

Audit and Risk Assurance Committee

**Thursday 10 January 2019 at 5.00 pm
in Council Chamber
at Sandwell Council House, Oldbury**

Revised Agenda
(Open to Public and Press)

1. Apologies for absence.
2. Members to declare any interest in matters to be discussed at the meeting.
3. To confirm as a correct record the minutes of the meeting held on 8 November 2018.
4. Revised Anti-Money Laundering Policy.
5. Counter Fraud Update.
6. Internal Audit Progress Report.
7. External Audit Plan 2018/2019.
8. Interserve PLC Update.
9. Work Programme 2018/2019.

J Britton
Chief Executive

Sandwell Council House
Freeth Street
Oldbury

Distribution:

Councillor Preece (Chair);

Mr M Ager (Vice-Chair and Independent Member);

Councillors Ali, Allcock, Dr Jaron, Jarvis, Piper and Singh.

Mr H Doyle and Mr J Hussain (Independent Members).

**Agenda prepared by Stephnie Hancock
Democratic Services Unit
Tel No: 0121 569 3189
E-mail: stephnie_hancock@sandwell.gov.uk**

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Apologies

To receive any apologies from members

Declarations of Interest

Members to declare any interests in matters to be discussed at the meeting.

Minutes of the Audit and Risk Assurance Committee

**8th November, 2018 at 5.00pm
at the Sandwell Council House, Oldbury**

Present: Councillor Preece (Chair);
Mr Ager (Vice - Chair and Independent
Member);
Councillors Ali, Dr Jaron, Jarvis and Piper.
Messrs Doyle and Hussain (Independent
Member).

Apology: Councillor Singh.

44/18 **Minutes**

Resolved that the minutes of the meeting held on 26th July, 2018 be confirmed as a correct record, subject to the deletion of Minute No. 33/18.

45/18 **Appointment of Independent Member**

The Committee noted that, at its meeting on 16 October, the Council had given approval to increase the membership of the Committee to include a third independent member. As such, Mr Heikki Doyle had been appointed for a four-year period ending 22nd October 2022.

46/18 **KPMG - External Audit ISA 260 Report and Annual Audit Letter 2017/18**

The Committee noted the Council's External Audit ISA 260 report, submitted by its external auditors KPMG. The report summarised the key findings in relation to the Council's 2017/18 external audit. The audit had focused on the Council's significant risk areas, as well as other areas of its financial statements.

Based upon the initial assessment of risks to the financial statements, as set out in the External Audit Plan 2017/18, three significant risks had been identified which related to the guidance and method used to value Council properties, the presentation of pension liabilities and the timetable for the closedown of accounts. The Executive Director – Resources reported that all actions in relation to the risks had been completed.

The Committee also received the Council's Annual Audit Letter 2017/18, which summarised the outcomes in relation the audit activity that year. Five high priority recommendations had been made as a result of the work of the External Auditors. All had been agreed by management and actions had been put in place to implement them.

The Committee requested a report on progress in addressing the outstanding actions and recommendations set out in Appendix 1 of the Letter.

The External Auditors concluded that in 2017/18, with the exception of Children's Services, the Council had made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. In reaching their conclusion, they continued to consider the findings of inspectorates in respect of Children's Services, in particular the re-inspection in November 2017 that concluded that services remained inadequate and the effectiveness of some services had deteriorated. Therefore, they concluded that for Children's Services, for the year ended 31 March 2018, the Council did not have proper arrangements for informed decision making and sustainable resource deployment.

The Committee noted the increase in the external audit fee, due to additional unplanned work that had taken place.

The Council's new external auditors, Grant Thornton, would be following up on outstanding recommendations in relation to both reports.

The Committee thanked KMPG for its work and support to the Council.

Resolved that a report on progress in addressing the outstanding actions and recommendations set out in Appendix 1 of the Annual Audit Letter 2017/2018 be submitted to a future meeting of the Audit and Risk Assurance Committee.

47/18 **Grant Thornton Audit Progress Report and Sector Update**

The Committee noted a report from the Council's new external auditors, Grant Thornton, who had been appointed from 1st April 2018, detailing progress in relation to 2018/19 audit activity.

Given the short period of time since Grant Thornton had been appointed, there was limited information to report on progress, however, the report set out the planned work over the next six months. The External Audit Plan for 2018/19 would be submitted to the Committee in January 2019.

A summary of emerging national issues that may impact on the Council was also provided, including a summary of relevant articles from the Chartered Institute for Public Finance and Accountancy (CIPFA), the Ministry of Housing, Communities and Local Government (MHCLG), the Institute of Fiscal Studies (IFS) and the National Audit Office (NAO). Once Grant Thornton had a more comprehensive understanding of the local context it would be able to offer insights and advice to the Council on these issues.

The Committee also noted the reduced audit fees, which had followed a national tendering process by Public Sector Audit Appointments.

48/18 **Internal Audit Charter**

The Committee received the Council's Internal Audit Charter for review. The Charter had been prepared in line with the Public Sector Internal Audit Standards and approved by the former Audit Committee in 2013 and was now before the Committee for annual review.

It was reported that there were no changes to the Charter.

The Committee was minded to approve the Charter, subject to an amendment to reflect the implementation of the General Data Protection Regulation.

Resolved that, subject to an amendment to reflect the implementation of the General Data Protection Regulation, the Council's Internal Audit Charter 2018/19 be approved.

49/18 **Internal Audit Progress Report**

The Committee noted a report summarising the work carried out by Audit Services from 1 April 2018 to 30 September 2018. The information included in the progress report would feed into, and inform the overall opinion in the Internal Audit Annual Report issued at the year end.

There had been four "Limited Assurance" opinions issued relating to audits on the following:-

- Lightwoods House
- the loss of tower lights from Sandwell Valley
- cash procedures and receipt books at West Bromwich Market
- debt collection and income management

In relation to Lightwoods House, members expressed concern at the property's current reliance on a cash system and the risks around this. The Audit Services and Risk Management Manager shared the concerns and stated that the property would be moving to a cashless system. It was reported that separate accounts were kept for Lightwoods House and the Executive Director-Resources undertook to circulate the accounts to members of the Committee.

The Chair expressed concern about thefts at Sandwell Valley and West Bromwich Markets and how this was being addressed. The Audit Services and Risk Management Manager responded that, as with most working practices the continued move to electronic and cashless systems would see the need for controlled stationary reduce. In relation to the loss of tower lights from Sandwell Valley, this was the largest asset loss in the last year

and had cost the Council around £21,000. Security procedures and inventory controls and trails had now been improved.

50/18 **Riverside Internal Audit Update**

Further to Minute No. 36/18 (26th July, 2018) the Committee received an update report on the internal audit arrangements with Riverside Housing. Two officers from Riverside were in attendance in order to answer any questions the Committee may have.

Four reviews had recently taken place, three of which had received “Limited Assurance” opinions. The Committee noted the detailed and key findings of each review, which had been shared with managers at Riverside. It was reported that many of the recommendations had been actioned already, however a timeframe of six months for completion of most actions had been agreed.

Riverside’s performance was monitored through 23 Key Performance Indicators, which were aligned to the Council’s Vision and scrutinised by the Council on a quarterly basis. Riverside residents were well engaged with performance and management through the Friends of Riverside and excellent feedback had been received on the service provided.

51/18 **Council Update on Allegations of Fraud, Misconduct and other issues**

The Committee noted progress in relation to a number of investigations and reviews relating to concerns that had been raised through a number of avenues following the Wragge & Co (now Gowling WLG). It was anticipated that this would be the final report on these matters. The report referred to four matters:

- Inappropriate member involvement in dismissing an employee
- Independent member advice ignored
- Sheepwash Nature Reserve
- Lion Farm Playing Fields

The Chair requested that a separate report be submitted to a future meeting on how the use of Section 106 monies is monitored by the council.

Resolved that a report on how the use of Section 106 monies is monitored by the Council be submitted to a future meeting of the Audit and Risk Management Committee.

52/18 **CIPFA Audit Committee Update**

The Committee noted the latest CIPFA Audit Committee Update which addressed CIPFA's Position Statement on Audit Committees in Local Authorities and Police, a briefing on topical issues and training.

It was highlighted that, following the recent increase in the number of independent members on the Committee to three, the Council could demonstrate that it was meeting the new CIPFA recommendation to have an independent member serve on the committee.

The Committee noted that the Committee on Standards in Public Life had published a progress report to its 2014 report on ethical standards for public service providers. The 2018 report highlighted that progress in implementing its earlier recommendations had been disappointing and it remained that more must be done to encourage strong and robust cultures of ethical behaviour in those delivering public services.

53/18 **Strategic Risk Register Update**

The Committee noted a summary of the Council's strategic risks and the Council's assurance map.

The risk register currently included 18 strategic risks- six of which had been assessed as "red" risks, 11 as "amber" and one as "green". Mitigating actions were monitored by risk owners to ensure that risks were reduced to acceptable levels.

The Committee was reminded that, with regards to Children's Social Care, the statutory responsibility for the service remained

with the Council, however, the Children's Trust was contracted to fulfil those responsibilities. The Trust had its own internal audit arrangements in place and its own audit committee, which monitored its risk register. Regular meetings took place between the Trust and Council chief officers through the contractual governance arrangements of the Strategic Partnership Board and the Operational Partnership Board.

In reference to Risk Ref 21a on compliance with legislation around data protection, the Chair requested that an evaluation of the Council's position be undertaken before the end of the municipal year and the findings reported to the Cabinet.

In reference to Risk Ref 50 on the Commonwealth Games Aquatic Centre, it was reported that the first phase of public consultation on the principle of the development had now ended and the feedback had been positive overall. Detailed feedback would be published in due course and further consultation would be taking place on the detailed plans. Notwithstanding this, comments would continue to be welcomed from the public.

Resolved that an evaluation of the Council's position in relation to the requirements of the Data Protection Act 2018 and the General Data Protection Regulation be undertaken before the end of the 2018/19 municipal year and the findings be reported to the Cabinet.

54/18 **Cyber Security Strategic Risk Update**

An update report was noted on the Council's strategic risk related to cyber and information security.

The report set out the 10 high level steps recommended by the National Cyber Security Centre and the Council's current position on each step.

It was reported that Sandwell would be leading on the establishment of a West Midlands group to share good practice and further explore options around joint procurement of hardware and software.

The IT service received daily reports on the effectiveness of the Council's malware, which detailed attempted breaches as well as actual. This information was then reported up to the IT Management Board on a monthly basis. Threats remained constant and were continually evolving to overcome the security software in place, however, the Council was confident in its current arrangements.

It was acknowledged that the report before the Committee was deliberately high level to avoid exposure of any vulnerabilities and ensure the Council's safety and security. The Chair requested that a further, more detailed, report be submitted to a future meeting, which would be taken in private session to enable a fuller discussion of the matter without exposing the Council to any risk.

Resolved that a further, detailed, report be submitted to a future meeting of the Audit and Risk Management Committee on the Council's strategic risk in relation to cyber security and arrangements in place to manage them.

55/18

Response to letter to Home Secretary and the Director of Public Prosecutions

Further to Minute No. 16/18 (22nd February 2018) the Committee received the response from its letter to the Home Secretary and Director of Public Prosecutions on concerns about the challenges presented by current guidance and legislation on pursuing legal action in respect of those accused of misconduct in public office.

The Chair expressed disappointment that the response failed to address the points raised in the letter and proposed that a further letter be sent, re-iterating the concerns. He also suggested that local Members of Parliament be asked to sign the letter, which may support a better address of the issues within it.

Resolved that the Chair, on behalf of the Audit and Risk Management Committee, writes again to the Home Secretary and Director of Public Prosecutions re-iterating the concerns about the challenges presented by current guidance and legislation on

pursuing legal action in respect of those accused of misconduct in public office.

56/18 **Work Programme 2018/2019**

The Committee noted its work programme for 2018/19.

In addition to the items requested as detailed in the above minutes, members asked for an update on the external partners and providers the Council had and how it ensured that they could demonstrate strong and robust ethical behaviour.

Resolved that items on the following matters be added to the Audit and Risk Assurance Committee's 2018/2019 work programme on dates to be determined, in consultation with appropriate officers:-


- progress in addressing the outstanding actions and recommendations set out in Appendix 1 of the Annual Audit Letter 2017/18;
- how the use of Section 106 monies is monitored by the council;
- how the Council ensures that its external partners and providers can demonstrate strong and robust ethical behaviour;
- an evaluation of the Council's position in relation to the requirements of the Data Protection Act 2018 and the General Data Protection Regulation;
- the Council's strategic risks in relation to cyber security and arrangements in place to manage them.

(Meeting ended at 6.31pm)

Contact Officer: Stephnie Hancock Democratic Services Unit 0121 569 3189
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REPORT TO AUDIT AND RISK ASSURANCE COMMITTEE

10 January 2019

Subject:	Revised Anti-Money Laundering Policy
Director:	Executive Director – Resources – Darren Carter
Contribution towards Vision 2030:	
Contact Officer(s):	<p>Oliver Knight Counter Fraud Lead Oliver_knight@sandwell.gov.uk</p> <p>Peter Farrow Audit Services and Risk Management Manager peter_farrow@sandwell.gov.uk</p>

DECISION RECOMMENDATIONS

That Audit and Risk Assurance Committee:

Review and comment upon the accompanying policy.

1 PURPOSE OF THE REPORT

- 1.1 The purpose of the report is to provide the Audit and Risk Assurance Committee with details of the updated version of the council's Anti-Money Laundering Policy before seeking approval from Cabinet.

2 IMPLICATIONS FOR SANDWELL'S VISION

- 2.1 The risk of money laundering affects many council service areas. This policy assists the council to accomplish its vision by bringing a systematic approach to reducing the risk of money laundering, compliance with existing legislation and safeguarding the council's assets and reputation.
- 2.2 While councils are required to have an anti-money laundering policy, Sandwell's approach to tackling the issue of money laundering, especially in the area of right to buy sales in recent years, has seen the council's reputation increase. The revised policy allows the council to move forward in actively deterring potential money laundering activity and have more robust procedures in place to report suspected money laundering than most councils currently have in place.

3 BACKGROUND AND MAIN CONSIDERATIONS

- 3.1 The council's existing policy was approved by cabinet in November 2015. This updated version brings the policy in line with the the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.
- 3.2 Other amendments include:
- the introduction of a reduced cash limit from £8,000 to £2,000,
 - identifying nominated officers to assist the Anti-Money Laundering Reporting Officer with their duties, and
 - increasing staff awareness on the importance of carrying out due diligence enquiries and reporting concerns of money laundering.

4 THE CURRENT POSITION

- 4.1 The report does not require a decision and therefore, no position analysis is necessary.

5 CONSULTATION (CUSTOMERS AND OTHER STAKEHOLDERS)

- 5.1 The Policy has been discussed with the relevant stakeholders and reported to the respective Director.

6 ALTERNATIVE OPTIONS

- 6.1 The report does not require a decision and therefore, alternative options do not need to be considered.

7 STRATEGIC RESOURCE IMPLICATIONS

- 7.1 There are no direct financial and resource implications arising from this report.

8 LEGAL AND GOVERNANCE CONSIDERATIONS

- 8.1 The policy has been written taking into consideration the following legal framework:
- Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017
 - Proceeds of Crime Act (PoCA) 2002
 - Terrorism Act 2000
 - Data Protection Act 2018
- 8.2 Failure to adhere to the Proceed of Crime Act 2002 could result in an officer or officers of the council committing offences under Sections 327, 328 or 329 of the act, which carries a sentence of 14 years imprisonment, an unlimited fine or both.
- 8.3 If an officer suspects money laundering but fails to report their concerns offences also exist under the Proceeds of Crime Act which carry a sentence of 5 years imprisonment.

9 EQUALITY IMPACT ASSESSMENT

- 9.1 It was not necessary to undertake an Equality Impact Assessment.

10 DATA PROTECTION IMPACT ASSESSMENT

- 10.1 It was not necessary to undertake a Data Protection Impact Assessment. No personal information or data is included within the policy.

11 CRIME AND DISORDER AND RISK ASSESSMENT

- 11.1 Local authorities do not feature within the 'anti-money laundering regulated sector'. Consequently its services, such as Right to Buy, land and property sales and cash transactions make the council increasingly attractive to criminals wanting to launder money.
- 11.2 Due diligence procedures, clear reporting methods and staff awareness will assist the council to deter, prevent and detect money laundering.

12 SUSTAINABILITY OF PROPOSALS

12.1 There are no direct sustainability issues arising from this report.

13 HEALTH AND WELLBEING IMPLICATIONS (INCLUDING SOCIAL VALUE)

13.1 There are no direct health and wellbeing implications from this report.

14 IMPACT ON ANY COUNCIL MANAGED PROPERTY OR LAND

14.1 Under both the existing and updated version of the policy customer due diligence is a requirement. This includes the need to confirm the identity of the customer and source of funds which are being used. Council services such as land and property transactions, leaseholds and right to buy sales are services at risk. However, the due diligence requirements are already being undertaken in line with the existing policy.

15 CONCLUSIONS AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

15.1 The purpose of the report is to provide the Audit and Risk Assurance Committee with details of updated version of the council's Anti-money laundering policy before seeking approval from cabinet.

16 BACKGROUND PAPERS

16.1 Anti-Money Laundering Policy

Darren Carter
Executive Director – Resources

Anti-Money Laundering Policy

Introduction

What is money laundering?

Money Laundering is the process by which criminally obtained money or other criminal property is exchanged for “clean” money or other assets with no obvious link to their criminal origins. The aim is to legitimise the possession of such monies through circulation and this effectively leads to “clean” funds being received in exchange.

The council is committed to preventing money laundering by having anti-money laundering systems and processes in place. This policy applies to employees and members, including temporary and agency staff.

Scope of policy

The purpose is to ensure all appropriate action is taken to prevent the council, its employees and members from being exposed to money laundering and to comply with all legal and regulatory obligations, including the reporting of suspected or actual cases of money laundering, in line with disclosure requirements.

This policy highlights the importance of the following:

- the legal responsibilities;
- identity of the Money Laundering Reporting Officer and other responsible officers;
- due diligence procedure - the need to be vigilant and take appropriate steps to reduce the opportunities for breaches of the Money Laundering Regulations; and
- Reporting concerns of money laundering – the requirement to promptly report (disclose) any suspected money laundering activity to the MLRO

Legal responsibilities

Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017

Although the council is not governed by the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, as a responsible public authority and in line with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA), the council complies with the underlying spirit of the legislation and regulations.

These regulations set out detailed requirements for organisations to establish procedures to prevent its services being utilised for the purposes of money laundering. The council will therefore:

- Appoint a Money Laundering Reporting Officer (MLRO);

- Obtain sufficient knowledge to ascertain the true identity of customers in certain circumstances, by applying customer due diligence measures;
- Maintain record keeping procedures;
- Know the intended nature of business relationships and undertake ongoing monitoring of them (to identify unusual transactions);
- Implement a procedure for reporting suspicions of money laundering.

The Terrorism Act 2000

This applies to all individuals and businesses in the UK and therefore all members of staff within the council have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for terrorism or its laundering where it relates to information that comes to them in the course of their business or employment.

The primary offence is governed by Section 18 and states that: “a person commits an offence if he enters into or becomes concerned in an arrangement which facilitates the retention or control by or on behalf of another person of terrorist property by concealment, by removal from the jurisdiction, by transfer to nominees, or in any other way”.

The Proceeds of Crime Act (PoCA) 2002

This Act applies to all individuals and organisations and further defines the offences of money laundering. It also creates mechanisms for investigating and recovering the proceeds of crime.

The primary offences are:

- Section 327 - concealing, disguising, converting, transferring or removing criminal property from the UK;
- Section 328 - entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person;
- Section 329 - acquiring, using or possessing criminal property.

Money Laundering Reporting Officer

The council through its Cabinet has appointed the Section 151 Officer, Darren Carter, as the Money Laundering Reporting Officer (MLRO) for the council. The MLRO will also have the authority to select and/or amend the Nominated Officers to support him in this role.

Email: darren_carter@sandwell.gov.uk

Phone: 0121 569 8151

In the absence of the MLRO or in instances where it is suspected that the MLRO is involved in suspicious transactions, concerns should be raised with the Deputy Section 151 Officer, Rebecca Griffiths.

Email: rebecca_griffiths@sandwell.gov.uk

Phone: 0121 569 8460

Nominated Officers:

Kathryn Simms – Senior Legal Assistant
Email: kathryn_simms@sandwell.gov.uk
Phone: 0121 569 3246

Oliver Knight – Counter Fraud Lead
Email: oliver_knight@sandwell.gov.uk
Phone: 0121 569 6692

Due Diligence Procedure

Cash Limits

No single cash transaction (including notes, coin or travellers cheques in any currency) exceeding £2,000 will be accepted for any council service in any one financial year. Cash exceeding this limit should not be accepted. Any person wishing to make a payment in excess of this limit, will need to seek an alternative method of payment.

Business Relationships

The requirement for customer due diligence applies immediately for new customers and should be applied on a risk basis for existing customers. If the council forms a new business relationship (including a significant one-off transaction) care should be taken to ensure that the client is identifiable by making basic checks on their credentials, along with confirmation as to the source of funds.

This should not be an onerous task but we should ensure that we are clear about with whom we are conducting business.

This will be especially important if:

- the parties concerned are not physically present for identification purposes;
- when someone may be acting for absent third parties;
- beneficial owners (i.e. an individual who holds more than 25% of the shares, voting rights or interest in a company, partnership or trust).
- The customer is a politically exposed person (PEP). A PEP is a term describing someone who has been entrusted with a prominent public function and generally presents a higher risk for potential involvement in bribery and corruption by virtue of their position and the influence that they may hold. Consideration should also be given to their immediate family members or close associates.

Ongoing customer due diligence must also be carried out during the life of a business relationship but should be proportionate to the risk of money laundering and terrorist funding, based on the officer's knowledge of the customer and a regular scrutiny of the transactions involved.

Record Keeping Procedures

Each area of the council involved in relevant transactions must maintain records of every customer due diligence record in the form of either a hard copy or electronic.

This is to meet the requirements of the regulations and may be used as evidence in any subsequent investigation/inspection. Records must be able to provide an audit trail during any investigation. For example, distinguishing the customer and the relevant transaction and recording in what form any funds were received or paid.

Section 40 of the Money Laundering Regulations 2017

All due diligence documents, reports and NCA Suspicious Activity Reports should be retained for a minimum of five years after the business relationship ends, or an occasional transaction is completed.

Reporting concerns of money laundering

Any employee or member who has suspicions that money laundering may be taking place, is taking place or has taken place, should report it to the MLRO through the nominated officers as soon as possible.

Once such a concern has been raised, the nominated officer will:

- acknowledge receipt of the concern;
- assess the information provided to make a judgment as to whether there are reasonable grounds for knowledge or suspicion of money laundering;
- report to the MLRO for them to make a final decision;
- prepare a Suspicious Activity Report (SAR) to the National Crime Agency (NCA), where appropriate.

At no time and under no circumstances should anyone from the council voice any suspicions to the person(s) suspected of money laundering as this could be viewed as “tipping off” and an offence may be committed under Section 333 of the Proceeds of Crime Act 2002. In turn, this may prejudice any investigation.

In the event of a report being submitted, the employee or member making the referral must follow any directions given by the MLRO. The transaction should not proceed any further unless (or until) instructions are received from the MLRO. If the circumstances are such that a SAR has been submitted, consent will need to be provided by the NCA before the transaction can continue.

The role of the MLRO is extremely important. If the role is not carried out correctly and a report to the NCA is not made when they know or suspect that another person is engaged in money laundering, an offence may be committed under Section 332 of the Proceeds of Crime Act 2002.

Training


Targeted training and other awareness sessions will be provided on a regular basis to staff most likely to be exposed to terrorist financing and/or money laundering.

Review of the Money Laundering Policy

The Money Laundering Policy will be reviewed on an annual basis by the Section 151 Officer to ensure that it remains up to date, fit for purpose and represents generally acceptable good practice.

REPORT TO AUDIT AND RISK ASSURANCE COMMITTEE

10 January 2019

Subject:	Counter Fraud Update
Director:	Executive Director – Resources – Darren Carter
Contribution towards Vision 2030:	
Contact Officer(s):	<p>Oliver Knight Counter Fraud Lead Oliver_knight@sandwell.gov.uk</p> <p>Peter Farrow Audit Services and Risk Management Manager peter_farrow@sandwell.gov.uk</p>

DECISION RECOMMENDATIONS

That Audit and Risk Assurance Committee:

1. Review and comment upon the accompanying report.

1 PURPOSE OF THE REPORT

- 1.1 The report provides an update on the areas of counter-fraud activity recently undertaken by the council's Counter Fraud Unit.

2 IMPLICATIONS FOR SANDWELL'S VISION

- 2.1 Internal Audit and the Counter Fraud Unit operates across the council and helps it accomplish its vision by bringing a systematic, disciplined approach to reducing the risk of fraud and helping to safeguard the council's assets.

3 BACKGROUND AND MAIN CONSIDERATIONS

- 3.1 The main purpose of the report is to provide the Audit and Risk Assurance Committee with details of recent counter-fraud activity undertaken by the Counter Fraud Unit.

4 THE CURRENT POSITION

- 4.1 The report does not require a decision and therefore, no position analysis is necessary.

5 CONSULTATION (CUSTOMERS AND OTHER STAKEHOLDERS)

- 5.1 The outcomes of counter fraud activity is discussed with the relevant stakeholders and reported to the respective Director.

6 ALTERNATIVE OPTIONS

- 6.1 The report does not require a decision and therefore, alternative options do not need to be considered.

7 STRATEGIC RESOURCE IMPLICATIONS

- 7.1 There are no direct financial and resource implications arising from this report.

8 LEGAL AND GOVERNANCE CONSIDERATIONS

- 8.1 The Counter Fraud Unit operates within the following legal framework:

- The Fraud Act 2006
- POSHFA (Prevention of Social Housing Fraud Act 2013)
- PACE (Police and Criminal Evidence Act 1984)
- General Data Protection Regulations
- CPIA (Criminal Procedure and Investigations Act 1996)
- RIPA (Regulatory Investigation Powers Act 2000)
- HRA (Human Rights Act 1998)
- Council Tax Reduction Scheme 2013

The Counter Fraud Unit investigators are required to investigate in accordance with the Local Government Act 1972. The following sections from this Act are relevant:

- Section 151 – Duty to protect public funds: Every Local Authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of the officers has responsibility for the administration of those affairs.
- Section 222 – Right to prosecute: Where a local authority consider it expedient for the promotion or protection of the interests of the inhabitants of their area they may prosecute, defend or appear in any legal proceedings and, in the case of any civil proceedings, may institute them in their own name.
- Section 223 – Right to appear in court: Any member or officer of a local authority who is authorised by that authority to prosecute or defend on their behalf or to appear on their behalf in proceedings before magistrates' court shall be entitled to prosecute or appear in any such proceedings and to conduct any such proceedings.
- Section 111 – Right to act: Without prejudice to any powers exercisable apart from this section but subject to the provisions of this Act and any other enactment passed before or after this Act, a local authority shall have power to do any thing (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to the discharge of any of their functions.
- The right to question suspects and witnesses – Police and Criminal Evidence Act 1998 - PACE (Code C):

9 EQUALITY IMPACT ASSESSMENT

9.1 It was not necessary to undertake an Equality Impact Assessment.

10 DATA PROTECTION IMPACT ASSESSMENT

10.1 It was not necessary to undertake a Data Protection Impact Assessment. Data gathered during audit reviews is used and retained in accordance with current legislative requirements.

11 CRIME AND DISORDER AND RISK ASSESSMENT

11.1 The Counter Fraud unit helps to deter, prevent and detect fraudulent practice being committed against the council using the investigatory powers listed in paragraph 8.1 of this report.

12 SUSTAINABILITY OF PROPOSALS

12.1 There are no direct sustainability issues arising from this report.

13 HEALTH AND WELLBEING IMPLICATIONS (INCLUDING SOCIAL VALUE)

13.1 There are no direct health and wellbeing implications from this report.

14 IMPACT ON ANY COUNCIL MANAGED PROPERTY OR LAND

14.1 There is no direct impact on any council managed property or land from this report.

15 CONCLUSIONS AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

15.1 The purpose of the report is to keep the Audit and Risk Assurance Committee updated on the recent activities undertaken by the Counter Fraud Unit. As such, no decision is required.

16 BACKGROUND PAPERS

16.1 The Counter Fraud Update Report.

17 APPENDICES:

- 1 – CIPFA Fraud and Corruption Tracker Summary Report 2018
- 2 – Cabinet Office National Fraud Initiative Report 2018

Darren Carter
Executive Director – Resources



Sandwell
Metropolitan Borough Council

Counter Fraud Update Report – November 2018



November 2018

1 Introduction

The purpose of this report is to provide the Audit and Risk Assurance Committee with an interim update on the counter-fraud activities undertaken by Audit Services' Counter Fraud Unit since reporting last to the committee in July 2018.

The council is committed to creating and maintaining an environment where fraud, corruption and bribery will not be tolerated. This message is made clear within the council's Anti-Fraud and Corruption Policy, which states:

'The council operates a zero tolerance on fraud, corruption and bribery whereby all instances will be investigated and the perpetrator(s) will be dealt with in accordance with established policies. Action will be taken to recover all monies stolen from the council.'

2 Counter Fraud Unit (CFU)

The Counter Fraud Unit continues to develop and lead in raising fraud awareness across the council and in promoting an anti-fraud culture. The Unit is responsible for carrying out investigations into areas of suspected or reported fraudulent activity and carries out both pro-active and re-active work.

3 Counter Fraud Update

Cabinet Office – National Fraud Initiative Report 2018

The Cabinet Office has published its National Fraud Initiative report (Appendix 1). The report identifies the results from National Fraud Initiative (NFI) exercise for the period 1 April 2016 to 31 March 2018. Fraud of £301.2 million was detected and prevented through the programme. The key areas of fraud detected were Housing fraud, including housing waiting lists, Council Tax, including Single Person Discount and Pension frauds.

Fraud and error identified by council as part of the NFI programme were as follows:

	2016/18 Value
Housing Benefit	£18,500
Council Tax	£21,000
Housing Fraud	£447,500
TOTAL	£487,000

Work is already under way for the forthcoming NFI exercise. In October 2018 data submissions were made by the Counter Fraud Unit. Data sets from numerous council departments will be matched with data submitted by 1,200 other bodies, including

local and central government, the NHS and pension authorities. The results of the matches are expected to be available from January/February 2019. Analysis and investigation work will then commence.

National Fraud Initiative Business Rates Pilot

This year the Cabinet Office have launched a pilot to develop a data matching pilot programme to identify fraud and avoidance within Business Rates. The council was selected to participate in the pilot. Results and experience obtained from the pilot will be used by the Cabinet Office to develop the matching programme and future exercises.

Council House Crackdown

The work carried out by the Counter Fraud Unit in tackling social housing fraud featured on the BBC One TV series, Council House Crackdown. The show was aired during the daytime earlier in the year.

Efforts to tackle social housing fraud continue to be a large feature of the work carried out by the Counter Fraud Unit. In September a new Tenancy Fraud Officer was appointed in order to build stronger relations between the team and Neighbourhoods to tackle the problem. Recent work has seen participation in the council's Safer 6 Campaign and increased publicity in each of the neighbourhood offices.

Midland Fraud Group

We have continued to organise, host and chair the group. The group consists of fraud officers from across the Midland's local authorities. Its purpose is to identify, share and build on best practice in all areas of fraud.

In January 2019 we will be hosting Laura Hough from the Ministry of Housing, Communities and Local Government who is currently undertaking a review into the risks of fraud and corruption in local government procurement.

CIPFA Annual Fraud and Corruption Tracker 2018

In June 2018, local authorities were encouraged to respond to CIPFA's annual fraud survey, which Sandwell participated in. The information obtained from the survey was used to produce the Fraud and Corruption Tracker (Appendix 2).

Sandwell was one of two local authorities to receive an acknowledgement, as one of the Counter Fraud Unit's investigations features as a case study on page 9 of the report.

The report identified that in 2017/18 approximately 80,000 frauds were detected or prevented by local authorities. Social housing fraud, such as subletting and false housing applications was estimated to be the highest value of fraud, totalling £216.1m. Council Tax, including false single occupancy discounts, was identified as the most common fraud (based on the volume detected).

The amount of detected Business Rates fraud showed a significant increase with £10.4m of fraud identified nationally. The four main types of fraud were identified as council tax, housing, disabled parking (Blue Badge) and business rates.

The results from Sandwell’s survey when compared to the previous years data

	2017/18		2016/17	
	Positive investigations	Value	Positive investigations	Value
Council Tax	121	£63,968	211	£82,999
Housing	83	£3,574,000*	140	£9,201,000 *
Blue Badge	3	£0.00** 4 blue badges recovered	1	£0.00 1 blue badge recovered
Business Rates	3	£15,039	0	£0.00
Other Frauds	8	£665,000**	5	£27,500

* based on the Cabinet Office formula at the time

** no national calculation is provided for Blue Badge Fraud cases of this nature.

*** this includes an ongoing investigation being processed through the Courts system, with an estimated value of £500,000.

Partnership Working

Audit Services have a partnership working arrangement with the City of Wolverhampton Council and West Midlands Fire Service. As part of the arrangements the Counter Fraud Unit continue to provide a service to both organisations when required. This joint approach also sees an increase in shared best practice, working arrangements and counter fraud initiatives.

National Anti-Fraud Network (NAFN)

The council is a member of NAFN. This is a not-for-profit, non-incorporated body. It was set up by the Home Office to offer local authorities an approved single point of contact to a whole range of data and intelligence that central government and other key bodies hold. It is mainly used by regulatory and investigative services within the

public sector. The Head of Audit at the council is an Executive Board Member and the Treasurer for NAFN. This allows the council to play a key part in the organisation's continued success in driving forward the anti-fraud agenda.



Cabinet Office



National Fraud Initiative Report

1 April 2016 to 31 March 2018

Foreword

The risk of fraud is a challenge that all organisations and individuals face. The public sector is no different. Fraud is a hidden crime, with those who commit fraud actively trying to avoid detection, so we must proactively look for it. The Government set out its commitment to do just this in the [Cross-Government Fraud Landscape Annual Report](#) published in September 2017.

The National Fraud Initiative, the Cabinet Office's data matching service, has enabled participating organisations to prevent and detect over £300 million fraud and error in the period April 2016 to March 2018. This is a record for the NFI in any reporting period since its creation in 1996, and brings cumulative outcomes to £1.69 billion. This is a signal of how seriously the government is taking the challenge that it set itself - to find and tackle fraud in the public sector and protect vital public services.

These record outcomes are due to the hard work of staff at the 1,200 public and private sector organisations that participate in the National Fraud Initiative. I applaud them all, but we will not be complacent. We all need to continue to challenge ourselves and our organisations to ensure we are all committed to look for this hidden crime and the proactively identify fraud and error.

As part of this report, the Cabinet Office is launching the NFI's strategy for the next four years. This will help ensure the NFI is best placed to continue supporting organisations. At the core of this strategy is the need for collaboration and innovation. The strategy seeks to ensure the NFI continues to provide users with flexible and sophisticated fraud prevention and detection tools that achieve results quickly and efficiently that the NFI is renowned for across the UK.

Through continued commitment to develop the National Fraud Initiative, and work with its users to enable them to get the most out of it, the Government is renewing its drive to seek out fraud in public services, and ensure that taxpayers' money is spent where citizens need it most.

Chloe Smith
Minister for the Constitution

National Fraud Initiative Report

1 April 2016 to 31 March 2018



This report sets out the results of the NFI in the period 1st April 2016 to 31 March 2018, and follows on from our [last report](#), published in November 2016.

NFI overview

The National Fraud Initiative (NFI) is a data matching exercise conducted by the Cabinet Office to assist in the prevention and detection of fraud.

Data for the NFI is provided by some 1,200 participating organisations from the public and private sectors including government departments. The NFI works with public audit agencies in all parts of the UK.

Data matching involves comparing sets of data electronically, such as the payroll or benefit records of a body, against other records held by the same or another body to see how far they match. The data is usually personal information. The data matching allows potentially fraudulent claims and payments to be identified. Where a match is found it may indicate that there is an inconsistency that requires further investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out. All bodies participating in the Cabinet Office's

data matching exercises receive a report of matches that they should investigate, so as to detect instances of fraud, over- or under-payments, and other errors, to take remedial action and update their records accordingly.

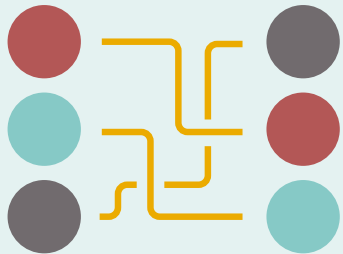
The NFI is conducted using the data matching powers bestowed on the Minister for the Cabinet Office by Part 6 of the Local Audit and Accountability Act 2014 (the Act). It does not require the consent of the individuals concerned under current data protection legislation. There are certain public sector bodies that are required to provide data for the NFI on a mandatory basis. In addition, bodies can provide data to the Cabinet Office for matching on a voluntary basis under schedule 9, 3 of the Act.



NFI products

National

Data is collected from organisations across the UK for national fraud detection batch matching. Matches are accessed through a secure web application.



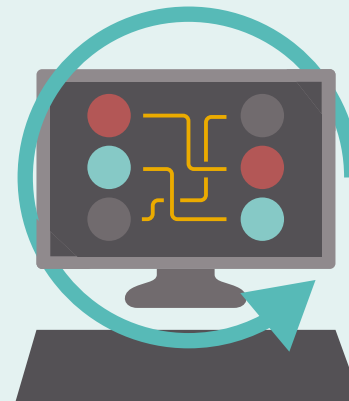
AppCheck

Fraud prevention tool that helps organisations to stop fraud at the point of application, thereby reducing administrative and future investigation costs.



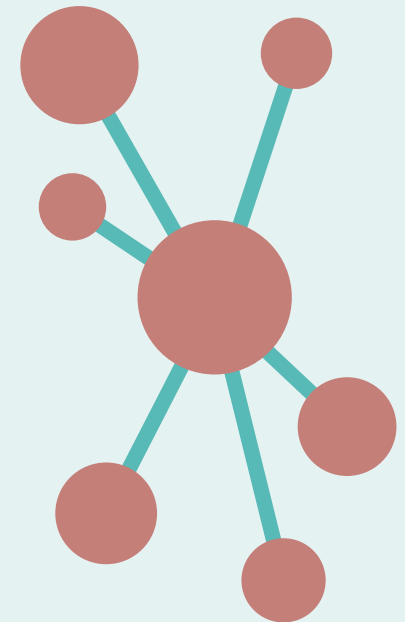
ReCheck

Flexible batch matching tool that allows an organisation to repeat national batch matching at a time to suit them.



FraudHub

FraudHub enables groups of organisations to regularly screen more than one dataset with the aim of detecting errors in processing payments, or benefits and services.



You can find AppCheck case studies [here](#)

Cost of running the NFI

Main Expenditure



IT

Delivered under contract by an external supplier



Staff

Cabinet Office NFI team has eight members of staff



Example Fees

London borough council

£4,150



Mid-sized council

£2,200



outcome
£301.2m

fee
£2.8m

*These fees have not been increased for 10 years

Our strategy



Our mission

To better protect the public services from fraud and error by helping to find and minimise loss.



Our vision

To provide the best deal for the taxpayer by helping tackle fraud and error, through improved access to data and analytics techniques via sophisticated fraud prevention and detection solutions that achieve results quickly and efficiently.

Operating in a fastpaced, dynamic environment, we will work with customers and stakeholders across the public and private sector to provide capability to best allow them to prevent, disrupt, deter, discover and punish fraud and error.



Our strategy identifies strengths and challenges

Strengths:

- trusted brand
- track record for delivering outcomes efficiently
- delivers flexible solutions in response to emerging fraud risks
- matches across UK to detect and prevent fraud
- a record £301 million in most recent two-yearly exercise



Challenges:

- counter fraud landscape moves at a fast-pace
- counter fraud strategies now focus more on fraud prevention, so customers are seeking faster solutions embedded into internal controls
- advanced technology has led to customers being offered a wide range of alternative solutions
- customers are less satisfied with a 'one size fits all' national approach
- the solutions need to be tailorable to meet local needs
- the data the NFI holds is a snapshot of a point in time and is only periodically refreshed

Our strategy objectives

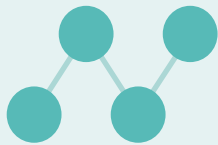
In response to the strengths and challenges, our objectives for the next four years will leave the NFI best placed to help deliver benefits to public sector bodies in their fight against fraud.



1. Better targeting existing and new fraud risks



2. Improving communication and engagement with users to better understand and meet customer need



3. Increasing both the volume and frequency of data that is used in, or accessed through, the NFI



4. Embracing new technologies and techniques to improve existing and develop new products



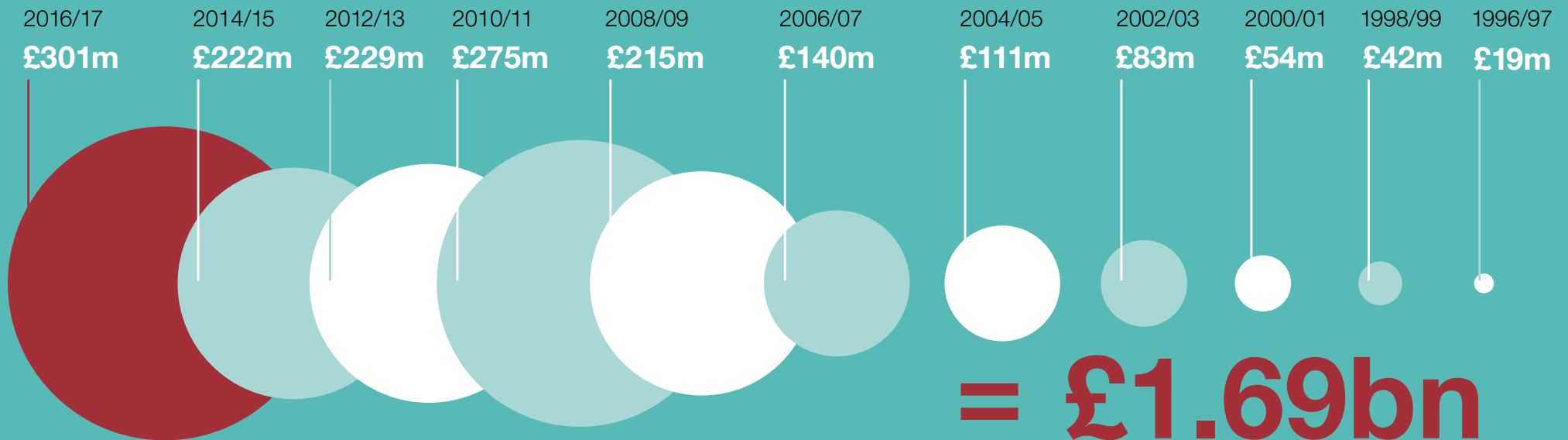
5. Securing the extension to legislative purposes to increase the usage and impact of the NFI

Fraud, overpayments and errors identified and prevented

1 April 2016 to 31 March 2018



The UK broken down into years



Where applicable, amounts included in this report have been rounded to an integer, 0.5 and above were rounded up; under 0.5 rounded down.

The headlines

The main categories of fraud identified by the NFI in England relate to:

£144.8m

of pension fraud
and overpayments

£32.6m

of fraudulent, or wrongly
received, council tax
single person discount

£24.9m

of housing benefit fraud
and overpayment



The exercise also produced the following significant results in England:

58

social housing
properties recovered

7,601

false applications were
removed from housing
waiting lists

234,154

concessionary travel
passes were cancelled

1,613

cases of incorrect
Council Tax reduction
were identified

31,223

blue badges were
revoked or withdrawn

275

cases where a council
continued to make
mistaken payment
to private care homes
for deceased persons

NFI outcomes in England by risk area



Pensions

£144.8m £85.1m



Council Tax

£32.6m £37.4m



Waiting lists

£25.5m £1.0m



Housing benefits

£24.9m £39.2m



Blue badges

£18.0m £13.2m



Concessionary travel

£5.6m £2.2m



Tenancy fraud

£5.5m £5.0m



Council Tax Reduction Scheme

£2.8m -



Residential care homes

£4.4m £3.5m



Trade Creditors

£4.3m £4.5m



Payroll

£4.0m £5.0m



Right to Buy

£1.0m £0.3m



State benefit

£0.9m -



Personal budgets

£0.5m £0.5m



Other

£0.3m £1.3m

Total

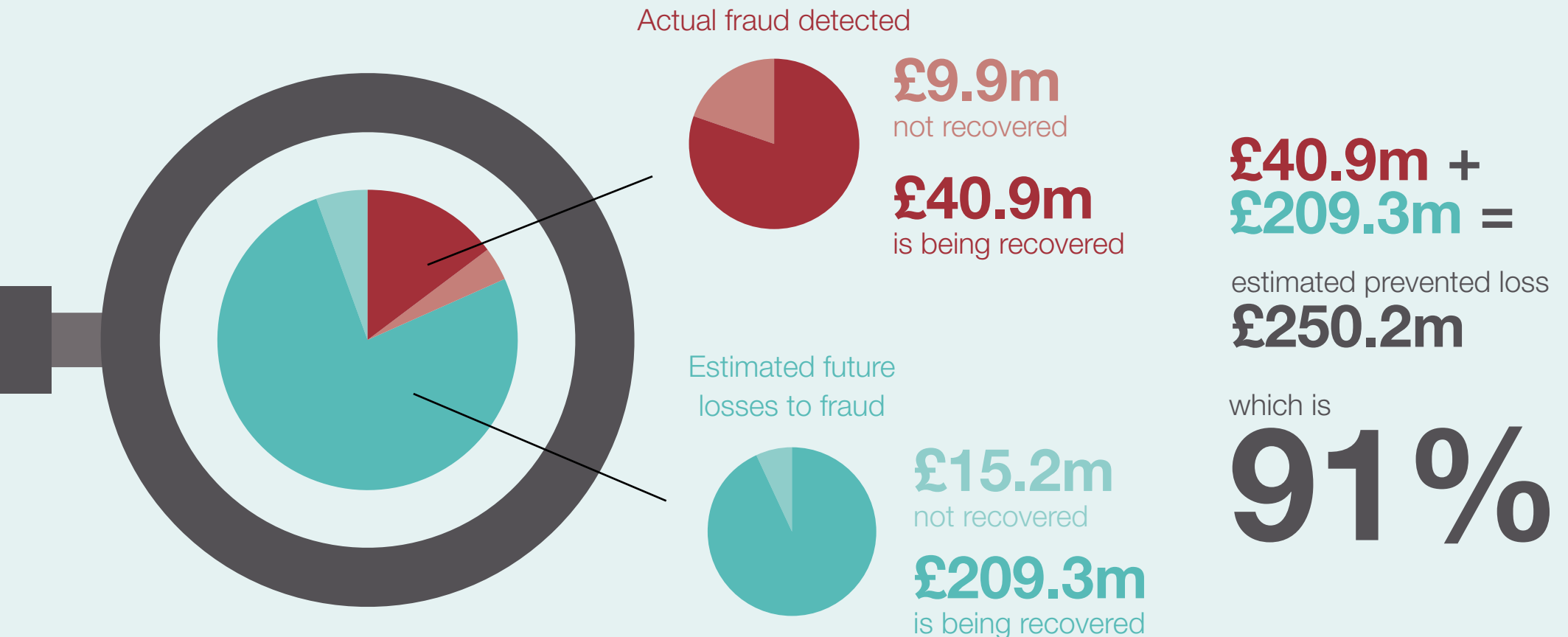
£275.3m £198.2m

■ 2018 ■ 2016

Recovery rate/impact of the NFI on the public finances

£275.3m

the total amount of fraud, overpayments and errors identified and prevented by the NFI in England during the period 1 April 2016 to 31 March 2018.



Key messages for 2016 – 2018

Pensions: £144.8 million

Individuals obtaining the pension payments of a dead person



- Pensions has seen a significant increase in outcomes to £144.8 million, an increase from £85.1 million in 2014/15.
- This can be attributed to an increase in the numbers of deceased person cases identified as well as work with large public sector pension schemes to improve the frequency and quality of outcomes reporting. Some bodies have also opted to undertake more regular matching through the NFI mortality screening service.
- The ratio of actual overpayments to estimated savings from preventing overpayments has changed since 2014/15, with actual overpayments £4 million lower than the previous exercise and future losses prevented up by £89 million.
- The increase in bodies undertaking more regular matching is a key factor in this, although improvements to deceased matching have also contributed, including:
 - reducing the time between data submission and match release, enabling incorrect pension payments to be identified and stopped more quickly
 - enhancing match reports to enable users to action the best quality matches more easily

Case study



Civil Service Pensions

The NFI continues to produce high-quality matches that enable public sector pension schemes to combat fraud and reduce error. For example, following investigation of pension matches to deceased records, Civil Service Pensions were able to identify overpayments in excess of £2 million.

As at 31 March 2018, £700,000 had already been recovered and work is in progress to recover the remaining amount.

Key messages for 2016 – 2018

Council Tax: £32.6 million

Individuals who did not qualify for the Council Tax single person discount because they were living with other countable adults



- Council Tax single person discount (SPD) matching is carried out annually.
- Over the last two annual exercises, the NFI match to tackle Council Tax SPD abuse has once again provided substantial returns for councils, although following the recent trend, these have fallen slightly.
- Council Tax outcomes from the 2016/17 exercise stand at £32.6 million (£37.4 million in 2014/15) and over 30,000 SPDs (37,825 in 2014/15) have been cancelled as a result.
- As part of our drive to continually enhance the NFI, we introduced two new data matches during 2016/17. We will undertake a full analysis of the outcomes from these two additional matches and also work closely with councils to fully understand the impact of whether or how they enable councils to more effectively target SPD fraud.
- The new matches are detailed below:
 - Following a successful pilot, we matched all SPD claims against a wider range of NFI datasets. To date, over 1,000 SPDs have been cancelled as a result of this report.
 - In response to survey feedback, we partnered with Equifax to launch an enhanced CTSPD service in December 2017, that combines both public and private sector data to give a comprehensive and robust view of the SPD claimants household composition. To date 13 councils have utilised this service.

Key messages for 2016 – 2018

Housing waiting lists: £25.5 million

Social housing waiting list applicants who were not entitled to social housing because they had misrepresented their circumstances



- Housing statistics show that there are 1.15 million households on local authority social housing waiting lists, so removing applicants who are not eligible for social housing will enable councils to allocate social housing to those in genuine need.
- In line with the NFI strategy to target more preventative data matching, a pilot data match was undertaken and the outcomes were reported in our November 2016 national report.
- The success of the pilot in helping councils to remove over 3,000 applicants from their housing waiting lists meant that this was rolled out as a core match for the 2016/17 exercise.
- As a result of this match, 7,601 applications for social housing have been removed by councils during 2016/17. Over half of these applications were cancelled by one council, suggesting that the impact of this match could be much greater. Going forward, we will work with councils on this as part of a wider review in to how NFI can better target social housing fraud.
- We apply an estimate of £3,240 per case for future losses prevented as a result of removing an applicant from council housing waiting list.

Key messages for 2016 – 2018

Housing benefit: £24.9 million

Individuals claiming housing benefit who failed to declare an income or change of circumstances



- Housing benefit outcomes are £24.9 million, compared with the 14/15 figure of £39.2 million. A decline in overpayments was expected given a number of factors:
 - transition of housing benefit claimants over to Universal Credit (UC) HB claimants have reduced by almost 350,000 between the October 2014 and October 2016 data submissions;
 - completion of transfer of housing benefit investigation staff from local authorities to DWP under the Single Fraud Investigation Service (SFIS)
 - embedding of Department for Work and Pensions (DWP) / Her Majesty's Revenue and Customs (HMRC) Real Time Information (RTI) solution which compares Pay As You Earn (PAYE) and welfare benefits to identify overpayments
- Housing benefit overpayments identified through matching to student loans continues to generate the most outcomes. Over 1,300 cases were identified with an actual overpayment value of £6.7 million. This represents 37% of the total housing benefit overpayments.
- DWP and the NFI undertook a joint review of how the DWP utilise the NFI to identify any actions and learnings. The review initiated a repeat run of Housing benefit to student loans matching in autumn 2017 to capture data for students commencing their first year of study in September 2017, and to also refine the matching to better exclude false positives. Outcomes from this exercise continue to be reported by DWP, but indications are that the proportion of NFI matches being referred onwards for investigation have increased. For example, 40% of housing benefit to student loan matches referred to DWP compliance, an overpayment was identified.
- We continue to work closely with the DWP to ensure we maximise the benefits of the NFI, in line with the NFI strategic themes. Ongoing work includes undertaking pilot matching for UC and further adapting current matching to add additional insight, reduce false positives and improve prioritisation of matches.

Case study



Mole Valley District Council

A housing benefit to student loans match identified a student who had failed to declare his student finance to Mole Valley District Council. Enquiries into the match revealed that not only had the student failed to declare a change in circumstance, but so too had his partner when she failed to declare her NHS bursary. The student accepted a caution from Mole Valley District Council as he had failed to promptly declare a change of circumstance, contrary to Regulation 8 of the Council.

Tax Reduction Schemes (Detection of Fraud and Enforcement (England) Regulations 2013. Mole Valley District Council is in the process of recovering just under £12,500.

Key messages for 2016 – 2018

Blue badges: £18 million

Potential misuse of blue badge parking passes belonging to someone who had died



- As at 31 March 2017 there were 2.38 million Blue badges in England, 887,000 of these were issued between 1 April 2016 and 31 March 2017. Fraudsters exploit the Blue Badge scheme by forging badges and stealing badges from cars. Abuse also occurs when badges remain in use, or are renewed by someone, after a badge holder has died. In England, there was a total of 1,131 individuals prosecuted in 2016/17. The majority of prosecutions (98%) in England were targeted at a non-badge holder using another persons' badge.¹
- During this reporting period, the number of blue badges cancelled significantly increased to 31,223 from 23,063 in 2014/15. In 2016/17 the number of passes cancelled was 31,223. This increased from 23,063 in 2014/15. The estimated value of blue badges cancelled between reporting periods has also therefore increased from £13.2 million to £18 million, an increase of 36%.
- For the 2016/17 exercise we worked closely with the Blue Badge Improvement Service (BBIS) so they were able to submit data to the NFI on behalf of councils in England, Scotland and Wales.

¹ Department for Transport, [Blue Badge Scheme Statistics, England: 2017](#), Department for Transport, February 2018

Key messages for 2016 – 2018

Concessionary travel: £5.6 million

Potential misuse of concessionary travel passes belonging to someone who has died



- The number of concessionary passes updated, cancelled or hot-listed (stopping/deactivating the deceased matched cards) in 2016/17 as a result of an NFI match was 234,154, an increase from 97,064 in 2014/15. As a result, the estimated value of fraud losses prevented in the same reporting period more than doubled from £2.2 million in 2014/15 to £5.6 million in 2016/17.
- For the 2016/17 exercise we worked closely with a number of businesses administering the concessionary travel passes for multiple local authorities. This has contributed significantly to the increased impact.²
- The Department for Transport reported that in 2016/17 there were 9.8 million older and disabled concessionary travel passes in circulation, a decrease of 1.1% from 2015/16, the first decrease in three years.³ Whilst we cannot directly link the higher number of passes cancelled, updated or hotlisted to the first decrease in the total number of concessionary travel passes in circulation seen over the last three years, it is worth noting.

² Department for Transport, [Concessionary travel Statistics 2016/17](#), Department for Transport, 14 December 2017

³ Department for Transport, [Concessionary travel Statistics 2016/17](#), Department for Transport, 14 December 2017

Key messages for 2016 – 2018

Tenancy fraud: £5.5 million

Social housing tenants who were subletting, were not entitled to social housing because of their status in the UK, or had multiple tenancies unlawfully



- The [Annual Fraud Indicator](#) 2017 highlights that housing tenancy fraud costs local government £1.83 billion. This has increased from the £1.76 billion quoted in 2016.
- Despite social housing being a significant fraud risk for councils, we have only seen a small increase in the number of properties recovered by social landlords as a result of the NFI data matches. This was 58 in 2016/17 compared to 54 in 2014/15.
- Although each property recovered can be reallocated to those in genuine need, it is clear the NFI needs to do more to help councils fight social housing fraud.
- There were some improvements in 2016/17, specifically:
 - using the combined Council Tax and Electoral Register data to help identify an individual's current residence
 - the new social housing waiting list fraud data match that led to 7,601 applications for social housing being removed by councils during 2016/17
- Building on this we now intend to work closely with councils and key stakeholders to undertake a full review into how NFI can better target social housing fraud.

Case study



Royal Borough of Greenwich

An NFI housing tenancy to housing tenancy match showed two matching tenancies between two London boroughs. Investigations in the Royal Borough of Greenwich showed their tenant had used false identity documents to gain a one bedroom flat in May 2013; claimed housing benefit; used the same documents to gain employment as a waste operative in the borough four years earlier, in October 2009 (he was no longer in that employment at the time of the investigation). The Royal Borough of Greenwich evicted the tenant from the property in February 2017 and he was prosecuted and sentenced at Woolwich Crown Court on 4th October 2017 to 33 months imprisonment. In total the man had received in excess of £60,000 in employment and housing benefit payments.

Portsmouth City Council

A housing tenants to housing benefit match identified a tenant in a property owned by Portsmouth City Council. The tenant had however been claiming housing benefit in excess of £150 per week for a different property in a nearby authority area since January 2016. The match revealed the tenant had let the property from Portsmouth City Council in February 2013, but investigations found the tenant's partner had been subletting the Portsmouth property for up to two years. The council sought a prosecution in October 2017 and the property was successfully recovered.

Key messages for 2016 – 2018

Residential care homes: £4.4 million

Payments to private care homes by the councils for the care of a resident where the resident had died



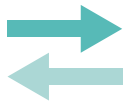
- The number of cases resulting in outcomes is similar to that recorded in the previous exercise. There were 275 cases in 2016/17 compared to 263 in 2014/15.
- However, the resulting outcomes (actual and estimated) have increased by 26% from £3.5 million to £4.4 million.
- Over a quarter of the financial outcomes recorded came from councils using the NFI ReCheck product to undertake more regular matching to target residential care home fraud and error.



Key messages for 2016 – 2018

Trade creditor payments: £4.3 million

Traders who intentionally or unintentionally submitted duplicate invoices for payment



Creditor payments matches continue to produce significant outcomes with over £4.3 million of wrongly paid duplicate invoices identified. Although this is a slight reduction from the previous exercise, the case study below provides an example of how valuable the matching can be.

Case study



Suffolk County Council

The NFI helped Suffolk County Council identify and recover duplicate invoice payments totalling £142,500, and £122,000 in overpayments to residential care providers for people who had died.

The council was also able to cancel 3,671 concessionary travel passes and 289 blue badges as the holders had died, but the council were not made aware until NFI highlighted them.

There was no cost to the taxpayer, but the council now plans to strengthen controls to reduce the number of errors in future.

Key Messages for 2016 – 2018

Payroll: £4 million

Employees working for one organisation while being on long-term sick leave at another or obtaining employment while not entitled to work in the UK



- Payroll outcomes for England 2016/17 total £4 million, compared with the 14/15 total of £5 million.
- The NFI released a new report that compares payroll to Companies House data, to identify potential undeclared interests that may give a financial advantage. This match highlighted where an employee's address appeared to have links to a company or its directors.
- As a result of the new match, 129 cases with undeclared interest were identified.
- This was a new dataset for 2016/17. Because of this success, we will continue to include this in future NFI exercises.

Case study



Birmingham City Council

A Revenues Officer at Birmingham City Council appeared on a NFI match to CIFAS Known Fraud Data. An investigation revealed that the employee had concealed previous employment history, having resigned during a disciplinary investigation. This was not declared to Birmingham City Council when applying for his current job. It was discovered he hid his employment history on two further occasions when asked to make annual declarations as part of the council protocols. The employee was dismissed following a disciplinary hearing.

Birmingham City Council spokesperson said “This case would not have been found without the NFI match being undertaken”.

Anonymous

A new match between payroll and Companies House data helped one council to review and introduce new measures for staff to declare any interests. This was after the NFI match revealed that one member of staff had had sight of tenders for services, which allowed her to give information to her husband, who was then able to undercut those prices. This was dealt with as a disciplinary matter and the individual left the authority.

Key messages for 2016 – 2018

Council Tax Reduction Scheme: £2.8 million

Individuals claiming Council Tax reduction who failed to declare an income or change of circumstances



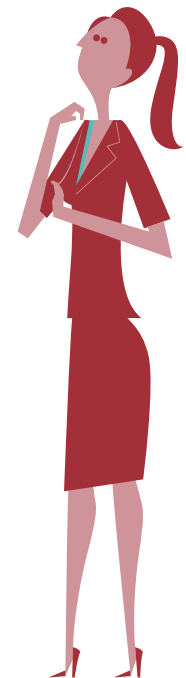
- Council Tax reduction is the discount given by local councils to those eligible for help with council tax bills.
- This was a new dataset for 2016/17 and we will continue to include this in future NFI exercises.
- An estimate of 21 weeks is applied to the weekly reduction in benefit recorded by participants for future losses prevented.
- 326 bodies received matches related to Council Tax reduction. Of these councils, just under half (48%) identified cases where individuals were incorrectly receiving a Council Tax reduction. In total, 1,613 cases where Council Tax reduction was in payment were identified as being incorrect.
- Overpayments identified from this data area were spread fairly evenly across councils that identified incorrect cases of Council Tax reduction. The average reported saving per case was £1,130 (excluding estimated forward savings).

Case study



Durham County Council

A Council Tax reduction scheme (CTRS) to Pensions NFI match identified a recipient whose local authority pension had not been fully taken into account in their CTRS claim. As a result of the investigation, Durham County Council claimed back over £10,000.



Further case studies

Personal budgets

Individuals claiming a personal budget who failed to declare an income or change of circumstances or were deceased

Case study



Durham County Council

Durham County Council identified a case from an NFI match where a recipient had failed to declare their NHS lump sum payment. An investigation was carried out and the authority put in place measures to recover over £5,000. People in receipt of personal budgets may be suffering from ill health and we recommend these matches are investigated with this in mind.



Further case studies

AppCheck

Case study



City of London

The City Corporation Anti-Fraud Investigation Team, along with the Housing Allocations Team, are tasked with working across London to detect, prevent, and deter people from attempting to obtain social housing under false pretences.

As part of its commitment to supporting the NFI, and to help evolve its approach to fraud prevention, the City Corporation decided to deploy AppCheck on a trial basis to see if it could help to improve its ability to identify those applying, or who have obtained, social housing under false pretences.

The AppCheck system was easily assimilated into the teams' existing procedures and was able to provide an additional layer of intelligence to the verification process.

Following its successful trial in combating social housing tenancy application fraud, AppCheck has been rolled out across the City Corporation in areas such as HR, housing benefits and blue badge applications.

Chris Keesing, Anti-Fraud Manager within the City of London Corporation commented on the AppCheck trial:

"The AppCheck solution was a great success and proved itself early on by allowing us to identify social housing application fraud that would have otherwise potentially not been detected. We are pleased that, owing to the success in this area, we have now been able to roll out AppCheck to other departments across the City Corporation to help us identify fraud in more front-line service areas."

