



## **OVERVIEW AND SCRUTINY COMMITTEE**

Thursday 28 July 2016 at 6.30 pm

Council Chamber, Ryedale House, Malton

### **Agenda**

**1 Emergency Evacuation Procedure.**

The Chairman to inform Members of the Public of the emergency evacuation procedure.

**2 Apologies for absence**

**3 Minutes of the Meeting held on 21 April 2016**

(Pages 3 - 4)

**4 Urgent Business**

To receive notice of any urgent business which the Chairman considers should be dealt with at the meeting as a matter of urgency by virtue of Section 100B(4)(b) of the Local Government Act 1972.

**5 Declarations of Interest**

Members to indicate whether they will be declaring any interests under the Code of Conduct.

Members making a declaration of interest at a meeting of a Committee or Council are required to disclose the existence and nature of that interest. This requirement is not discharged by merely declaring a personal interest without further explanation.

**6 Update on Internal Audit Charter**

(Pages 5 - 18)

**7 KPMG Technical Update**

(Pages 19 - 36)

**8 Internal Audit Annual Report 2015/16**

(Pages 37 - 64)

9	<b>Annual Governance Statement</b>	(Pages 65 - 74)
10	<b>Treasury Management Annual Report 2015-16</b>	(Pages 75 - 86)
11	<b>KPMG Local Authority Corporate Risk Register Analysis</b>	(Pages 87 - 94)
12	<b>Sector Led Body for External Auditor Appointments - Opt In</b>	(Pages 95 - 98)
13	<b>Counter Fraud Policy and Anti Money Laundering Policy</b>	(Pages 99 - 136)
14	<b>Counter Fraud Strategy - July 2016</b>	(Pages 137 - 146)
15	<b>Counter Fraud Risk Assessment</b>	(Pages 147 - 154)
16	<b>Any other business that the Chairman decides is urgent.</b>	

## Overview and Scrutiny Committee

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Held at Council Chamber, Ryedale House, Malton  
on Thursday 21 April 2016

### Present

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Councillors Cussons, Duncan, Gardiner, Jainu-Deen, Jowitt, Potter, Sanderson and Wainwright (Chairman)

### In Attendance

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Audrey Adnitt, Fiona Brown, Stuart Cutts (Veritau), Peter Johnson, Rashpal Khangura (KMPG) and Sarah Wadsworth (Veritau).

### Minutes

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98      **Apologies for absence**

Apologies were received from Councillors Acomb and Keal.

99      **Minutes of the meeting held on the 28 January 2016**

Decision
The minutes of the Overview & Scrutiny Committee held on the 28 January 2016, be approved and signed by the Chairman as a correct record.

100      **Urgent Business**

There were no items of urgent business.

101      **Declarations of Interest**

There were no declarations of interest.

102      **External Audit Report**

Considered the External Audit Plan 2015/2016 prepared by KPMG.

Decision
That the report be received.

103      **Internal Audit - Third Progress Report 2015/16**

Considered the report of the Finance Manager (s151).

**Recommendation**

That the results of the audit and fraud work undertaken so far during 2015/16 be noted.

104      **Internal Audit Plan 2016/17**

Considered the report of the Finance Manager (s151).

**Decision**

That the internal audit plan for 2016/17 be approved.

105      **External Audit Progress Report and Technical Update**

Considered the External Audit Progress Report and Technical update prepared by KPMG.

**Decision**

That the report be noted.

106      **Any other business that the Chairman decides is urgent.**

There being no other business the meeting closed at 7:10pm.



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<b>REPORT TO:</b>	<b>OVERVIEW AND SCRUTINY COMMITTEE</b>
<b>DATE:</b>	<b>28 JULY 2016</b>
<b>REPORT OF THE:</b>	<b>FINANCE MANAGER (s151) PETER JOHNSON</b>
<b>TITLE OF REPORT:</b>	<b>UPDATE OF INTERNAL AUDIT CHARTER</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

- 1.1 The report highlights changes made to the Council's internal audit charter

### **2.0 RECOMMENDATION(S)**

- 2.1 It is recommended the Committee approve the changes to the Council's internal audit charter.

### **3.0 REASON FOR RECOMMENDATION(S)**

- 3.1 In accordance with the responsibility of the committee to consider reports dealing with the management of the internal audit function, and for the Council to comply with proper practice for internal audit.

### **4.0 SIGNIFICANT RISKS**

- 4.1 The council will not comply with the requirements of the Accounts and Audit Regulations 2015 if it does not have an audit charter.

### **5.0 POLICY CONTEXT AND CONSULTATION**

- 5.1 The work of internal audit supports the council's overall aims and priorities by promoting probity, integrity and honesty and by helping support the council to become a more effective organisation.

### **6.0 REPORT DETAILS**

- 6.1 The Accounts and Audit Regulations 2015 require the council to have an effective internal audit service that complies with public sector internal audit standards. Cipfa is responsible for setting those standards for councils.

- 6.2 Cipfa works jointly with other bodies responsible for internal audit standards in the UK public sector (such as HM Treasury and the Department of Health) to produce common standards - the Public Sector Internal Audit Standards (PSIAS). The PSIAS are based on standards set by the Global Institute of Internal Auditors (IIA).
- 6.3 In July 2015, Global IIA made changes to their standards including the addition of a Mission and Core Principles for the Professional Practice of Internal Auditing. To ensure the UK public sector standards continue to reflect the IIA standards, the Mission and Core Principles have been adopted in the PSIAS from April 2016.
- 6.4 To reflect the changes to the standards, a number of additions to the council's internal audit charter are required. The proposed new charter is included in appendix 1, with amendments shown as tracked changes.
- 6.5 A number of other minor changes are included in appendix 1. These reflect changes in wording in the Accounts and Audit Regulations and job titles.

## **7.0 IMPLICATIONS**

- 7.1 The following implications have been identified:
- a) Financial  
None
  - b) Legal  
None
  - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)  
None

**Peter Johnson**  
**Finance Manager (s151)**

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### **Background Papers:**

Public Sector Internal Audit Standards  
CIPFA Local Government Application Note (for the United Kingdom Public Sector Internal Audit Standards)

RYEDALE  
DISTRICT  
COUNCIL



# **Ryedale District Council Internal Audit Charter**

28 July 2016

## **1 Introduction**

- 1.1 There is a statutory duty on the Council to undertake an internal audit of the effectiveness of its risk management, control and governance processes. The Accounts and Audit Regulations 2015 also require that the audit takes into account public sector internal auditing standards or guidance. The Chartered Institute of Public Finance and Accountancy (CIPFA) is responsible for setting standards for proper practice for local government internal audit in England.
- 1.2 From 1 April 2016 CIPFA adopted revised Public Sector Internal Audit Standards (PSIAS)<sup>1</sup> compliant with the Institute of Internal Auditors' (IIA) International Standards. The PSIAS and CIPFA's local government application note for the standards represent proper practice for internal audit in local government. This charter sets out how internal audit at Ryedale District Council will be provided in accordance with this proper practice.
- 1.3 This charter should be read in the context of the wider legal and policy framework which sets requirements and standards for internal audit, including the Accounts and Audit Regulations, the PSIAS and application note, and the Council's constitution, regulations and governance arrangements.

## **2 Definitions**

- 2.1 The standards include reference to the roles and responsibilities of the "board" and "senior management". Each organisation is required to define these terms in the context of its own governance arrangements. For the purposes of the PSIAS these terms are defined as follows at Ryedale District Council.

"Board" – the Overview and Scrutiny Committee fulfils the responsibilities of the board, in relation to internal audit standards.

"Senior Management" – in the majority of cases, the term senior management in the PSIAS should be taken to refer to the Finance Manager in his role as s151 officer. This includes all functions relating directly to overseeing the work of internal audit. In addition, senior management may also refer to any other director of the Council individually (including the Chief Executive) or collectively as Council Management Team (CMT) in relation to:

- having direct and unrestricted access for reporting purposes
- consulting on risks affecting the Council for audit planning purposes
- approving the release of information arising from an audit to any third party.

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<sup>1</sup> The PSIAS were adopted jointly by relevant internal audit standard setters across the public sector.



- 2.2 The standards also refer to the “chief audit executive”. This is taken to be the Head of Internal Audit (Veritau).

### **3 Application of the standards**

- 3.1 In line with the PSIAS, the mission of internal audit at Ryedale District Council is:

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”

- 3.2 The council requires that the internal audit service aspires to achieve the mission through its overall arrangements for delivery of the service. In aiming to achieve this, the council expects that the service:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

- 3.3 The PSIAS defines internal audit as follows.

*“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

- 3.4 The Council acknowledges the mandatory nature of this definition and confirms that it reflects the purpose of internal audit in Ryedale. The Council also requires that the service be undertaken in accordance with the code of ethics and standards set out in the PSIAS.

### **4 Scope of internal audit activities**

- 4.1 The scope of internal audit work will encompass the Council’s entire control environment<sup>2</sup>, comprising its systems of governance, risk management, and control.

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<sup>2</sup> For example the work of internal audit is not limited to the review of financial controls only.

- 4.2 The scope of audit work also extends to services provided through partnership arrangements, irrespective of what legal standing or particular form these may take. The Head of Internal Audit, in consultation with all relevant parties and taking account of audit risk assessment processes, will determine what work will be carried out by the internal audit service, and what reliance may be placed on the work of other auditors.

## **5 Responsibilities and objectives**

- 5.1 The Head of Internal Audit is required to provide an annual report to the Overview and Scrutiny Committee. The report will be used by the Committee to inform its consideration of the Council's annual governance statement. The report will include:

- the Head of Internal Audit's opinion on the adequacy and effectiveness of the Council's framework of governance, risk management, and control
- any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)
- any particular control weakness judged to be relevant to the preparation of the annual governance statement
- a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
- an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme
- a statement on conformance with the PSIAS.

- 5.2 To support the opinion the Head of Internal Audit will ensure that an appropriate programme of audit work is undertaken. In determining what work to undertake the service should:

- adopt an overall strategy setting out how the service will be delivered in accordance with this Charter
- draw up an indicative risk based audit plan on an annual basis which takes account of the requirements of the Charter, the strategy, and proper practice.

- 5.3 In undertaking this work, responsibilities of the internal audit service will include:

- providing assurance to the board and senior management on the effective operation of governance arrangements and the internal control environment operating at the Council
- objectively examining, evaluating and reporting on the probity, legality and value for money of the Council's arrangements for service delivery

- reviewing the Council's financial arrangements to ensure that proper accounting controls, systems and procedures are maintained and, where necessary, for making recommendations for improvement
- helping to secure the effective operation of proper controls to minimise the risk of loss, the inefficient use of resources and the potential for fraud and other wrongdoing
- acting as a means of deterring all fraudulent activity, corruption and other wrongdoing; this includes conducting investigations into matters referred by members, officers, and members of the public and reporting findings to directors and members as appropriate for action
- advising the Council on relevant counter fraud and corruption policies and measures.

5.4 The Head of Internal Audit will ensure that the service is provided in accordance with proper practice as set out above and in accordance with any other relevant standards – for example Council policy and legal or professional standards and guidance.

5.5 In undertaking their work, internal auditors should have regard to:

- the mission of internal audit and core principles as set out in the PSIAS and reflected in this charter
- the code of ethics in the PSIAS<sup>3</sup>
- the codes of any professional bodies of which they are members
- standards of conduct expected by the Council
- the Committee on Standards in Public Life's *Seven Principles of Public Life*.

## **6 Organisational independence**

6.1 It is the responsibility of directors and service managers to maintain effective systems of risk management, internal control, and governance. Auditors will have no responsibility for the implementation or operation of systems of control and will remain sufficiently independent of the activities audited to enable them to exercise objective professional judgement.

6.2 Audit advice and recommendations will be made without prejudice to the rights of internal audit to review and make further recommendations on relevant policies, procedures, controls and operations at a later date.

6.3 The Head of Internal Audit will put in place measures to ensure that individual auditors remain independent of areas they are auditing for example by:

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<sup>3</sup> Veritau has adopted its own code of ethics which fulfil the requirements of the PSIAS.

- rotation of audit staff
- ensuring staff are not involved in auditing areas where they have recently been involved in operational management, or in providing consultancy and advice <sup>4</sup>
- seeking external oversight of any audit of functional activities managed by the Head of Internal Audit through Veritau client management arrangements.

## **7 Accountability, reporting lines, and relationships**

- 7.1 Internal audit services are provided under contract to the Council by Veritau North Yorkshire. The company is a separate legal entity. Staff undertaking internal audit work will be employed by Veritau North Yorkshire or another Veritau group company. Staff may also be seconded to the group from the Council. The Finance Manager acts as client officer for the contract, and is responsible for overall monitoring of the service.
- 7.2 In its role in providing an independent assurance function, Veritau has direct access to members and senior managers and can report uncensored to them as considered necessary. Such reports may be made to the:
- Council, Cabinet, or any Committee (including the Overview and Scrutiny Committee)
  - Chief Executive
  - Finance Manager (s151 officer)
  - Monitoring Officer
  - other directors and service managers.
- 7.3 The Finance Manager (as s151 officer) has a statutory responsibility for ensuring that the Council has an effective system of internal audit in place. In recognition of this, a protocol has been drawn up setting out the relationship between internal audit and the Finance Manager. This is included in Appendix 1.
- 7.4 The Head of Internal Audit will report independently to Overview and Scrutiny Committee<sup>5</sup> on:
- proposed allocations of audit resources
  - any significant risks and control issues identified through audit work
  - his/her annual opinion on the Council's control environment.

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<sup>4</sup> auditors will not be used on internal audit engagements where they have had direct involvement in the area within the previous 12 months

<sup>5</sup> The committee charged with overall responsibility for governance at the council.

- 7.5 The Head of Internal Audit will informally meet in private with members of Overview and Scrutiny Committee, or the committee as a whole as required. Meetings may be requested by committee members or the Head of Internal Audit.
- 7.6 Overview and Scrutiny will oversee (but not direct) the work of internal audit. This includes commenting on the scope of internal audit work and approving the annual audit plan. The Committee will also protect and promote the independence and rights of internal audit to enable it to conduct its work and report on its findings as necessary<sup>6</sup>.

## **8 Fraud and consultancy services**

- 8.1 The primary role of internal audit is to provide assurance services to the Council. However, the service may also be required to undertake fraud investigation and other consultancy work to add value and help improve governance, risk management and control arrangements.
- 8.2 The prevention and detection of fraud and corruption is the responsibility of directors and service managers. However, all instances of suspected fraud and corruption should be notified to the Head of Internal Audit, who will decide on the course of action to be taken in consultation with relevant service managers and/or other advisors (for example human resources). Where appropriate, cases of suspected fraud or corruption will be investigated by Veritau.
- 8.3 Where appropriate, Veritau may carry out other consultancy related work, for example specific studies to assess the economy, efficiency, and effectiveness of elements of service provision. The scope of such work will be determined in conjunction with service managers. Such work will only be carried out where there are sufficient resources and skills within Veritau and where the work will not compromise the assurance role or the independence of internal audit. Details of all significant consultancy assignments completed in the year will be reported to the Overview and Scrutiny Committee.

## **9 Resourcing**

- 9.1 As part of the audit planning process the Head of Internal Audit will review the resources available to internal audit, to ensure that they are sufficient to meet the requirements to provide an opinion on the Council's control environment. Where resources are judged to be insufficient, recommendations to address the shortfall will be made to the Finance Manager and to Overview and Scrutiny Committee.

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<sup>6</sup> The relationship between internal audit and Overview and Scrutiny Committee is set out in more detail in Appendix 2.

## **10 Rights of access**

10.1 To enable it to fulfil its responsibilities, the Council gives internal auditors employed by Veritau the authority to:

- enter all Council premises or land, at any reasonable time
- have access to all data, records, documents, correspondence, or other information - in whatever form - relating to the activities of the Council
- have access to any assets of the Council and to require any employee of the Council to produce any assets under their control
- be able to require from any employee or member of the Council any information or explanation necessary for the purposes of audit.

10.2 Directors and service managers are responsible for ensuring that the rights of Veritau staff to access premises, records, and personnel are preserved, including where the Council's services are provided through partnership arrangements, contracts or other means.

## **11 Review**

11.1 This charter will be reviewed periodically by the Head of Internal Audit. Any recommendations for change will be made to the Finance Manager and Overview and Scrutiny Committee, for approval.

**Relationship between the Finance Manager  
(the s151 Officer) and internal audit**

- 1 In recognition of the statutory duties of the Council's Finance Manager for internal audit, this protocol has been adopted to form the basis for a sound and effective working relationship between the Finance Manager and internal audit.
  - (i) The Head of Internal Audit (HoIA) will seek to maintain a positive and effective working relationship with the Finance Manager.
  - (ii) Internal audit will review the effectiveness of the Council's systems of control, governance, and risk management and report its findings to the Finance Manager (in addition to Overview and Scrutiny Committee).
  - (iii) The Finance Manager will be asked to comment on those elements of internal audit's programme of work that relate to the discharge of his/her statutory duties. In devising the annual audit plan and in carrying out internal audit work, the HoIA will give full regard to the comments of the Finance Manager.
  - (iv) The HoIA will notify the Finance Manager of any matter that in the HoIA's professional judgement may have implications for the Finance Manager in discharging his/her s151 responsibilities.
  - (v) The Finance Manager will notify the HoIA of any concerns that he/she may have about control, governance, or suspected fraud and corruption and may require internal audit to undertake further investigation or review.
  - (vi) The HoIA will be responsible for ensuring that internal audit is provided in accordance with proper practice.
  - (vii) If the HoIA identifies any shortfall in resources which may jeopardise the ability to provide an opinion on the Council's control environment, then he/she will make representations to the Finance Manager, as well as to Overview and Scrutiny Committee.
  - (viii) The Finance Manager will protect and promote the independence and rights of internal audit to enable it to conduct its work effectively and to report as necessary.

**Relationship between Overview and Scrutiny  
Committee and internal audit**

- 1 The Overview and Scrutiny Committee plays a key role in ensuring the Council maintains a robust internal audit service and it is therefore essential that there is an effective working relationship between the Committee and internal audit. This protocol sets out some of the key responsibilities of internal audit and the Committee.
- 2 The Committee will seek to:
  - (i) raise awareness of key aspects of good governance across the organisation, including the role of internal audit and risk management
  - (ii) ensure that adequate resources are provided by the Council so as to ensure that internal audit can satisfactorily discharge its responsibilities
  - (iii) protect and promote the independence and rights of internal audit to conduct its work properly and to report on its findings as necessary.
- 3 Specific responsibilities in respect of internal audit include the following.
  - (i) Oversight of, and involvement in, decisions relating to how internal audit is provided.
  - (ii) Approval of the internal audit charter.
  - (iii) Consideration of the annual report and opinion of the Head of Internal Audit (HoIA) on the Council's control environment.
  - (iv) Consideration of other specific reports detailing the outcomes of internal audit work.
  - (v) Consideration of reports dealing with the performance of internal audit and the results of its quality assurance and improvement programme.
  - (vi) Consideration of reports on the implementation of actions agreed as a result of audit work and outstanding actions escalated to the Committee in accordance with the approved escalation policy.
  - (vii) Approval (but not direction) of the annual internal audit plan.
- 4 In relation to the Overview and Scrutiny Committee, the HoIA will:
  - (i) attend its meetings and contribute to the agenda
  - (ii) ensure that overall internal audit objectives, workplans, and performance are communicated to, and understood by, the Committee
  - (iii) provide an annual summary of internal audit work, and an opinion on the Council's control environment, including details of unmitigated risks or other issues that need to be considered by the Committee



- (iv) establish whether anything arising from the work of the Committee requires consideration of the need to change the audit plan or vice versa
  - (v) highlight any shortfall in the resources available to internal audit and to make recommendations to address these to the Committee
  - (vi) report any significant risks or control issues identified through audit work which the HoIA feels necessary to specifically report to the Committee
  - (vii) participate in the Committee's review of its own remit and effectiveness
  - (viii) consult with the board on how external assessment of the internal audit service will be conducted (required once every five years).
- 5 The HoIA will informally meet in private with members of Overview and Scrutiny Committee, or the committee as a whole as required. Meetings may be requested by committee members or the HoIA.

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# Technical update

Ryedale District Council  
July 2016

The contacts at KPMG in connection with this report are:		Page
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Rob Walker Manager Tel: 0113 231 3619 Mob: 07912 763085 <a href="mailto:rob.walker@kpmg.co.uk">rob.walker@kpmg.co.uk</a>	Technical update	8
Katie Goodall Assistant Manager Tel: 07979 450922 <a href="mailto:kathryn.goodall@kpmg.co.uk">kathryn.goodall@kpmg.co.uk</a>		

This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors. The report also highlights the main technical issues which are currently having an impact in local government. If you require any additional information regarding the issues included within this report, please contact a member of the audit team. We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

-  High impact
-  Medium impact
-  Low impact
-  For information



# KPMG resources

# Local government budget survey

KPMG has recently published the results of its Local Government Budget Survey. The survey collated data from 97 KPMG local authority clients on topics including:

- The content of budget monitoring reports;
- Savings plans;
- Invest-to-save projects
- The type of savings being made;
- Assumptions underlying the medium term financial plan; and
- Reserve movements.

The Survey also poses questions for management and Members to consider when reviewing their budget setting and budget monitoring processes.

For more information, and a copy of the report, please contact Rob Walker.

# Publication 'Value of Audit – Perspectives for Government'

## What does this report address?

This report builds on the Global Audit campaign – *Value of Audit: Shaping the future of Corporate Reporting* – to look more closely at the issue of public trust in national governments and how the audit profession needs to adapt to rebuild this trust. Our objective is to articulate a clear opinion on the challenges and concepts critical to the value of audit in government today and in the future and how governments must respond in order to succeed.

Through interviews with KPMG partners from nine countries (Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US) as well as some of our senior government audit clients from Canada, the Netherlands and the US, we have identified a number of challenges and concepts that are critical to the value of audit in government today and in the future.

## What are the key issues?

- The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements.
- The importance of trust and independence of government across different markets.
- How government audits can provide accountability thereby enhancing the government's controls and instigating decision-making.
- The importance of technology integration and the issues that need to be addressed for successful implementation
- The degree of reliance on government financial reports as a result of differing approaches to conducting government audits

The *Value of Audit: Perspectives for Government* report can be found on the KPMG website at <https://home.kpmg.com/xx/en/home/insights.html>

The *Value of Audit: Shaping the Future of Corporate Reporting* can be found on the KPMG website at [www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx](http://www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx)

# Publication 'Reimagine - Local Government'

KPMG have published a number of reports under the headline of *Reimagine – Local Government*. These are summarised below:

## **Council cash crunch: New approach needed to find fresh income**

- By 2020, councils must generate all revenue locally.
- More and more are looking towards diversifying income streams as an integral part of this.
- Councils have significant advantages in becoming a trusted, independent supplier.
- To succeed, they must invest in developing commercial capability and capacity.

## **Councils can save more than cash by sharing data**

Better data sharing in the public sector can save lives and money.

The duty to share information can be as important as the duty to protect it.

Local authorities are yet to realise the full value of their data and are wary of sharing information.

- Cross-sector structures and the right leadership is the first step to combating the problem.

## **English devolution: Chancellor aims for faster and more radical change**

- Experience of Greater Manchester has shown importance of strong leadership.
- Devolution in areas like criminal justice will help address complex social problems.
- Making councils responsible for raising budgets locally shows the radical nature of these changes.
- Cuts to business rates will stiffen the funding challenge, even for the most dynamic councils.

## **Senior public sector pensions**

- Recent changes to pensions taxation have particularly affected the public sector, with fears senior staff may quit as pension allowances bite.
- 'Analyse, control, engage' is the bedrock of an effective strategy.

## **Time for the Care Act to deliver**

- Momentum behind last year's Care Act risks stalling.
- Councils are struggling to create an accessible care market with well-informed consumers.
- Local authorities must improve digital presence and engage providers.
- Austerity need not be an impediment to progress. It could be an enabler.

The publications can be found on the KPMG website <https://home.kpmg.com/uk/en/home/insights/2016/04/reimagine-local-government.html>



# Publication 'The future of cities'

We are delighted to share *The future of cities*, a report that helps local government leaders build and evaluate sustainable cities for their current and future generations.

## What is *The future of cities*?

*The future of cities* is a global report that follows from the UK firm's thought leadership partnership with the City of Bristol and the work surrounding its European Green Capital 2015 designation. The report is broken into two modules that draw on the expertise of KPMG practitioners around the world and includes a range of case studies to ensure you find approaches relevant to your context.

The first module, *The future of cities: creating a vision*, explains the central role of vision in the success of second cities, identifying seven guiding principles to make cities more attractive. Examples are provided of various cities around the globe that are putting some of these principles into action.

The second, *The future of cities: measuring sustainability*, discusses some of the ways in which cities are being measured and how these metrics could evolve. More important, it provides practical examples of what leading cities are doing, the lessons to be learned and how these can be applied to other cities.

This content is now featured on [kpmg.com/futurecities](https://kpmg.com/futurecities) where readers can access a broader collection of reports and shorter opinion pieces from KPMG's leading thinkers on different aspects on how to create better, more sustainable places to live and work.



# Technical developments

# New local audit framework

Level of impact: ● (Medium)		KPMG perspective
<p>The <i>Local Audit and Accountability Act 2014</i> included transitional arrangements covering the audit contracts originally let by the Audit Commission in 2012 and 2014. These contracts covered the audit of accounts up to 2016/17, and gave the Department for Communities and Local Government (DCLG) the power to extend these contracts to 2019/20.</p> <p>DCLG have now announced that the audit contracts for principal local government bodies (including district, unitary and county councils, police and fire bodies, transport bodies, combined authorities and national parks) will be extended to include the audit of the 2017/18 financial statements. From 2018/19, local government bodies will need to appoint their own auditors; currently, there is nothing definite in place whether there will be a sector-led body that is able to undertake this role on behalf of bodies. However the Local Government Association (LGA) has been seeking views and expressions of interest to gauge the appetite in the sector for this approach.</p> <p>IPFA have now issued guidance that was commissioned by DCLG on the creation of Auditor Panels. The guidance is available at <a href="http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf">www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf</a>. The guidance provides options on establishing an Auditor Panel, and the roles and responsibilities the panels will have once established.</p> <p>NHS and smaller local government bodies (town and parish councils, and internal drainage boards), will not have their contracts extended, and will have to appoint their own auditors for 2017/18, one year earlier than for larger local government bodies.</p>		<p><i>Members may wish to discuss the options open to them on how to procure their auditor for 2018/19 and beyond and ensure they formulate a timetable for making this decision.</i></p>

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# Modern Slavery Act 2015

Level of impact: ● (Medium)	KPMG perspective
<div data-bbox="101 544 136 704" data-label="Text"><p>Page 28</p></div> <p>The <i>Modern Slavery Act 2015</i> has now been enacted.</p> <p>All organisations, including local authorities / public bodies, with a year end on or after 31 March 2016 and a turnover greater than £36m have to produce a statement about the current financial year setting out what steps they have taken to ensure that slavery or human trafficking is not occurring in their supply chain or in their own organisation.</p> <p>All local authorities should already be considering what needs to be done to ensure compliance.</p> <p><b>Background</b></p> <p>The Act introduces the concept of 'transparency in supply chains' and requires all commercial organisations which carry on a business in the UK with a total annual turnover of at least £36 million to produce an annual slavery and human trafficking statement. Local authorities satisfy the definition of 'commercial organisations' set out in the Act, so many will be caught.</p> <p>A supply chain includes both direct and indirect suppliers and is very wide ranging including outsourced services supplied by agencies. Local authorities need to be satisfied that modern slavery does not exist at any point in the chain leading to a good or service supplied to them.</p> <p>Examples of suppliers where risks may exist across all departments are:</p> <ul style="list-style-type: none"><li>— firms engaged to build / refurbish public buildings / areas;</li><li>— agencies supplying cleaners; and</li><li>— suppliers of repair / maintenance materials and / or services.</li></ul> <p>As recent cases in the media demonstrate, modern slavery is not something occurring solely outside the UK and the implications both reputationally and legally can be significant.</p>	<p><i>The Committee may wish to seek assurances how their Authority is progressing with the new requirements.</i></p>

# Modern Slavery Act 2015 (cont.)

<p><b>What should the statement include?</b></p> <p>The statement must set out what steps the organisation has taken during the financial year to ensure that slavery and human trafficking is not occurring either in your supply chain or within your own organisation. Although a statement could simply be made saying no steps have been taken in relation to slavery and human trafficking, the legislation suggests the statement should cover the following:</p> <ul style="list-style-type: none"><li>— The organisation's structure, business and supply chains;</li><li>— Its policies in relation to slavery and human trafficking;</li><li>— Its due diligence processes in relation to slavery and human trafficking;</li><li>— The parts of its business and supply chain where there is a risk of slavery and human trafficking taking place and the steps it has taken to assess and manage that risk;</li><li>— Its effectiveness in ensuring that slavery and human trafficking is not taking place in its business or supply chain measured against appropriate performance indicators;</li><li>— The training and capacity building about slavery and human trafficking available to its staff.</li></ul> <p>The statement needs to be approved and published on the website, with a link in a prominent place on the website's home page. The statement should be published within six months of the financial year end.</p> <p>There are no financial or criminal penalties for failing to produce a statement, although the Secretary of State may seek an injunction through the High Court requiring the organisation to comply. However, the reputational damage an organisation may suffer if it chooses not to report or to take no action may be significant.</p> <p><b>What should local authorities be doing?</b></p> <p>There is obviously a lot for local authorities to consider in order to be able to publish their first statement relating to the current financial year. In preparation they should be considering what type of statement they want to make, who will be responsible for compliance, how they identify and assess the risks of slavery and trafficking in their supply chain and how they determine the level of due diligence that needs to be undertaken, what policies and training is going to be put in place and how they are going to ensure effective ongoing monitoring and review. But the clock is ticking and time is running out.....</p> <p>For further information or if you would like us to come out and see you to discuss how the Modern Slavery Act could impact the Authority please contact Julie Bruce (<a href="mailto:Julie.bruce@kpmg.co.uk">Julie.bruce@kpmg.co.uk</a>) (0115 935 3420) or your local KPMG contact</p>	
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# Exercising electors' rights - 2015/16 changes

Level of impact: ● (Low)	KPMG perspective
<p>Authorities may be aware that the <i>Accounts &amp; Audit Regulations 2015</i> have introduced new arrangements for the exercise of electors' rights, which take effect from the 2015/16 financial statements. One of the most significant changes is that the auditor is no longer required to 'call the audit' and specify a date upon which electors can meet with the auditor and ask questions about the accounts.</p> <p>Regulation 15 requires the Responsible Financial Officer (RFO), after signing and dating the draft accounts on behalf of the Authority, to commence the period for the exercise of electors' rights. This period is limited to 30 working days, and for 2015/16 must include the first 10 working days of July.</p> <p>Authorities should also note that Regulation 9(2) is clear that the authority's meeting to consider and approve the accounts should take place after the period for the exercise of electors' rights has ended. Due to the requirement in Regulation 15 for a common inspection period during July, the inspection period this year cannot end before 14 July 2016. This means that authorities should not approve and publish their accounts before 15 July 2016.</p> <p>Electors' rights are important, and the courts have in the past been critical of those who have not ensured that adequate provision for the exercise of these rights is made.</p> <p>Auditors are mindful that they may be contacted by electors or their representatives during the 30 working day inspection period. Given the limited time available, auditors will ensure that they have adequate arrangements in place during the prescribed period for receiving and identifying promptly whether any correspondence received includes formal questions under the <i>Local Audit and Accountability Act 2014</i>, and/or objections to the accounts.</p>	<p><i>The Committee may wish to seek assurances that the impact for their Authority is understood.</i></p>

# DCLG consultation on pension fund investment returns

Level of impact: ● (Low)	KPMG perspective
<p>The Department for Communities and Local Government (DCLG) has recently closed a consultation on revised regulations for the investment of local government pension scheme assets. The proposed regulations include the proposal to allow pension schemes to pool assets for investment purposes.</p> <p>The revised regulations can be found here at <a href="http://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance">www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance</a></p> <p>The outcome of the consultation will be published here: <a href="https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme">https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme</a></p>	<p><i>The Committee may wish to enquire of officers whether their Authority responded to the consultation and the views expressed.</i></p>

# Councillors' travel expenses

Level of impact: <span style="color: green;">●</span> (Low)		KPMG perspective
<p>HM Revenue and Customs (HMRC) are in the process of contacting Local Authorities to commence PAYE and NIC compliance reviews focusing on the historic treatment of councillors' mileage expenses. Those authorities that are unable to demonstrate they have reported payments correctly face a tax and NIC charge, with interest and potentially penalties applying.</p> <p><b>The previous rules</b></p> <p>Up until 5 April 2016, HMRC could agree that for some councillors, home is a place of work and therefore the cost of journeys to council offices could be paid free of tax and NIC. This could have been the case where, for example, councillors were required to see constituents at home. HMRC do not accept however that working from home out of choice makes home a place of work and in these cases, any expenses reimbursed in respect of travel to council offices should have been subject to tax and NIC.</p> <p><b>HMRC Compliance Reviews</b></p> <p>Those local authorities that are unable to support their historic treatment of councillor mileage expenses face a liability to unpaid PAYE, NIC, interest and potentially penalties going back four, and possibly six years. It will be important for local authorities to review their expenses records to determine how travel expenses have been treated and the processes and rationale behind that treatment. Given that different councillors can have different working patterns it will be important to review the treatment on a case by case basis.</p> <p><b>The new rules</b></p> <p>With effect from 6 April 2016, a new exemption has been introduced for councillors' travel expenses. From this date, a councillor's journey between their home and their office will be treated as 'business travel' which means that any mileage expenses reimbursed for this journey will, up to certain limits, be free of tax and NIC (subject to their home not being more than 20 miles outside the relevant authority boundary).</p> <p><b>How KPMG can help</b></p> <p>KPMG's public sector Employment Tax specialists provide practical advice on dealing with HMRC Employer Compliance reviews. We regularly assist local authorities in liaising with HMRC and staying ahead of legislative and practice developments. If you would like to speak to one of our specialists please contact your normal KPMG contact.</p>		<p><i>The Committee may wish to seek assurances how their Authority is progressing with the new requirements.</i></p>



# Capital receipts flexibility

Level of impact: <span style="color: green;">●</span> (Low)	KPMG perspective
<div data-bbox="101 721 140 882" data-label="Page-Header"><p>Page 33</p></div> <p>The 2015 Spending Review included an announcement that local authorities would be able to use capital receipts on the revenue costs of service reform projects. The Department for Communities and Local Government (DCLG) has now issued guidance on the capital receipts flexibility, including a draft direction setting out the types of project that would qualify and expected governance and transparency framework. In summary:</p> <ul style="list-style-type: none"><li>— the flexibility is available from 1 April 2016 to 31 March 2019;</li><li>— only capital receipts generated during that period can be used for the flexibility;</li><li>— the Secretary of State's direction will have the effect of allowing authorities to treat revenue expenditure on service reform as capital during the three year period;</li><li>— authorities will not be allowed to borrow to fund revenue expenditure on service reform; and</li><li>— authorities are required to have regard to a statutory code which contains certain transparency requirements when taking advantage of the flexibility.</li></ul> <p>We understand that DCLG's aim is that the final signed direction will be issued with the final settlement in February 2016.</p> <p>A copy of the draft guidance can be found at <a href="http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486999/Capital_receipts_flexibility_-_draft_statutory_guidance_and_direction.pdf">www.gov.uk/government/uploads/system/uploads/attachment_data/file/486999/Capital_receipts_flexibility - _draft_statutory_guidance_and_direction.pdf</a></p>	<p><i>The Committee may wish to seek assurances how their Authority is planning to use the new flexibility.</i></p>

# 2016/17 Work Programme and Scale of Fees

Level of impact: ● (For Information)

Following consultation, Public Sector Audit Appointments Ltd (PSAA) has published the work programme and scale fees for the audits of the 2016/17 accounts of principal audited bodies. There are no changes to the overall work programme for 2016/17.

The 2016/17 work programme documents and scale fees for individual audited bodies are now available to view on the PSAA website at <http://www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees>

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# Proposed changes to business rates and core grants

Level of impact: ● (For Information)

The Chancellor of the Exchequer has proposed some radical reforms of local government finance. The proposals are that by the end of the decade, councils will retain all locally raised business rates but will cease to receive core grant from Whitehall.

Under the proposals, authorities will be able to keep all the business rates that they collect from local businesses, meaning that power over £26 billion of revenue from business rates will be devolved.

The uniform national business rate will be abolished, although only to allow all authorities the power to cut rates. Cities that choose to move to systems of combined authorities with directly elected city wide mayors will be able to increase rates for specific major infrastructure projects, up to a cap, likely to be set at £0.02 on the rate.

The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state.



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<b>REPORT TO:</b>	<b>OVERVIEW AND SCRUTINY COMMITTEE</b>
<b>DATE:</b>	<b>28 July 2016</b>
<b>REPORT OF THE:</b>	<b>FINANCE MANAGER (s151) PETER JOHNSON</b>
<b>TITLE OF REPORT:</b>	<b>INTERNAL AUDIT ANNUAL REPORT 2015/15</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

- 1.1. In accordance with chapter 5 of the council's Audit Charter, 'The Head of Internal Audit is required to provide an annual report to the Overview and Scrutiny Committee. The report will be used by the Committee to inform its consideration of the Council's annual governance statement.'
- 1.2. The report summarises the outcomes of audit work undertaken in 2015/16 and provides an opinion on the overall adequacy and effectiveness of the authority's internal control arrangements.

### **2.0 RECOMMENDATION(S)**

- 2.1 Members are asked to
  - a) Note the results of the audit work undertaken in 2015/16
  - b) Accept the opinion of the Head of Internal Audit on the adequacy and the effectiveness of the authority's internal control environment.

### **3.0 REASON FOR RECOMMENDATION(S)**

- 3 It is recommended the report is considered by the Overview and Scrutiny Committee as it summarises the audit work undertaken during the year. It also encompasses the overall internal audit opinion of the internal control framework which forms part of the Annual Governance Statement.

### **4.0 SIGNIFICANT RISKS**

- 4.1 The Council will fail to comply with proper practice requirements for internal audit and the Council's Audit Charter if the results of audit work are not considered by an appropriate Committee.

## 5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 The work of internal audit supports the council's overall aims and priorities by promoting probity, integrity and honesty and by helping support the council to become a more effective organisation.

## 6.0 REPORT DETAILS

- 6.1 The results of completed audit work have been reported to relevant officers during the course of the year. In addition, summaries of all finalised audit reports have been presented to this committee as part of regular monitoring reports. Details of the audits finalised since the last report to this committee in April 2016 are included in Appendix 2 to the supporting report. All of the work from the 2015/16 audit plan has been completed.
- 6.2 The overall opinion of the Head of Internal Audit on the governance, risk management, and control framework operating in the Council is that it provides **Reasonable Assurance**. There are no qualifications to that opinion. No reliance was placed on the work of other assurance bodies in reaching this opinion.
- 6.3 Although a reasonable assurance opinion can be given, we are aware of some weaknesses in the control environment which have been identified around Payroll and operation of the corporate Risk Management arrangements. These areas should be considered for inclusion in the Council's Annual Governance Statement.
- 6.4 The Head of Internal Audit is required to develop and maintain an ongoing quality assurance and improvement programme (QAIP). The objective of the QAIP is to ensure working practices continue to conform to the required professional standards. The outcomes from the QAIP (which included an independent of Veritau's practices in 2015) demonstrated that the service provided by Veritau conformed to the International Standards for the Professional Practice of Internal Auditing. Full details are included in Appendix 5 to the supporting report.

## 7.0 IMPLICATIONS

- 7.1 The following implications have been identified:
- a) Financial  
None
  - b) Legal  
None
  - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)  
None

**Peter Johnson**  
**Finance Manager (s151)**

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RYEDALE  
DISTRICT  
COUNCIL



**Ryedale District Council**  
**Internal Audit Annual Report**  
**2015/16**

**Audit Manager:** Stuart Cutts  
**Head of Internal Audit:** Max Thomas

**Circulation List:** Members of the Overview and Scrutiny Committee  
Chief Executive  
Finance Manager (S151 Officer)

**Date:** 28 July 2016

  
Assurance Services for  
the Public Sector

## Background

- 1 The Accounts and Audit Regulations 2015 require the council to have an effective internal audit service that complies with public sector internal audit standards. The Chartered Institute of Public Finance and Accountancy (CIPFA) is responsible for setting those standards and together with other bodies responsible for internal audit standards in the public sector has agreed common standards known as the Public Sector Internal Audit Standards (PSIAS)
- 2 As well as providing a definition of internal auditing, the PSIAS detail the code of ethics for internal auditors and provide quality criteria against which performance can be evaluated. Since the standards were adopted CIPFA has also issued further guidance in the form of an application note. The application note includes a checklist to assist internal audit practitioners to review and update working practices.
- 3 In connection with reporting, the relevant PSIAS standard (2450) states that the Chief Audit Executive (CAE)<sup>1</sup> should provide an annual report to the board<sup>2</sup>. The report should include:
  - (a) details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)
  - (b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)
  - (c) an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment)
  - (d) disclosure of any qualifications to that opinion, together with the reasons for that qualification
  - (e) details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement
  - (f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme
- 4 During the year to 31 March 2016, the Council's internal audit service was provided by Veritau North Yorkshire Limited, which is part of the Veritau Group.

## Internal audit work carried out in 2015/16

- 5 During 2015/16, internal audit work was carried out across the full range of the council's activities. The main areas of internal audit activity included:
  - **Strategic risk register** – We have completed three audits in 2015/16. For Business Continuity, the Council's framework is developing and so we provided further guidance and advice on areas to focus on in the future. For ICT disaster recovery, our review of arrangements concluded with an overall 'Reasonable Assurance' rating. We have also reviewed the council's arrangements to combat fraud and corruption risks against the CIPFA code of

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<sup>1</sup> The PSIAS refers to Chief Audit Executive. This is defined in RDCs charter as the Head of Internal Audit.

<sup>2</sup> The PSIAS refers to the board. This is taken in RDCs charter as the Overview and Scrutiny Committee.



practice. The findings from these three audits are explained in more detail in Appendix 2 to this report.

- **Financial systems** - work in this area provides assurance to the council on the adequacy and effectiveness of financial system controls. We have reviewed seven key financial systems. On the whole the council has relatively strong arrangements with two of the audits being given 'High Assurance' opinions and four of the audits 'Substantial Assurance'. With Payroll we found a number of control weaknesses and therefore gave a 'Reasonable Assurance' rating. Further information on these audits is included in Appendix 2. The weaknesses in respect of payroll have been referred to in the Audit Opinion and Assurance Statement in paragraph 13.
- **Regularity audits** – we have completed four audits during the year covering a number of different operational areas. We have identified a number of areas in these audits where the council can make improvements. The audits on Contract Management (Corporate Arrangements) and Sickness Absence were both given 'Reasonable Assurance' opinions. We also provided some specific feedback following our review of the Leisure Services contract. Our review of Risk Management identified a number of control weaknesses and was therefore given a 'Limited Assurance' rating. The findings from all four reports are explained in further detail in Appendix 2 to this report. The weaknesses highlighted as a result of the Risk Management audit have been referred to in the Audit Opinion and Assurance Statement in paragraph 13.
- **Technical / projects** - our work covered five separate areas, four of which we have previously reported to this Committee. Three audits were given 'Limited Assurance' opinions. One of these audits, Payment Credit Industry Data Security Standard (PCI DSS), is explained in further detail in Appendix 2 to this report. The other two audits given 'Limited Assurance' opinions are included for information in Appendix 3. In respect of the audit on Data Protection and Security, the Council has made a number of improvements since our audit was reported.
- **Follow up** - it is important that agreed actions are followed up to ensure that they have been implemented. Veritau follow up agreed actions on a regular basis, taking account of the timescales previously agreed with management for implementation. