>st</sup> April 2002, from trading accounts within the County Council, a number of staff transferred to the new companies along with their pension arrangements. These companies pension arrangements, along with subsequent companies, were set up as 100% funded using the prevailing actuarial assumptions at that time.

2.3 There have been substantial developments in the financial reporting of pension positions since the companies were established in 2002. At this time pension liabilities were not recorded on the face of the Council's or the companies' balance sheet. Accounting reporting requirements have subsequently changed and following the introduction of Financial Reporting Standard 17 (international equivalent is IAS 19), it is now a requirement that pension assets and liabilities are recorded on the balance sheet.

- 2.4 In recent years there has been a much greater understanding by all parties of the risks that defined benefit pension obligations can hold for employers. Generally in the current environment, contractors undertaking outsourcing arrangements for public bodies are unwilling to take on these pension risks from the bodies transferring staff to them. This is due to the uncertainty of the cost of funding defined benefit pension schemes and the impact on balance sheets of accounting disclosure requirements for defined benefit pension arrangements. As a result they will be unwilling to bid for work or will price this risk at a level that is not economically viable for the letting organisation.
- 2.5 Norfolk County Council has recognised the implications of this as part of its procurement strategy. The standard approach now taken for letting contracts that require Local Government Pension Scheme (LGPS) participation by the successful bidders, is to provide pension indemnification via the commercial contract with the contracting organisation. This allows bids to be made with greater certainty of cost by contractors, with the aim of achieving a more commercially advantageous price. The indemnification takes the form of a fixed contribution rate for the employers (any change in contribution rate required by the Pension Fund is dealt with as a contract pricing adjustment (+/-)) and indemnification from any capital cessation liability that may arise at the end of the employer participation in the Fund i.e. when the contract ends. Any cessation sum that the contractor needs to provide will be met by the County Council.

### **3.0 Issue**

- 3.1 The pension liability is impacting on the Norse's ability to:
- Instigate a formal dividend policy to the County Council
  - Tender for future contracts due to the weakness of the balance sheet position
  - Access external bank or other funding owing to the weakness of the balance sheet

### **4.0 Norse Board Proposal**

- 4.1 The proposal is that the pension arrangements for these companies are amended to a "pass-through" basis under which they will be required to make contributions to the Local Government Pension Scheme (LGPS) at an agreed fixed rate. This change will put earlier contract arrangements for pensions on the same basis as the recent Norse Care contract.
- 4.2 Fixing contribution rates at an agreed level will prevent these companies having an open ended liability to the LGPS for future changes in the deficit. The current deficit disclosure and pension risk would be transferred to the County Council and sit on its single entity balance sheet.

## **5.0 Benefits to Norse**

5.1 The benefits of this change to Norse are:

- Elimination of the pension scheme liabilities of the companies in paragraph 1.3 from Norse Group accounts (Norse Group will still report some pension liabilities from its other companies).
- Improved prospect of winning profitable contracts in the future through an improved balance sheet position.
- Removing the risk of withdrawal of, or less favourable, external credit facilities.

5.2 Under the Companies Act, a company is unable to pay a dividend unless it has made a profit and has positive distributable reserves. Removal of £29.3m of pension liability from Norse's balance sheet at 31<sup>st</sup> January 2013, would have resulted in positive distributable reserves and this, allied with the generation of post tax profits of over £4m in 2012/13 would have satisfied these requirements and therefore enabled the Norse Board to consider the payment of a dividend to Norfolk County Council for that year.

5.3 Improving the distributable reserves of the Norse Group balance sheet does not automatically mean that a dividend would be paid as the Directors need to consider the future requirements of the company, for example future investment plans. However, they also need to take account of the need to create shareholder value, a key element of which is to provide a reasonable and progressive rate of return on capital invested.

5.4 After taking full consideration of the factors outlined in paragraph 5.3, an annual dividend of up to 15% of post tax retained profits could be paid to Norfolk County Council. This dividend would be paid in addition to the existing rebate arrangements with the County Council.

## **6.0 Impact on NCC**

6.1 The benefits of this change to NCC are:

- It enables Norse to declare a dividend in the future which it would otherwise be prevented from doing so.
- Improved balance sheet position for Norse which strengthens the company which increases the possibility of winning profitable new business and providing dividend payments to County Council.

- 6.2 In terms of accounting treatment, pension assets and liabilities are included within the County Council's single entity balance sheet and the Norse Group balance sheet. These amounts are then combined and then included within the County Council's group balance sheet. At the group balance sheet level, transferring pension risk between the County Council single entity balance sheet and the Norse Group balance sheet makes no difference. The group balance sheet shows that the pension liability ultimately rests with the County Council. If the Norse Group were to get into severe financial difficulties, the Norfolk Pension Fund would expect the County Council to fund any pension liabilities.
- 6.3 The proposal would incorporate the contribution rates arising for the Norse companies from the latest actuarial valuation (31 March 2013). This valuation sets the contribution rates payable by individual employers for the three year period commencing 1 April 2014 therefore in the short term transferring the pension funding risk does not result in a cash flow impact on the County Council. The next actuarial valuation of the Pension Fund is due at 31 March 2016 and will set the employers contribution rates payable for the three year period from 1 April 2017.
- 6.4 However, in the medium to longer term, when further actuarial valuations takes place, the risk of variability in pension funding costs would now rest with the County Council rather than the Norse Group. That risk could be positive or negative depending upon the movement in that cost. As an example at the 2013 valuation initial indications are that there are a number of existing contracts where pension funding costs have fallen compared to the employer contribution rates currently in payment.
- 6.5 If the pension liability disclosure remains on the Norse Group balance sheet reflecting the future funding risk it is unlikely that it will legally be able to pay a dividend to the County Council for some considerable time.

## **7 Resource implications**

- 7.1 Other than those identified above, there are no finance, staff, property or IT implications arising from this report.

## **8 Other Implications**

- 8.1 There are no legal issues arising provided that this arrangement is only put in place in respect of Norse companies that meet the requirements of the Teckal exemption under procurement law.
- 8.2 There are no environmental, human rights, and communication implications arising from this report. The contents of this report do not directly impact on equality, in that it is not making proposals that will have an impact on equality of access or outcomes for diverse groups.

## **9 Section 17 – Crime and Disorder Act**

- 9.1 There are no direct implications of the report for the S17 Crime and Disorder Act

## **10 Risk Implications/Assessment**

- 10.1 In the medium to longer term, when further actuarial valuations takes place, the risk of variability in pension funding costs would now rest with the County Council rather than the Norse Group. That risk could be positive or negative depending upon the movement in that cost.

## **11 Alternative Options**

- 11.1 An alternative option would be to maintain the existing arrangements and reject the proposed pension risk transfer. This option has been disregarded as it does not strengthen the Norse balance sheet and delays the possibility of the County Council receiving a dividend from its investment in Norse.

## **12 Reason for Decision**

- 12.1 Transferring the pension risk to the County Council from Norse Group will improve the Council's investment in the Norse Group by strengthening its balance sheet. It will also ensure that the pension arrangements for all contracts between the County Council and the Norse Group are on the same basis and enable the Norse Group to pass cash to the County Council in the form of a dividend.

## **13 Recommendation**

- 13.1 Cabinet is asked to:
- Approve the transfer of the pension risk from the Norse Group balance sheet to the County Council's single entity balance sheet, subject to satisfactory agreement regarding the accounting treatment being reached with the external auditors of the County Council and Norse, the respective companies being Teckal compliant and a legal agreement being entered into between the County Council, Norse and the Pension Fund.

### **Officer Contact**

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