Case study



St Ledger Homes

St Leger Homes is an award-winning company which provides housing services across Doncaster in the social and private sectors. Created in 2005 by Doncaster Council and with government support, St Leger Homes is an Arm's-Length Management Organisation (ALMO) that provides quality council homes for local residents.

By using AppCheck, staff at St Leger Homes have a greater ability to prevent fraudulent or mistaken applicants from obtaining a tenancy and reduce the volume of referrals that are generated from historical claims or payments. Over 700 searches have been completed. Their move from a fraud detection to a fraud prevention investigations model has reduced their caseload, allowing the team's investigation capacity to be managed

much more effectively. This has also allowed a focus on areas that yield bigger benefits or cost savings. AppCheck is continually used by St Leger Homes to screen housing tenancy and Right to Buy applications.

Nicola Bouse, Customer Service Advisor for Central and Tenancy Fraud said: *"This is a valuable tool in the prevention of fraud and I would recommend it to anyone looking at potentially using it. It has helped clarify some situations that did on face value look suspicious. The information provided is clear and easy to understand and can point us in a direction we need to go if issues arise. AppCheck fits well with our existing checks and enhances the process."*

Further case studies

AppCheck

Case study



London Borough of Hammersmith and Fulham

AppCheck allows frontline staff working in public sector organisations to check and verify the details of all new housing and benefit applications more effectively in real-time and reduces the risk of fraudulent applications.

As part of their anti-fraud strategy, the London Borough of Hammersmith and Fulham now use AppCheck to prevent fraud, or mistaken payments, from having an impact.

For example, AppCheck identified that a housing application they had received held conflicting information to that held within the NFI database. The applicant was clearly linked to an address in the neighboring borough of Ealing. After further investigation, involving tracking benefits paid over a 16-month period to the address in Ealing, the London Borough of Hammersmith and Fulham housing application was declined, saving £18,000.

Andrew Hyatt, Head of Fraud at the London Borough of Hammersmith and Fulham said:

"AppCheck is an extremely good and affordable anti-fraud tool. The configuration allows investigators to verify applications against a number of datasets, from different organisations, that are held within the system. Since using [AppCheck] we've seen great savings and a reduction in the number of fraudulent applications entering our system."

NFI outcomes in England by risk area

Dataset	Example activity area	2018 £m (1 April 2016 – 31 March 2018)	2016 £m (1 April 2014 – 31 March 2016)
Housing benefits	Individuals claiming housing benefit who failed to declare an income or change of circumstances	24.9	39.2
Pensions	Individuals obtaining the pension payments of a dead person	144.8	85.1
Council Tax	Individuals who did not qualify for the council tax single person discount because they were living with other countable adults	32.6	37.4
Payroll	Employees working for one organisation while being on long-term sick leave at another or obtaining employment while not entitled to work in the UK	4.0	5.0
Trade creditors	Traders who intentionally or unintentionally submitted duplicate invoices for payment	4.3	4.5
Blue badges	Potential misuse of blue badge parking passes belonging to someone who has died	18.0	13.2
Concessionary travel	Potential misuse of concessionary travel passes belonging to someone who has died	5.6	2.2
Tenancy fraud	Social housing tenants who were subletting, were not entitled to social housing because of their status in the UK, or had multiple tenancies unlawfully	5.5	5.0
Right to Buy	Social housing tenants who were not entitled to right to buy because of their status in the UK, or had multiple tenancies unlawfully	1.0	0.3
Residential care homes	Payments to private care homes by a council for the care of a resident where the resident had died	4.4	3.5
Personal budgets	Individuals claiming a personal budget who failed to declare an income or change of circumstances or were deceased	0.5	0.5

NFI outcomes in England by risk area

Dataset	Example activity area	2018 £m (1 April 2016 – 31 March 2018)	2016 £m (1 April 2014 – 31 March 2016)
Other	Other immigration outcomes linked to student loans and licences	0.3	1.3
Council Tax Reduction Scheme	Individuals claiming Council Tax reduction who failed to declare an income or change of circumstances	2.8	-
State benefit	Individuals claiming state benefits who failed to declare an income or change of circumstances	0.9	-
Waiting lists	Social housing waiting list applicants who were not entitled to social housing because of their status in the UK	25.5	1.0
Total		275.3	198.2

Key results in England

	Number of cases 2018	Number of cases 2016
Pensions		
Pension payments stopped	3,763	3,592
Council Tax single person discount		
Council Tax single person discount claims stopped	30,343	37,825
Social housing/Right to Buy		
Properties recovered	58	54
Right to Buy wrongly awarded	4	4
Applicants removed from a housing waiting list	7,601	726
Housing benefit fraud, error and overpayments relating to:		
Local government employees	798	1,417
Central government pensioners	353	922
Individuals receiving a local government pension	298	876
Students	1,361	1,944
NHS employees	313	516

Key results in England

	Number of cases 2018	Number of cases 2016
Other	743	864
Immigration	61	67
Blue badges cancelled	31,223	23,063
Concessionary travel passes cancelled	234,154	97,064
Social care		
Residents in private care homes	275	263
Personal budgets	163	113
Payroll		
Total employees dismissed or resigned	53	109
Creditor payments		
Duplicate creditor payments	884	3,488
Council Tax Reduction Scheme	1,613	0
Total	314,061	172,907

Report calculations – England only

Data match	Fraud detected (£ million)	Estimated (£ million)	Total (£ million)	Basis of calculation of estimated outcomes
Pensions	7.4	137.4	144.8	Annual pension multiplied by the number of years until the pensioner would have reached the age of 85
Council Tax SPD	11.7	20.8	32.6	Annual value of council tax single person discount multiplied by two years
Housing benefits	18.2	6.7	24.9	Weekly benefit reduction multiplied by 21 weeks
Housing waiting list	0.0	25.5	25.5	£3,240 per applicant removed from the waiting list, based on annual estimated cost of temporary accommodation and the likelihood that future losses would occur due to waiting list fraud
Blue badges	0.0	18.0	18.0	£575 per blue badge cancelled to reflect lost parking and congestion charge revenue
Payroll	3.1	0.9	4.0	£5,000 per case (£12,000 for immigration cases) and £50,000 for a removal from the UK
Tenancy fraud	0.0	5.5	5.5	£93,000 per property recovered based on average four year fraudulent tenancy - this includes temporary accommodation for genuine applicants; legal costs to recover property; re-let cost; and rent foregone during the void period between tenancies. £53,000 per property recovered in Northern Ireland
Trade creditors	4.3	0.0	4.3	Not applicable
Private residential care homes	2.5	1.9	4.4	£7,000 per case based on average weekly cost of residential care multiplied by 13 weeks

Report calculations – England only

Data match	Fraud detected (£ million)	Estimated (£ million)	Total (£ million)	Basis of calculation of estimated outcomes
Right to Buy	0.1	0.9	1.0	<p>£65,000 per application withdrawn based on average house prices and the minimum right to buy discount available</p> <p>This estimate has the following regional variations:</p> <p>London: £104,000 per application withdrawn to reflect the maximum value of Right to Buy discount available for London properties</p> <p>Northern Ireland: £31,000 per application withdrawn based on average house prices and minimum right to buy discounts in Northern Ireland</p>
Concessionary travel	0.0	5.6	5.6	Number of passes cancelled multiplied by £24, based on the cost of reimbursement to bus operators for journeys made under the concessionary pass scheme
Personal budgets	0.4	0.1	0.5	Monthly reduction in personal budget payment multiplied by 3 months
Other immigration	0.2	0.1	0.3	£50,000 for a removal from the UK
Council Tax reduction	1.8	0.9	2.8	Weekly change in council tax discount multiplied by 21 weeks
State benefits	0.9	0.0	0.9	Weekly benefit reduction multiplied by 21 weeks
Total	50.8	224.5	275.3	

NFI survey 2017

We conducted a survey in July 2017 that focused on: customer satisfaction; the NFI products; web application functionality; and the future strategy and direction of the NFI. We received over 580 responses and this feedback has helped us to shape our vision and objectives for 2018 to 2022.

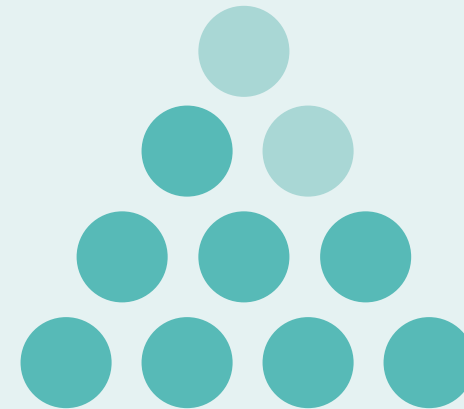
The NFI helps participants to prevent and detect fraud:



71%

somewhat agree, agree, or strongly agree that NFI helps business

The NFI should be mandatory so it is as effective as possible:

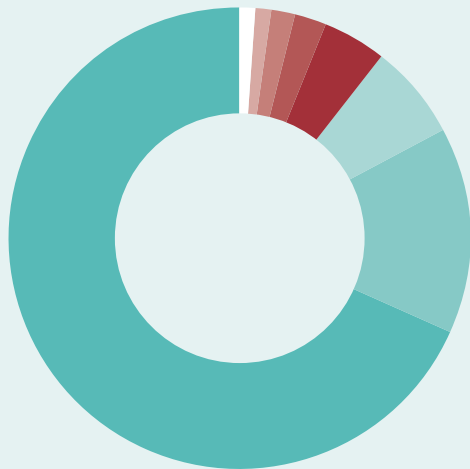


80%

agree with mandation (65% agree or strongly agree, 15% somewhat agree)

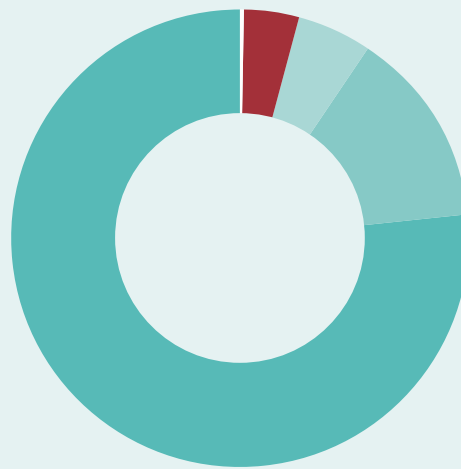
Participant profile

Your organisation is in which of the following sectors?



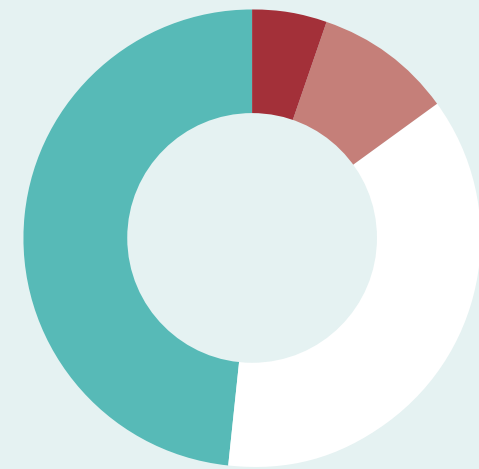
● Local government	68.14%	400
● NHS	14.48%	85
● Central government	6.64%	39
● Other	4.43%	26
● Police	2.21%	13
● Fire and Rescue Authority	1.70%	10
● Housing Association	1.19%	7
● Private sector	1.19%	7

Where is your organisation based?



● England	76.79%	450
● Scotland	14.16%	83
● Northern Ireland	4.10%	24
● Wales	5.12%	30
● Other	0.34%	2

What level of user are you?



● User	48.08%	275
● Key contact	36.89%	211
● Senior responsible officer	9.62%	55
● Don't know	5.42%	31

Strengths



The website is easy to use and data is easy to retrieve and review.



The NFI technology allows you to detect matches that may not otherwise have been highlighted.



There is a wide variety of informative guidance available, alongside helpful and knowledgeable staff.



The NFI tool allows you to identify and correct errors and mismatched information.

You told us:

“AppCheck has been very useful when used in conjunction with other searches. It has highlighted repeated clerical errors and helped improve processes and procedures.”

“The matches raise the possibility for fraud and error, of which we might not otherwise be aware.”

“The fact that it is mandatory [for local authorities] to take part ensures good participation and access to national datasets that are unavailable at a local level.”

Strengths



“We operate a shared counter-fraud service covering three local authorities. The NFI web app provides accurate, clear and concise data that can be manipulated easily to target our investigative resources in a risk-based and cost effective manner. Some matches have identified issues with internal procedures and have led to improvements being implemented. The exercise regularly provides a starting point for criminal investigations and realises significant savings to the public purse.”

Preston City Council, Lancaster City Council and Fylde Borough Council

“The 2016/17 NFI exercise has supplemented the routine data matching that we undertake. The matches undertaken by NFI to external data sources has helped in the identification of fraud and error which would otherwise be difficult to detect. The Housing Benefit to Student Loans report has been one of the most lucrative matches, helping us to identify in excess of £117k of overpayments. The results has also been helpful in identifying and correcting discrepancies.”

Birmingham City Council



“The Companies House NFI reports were very useful to us. They prompted us to carry out checks to make sure there were no conflicts of interest and helped us cross check against our own annual declarations. We were also able to make sure the staff who now work for us, but have been suppliers in the past, had correctly completed their annual declaration of interests.”

House of Commons

How can we improve?

We want to ensure that you receive the highest quality matches, as well as the best possible user experience from the NFI suite. Your responses to this survey have helped us shape our 2018 to 2022 strategy. We want to ensure that you receive the highest quality matches, as well as the best possible user experience from the NFI. Below are some examples of your feedback and how we will seek to address them.

You said

“Management Information reports are not intuitive or easy to use.”

“Currently the matches provided contain many false positives and only about 10% are worth investigating.”

“There is a lack of engagement with users.”

Our response

“As part of our continuous improvement strategy, we will develop management information tools, upgrade navigation options and improve web app functionality to better suit the user.”

“We will tighten matching rules, and risk scoring, improving the accuracy and quality of existing NFI data matching techniques. We will also look to add additional data sources from both the public and private sector.”

“We recognise the challenges around successful user engagement. As part of our strategy, we will identify the right people to ensure NFI becomes a fundamental aspect of every organisation’s counter-fraud work.”



Contact us

We are always on the lookout for participants to help with ongoing improvements to the NFI. If you would like to get involved, [please contact us](#).

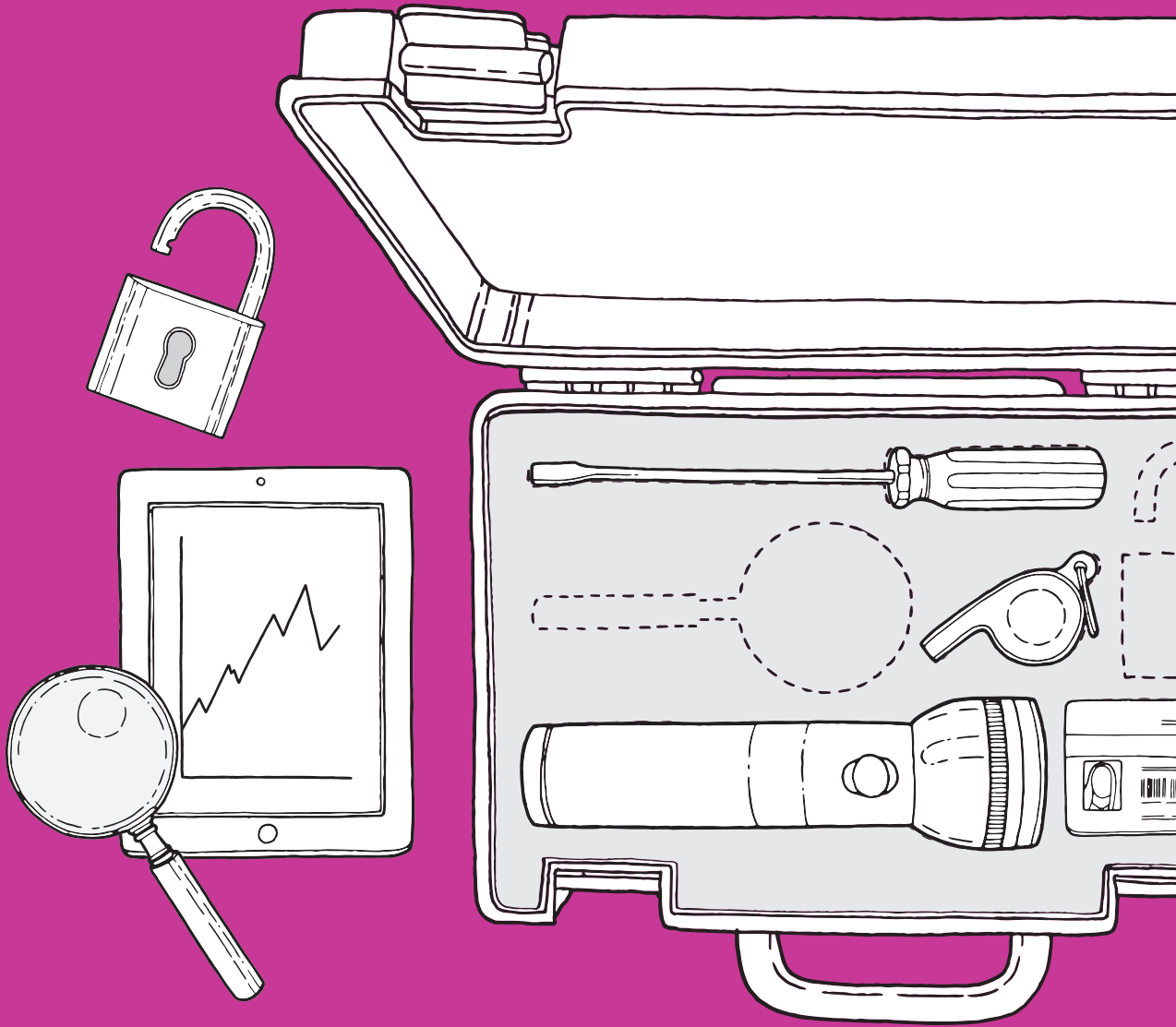
For more information about the NFI please visit our [website](#).

Follow the Cabinet Office on:



fraud and corruption tracker

Summary Report 2018



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Foreword

As guardians of public resources, it is the obligation of every public sector organisation in the UK to fight fraud and corruption. Taking effective measures in counter fraud amounts to much more than simply saving money, as illegitimate activities can undermine the public trust, the very social licence, which is essential to the ability of organisations to operate effectively.

The CIPFA Fraud and Corruption Tracker (CFaCT) survey aims to help organisations, and the public at large, better understand the volume and type of fraudulent activity in the UK and the actions which are being taken to combat it.

With support from the National Audit Office (NAO), the National Crime Agency (NCA) and the Local Government Association (LGA), these insights reflect the current concerns of fraud practitioners from local authorities in a bid to create a focus on trends and emerging risks.

Key findings this year, such as the continued perception of procurement as the area at most susceptible to fraud, and the growing cost of business rates fraud, should help councils allocate resources appropriately to counter such activity.

For this reason, the 2018 CFaCT survey should be essential reading for all local authorities as part of their ongoing risk management activity. It provides a clear picture of the fraud landscape today for elected members, the executive and the professionals responsible for countering fraud, helping their organisations benchmark their activities against counterparts in the wider public sector.

When councils take effective counter fraud measures they are rebuilding public trust, and ensuring our increasingly scarce funds are being used effectively to deliver services.

Rob Whiteman

Chief Executive, CIPFA

The survey was supported by:



The CIPFA Counter Fraud Centre

The CIPFA Counter Fraud Centre (CCFC), launched in July 2014, was created to fill the gap in the UK counter fraud arena following the closure of the National Fraud Authority (NFA) and the Audit Commission. Building on CIPFA's 130-year history of championing excellence in public finance management, we offer training and a range of products and services to help organisations detect, prevent and recover fraud losses.

We lead on the national counter fraud and anti-corruption strategy for local government, Fighting Fraud and Corruption Locally, and were named in the government's Anti-Corruption Plan (2014) as having a key role to play in combatting corruption, both within the UK and abroad.



Acknowledgements

CIPFA would like to thank all the organisations that completed the survey along with those that helped by distributing the survey or contributing case studies/best practices, including:

- Local Government Association
- Solace
- Home Office
- The Fighting Fraud and Corruption Locally board
- Salford City Council
- Sandwell Council

Introduction

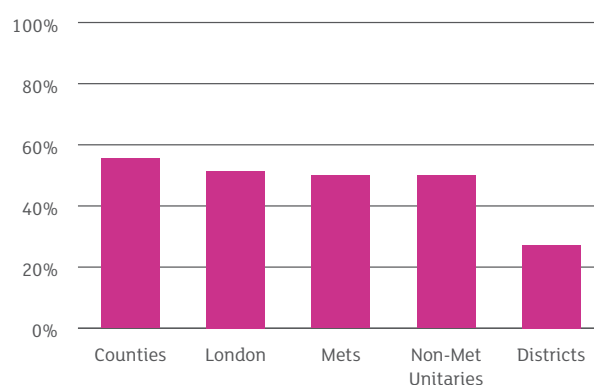
CIPFA recognises that each pound lost to fraud represents a loss to the public purse and reduces the ability of the public sector to provide services to people who need them. According to the Annual Fraud Indicator 2013, which provides the last set of government sanctioned estimates, fraud costs the public sector at least £20.6bn annually and of this total, £2.1bn is specifically in local government.

Fraud continues to pose a major financial threat to local authorities and working with partners such as the LGA and Home Office, we are seeing an emerging picture of resilience and innovation within a sector that is aware of the difficulties it faces and is finding solutions to the challenges.

In May 2018, CIPFA conducted its fourth annual CFaCT survey, drawing on the experiences of practitioners and the support and expertise of key stakeholders to show the changing shape of the fraud landscape. This survey aims to create a national picture of the amount, and types of fraud carried out against local authorities.

The results were received from local authorities in all regions in the UK, allowing CIPFA to estimate the total figures for fraud across England, Scotland, Wales and Northern Ireland.

Response rate



This report highlights the following:

- the types of fraud identified in the 2017/18 CFaCT survey
- the value of fraud prevented and detected in 2017/18
- how to improve the public sector budget through counter fraud and prevention activities
- how the fraud and corruption landscape is changing including emerging risks and threats.

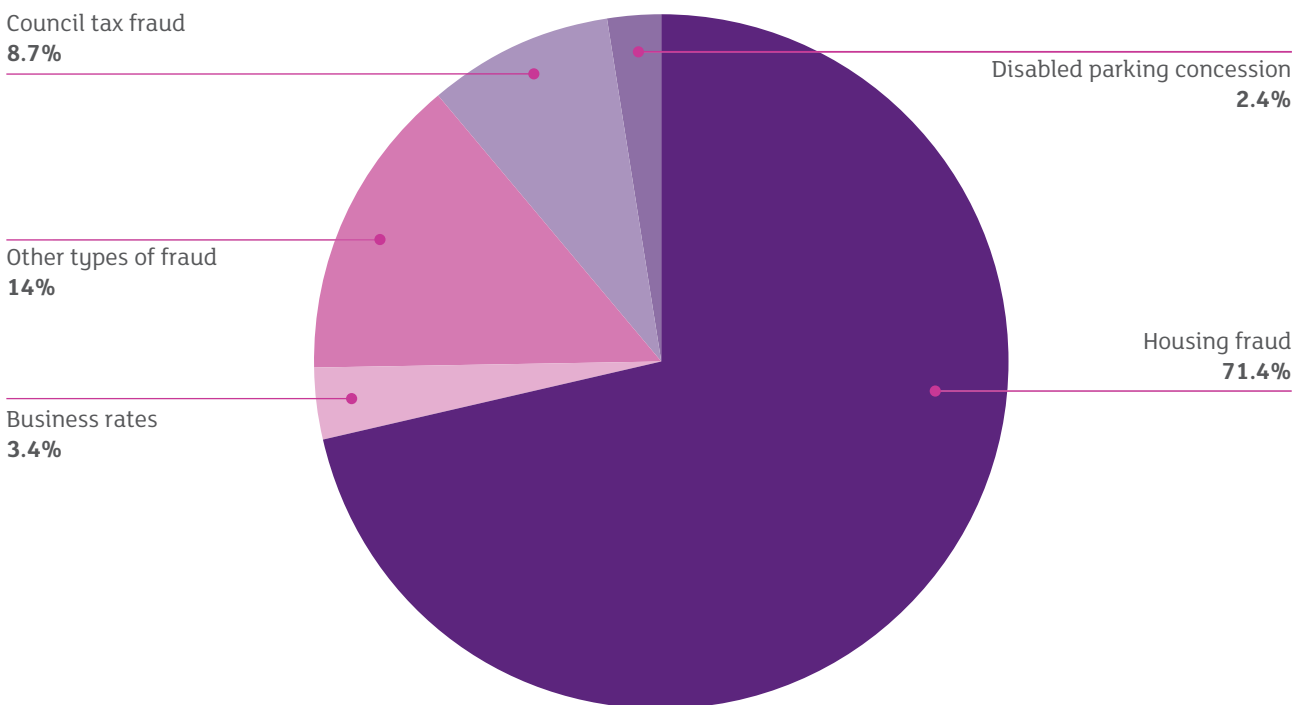
Executive summary

CIPFA has estimated that for local authorities in the UK, the total value of fraud detected or prevented in 2017/18 is £302m, which is less than the £336m estimated in 2016/17. The average value per fraud has also reduced from £4,500 in 2016/17 to £3,600 in 2017/18.

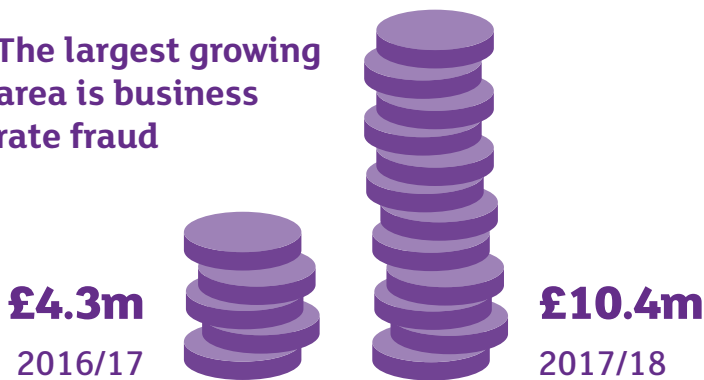
Respondents report that approximately 80,000 frauds had been detected or prevented in 2017/18, which is a slight increase from just over 75,000 frauds in 2016/17. The number of serious and organised crime cases, however, has doubled since 2016/17. This increase may

suggest that fraud attacks are becoming more complex and sophisticated due to fraud teams becoming more effective at prevention. Alternatively, fraud teams may have developed a more effective approach for detecting or preventing such frauds.

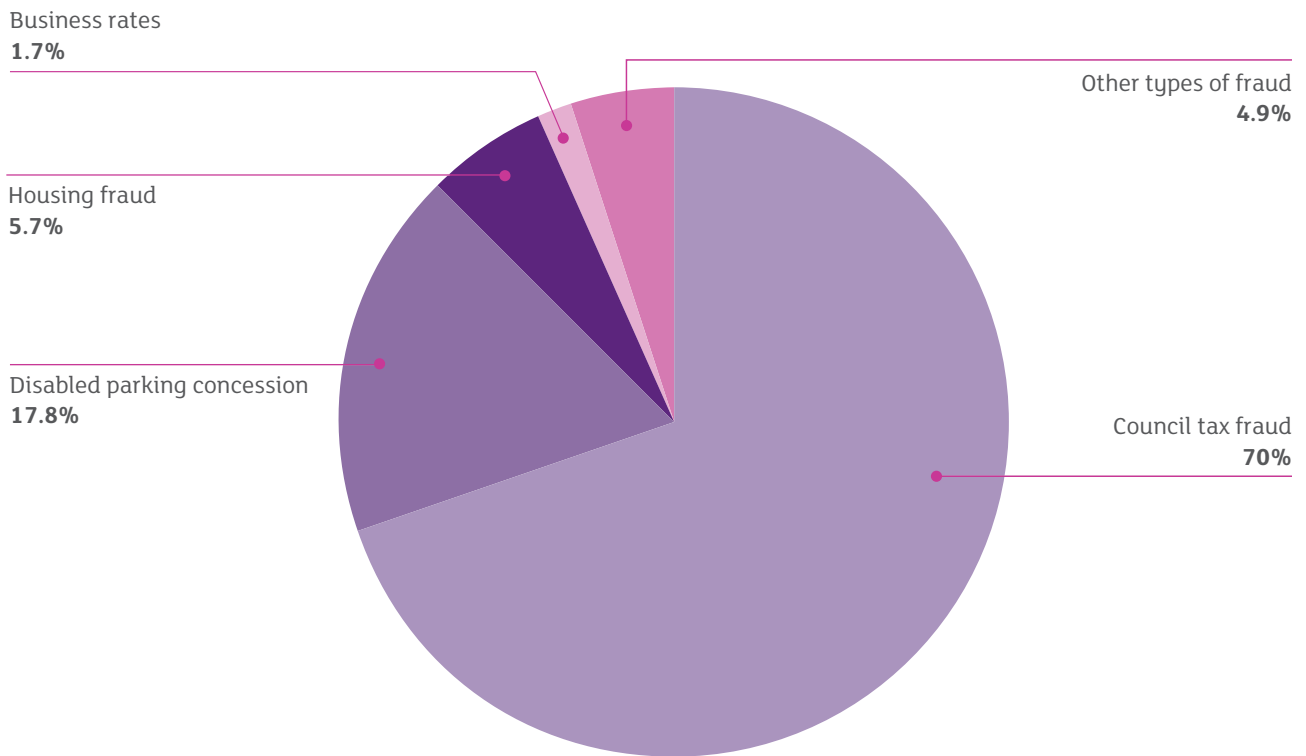
Estimated value of fraud detected/prevented



The largest growing area is business rate fraud



Detected fraud by estimated volume



For 2017/18, it has been highlighted that the three greatest areas of perceived fraud risk are procurement, council tax single person discount (SPD) and adult social care.

The largest growing area is business rates fraud, with an estimated £10.4m lost in 2017/18 compared to £4.3m in 2016/17. This is followed by disabled parking concession (Blue Badge) which has increased by £3m to an estimated value of £7.3m for cases prevented/detected in 2017/18.

Two thirds of identified frauds related to council tax fraud (66%), with a value of £9.8m, while the highest

value detected/prevented from investigations was housing fraud, totalling £97.4m.

None of the respondents reported any issues with needing greater public support for tackling fraud, but some agreed that there needs to be an increased priority given within councils to tackling fraud.

Historically, it is shown that the more effective and efficient authorities are at detecting and preventing fraud, the more they will discover. This means that even if the levels of detection and prevention have increased, this is more likely due to a greater emphasis towards battling fraud rather than weak controls.

Main types of fraud

The 2017/18 CFaCT survey indicates that there are four main types of fraud (by volume) that affect local authorities:

1. council tax
2. housing
3. disabled parking (Blue Badge)
4. business rates.

Council tax

Council tax fraud has consistently been the largest reported issue over the last four years. As the revenue forms part of the income for local authorities, there is a clear correlation between council tax fraud and a reduction in the available budget.

It has traditionally been an area of high volume/low unit value, and this year's results reflect that trend. Council tax fraud represents the highest number of fraud cases reported by local authorities (66%), however, the total value of the fraud, estimated at £26.3m in 2017/18, accounts for only 8.7% of the value of all detected fraud.

The number of detected/prevented cases in the area of council tax SPD has reduced from 2016/17 levels, but we see a rise in the number of incidents and value in council tax reduction (CTR) and other forms of council tax fraud.

Estimated council tax fraud

	2016/17		2017/18	
	Volume	Value	Volume	Value
SPD	50,136	£19.5m	46,278	£15.8m
CTR	6,326	£4.8m	8,759	£6.1m
Other	674	£1.1m	2,857	£4.5m
Total	57,136	£25.5m	57,894	£26.3m



Council tax fraud represents the highest number of fraud cases reported, but only 8.7% of the detected value.



Housing and tenancy fraud

Housing is expensive in many parts of the country, particularly in the South East of England, and therefore a low number of cases produces a high value in terms of fraud. However, councils record the income lost to housing fraud using different valuations, ranging from a notional cost of replacing a property set by the National Fraud Initiative (NFI) to the average cost for keeping a family in bed and breakfast accommodation for a year.

The difference in approach can lead to substantial differences. For example, two years ago, the NFI increased its standard notional figure to include other elements, and this increased the figure to £93,000, which is substantially larger than the previous figure of £18,000. This means that authorities may be using differing notional figures to calculate their average valuation of loss, which in turn leads to variations.

As housing has become increasingly expensive, the value of right to buy fraud is evidently higher than the other types of housing fraud. The value of this type of fraud is higher in London than in other parts of the country, with an estimated average of £72,000 per case compared to the rest of the UK combined, which has an estimated total of £50,000 per case.

However, the overall value and value of right to buy fraud has continued to decline – see table below.

Estimated housing fraud

Type of fraud	2016/17		2017/18	
	Volume	Value	Volume	Value
Right to buy	1,284	£111.6m	1,518	£92.0m
Illegal sublet	1,829	£78.5m	1,051	£55.8m
Other*	2,825	£73.3m	2,164	£68.3m
Total	5,938	£263.4m	4,733	£216.1m

*Other includes tenancy fraud that are neither right to buy nor illegal sublet, and may include succession and false applications.

Disability Faculty Grant and housing fraud

Ms C used her disabled child as a means of requesting money from the local authority to fit a downstairs bathroom in their home. This request was rejected but Ms C appealed and the matter was taken to court where it was revealed that she owned multiple properties and was actually living in a different county, where she was also claiming disability benefits. The appeal was denied and Ms C was instructed to pay over £16,000 in court costs within half a year.

Since 2016/2017, right to buy value has decreased by

18%

£216m

the estimated total value loss from housing fraud investigated during 2017/18

Disabled parking (Blue Badge)

Fraud from the misuse of the Blue Badge scheme has increased for the first time since CIPFA began running the survey, with the number of cases rising by over 1,000 between 2016/17 and 2017/18. The survey also indicates that 49% of Blue Badge fraud cases in 2017/18 were reported by counties.

There is no standard way to calculate the value of this type of fraud and some authorities, for example in London, place a higher value on the loss than others and invest more in counter fraud resource.

The cost of parking in London results in a higher value to case ratio, which is shown in the average value per case reported – £2,150 in comparison to counties who had an average of £449 per case.

In the event that a Blue Badge misuse is identified, the offender is often prosecuted and fined (which is paid to the court). Costs are awarded to the prosecuting authority but these may not meet the full cost of the investigation and prosecution, resulting in a loss of funds. This potential loss could explain why authorities do not focus as much attention on this type of fraud.

Blue Badge fraud is often an indicator of other benefit-related frauds, such as concessionary travel or claims against deceased individuals by care homes for adult social care.

49%

of Blue Badge fraud cases in 2017/18 were reported by counties

The average value per case reported is:

£2,150

in London

£449

in counties

Business rates

Business rates are a key cost for those who have to pay the tax and is the largest growing risk area in 2017/18; district councils have identified this as their fourth biggest fraud risk area for 2017/18 after housing fraud, council tax and procurement.

Business rates fraud represented 0.9% of the total number of frauds reported in 2016/17, with an estimated

value of £7m. In 2017/18, this increased to 1.7%, with an estimated value of £10.4m.

The rise in the number and value of fraud detected/prevented since 2016/17 could be as a result of more authorities participating in business rates data matching activities, uncovering more cases of fraud that had previously gone unnoticed.

Data matching uncovers business rates fraud

The fraud team at Salford City Council undertook a business rates data matching exercise with GeoPlace. They used geographical mapping and other datasets to identify businesses that were not on the ratings list and were hard to find. The results identified seven potential business and the cases were sent to the Valuation Office Agency. Of the three returned to date, one attracted small business rate relief and rates on the other two were backdated to 2015, generating a bill of £90,000.

Other types of fraud

Fraud covers a substantial number of areas and within organisations these can vary in importance. This part of the report looks at specific areas of fraud that did not appear as major types of fraud within the national picture but are important to individual organisations. These include the following fraud types:

- adult social care
- insurance
- procurement
- no recourse to public funds/welfare assistance
- payroll, recruitment, expenses and pension
- economic and voluntary sector support and debt
- mandate fraud and manipulation of data.

Adult social care

The estimated value of adult social care fraud cases has increased by 21%, despite a fall in the average value per case – £9,000 in 2017/18 compared to £12,500 in 2016/17. This is a product of the significant rise in the number of frauds within adult social care which are not related to personal budgets. In recent years, many local authorities have funded training and introduced robust controls to mitigate the risk of fraud within personal budgets, which has resulted in a reduction of the estimated value per case to under £9,800 in 2017/18 compared to over £10,000 in 2016/17.

This year's survey also highlights a decline in the number of adult social care insider fraud cases, with 2% of cases involving an authority employee, compared to 5% last year.

Estimated adult social care fraud

Type of fraud	2016/17		2017/18	
	Volume	Value	Volume	Value
Personal budget	264	£2.7m	334	£3.2m
Other	182	£2.8m	403	£3.5m
Total	446	£5.5m	737	£6.7m
Average value per fraud		£12,462		£9,123

Insurance fraud

The number of insurance frauds investigated has decreased to 117 with an average value of over £12,000, which explains the significant decline also in the total value of fraud detected/prevented. The total estimated value of loss in 2017/18 is £3.5m compared to £5.1m in 2016/17.

Respondents who identified insurance fraud also reported two confirmed serious and organised crime cases and two insider fraud cases.

Considerable work has been done in the area of insurance fraud, and insurance companies are working with organisations to develop new ways to identify fraud and abuse within the system, which seems to be effective given the steady decline in volume and value of cases reported.

The Insurance Fraud Bureau was one of the first to use a data analytical tool to identify fraud loss through multiple data sources in the insurance sector. This best practice is now being applied to local government, for example by the London Counter Fraud Hub, which is being delivered by CIPFA.

Procurement fraud

In last year's survey procurement was seen as one of the greatest areas of fraud risk and this remains the same for 2017/18.

Procurement fraud takes place in a constantly changing environment and can occur anywhere throughout the procurement cycle. There can be significant difficulties in measuring the value of procurement fraud since it is seldom the total value of the contract but an element of the contract involved. The value of the loss, especially post award, can be as hard to measure but equally significant.

In 2016/17, there was an estimated 197 prevented or detected procurement frauds with an estimated value of £6.2m, which has now decreased to 142 estimated fraudulent cases with an estimated value of £5.2m. Twenty-five percent of reported cases were insider fraud and a further 20% were serious and organised crime.

Estimated procurement fraud

2016/17		2017/18	
Volume	Value	Volume	Value
197	£6.2m	142	£5.2m

CIPFA is working with the Ministry of Housing, Communities and Local Government (MHCLG) in an effort to understand more about procurement fraud and how we can develop more solutions in this area.

The [Fighting Fraud and Corruption Locally Strategy 2016 to 2019 \(FFCL\)](#) recommends that local authorities have a procurement fraud map and use it to define the stages at which procurement fraud can happen. This enables authorities to highlight low, medium and high potential risks and inform risk awareness training for the future.

The Competition and Markets Authority has produced a [free online tool](#) that studies the data fed in against bidder behaviour and price patterns, allowing the public sector to identify areas of higher risk within procurement. It then flags areas where there could be potential fraud and which should be investigated.

Welfare assistance and no recourse to public funds

In 2016/17 the estimated number of fraud cases related to welfare assistance was 74, increasing to an estimated 109 in 2017/18.

The number of cases in no recourse to public funding cases has reduced to an estimated 334 in 2017/18. The value of the average fraud has more than halved, falling to an estimated £11,500 in 2017/18 from £28,100 in 2016/17. This is reflected by the overall decrease in total value of the fraud to an estimated £4.3m.

Economic and voluntary sector (grant fraud) and debt

As funds become more limited for this type of support, it is even more important for fraud teams to be aware of the risks within this area.

In the 2016/17 survey, there were 17 actual cases of grant fraud reported, which increased to 24 cases with an average estimated loss of £14,000 per case for 2017/18.

Debt had 38 reported cases in 2017/18 valued at over £150,000, with one case of insider fraud.

Payroll, expenses, recruitment and pension

If we combine all the estimated results for these four areas, the total value of the fraud loss is an estimated £2.1m.

Measuring the cost of these frauds can be quite difficult as they carry implications that include reputational damage, the costs of further recruitment and investigations into the motives behind the fraud. As a result, some organisations could be less likely to investigate or report investigations in these areas.

Payroll has the highest volume and value of fraud out of these four areas for 2017/18, and 51% of the cases investigated or prevented were reported as insider fraud.

Recruitment fraud has the second highest estimated average per case of £9,400. This is quite an interesting area for fraud practitioners given their work is often not recorded as a monetary value as the application is refused or withdrawn. So, it is more likely the figure represents the estimated cases of fraud that were prevented in 2017/18.

Estimated fraud

Type	2016/17		2017/18	
	Volume	Value	Volume	Value
Payroll	248	£1.0m	167	£1.01m
Expenses	75	£0.1m	34	£0.03m
Recruitment	46	£0.2m	52	£0.49m
Pension	228	£0.8m	164	£0.57m
Total	597	£2.1m	417	£2.10m

Manipulation of data (financial or non-financial) and mandate fraud

CIPFA estimates that across the UK there have been 23 cases of manipulation of data fraud, which is less than half of the estimated cases in 2016/17.

There were 257 estimated cases of mandate fraud in 2017/18 compared to 325 estimated cases detected or prevented in 2016/17.

These areas of fraudulent activity are on the decline and advice from organisations such as Action Fraud is useful.



Serious and organised crime

The survey question on serious and organised crime was requested by the Home Office and was included in the 2017/18 survey in order to help establish how it is being tackled by local authorities.

Organised crime often involves complicated and large-scale fraudulent activities which cross more than one boundary, such as payroll, mandate fraud, insurance claims, business rates and procurement. These activities demand considerable resources to investigate and require organisations to co-operate in order to successfully bring criminals to justice.

The 2017/18 survey identified 56 cases of serious and organised crime which was over double the figures reported in 2016/17 – 93% of these cases were reported by respondents from metropolitan unitaries. This shows that in the bigger conurbations, there is higher serious and organised crime activity (as one would expect) which is why some of the emerging counter fraud hubs are using predictive analytics to detect organised crime.

The responses indicate that organisations share a great deal of data both internally and externally – 34% share with the police and 16% share with similar organisations (peers). In addition, of the organisations that responded, 47% identified serious and organised crime risks within their organisation's risk register.

93%

the percentage of respondents who share data externally



Key data sharing partners are the police and other similar organisations.



Whistleblowing

This year, 74% of respondents said that they annually reviewed their whistleblowing arrangements in line with PAS 1998:2008 Whistleblowing Arrangements Code of Practice.

Of those questioned, 87% confirmed that staff and the public had access to a helpdesk and 71% said that the helpline conformed to the BS PAS 1998:2008. Respondents reported a total of 560 whistleblowing

cases, made in line with BS PAS 1998:2008; representing disclosures in all areas, not just with regard to suspected fraudulent behaviour.

Resources and structure

Fraud teams are detecting and preventing more frauds despite reductions in their resources. It is therefore unsurprising to see 14% of respondents have a shared services structure; this approach has gained popularity in some areas as a method of allowing smaller organisations to provide a service that is both resilient and cost effective.

We have also seen a rise in authorities who have a dedicated counter fraud team – from 35% in 2016/17 to 51% in 2017/18. It is worth noting that there may be a potential bias in this figure as those who have a dedicated counter fraud team are more likely and able to return data for the CFaCT survey.

For organisations that do not go down the shared service route, the 2017/18 survey showed no growth in staff resources until 2020. This position would appear to be a

change from 2016 when some respondents had hoped to increase their staff numbers.

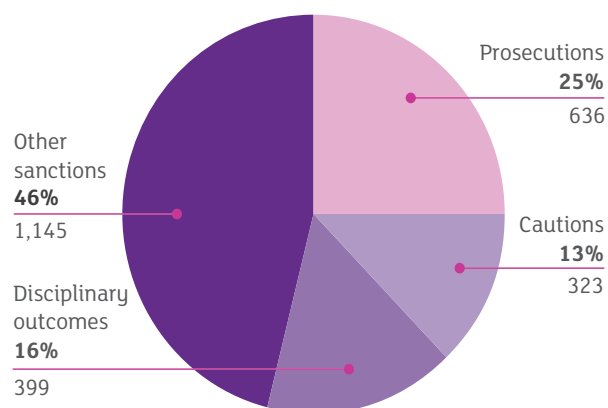
The number of available in-house qualified financial investigators has dipped slightly from 34% in 2016/17 to 31% in 2017/18. In addition, the percentage of authorities that do not have a qualified financial investigator increased from 35% in 2016/17 to 41% in 2017/18, which continues to show that resources for fraud are stretched.

Sanctions

Below are some of the key findings regarding sanctions:

- 636 prosecutions were completed in 2017/18 and of these, 15 were involved in insider fraud and 14 of those were found guilty
- the number of cautions increased from 9% in 2016/17 to 13% in 2017/18
- the percentage of other sanctions dropped from 53% in 2016/17 to 46% in 2017/18.

Outcome of sanctions



Fighting Fraud and Corruption Locally

The Fighting Fraud and Corruption Locally Strategy 2016–2019 (FFCL Strategy) was developed by local authorities and counter fraud experts and is the definitive guide for local authority leaders, chief executives, finance directors and all those with governance responsibilities.

The FFCL Strategy is available for councils to use freely so that everyone can benefit from shared good practice and is aimed at local authority leaders. It provides advice on how to lead and communicate counter fraud and corruption activity for the greatest impact, as well as covering resource management and investment in counter fraud operations.

The FFCL Board put forward specific questions to be included in the CFaCT survey to help measure the effectiveness of the initiatives in the FFCL Strategy and the responses are reflected in the diagrams below. The more confident respondents are about how fraud is dealt with in their organisation, the higher they marked the statement; the lower scores are towards the centre of the diagram.

Counter fraud controls by country



Over the past four years the same three issues have arisen when we have asked the question: *what are the three most significant issues that need to be addressed to effectively tackle the risk of fraud and corruption at your organisation?* These are:

- capacity
- effective fraud risk management
- better data sharing.

The FFCL’s 34 point checklist covers each one of these areas and provides a comprehensive framework that can be used to address them. It can be downloaded from the CIPFA [website](#).

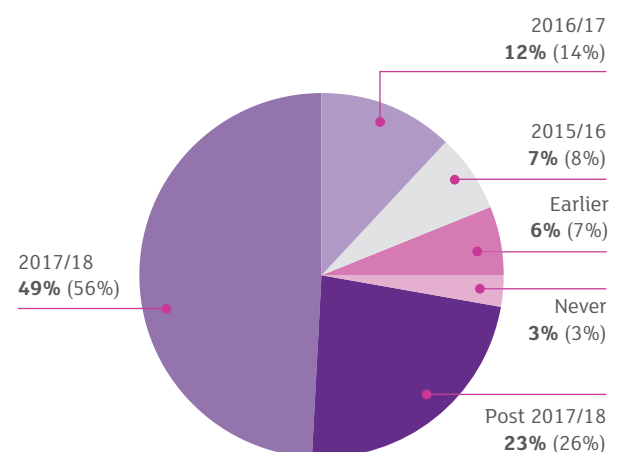
The FFCL Strategy recommends that:

There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority’s business and includes activities undertaken by contractors and third parties or voluntary sector activities.

By producing a plan and resources that is agreed by the leadership team, management are able to see gaps in capacity and identify areas of risk which enables them to make effective strategic decisions.

Last year, 10% of respondents did not know when their counter fraud and corruption plan was last approved, and this year this has dropped slightly to 9%. Of those who responded to the survey, 56% agreed their counter fraud and corruption plan was approved within the last 12 months, and 21% stated that their plan would be approved post 2017/18.

When did you last have your counter fraud and corruption plan approved?



CIPFA Recommends

- Public sector organisations need to remain vigilant and determined in identifying and preventing fraud in their procurement processes. Our survey showed this to be one of the prime risk areas and practitioners believe this fraud to be widely underreported.
- Effective practices on detecting and preventing adult social care fraud should be shared and adopted across the sector. Data matching is being used by some authorities with positive results.
- All organisations should ensure that they have a strong counter-fraud leadership at the heart of the senior decision-making teams. Fraud teams and practitioners should be supported in presenting business cases to resource their work effectively.
- Public sector organisations should continue to maximise opportunities to share data and to explore innovative use of data, including sharing with law enforcement.
- The importance of the work of the fraud team should be built into both internal and external communication plans. Councils can improve their budget position and reputations by having a zero-tolerance approach.



Appendix 1: Fraud types and estimated value/volume

The table below shows the types of frauds reported in the survey and the estimated volume and value during 2017/18.

Types of fraud	Fraud cases	% of the total	Value	% of the total value	Average
Council tax	57,894	70.0%	£26.3m	8.72%	£455
Disabled parking concession	14,714	17.8%	£7.3m	2.43%	£499
Housing	4,722	5.7%	£215.7m	71.43%	£45,677
Business rates	1,373	1.7%	£10.4m	3.45%	£7,580
Other fraud	1,165	1.4%	£10.9m	3.61%	£9,355
Adult social care	737	0.9%	£6.7m	2.23%	£9,124
No recourse to public funds	378	0.5%	£4.3m	1.43%	£11,445
Schools frauds (excl. transport)	285	0.3%	£0.7m	0.24%	£2,537
Insurance claims	281	0.3%	£3.5m	1.15%	£12,317
Mandate fraud	257	0.3%	£6.6m	2.18%	£25,618
Payroll	167	0.2%	£1.0m	0.33%	£6,030
Pensions	164	0.2%	£0.6m	0.19%	£3,492
Procurement	142	0.2%	£5.2m	1.71%	£36,422
Welfare assistance	109	0.1%	£0.0m	0.01%	£337
Debt	91	0.1%	£0.4m	0.12%	£3,948
Children social care	59	0.1%	£0.9m	0.31%	£15,800
Economic and voluntary sector support	57	0.1%	£0.8m	0.26%	£13,467
Recruitment	52	0.1%	£0.5m	0.16%	£9,510
Expenses	34	0.0%	£0.2m	0.01%	£867
School transport	30	0.0%	£0.1m	0.04%	£3,857
Manipulation of data	23	0.0%	N/A	N/A	N/A
Investments	2	0.0%	£0.0m	–	–

Appendix 2: Methodology

This year's results are based on responses from 144 local authorities. An estimated total volume and value of fraud has been calculated for all local authorities in England, Wales, Scotland and Northern Ireland. Missing values are calculated according to the size of the authority. For each type of fraud, an appropriate universal measure of size has been selected such as local authority housing stock for housing frauds.

From the responses, the number of cases per each unit of the measure is calculated and used to estimate the missing values. Then, for each missing authority, the estimated number of cases is multiplied by the average value per case provided by respondents to give an estimated total value. As an illustration, if the number of

housing frauds per house is 0.01 and a missing authority has 1,000 houses in its housing stock, we estimate the number of frauds as 10. If the average value per case is £100,000 then the total estimated value of fraud for that authority is £1m.

Appendix 3: Glossary

Adult social care fraud

Adult social care fraud can happen in a number of ways but the increase in personal budgets gives a greater opportunity for misuse.

Investigations cover cases where:

- direct payments were not being used to pay for the care of the vulnerable adult
- care workers were claiming money for time they had not worked or were spending the allocated budget inappropriately.

Blue Badge fraud

The Blue Badge is a Europe-wide scheme allowing holders of the permit to parking concessions which are locally administered and are issued to those with disabilities in order that they can park nearer to their destination.

Blue Badge fraud covers abuse of the scheme, including the use of someone else's Blue Badge, or continuing to use or apply for a Blue Badge after a person's death.

Business rates fraud

Business rates fraud is not a transparent landscape for the fraud investigator, with legislation making it difficult to separate between evasion and avoidance. Business rates fraud covers any fraud associated with the evasion of paying business rates including, but not limited to, falsely claiming relief and exemptions where not entitled.

Cautions

Cautions relate to a verbal warning given in circumstances where there is enough evidence to prosecute, but it is felt that it is not in the public interest to do so in that instance.

Council tax fraud

Council tax is the tax levied on domestic properties and collected by district and unitary authorities in England and Wales and levying authorities in Scotland.

Council tax fraud is split into three sections.

- **council tax single person discount (SPD)** – where a person claims to live in a single-person household when more than one person lives there
- **council tax reduction (CTR) support** – where the council tax payer claims incorrectly against household income
- **other types of council tax fraud** – eg claims for exemptions or discounts to which the council tax payer has no entitlement.

Debt fraud

Debt fraud includes fraudulently avoiding a payment of debt to an organisation, excluding council tax discount.

Disciplinary outcomes

Disciplinary outcomes relate to the number of instances where as a result of an investigation by a fraud team, disciplinary action is undertaken, or where a subject resigns during the disciplinary process.

Economic and voluntary sector (grant fraud)

This type of fraud relates to the false application or payment of grants or financial support to any person and any type of agency or organisation.

Housing fraud

Fraud within housing takes a number of forms, including sub-letting for profit, providing false information to gain a tenancy, wrongful tenancy assignment and succession, failing to use the property as the principle home, abandonment, or right to buy.

Insurance fraud

This fraud includes any insurance claim that is proved to be false, made against the organisation or the organisation's insurers.

Mandate fraud

Action Fraud states that: "mandate fraud is when someone gets you to change a direct debit, standing order or bank transfer mandate, by purporting to be an organisation you make regular payments to, for example a subscription or membership organisation or your business supplier".

Manipulation of data fraud

The most common frauds within the manipulation of data relate to employees changing data in order to indicate better performance than actually occurred and staff removing data from the organisation. It also includes individuals using their position to change and manipulate data fraudulently or in assisting or providing access to a family member or friend.

No recourse to public funds fraud

No recourse to public funds prevents any person with that restriction from accessing certain public funds. A person who claims public funds despite such a condition is committing a criminal offence.

Organised crime

The Home Office defines organised crime as "including drug trafficking, human trafficking and organised illegal immigration, high value fraud and other financial crimes, counterfeiting, organised acquisitive crime and cyber crime".

Procurement fraud

This includes any fraud associated with the false procurement of goods and services for an organisation by an internal or external person(s) or organisations in the 'purchase to pay' or post contract procedure, including contract monitoring.

Right to buy

Right to buy is the scheme that allows tenants that have lived in their properties for a qualifying period the right to purchase the property at a discount.

Welfare assistance

Organisations have a limited amount of money available for welfare assistance claims so the criteria for applications are becoming increasingly stringent. Awards are discretionary and may come as either a crisis payment or some form of support payment.

Whistleblowing

Effective whistleblowing allows staff or the public to raise concerns about a crime, criminal offence, miscarriage of justice or dangers to health and safety in a structured and defined way. It can enable teams to uncover significant frauds that may otherwise have gone undiscovered. Organisations should therefore ensure that whistleblowing processes are reviewed regularly.



Registered office:

77 Mansell Street, London E1 8AN

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700


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REPORT TO AUDIT AND RISK ASSURANCE COMMITTEE

10 January 2019

Subject:	Internal Audit Progress Report as at 30 November 2018
Director:	Executive Director – Resources – Darren Carter
Contribution towards Vision 2030:	
Contact Officer(s):	Peter Farrow Audit Services and Risk Management Manager peter_farrow@sandwell.gov.uk

DECISION RECOMMENDATIONS

That Audit and Risk Assurance Committee:

1. Review and comment upon the Internal Audit Progress Report.

1 PURPOSE OF THE REPORT

- 1.1 The report summarises the areas of work covered by Audit Services from 1 April 2018 to 30 November 2018.

2 IMPLICATIONS FOR SANDWELL'S VISION

- 2.1 Internal Audit operates across the council and helps it accomplish its vision by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

3 BACKGROUND AND MAIN CONSIDERATIONS

- 3.1 The Internal Audit Progress Report as at 30 November 2018 contains details of the matters arising from internal audit work undertaken between 1 April 2018 and 30 November 2018.
- 3.2 The purpose of the report is to bring the Audit and Risk Assurance Committee up to date with the progress made against the delivery of the 2018/19 Internal Audit Plan. The information included in the progress report will feed into, and inform the overall opinion in the Internal Audit Annual Report issued at the year end.
- 3.3 It details the performance of the internal audit service via a series of performance indicators previously approved by the committee.
- 3.4 It summarises the audit work undertaken between 1 April 2018 and 30 November 2018, this includes:
- the areas subject to review (auditable area)
 - the level of audit need assigned to each auditable area (high, medium or low)
 - the number and type of recommendations made as a result of each audit review.
 - the number of recommendations accepted by management.
 - the level of assurance given to each system under review.
 - details of any key issues arising from the above.

4 THE CURRENT POSITION

- 4.1 The report does not require a decision and therefore, no position analysis is necessary.

5 CONSULTATION (CUSTOMERS AND OTHER STAKEHOLDERS)

- 5.1 The outcomes of the individual reports have been discussed with the relevant stakeholders and reported to the respective Director.

6 ALTERNATIVE OPTIONS

- 6.1 The report does not require a decision and therefore, alternative options do not need to be considered.

7 STRATEGIC RESOURCE IMPLICATIONS

- 7.1 There are no direct financial and resource implications arising from this report.

8 LEGAL AND GOVERNANCE CONSIDERATIONS

- 8.1 The Internal Audit service follows the Public Sector Internal Audit Standards, and the Code of Ethics that form part of the standards, as laid out in the Internal Audit Charter approved by the Audit and Risk Assurance Committee.

9 EQUALITY IMPACT ASSESSMENT

- 9.1 It was not necessary to undertake an Equality Impact Assessment.

10 DATA PROTECTION IMPACT ASSESSMENT

- 10.1 It was not necessary to undertake a Data Protection Impact Assessment. Data gathered during audit reviews is used and retained in accordance with current legislative requirements.

11 CRIME AND DISORDER AND RISK ASSESSMENT

- 11.1 There are no direct risk implications arising from this report.

12 SUSTAINABILITY OF PROPOSALS

- 12.1 There are no direct sustainability issues arising from this report.

13 HEALTH AND WELLBEING IMPLICATIONS (INCLUDING SOCIAL VALUE)

- 13.1 There are no direct health and wellbeing implications from this report.

14 IMPACT ON ANY COUNCIL MANAGED PROPERTY OR LAND

- 14.1 There is no direct impact on any council managed property or land from this report.

15 CONCLUSIONS AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

15.1 The purpose of the report is to inform the Audit and Risk Assurance Committee on progress against the 2018/19 Internal Audit Plan. As such, no decision is required.

16 BACKGROUND PAPERS

16.1 The Internal Audit Progress Report as at 30 November 2018.

17 APPENDICES:

None.

Darren Carter
Executive Director – Resources

Internal Audit Progress Report @ 30 November 2018



1 Introduction

The purpose of this report is to bring the Audit and Risk Assurance Committee up to date with the progress made against the delivery of the 2018/19 Internal Audit Plan.

The information included in this progress report will feed into and inform our overall opinion in our Internal Audit Annual Report issued at the year end. Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

Limited	<ul style="list-style-type: none">A risk of objectives not being achieved due to the absence of key internal controls and a significant breakdown in the application of controls.
Satisfactory	<ul style="list-style-type: none">A sufficient framework of key controls for objectives to be achieved but the control framework could be stronger, and controls are applied but with some lapses.
Substantial	<ul style="list-style-type: none">A robust framework of controls ensures objectives are likely to be achieved and controls are applied continuously or with only minor lapses.

This is based upon the number and type of recommendations we make in each report. Each recommendation is categorised in line with the following:

Fundamental	Action is imperative to ensure that the objectives for the area under review are met.
Significant	Requires action to avoid exposure to significant risks in achieving the objectives for the area under review.
Merits attention	Action advised to enhance control or improve operational efficiency.

For school reviews, the overall opinion is based on the following criteria to match the assurance categories awarded by Ofsted:

Inadequate	<ul style="list-style-type: none">• Risk of objectives not being achieved due to the absence of key internal controls, with significant breakdown in the application of controls.
Satisfactory	<ul style="list-style-type: none">• Reasonable framework of key controls exists, but could be stronger to support achievement of objectives, with occasional breakdown in the application of controls.
Good	<ul style="list-style-type: none">• Effective framework of key controls ensures objectives are likely to be achieved and controls are applied but with some minor lapses.
Outstanding	<ul style="list-style-type: none">• Robust framework of key controls ensures objectives should be achieved and controls are applied continuously.

The overall opinion for each of the school reviews is based upon the number and type of recommendations we make in each report, in line with the recommendation classifications for non-schools, i.e. fundamental, significant and merits attention.

2 Summary of Work Completed between 1 April and 30 November 2018

AAN	Assessment of Assurance Need Rating
*	Awaiting Response (all longstanding responses will be brought to the attention of the committee throughout the year for monitoring purposes)
N/A	Not Applicable, review outside of normal risk-based auditing approach/customer request/grant claim, etc.

Auditable Area	AAN rating	Recommendations			Total	Number accepted	Level of Assurance
		Fundamental	Significant	Merits attention			
Reported upon previously:							
Lightwoods House	N/A	-	7	-	7	7	Limited
Sandwell Community School	Medium	-	3	8	11	11	Satisfactory
Mayors Charity Account	N/A	-	-	-	-	-	N/A
Sandwell Valley missing tower lights	N/A	2	2	-	4	4	Limited
West Bromwich Market cash procedures and missing receipt books	N/A	-	5	-	5	5	Limited
Debt Collection, Income Management	N/A	2	4	-	6	6	Limited
Walker Grange Extra Care follow up	N/A	-	-	2	2	2	N/A
St Michaels High School	Medium	-	1	2	3	3	Good
Reported for the first time:							
Personal Budgets	High	2	8	1	11	*	Limited
Procurement – Public Health	High	-	-	-	1	*	Substantial
Perryfields High School	Medium	-	2	9	11	*	Good

Auditable Area	AAN rating	Recommendations			Total	Number accepted	Level of Assurance
		Fundamental	Significant	Merits attention			
Further Education Funding Grant Certification	N/A	-	-	-	-	-	N/A
Review of the School Fair Funding Scheme	N/A	-	-	-	-	-	N/A
Accounts Payable	High	-	5	-	5	*	Limited
Public Buildings – Gas Safety	Medium	4	-	-	-	4	Limited
Rowley Regis Local Office ‘Cash up’	Medium	-	1	1	2	*	Substantial
West Bromwich Library - Cash and Banking	Medium	-	3	-	3	3	Satisfactory
Carbon Reduction Commitment	N/A	-	-	-	-	-	N/A

Audits underway as at 1 December 2018
Voluntary Sector Leases
Budgetary Control
Main Accounting System
Allocations Policy
Grants follow-up
Stuart Bathurst High School
Procurement – Adult Social Care

3 Key issues arising for the period 1 October to 30 November 2018

A general overview of other areas of planned audit work completed during the period is given below:

Personal Budgets

The review was undertaken to provide assurance that personal budgets were being effectively administered. Personal budgets are part of a way of providing adult social care services and is the amount of social care money funded from the council to pay for a client's support, paid in the form of direct payments. We identified a number of issues including:

- The Resource Allocation System (RAS) is used to produce an indicative budget that the individual's care package should be based on. It was identified that in a number of cases reviewed, the indicative budget had to be significantly increased as the RAS was producing unreliable indicative budgets which did not always give a true reflection of the budget required.
- Financial reviews of an individual's account were not always being completed at least annually, using a 'light touch' approach in accordance with CIPFA guidance, which had led to a backlog. Information on the backlog of the financial reviews was not readily available. As such, management were not formally aware of the amount of financial reviews outstanding at any point in time and were not therefore, in a position to challenge it.
- There was no clear follow up/escalation process for cases referred to key workers/social workers following the conduct of a financial review that had identified potential financial mis-management by clients. One case examined during this review had been referred to a key worker/social worker on two separate occasions with no adequate resolution on either occasion. As a result, this case had been the subject of debt recovery action and the client was on a debt repayment plan for a combined debt of £5,350. However, at the time of review this client was still managing their own personal budget.
- The extended periods between the completion of the financial reviews had contributed to such mis-management of accounts not being identified on a timely basis. As such, there is the possibility of an increase in the financial impact, but more importantly, is the issue that clients may not be receiving the necessary services or support identified in their support plan, which could impact upon their wellbeing.

- Formal feedback from the financial reviews was not routinely provided to clients at the end of the process. As such, they may not be formally aware of any recommendations for improvement over the operation of their direct payment account and the backlog of financial reviews could mean that large unidentified balances may be sitting in client's bank accounts.
- Testing identified support plans were not routinely signed by the client/representative or the council representative. The council cannot demonstrate that they have in place a formal binding agreement, evidencing that both parties agree with their formal responsibilities as recorded in the relevant support plan.
- Documentary evidence was not retained as to why an individual is appointed to manage a direct payment on behalf of a client. As such, the council cannot demonstrate the process followed to evidence the appointment.

Procurement – Public Health

The review was undertaken to provide assurance that processes are in place that ensure non-contract spend was adequately controlled. No issues of significance were identified.

School Audits

We continued with our annual school audit programme, and one review has been undertaken to assess whether the school had adequate governance, risk management and control processes in place to ensure that financial management and governance arrangements were satisfactory.

Further Education Funding Grant Certification

A review was undertaken of the local authorities' grant return and use of funds statement for 2017 to 2018. The purpose was to reconcile the payments made to the authority by the Educating Funding Agency (EFA). The review concluded that the grant claim could be signed off by the Chief Financial Officer in accordance with the guidance issued by the EFA.

Review of the School Fair Funding Scheme

Local authorities are required to publish schemes for financing schools setting out the financial relationship between them and the schools they maintain, and which makes clear the requirements relating to financial management and associated issues, binding on both the authority and on schools. It also encompasses the Contract and Procurement Procedures and the Financial Regulations and Procedures. A review of the Fair Funding Scheme was undertaken, and a series of points raised to refine processes, address gaps in information and to improve the clarity of the requirements contained within.

Accounts Payable

A review was undertaken to confirm that appropriate controls were in operation over the council's payment systems to ensure that payments are made accurately and timely and the potential for fraud is mitigated to an acceptable level. We identified five significant issues where improvements could be made, arising from the following:

- The duplicate payments report held no evidence of review. This included payments made through Autopay, which is a standalone payment system and means that any overpayments can remain undetected or unresolved.
- At the time of review further work had yet to be undertaken on reviewing and resolving the number of outstanding credit notes following last year's audit.

- The process for monitoring segregation of duties within Procurement is complex and two members of staff were found to have extra access to areas of the payment system. The access rights were reviewed alongside the Procurement Service Manager.
- There was no mechanism in place to log the number and reasons for returned remittances where payments have been made against incorrect addresses.
- Excessive use of non-compliance purchase order invoice forms (NCI). These are orders which are being placed without a purchase order being raised and approved. Without a valid purchase order, there is no commitment made to the budget.

Public Buildings – Gas Safety

An audit of Gas Safety within council owned public buildings was undertaken. Every landlord is required by law, under the Gas Safety (Installation and Use) Regulations of 1998, and has a duty of care to make sure that all gas or liquid petroleum gas (LPG) appliances, fittings and associated flues installed in their properties are safe by undertaking annual checks and providing tenants with gas certificates to confirm this. A breach of the Regulations can have the following implications:

- It is a criminal offence - the Health and Safety Executive is empowered to bring criminal proceedings against a landlord for non-compliances, and in the most serious cases charges of corporate manslaughter could be brought.
- The Health and Safety Executive can also impose fines and penalties for non-compliance.
- The council can be held liable for having defective premises, which can lead to large losses through civil claims being made, which in some cases could be invalidated by insurers, thereby transferring the entire risk to the council.
- The council may be unable to serve a section 21 notice which is the process to commence an end to the tenancy.

The council joined a framework contract with Solihull MBC for the provision of gas safety checks. However, the council has encountered a number of ICT issues which has resulted in having to return to the contractor for manual confirmation that annual checks have been undertaken. We identified that there were a number of appliances in council owned buildings across the borough without a valid gas certificate, which breaches gas safety legislation. An accurate number could not be identified as reliance could not be placed on the accuracy of the information held in the database, since it had not been kept up to date.

An immediate action has been put in place to ensure that records are brought up to date and any outstanding checks are undertaken as a priority.

West Bromwich Library - Cash and Banking Procedures

We undertook a review of the banking procedures and booking system at West Bromwich Central Library. Income is generated from services like photocopying, computer games hire, and from overdue, lost and damaged items. The library also has a café that is run by a charity Action for Children. There are also areas of the library that can be booked to be used for example the upstairs library community room etc. A number of administrative issues were identified where improvements could be made, including the need for a contract/service level agreement to be put in place as to how the café at the library should be run and documenting how costs/income from this will be apportioned. A clear set of procedures for booking rooms

was not in place for staff to follow and there was a lack of separation of duties with regards to cash and access to the safe.

4 Other activities undertaken by Audit Services

CIPFA – Audit Committee Updates

We continue to present the regular CIPFA Audit Committee Updates to the committee.

Audit and Risk Assurance Committee – Terms of Reference

We submitted the Audit and Risk Assurance Committee Terms of Reference for annual review at the March 2018 meeting of the committee.

Internal Audit Plan 2018/19

We submitted the Internal Audit annual plan for 2018/19 to the committee for approval at the March 2018 meeting.

Internal Audit Annual Report 2017/18

We presented the Internal Audit annual report for 2017/18 to the committee for comment and approval at the July 2018 meeting.

Audit and Risk Assurance Committee Annual Report

Assistance was provided in the preparation of the Annual Report on the work of the Audit and Risk Assurance Committee.

Internal Audit's role in investigating allegations of Fraud

During the year, we have continued to invest a significant amount of internal audit time in working with the Counter Fraud Unit on investigating a number of allegations into potential fraud. Where appropriate these will be reported back to the committee as and when they are concluded.

Annual Governance Statement

We assisted in the preparation of the Annual Governance Statement (AGS) for 2017/18, which was presented to the committee at its meeting held in July 2018.

Advice and Guidance

We provide on-going advice and guidance to the council to assist with the continuous improvement of the overall control environment and to ensure compliance with relevant new legislation, for example, the General Data Protection Regulations.

Internal Audit Charter


We submitted the Internal Audit Charter to the committee for annual review at its November 2018 meeting.

Liaising with the External Auditors

We continue to have on-going dialogue with the External Auditors for the council, to maximise audit coverage and to provide assurance on the overall control environment.

REPORT TO AUDIT AND RISK ASSURANCE COMMITTEE

10 January 2019

Subject:	External Audit Plan – 2018/19
Director:	Executive Director – Resources – Darren Carter
Contribution towards Vision 2030:	
Contact Officer(s):	Rebecca Griffiths Head of Finance rebecca_griffiths@sandwell.gov.uk

DECISION RECOMMENDATIONS

That Audit and Risk Assurance Committee:

1. Consider and comment upon the External Audit Plan 2018/19.

1 PURPOSE OF THE REPORT

- 1.1 The attached report sets out the work of the Council's External Auditors, Grant Thornton in terms of auditing the Authority's Financial Statements for the period 2018/19.

2 IMPLICATIONS FOR SANDWELL'S VISION

- 2.1 An External Audit Plan is a key element of good corporate governance and is essential to the overall performance of the council in meeting its Vision 2030.

3 BACKGROUND AND MAIN CONSIDERATIONS

3.1 This document sets out the External Audit Plan for the Auditing of the Authority's Financial Statements for 2018/19.

4 THE CURRENT POSITION

4.1 The report does not require a decision and therefore, no position analysis is necessary.

5 CONSULTATION (CUSTOMERS AND OTHER STAKEHOLDERS)

5.1 The External Audit Plan has been discussed with the relevant stakeholders and reported to the respective Director.

6 ALTERNATIVE OPTIONS

6.1 The report does not require a decision and therefore, alternative options do not need to be considered.

7 STRATEGIC RESOURCE IMPLICATIONS

7.1 Strategic resource implications are set out in the attached report.

8 LEGAL AND GOVERNANCE CONSIDERATIONS

8.1 The Local Audit and Accountability Act 2014 sets out the framework for the audit of local authorities.

9 EQUALITY IMPACT ASSESSMENT

9.1 It was not necessary to undertake an Equality Impact Assessment.

10 DATA PROTECTION IMPACT ASSESSMENT

10.1 It was not necessary to undertake a Data Protection Impact Assessment.

11 CRIME AND DISORDER AND RISK ASSESSMENT

11.1 There are no crime and disorder risks arising from this report.

12 SUSTAINABILITY OF PROPOSALS

12.1 There are no direct sustainability issues arising from this report.

13 HEALTH AND WELLBEING IMPLICATIONS (INCLUDING SOCIAL VALUE)

13.1 There are no direct health and wellbeing implications from this report.

14 IMPACT ON ANY COUNCIL MANAGED PROPERTY OR LAND

14.1 There is no direct impact on any council managed property or land from this report.

15 CONCLUSIONS AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

15.1 The plan is presented to the Committee for consideration and comment.

16 BACKGROUND PAPERS

16.1 External Audit Plan 2018/19.

Darren Carter
Executive Director – Resources

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Draft External Audit Plan

Year ending 31 March 2019

Sandwell Metropolitan Borough Council
January 2019



Contents



Your key Grant Thornton
team members are:

Mark Stocks

Partner

T: 0121 232 5437

E: mark.c.stocks@uk.gt.com

Zoe Thomas

Audit Manager

T: 0121 232 5277

E: zoe.thomas@uk.gt.com

Michael Butler

In Charge Auditor

T: 0121 232 5250

E: michael.d.butler@uk.gt.com

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Sandwell Metropolitan Borough Authority (MBC) ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Sandwell MBC. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority and Group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Risk Assurance committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Risk Assurance Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

Group Accounts	The Authority is required to prepare group financial statements that consolidate the financial information of the Children's' Trust accounts
Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: <ul style="list-style-type: none"> • Valuation of the Pension Fund net Liability • First time preparation of Group Accounts • Valuation of property plant and equipment including Investment properties. We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £14.6m for the Group and £14.5m for the Authority, which equates to 1.8% of your prior year gross expenditure for the year, adjusted for the expected financial impact of the Children's Trust, based on the £58m contract. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. 'Clearly trivial' has been set at £0.5m.
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money will be finalised in January but we anticipate the following VFM significant risks: <ul style="list-style-type: none"> • Children's services; • Budget planning
Audit logistics	Our interim visit will take place in February and March and our final visit will take place in May and June. Our key deliverables are this Audit Plan and our Audit Findings Report. The indicative fee set by PAA for the audit is £153,136 (PY: £198,878) for the Authority, subject to the Authority meeting our requirements set out on page 14. First time preparation of group accounts will require us to undertake additional procedures over and above those anticipated when PSAA set an indicative fee. We will confirm the expected additional fee when we have completed our detailed planning in this area.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Key matters impacting our audit

External Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Sandwell Council whilst a balanced budget was set for 2018/19, it was identified that £13m of additional savings would be required for the next two years.

Following the announcement of the provisional settlement in December 2018, officers are reporting that the Council continues to face an extremely challenging financial position, with cuts in Central Government funding continuing for another year. A lack of certainty around funding levels from March 2020 is highlighted as making forward planning challenging for the Council, however a balanced position is anticipated for 2019/20 but there is an estimated shortfall of £5.5m for the following two years.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model. It is anticipated that the main area of impact will be in relation to the shares the Council holds in Birmingham airport, currently classified as available for sale.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition. It is not expected that this will have a material impact on the financial statements.

Internal Factors

New audit methodology

We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation and more easily incorporate our knowledge of the Authority into our risk assessment and testing approach.

Operational structure change

From 1 April 2018, operational responsibility for children's services transferred to the Sandwell Children's Trust. It was expected that around 450 staff would TUPE'd to the Trust from the Council and the council has a contract for £58.2m for 2018/19. The Council retains responsibility for children's services but the Trust has responsibility for delivering services.

Our response

Financial statements audit

- We will consider whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- We will consider your processes for consolidating the Children's Trust into your Group Financial statements
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

Value for Money Conclusion

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion. We will consider the Council's arrangements for achieving savings.
- We have identified Children's services as a significant risk to our value for money conclusion. We will consider how the Council is responding to its 'inadequate' Ofsted assessment. In particular we will consider how the Council is developing and managing its new relationship with the Children's Trust.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Sandwell Land and Property Ltd, which is a subsidiary of the council.	No		None	Analytical review performed by Grant Thornton UK LLP.
Sandwell Children's Trust Ltd, which is a wholly owned company of the council.	No		<ul style="list-style-type: none"> Disclosure- compliance with accounting standards- first time preparation of group accounts Accounting treatment of Children's trust including consolidating entries. 	Specified audit procedures relating to significant risks of material misstatement of the group financial statements including; <ul style="list-style-type: none"> Accounting treatment and disclosure of pension guarantees Consideration of adequacy of disclosures
Sandwell Inspired Partnership Services (associate company)	No		None	Analytical review performed by Grant Thornton UK LLP.

Key changes within the group:

- Sandwell Children's Trust, £58m contract for services, establishment of a subsidiary company.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified – Revenue and Management

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams of the Group and Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Sandwell Council mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Sandwell Council.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . The Authority and Group faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified – PPE

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	<p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.9 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none">• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work• evaluate the competence, capabilities and objectivity of the valuation expert• write to the valuer to confirm the basis on which the valuation was carried out• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding• test revaluations made during the year to see if they had been input correctly into the authority's asset register• evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Significant risks identified - Pensions

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Valuation of the pension fund net liability</p>	<p>The Authority's and the Group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£742 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's and the Group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's and the Group's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's and the Group's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority and its subsidiaries to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • agree the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures. • obtain assurances from the auditor of West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Accounting for the transfer of services to the Children's Trust and first time preparation of group accounts.</p>	<p>From 1 April 2018, much of the responsibility for delivering children's services in Sandwell was transferred to Sandwell Children's Trust. Over 400 staff TUPE transferred to the Trust including their associated net pension liability. The Council has a contract of £58m with the Trust to provide children's services.</p> <p>These agreements gave rise to a number of material accounting transactions in the financial statements for which the economic substance of the transactions needs to be considered.</p> <p>The Authority will prepare group accounts for the first time in 2018/19.</p> <p>We therefore identified the accounting transactions associated with the transfer of services to the Trust as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review the key agreements to gain an understanding of the agreements put in place on transfer of services and staff to the company; • discuss with key group personnel, the underlying substance of the transactions and the basis of the Authority's and Group's proposed accounting treatment of the arrangements; • critically assess the economic substance of the transactions to assess the appropriateness of the accounting treatment adopted by the group in accordance with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality (based on a proportion of the gross expenditure of the Authority for the 2017/18 financial year) as £14.6m for the Group and £14.5m for the Authority. Materiality at the planning stage of our audit equates to 1.8% of your prior year gross expenditure for the year.

We design our procedures to detect errors in specific accounts at a lower level of materiality, in areas where the balance is regarded as sensitive or of particular interest to the user of the accounts. We have determined this to be £100,000 for senior officer remuneration.

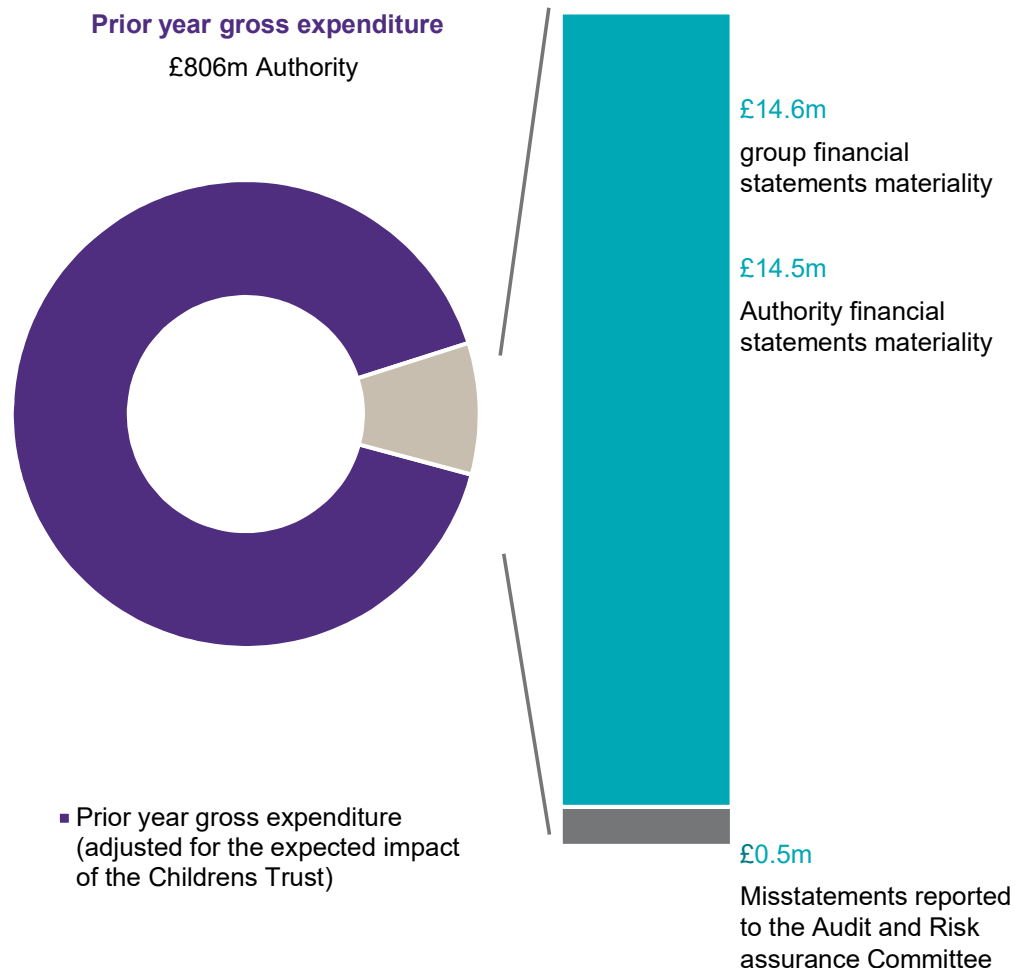
This is the first year that the Council will include the Children's Trust within the consolidated group accounts. We have estimated the impact when setting our planning materiality and will revisit the assumptions when the financial statements are received.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.5m.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Risk Assurance Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

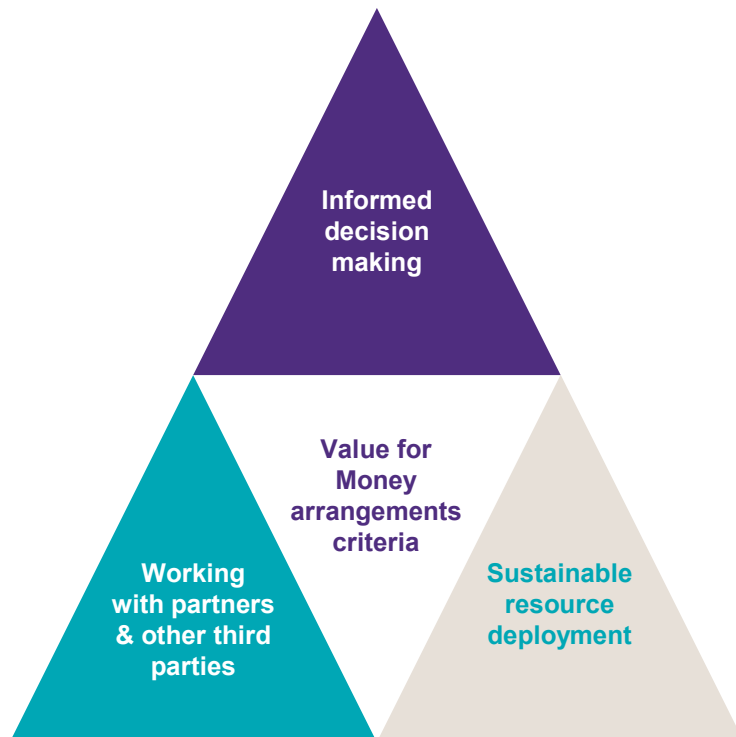
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

We have yet to finalise our value for money planning, but based on our planning to date we anticipate risks in the following areas:



Children's Services

Risk areas:

- Informed decision making
- Sustainable resource deployment
- Working with third parties

OFSTED have rated the provision of Children's Services in Sandwell as inadequate. Following consideration of the findings of Inspectorates, KPMG issued an 'except for' value for money conclusion for in this area in 2017/18. The Council has responded to recommendations by setting up a Children's Trust from 1st April 2018. However children's services retain an inadequate assessment and this presents a significant value for money risk.

We will consider how the Council is responding to the inadequate inspection assessment, in particular how the Council is establishing its commissioning arrangements with the Children's Trust.



Budget planning

Risk areas:

- Informed decision making
- Sustainable resource deployment
- Working with third parties

The sector faces continuing financial pressures due to the reductions in central government grants. Council approved a balanced budget for 2018/19. Following the provisional settlement in December 2018, a balanced position is anticipated until 2020 when additional pressures of £5.5m are anticipated for the following two years. Due to the continuing pressures and uncertainties in the sector we consider that this is a significant risk. We will consider your arrangements for managing and reporting your financial resources and the Council's arrangements for achieving savings.

Audit logistics, team & fees



Mark stocks Partner

Mark will lead the audit. He has overall responsibility for the audit and will sign the opinion on the accounts and the value for money conclusion.



Zoe Thomas, Audit Manager

Zoe will take responsibility for planning and delivering the audit and ensuring that the work is completed to appropriate quality standards and in line with the agreed timetable.



Michael Butler, Audit Incharge

Michael will have day to day responsibility for delivering the audit. He will be the key contact during the audit visits and will deal with queries as they arise.

Audit fees

The scale fees for the audit published by PSAA are £153,136 for the financial statements audit completed under the Code. This fee, assumes that the scope of the audit, and the Authority and its activities, do not significantly change.

With the establishment of the Children's Trust from 1 April 2018 and from discussions with officers, we know that the Council will be preparing group accounts for the first time this year. There will be a number of audit considerations as a consequence and we know there will be additional disclosures within the accounts. We have yet to fully complete our planning in this area and will report to the Committee the anticipated fee for this work, in the final version of the plan.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No other services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	16,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £16,000 in comparison to the total fee for the audit of £153,136 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None expected to be supplied			

The amounts detailed are fees yet to be agreed for audit related services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Authority's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Risk Assurance Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Independence & non-audit services

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor.

No recent work has been undertaken at the Council and there are therefore no independence matters to bring to the Council's attention.

Appendices

A. Audit approach

A. Audit approach

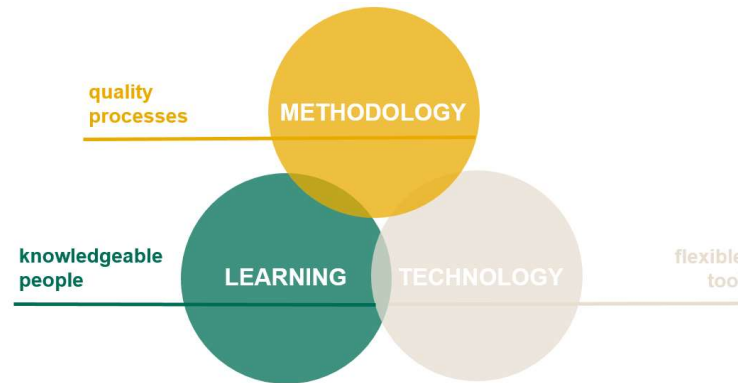
Use of audit, data interrogation and analytics software

LEAP



Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also use other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian



Business process management

- Clear timeline for account review:
 - disclosure dealing
 - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Info



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

B. Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 13). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:


- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

REPORT TO AUDIT AND RISK ASSURANCE COMMITTEE

10 January 2019

Subject:	Interserve PLC Update
Director:	Director – Education, Skills and Employment Executive Director - Neighbourhoods Director – Regeneration and Growth Executive Director- Resources
Contribution towards Vision 2030:	
Contact Officer(s):	Sue Moore: Group Head, Education Support Services Sue_moore@sandwell.gov.uk Lee Constable: Strategic Lead – Strategic Assets & Land Lee_constable@sandwell.gov.uk

DECISION RECOMMENDATIONS

That Audit and Risk Assurance Committee:

1. Review and comment upon the accompanying report.

1 PURPOSE OF THE REPORT

- 1.1 To update members of the Committee on the risks arising from any arrangements the council has with Interserve PLC (Interserve) and how any identified risks are being managed.

2 IMPLICATIONS FOR SANDWELL'S VISION

- 2.1 Effective risk management is a key element of good corporate governance and is essential to the overall performance of the council in meeting its vision 2030. Good risk management will ensure that resources are used efficiently and effectively in the delivery of the Sandwell vision and that assets and resources are protected against risk in the most efficient way.

3 BACKGROUND AND MAIN CONSIDERATIONS

- 3.1 In July 2009, the council entered into a Strategic Partnering Agreement (SPA) contract with Sandwell Futures Limited (SFL) as its Local Education Partnership (LEP) for the delivery of capital projects and the provision of facilities management services initially under the Building Schools for the Future programme.
- 3.2 As part of this arrangement, SFL has commissioned a number of contractors including Interserve to discharge its obligations under the SPA with the council. Although Interserve currently has the exclusive right to be awarded certain contracts from SFL relating to major capital projects at secondary schools within the borough, SFL may award other projects to other sub-contractors.
- 3.3 Interserve has been commissioned by SFL and is currently involved in the provision of facilities management services to the five Sandwell schools under the BSF programme and a number of PFI schools (see 4.10 below), as well as the delivery of a number of major school capital projects (see 4.1 below).
- 3.4 The council's contractual relationship therefore is with SFL and not with Interserve.
- 3.5 In December 2018, Interserve issued a press release stating that it was looking at a deleveraging plan in order to deliver an optimum capital structure for the Interserve group to support its long-term, sustainable development. This resulted in a significant fall in its share price. The press release is attached to this report as Appendix 1.
- 3.6 The BBC website reports that a Cabinet Office spokesperson said: "We monitor the financial health of all of our strategic suppliers, including Interserve, and have regular discussions with the company's management. The company successfully raised new debt facilities earlier this year, and we fully support them in their long-term recovery plan."

- 3.7 At the time of preparing this report Interserve continues to trade and deliver services. SFL continues to maintain a watch on the developing situation and is keeping the council informed with any developments.

Following the demise of Carillion PLC, the Cabinet Office is trialling a pilot of ‘living wills’ with key suppliers, a move that is designed to allow contingency plans to be put in place if a large government contractor goes under. Interserve is one of five suppliers that have volunteered to pilot the creation of living wills. Whilst this is a pilot for central government contracts, the council understands that SFL is also having discussions with Interserve to make similar arrangements at a local level.

4 THE CURRENT POSITION

- 4.1 As noted above, Interserve has been commissioned by SFL and is currently involved in the provision of facilities management services to the five Sandwell schools under the BSF programme and a number of PFI schools, as well as the delivery of a number of major schools capital projects as follows:

Project	Description of works	No. of New School Places	Project value £m	Programmed Completion Date
Works on site:				
Shireland Collegiate Academy	New build extension	275	£4.3m	July 2019
Phase 1, Kelvin Way, West Bromwich (West Bromwich Collegiate Academy)	New school	300	£8.52m	August 2019
George Salter Academy	New build extension	250	£3m	September 2019
Scheme in Development:				
Shireland Technology Primary Free School	Detailed design stage	446	£6.3m	February 2020
Defects claim:				
Perryfields High School	Jubilee Block – Condition Defects with existing block	n/a	£3m	tbc

- 4.2 As noted above, the council’s contractual relationship is with SFL and not Interserve. SFL has performance bonds in place that provides financial protection against the delivery of the new build capital projects. This means that no financial liability for contractor failure should pass to the

council in respect of the new build projects. If Interserve were to go in to administration or liquidation it would be for SFL to source an alternative contractor.

- 4.3 The risk to the council therefore is largely in respect of delays that would arise in the timely delivery of the above time critical capital projects to deliver new school places by the required dates, whilst SFL procures new contractors to deliver the schools. The three major projects above for 'works on site' are key to the council delivering sufficient Year 7 places for September 2019. In the case of West Bromwich Collegiate Academy, as a new school there are limited options to provide alternative provision to ensure the school opens on time.
- 4.4 The projects for Shireland and West Bromwich Collegiate Academies are well advanced having started on site in August and September 2018. Works at George Salter Academy commenced in December.
- 4.5 Any immediate collapse of Interserve will bring works to a halt on each site. Since summer 2018 SFL has the option to 'step in' within two weeks to any of the sub-contractor contracts Interserve have entered into. The measure would enable the sub-contractors to be re-appointed by either SFL or a newly appointed main contractor if Interserve were to fail.
- 4.6 Subject to the capacity of the construction industry to respond, SFL would have to look to the re-tender of each capital project. It is difficult to quantify the cumulative delay such an event would cause until a new contractor was appointed.
- 4.7 The council's strategic risk register already includes a risk in respect of school place planning which prior to the Interserve announcement was assessed as red. In the event of a collapse, this risk becomes more prevalent.
- 4.8 With Shireland Technology Primary Free School, the Authority is currently awaiting ministerial approval to proceed with procurement, seeking to award a building contract early February 2019. With the current timeline, the free school sponsor will open a temporary facility for the new school in September 2019, however the consequence of further delay to the new school could lead to that temporary arrangement having to extend to the whole of the academic year 2019/20.
- 4.9 In respect of Perryfields High School (Jubilee Block), the council and SFL have identified significant condition issues with the council seeking a solution from SFL. SFL is currently pursuing Interserve for a resolution of this matter.

4.10 In the event if Interserve collapsed, facilities management contracts can be re-brokered through SFL. Interim arrangements such as direct employment of the displaced Interserve staff by SFL could be put in place to ensure that there is no gap in service delivery, without which the key risk to the council would require a temporary closure of these schools whilst SFL sources a new provider or recruits alternate staff to provide the service. The schools involved are:

- Holly Lodge High
- St Michaels CE High School
- Westminster Special
- Whiteheath PRU
- Oldbury Academy
- Wodensborough Academy
- ACE Academy
- Sandwell Community School

4.11 The council has worked with SFL Ltd to establish some mitigations to provide the council with assurances on the delivery of a number of programmes of work. Moving forward there is a strategy for SFL to engage with a range of supply chain partners, to assist in the delivery of the projects should the worse scenario occur.

4.12 Additional mitigations that are currently being progressed include:

- the transfer of key personnel involved in the day to day management of the council's capital projects and FM services
- the transfer of contract data from Interserve's servers to ensure continuity of access
- SFL will be ensuring it holds a set of all the keys and access codes for the properties and has access to the Helpdesk information
- arranging for Interserve to confirm all project supplier information and staffing arrangements, will place SFL in a robust position, should an alternative provider be required.
- The council has requested sight of SFLs business continuity plan in respect of FM provision and the delivery of the capital projects.

5 CONSULTATION (CUSTOMERS AND OTHER STAKEHOLDERS)

5.1 The schools that would be impacted should there be a change in the Interserve position have been kept updated on the progress and mitigations being actioned as noted above.

6 ALTERNATIVE OPTIONS

- 6.1 There is immediate pressure to deliver on a number of key secondary school projects that need to complete for July and September 2019 to ensure sufficient school places are available to meet demand for the 2019/20 National Curriculum Year 7 cohort.
- 6.2 Interserve are contracted to deliver extension works at George Salter Academy, Shireland Collegiate Academy and Phase 1 of the proposed new West Bromwich Collegiate Academy at Kelvin Way, West Bromwich: and the proposed new Shireland Technology Primary Free School at the Shireland Collegiate campus. Any alternative solution would not mitigate the time critical risk as any alternative would involve a delay in SFL reprocurring an alternative contractor.
- 6.3 Officers have for some time worked with SFL to procure alternative major building contractors to deliver other major capital projects. This includes Phase 2 of the new Q3 Academy Langley and St Matthews CE Primary School where Speller Metcalfe and Arthur M Griffiths & Son Ltd respectively have been appointed through SFL. The next phase of extensive capital building works will need to commence during 2020/21 for the National Curriculum Year 7 cohort in 2021/22.

7 STRATEGIC RESOURCE IMPLICATIONS

- 7.1 As noted above, the council's contractual relationship is with SFL and not Interserve. SFL has performance bonds in place that provides financial protection against the delivery of the new build capital projects. This means that no financial liability for contractor failure should pass to the council in respect of the new build projects. If Interserve were to go in to administration or liquidation it would be for SFL to source an alternative contractor.
- 7.2 It should be noted however that the council is a 10% shareholder in SFL.
- 7.3 The risk to the council therefore is largely in respect of delays that would arise in the timely delivery of the above time critical capital projects to deliver new school places by the required dates, whilst SFL procures new contractors to deliver the schools.
- 7.4 The council's strategic risk register already includes a risk in respect of school place planning which prior to the Interserve announcement was assessed as red. In the event of a collapse, this risk becomes more prevalent.

- 7.5 Facilities management contracts can be re-brokered through SFL. Interim arrangements such as direct employment of displaced Interserve staff by SFL could be put in place to ensure that there is no gap in service delivery, without which the key risk to the council would require a temporary closure of these schools whilst SFL sources a new provider or recruits alternate staff to provide the service.

8 LEGAL AND GOVERNANCE CONSIDERATIONS

- 8.1 The legal and contractual considerations are set out within the body of this report.
- 8.2 The contractual documentation between the council and SFL was negotiated and completed in 2009, and the risks that have been highlighted in respect of Interserve's current position were not anticipated at that time. Despite this, the council's contractual relationship is with SFL, and any remedies for breach or late delivery would be pursued against SFL.
- 8.3 In the case of sub-contractor insolvency, the exact legal mechanism used to recover control of the various projects, will depend to some extent on the particular route taken. SFL have suggested that the extent of the delay will be controlled as a result of measures put in place. However, previous instances of contractor insolvency have usually resulted in significant delays, and the council will continue to seek reassurance from SFL as to the effectiveness of the measures being taken.
- 8.4 As highlighted above, the potential contractual remedies for breach, or late delivery, may cover any financial loss, but may not entirely mitigate the reputational and logistical risks to which the council could be exposed in the event of Interserve becoming insolvent.

9 EQUALITY IMPACT ASSESSMENT

As this report does not require a decision an equality impact assessment is not required.

10 DATA PROTECTION IMPACT ASSESSMENT

- 10.1 A data protection impact assessment is not required as no decision is being sought.

11 CRIME AND DISORDER AND RISK ASSESSMENT

- 11.1 There are no crime and disorder risks arising from this report.

12 SUSTAINABILITY OF PROPOSALS

12.1 There are no direct sustainability issues arising from this report.

13 HEALTH AND WELLBEING IMPLICATIONS

13.1 There are no direct health and wellbeing implications from this report.

14 IMPACT ON ANY COUNCIL MANAGED PROPERTY OR LAND

14.1 Delivery of projects detailed, even if delayed will ultimately still deliver assets fit for purpose forming part of the council's managed asset base moving forward.

15 CONCLUSIONS AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

15.1 The purpose of the report is to update the Audit and Risk Assurance Committee with the Council's arrangements with Interserve and how any identified risks are being managed.

16 APPENDICES:

Appendix 1 - Interserve PLC, published statement 'Deleveraging Update' and subsequent correspondence.

Chris Ward

Director – Education, Skills and Employment

Darren Carter

Executive Director of Resources

Alison Knight

Executive Director – Neighbourhoods

Amy Harhoff

Director – Regeneration and Growth

Deleveraging Update

10 December 2018

During the weekend you may have seen a flurry of press activity and reporting regarding our plans to deleverage our balance sheet. Today we have responded with a public announcement which you can [read here](#).

What is deleveraging?

Essentially, it's how we're going to pay off our debts to our lenders. At the moment we're working with our advisors to look at all the options. Once we've finalised the deleveraging plan, it'll be subject to shareholder approval, which we're hoping to get in early 2019.

What can I tell customers & suppliers?

It's critical that we keep our customers and suppliers reassured. Our lenders continue to be supportive of our deleveraging plan which will underpin the long term future of Interserve and you may have seen the Cabinet Office has also publicly expressed full support for our long-term recovery plan too.

It's important that we focus on the positives and what we've achieved so far during this year – a strong profit growth and delivery of our 2018 Fit for Growth savings in line with our commitments to our lenders. Let's also not forget that we're a strong business, with committed employees and a fantastic client profile, we have a good reputation and in line with our business strategy are continuing to win a steady stream of large new contracts and are also retaining existing contracts up for renewal.

As we approach the end of the year, it continues to be a challenging journey to recovery not only for us but our sector too. The deleveraging plan will give Interserve a strong long term capital structure and provide a solid foundation on which to build the future success of the Group.

What can I do?

Please continue to reassure our customers and suppliers using this [customers and supplier update](#) and the other positive messages shared above. It's important we're listening to feedback, so please feed in any consistent questions and themes you're hearing on the back of this announcement to internal.comms@interserve.com.

DELEVERAGING PLAN

by Interserve Press Office | Dec 09, 2018

Interserve notes the recent press reports regarding plans to deleverage its balance sheet.

On 23 November 2018, the Interserve Board announced that it is working with its advisers to look at all options to deliver the optimum capital structure for the group to support its long-term, sustainable development.

Interserve and its lenders are engaged in constructive discussions regarding the agreement and implementation of a deleveraging plan which would deliver a strong balance sheet with Interserve targeting leverage of approximately 1.5x net debt/EBITDA. These discussions also involve proposals to amend the Group's current financing agreements, including the extension of the maturity dates and repayment profiles of the existing facilities.

Although the form of the deleveraging plan remains to be finalised, it is likely to involve the conversion of a substantial proportion of the Group's external borrowings into new equity, an element of which may be sold to existing shareholders and potentially other investors. If implemented in this form, the deleveraging plan could result in material dilution for current Interserve shareholders.

Interserve intends to announce its finalised deleveraging plan, which would be subject to shareholder approval, in early 2019.

Interserve continues to trade well and in line with its expectations for the year ending 31 December 2018.

Debbie White, CEO of Interserve, said:

"We are making good progress on our deleveraging plan which we expect to announce early in 2019. Our lenders are supportive of the deleveraging plan which will underpin the long term future of Interserve. Our refinancing in April of this year contemplated the development of a deleveraging plan in consultation with our stakeholders and the liquidity injected at that point also gave us the funding to execute our business plan. Our discussions with our lenders are a positive step in the process that was agreed as part of the April refinancing. The Cabinet Office has also expressed full support for the work we are doing to implement our long term recovery plan.

"The fundamentals of our business remain strong. The deleveraging plan will give Interserve a strong long term capital structure and provide a solid foundation on which to build the future success of the Group." **-Ends-**

Response from the General Manager, E4L LEP Companies - to Sandwell Metropolitan Borough Council on 21 December 2018 on the intended Interserve Report to the Audit and Risk Assurance Committee

I have discussed this with the Board of Sandwell Futures Limited (SFL) and can confirm the following.

Now that you have confirmed that the Committee is interested in any Interserve risk associated with the Strategic Partnering Agreement, we can confirm that Interserve:

1. No longer has any shareholding in the Sandwell Futures or the SPV
2. Is in the process of transferring the Management Service Agreements (MSA) with the LEP and SPV to Albany SPS Limited. It is anticipated this will happen by the 2018-year end. When this occurs, all the staff of the Interserve MSA business will no longer be Interserve employees
3. Is currently not delivering any services through the SPA: Additional Services and / or Partnering Services.

Audit and Risk Assurance Committee Work Programme 2018/19

Date of Meeting	Item	Responsible Officer
8 November 2018	KPMG External Audit Report 2017/18	KPMG
	Strategic Risk Register Update.	Narinder Phagura
	Work Programme 2018/19	Democratic Services
	Internal Audit Update	Peter Farrow
	Riverside – Internal Audit Update	Peter Farrow
	Internal Audit Charter	Peter Farrow
	Council Update on Allegations of Fraud, Misconduct and Other Issues	Peter Farrow
	Cyber Security Strategic Risk Update	Andy Saunders
	Progress Report and Sector Update	Grant Thornton

Date of Meeting	Item	Responsible Officer
10 January 2019	Counter Fraud Update	Peter Farrow
	Internal Audit Progress Report	Peter Farrow
	External Audit Plan 2018/19	Grant Thornton
	Work Programme 2018/19	Democratic Services
	Anti-Money Laundering Policy	Peter Farrow
	Interserve Update	Alison Knight
21 March 2019	Ombudsman Public Report	Mandeep Bajway
	Audit and Risk Assurance Committee Terms of Reference Review	Peter Farrow
	Internal Audit Plan 2019/20	Peter Farrow

	Strategic Risk Register Update	Narinder Phagura
	The Local Government Ombudsman's Annual Review	Mandeep Bajway
	Internal Audit Progress Report	Peter Farrow
	Ethical Standards - how the council ensures that its external partners and providers can demonstrate strong and robust ethical behaviour;	Kim Hosker
	Work Programme 2019/20	Democratic Services
	Annual Governance Statement Action Plan Update	Peter Farrow
	Neighbourhoods Directorate Risk Register	Narinder Phagura
	Contract Procedure Rules & Financial Regulations	Darren Carter
	An evaluation of the Council's position in relation to the requirements of the Data Protection Act 2018 and the General Data Protection Regulations	Surjit Tour
	Monitoring of the use of Section 106 funds	Peter Farrow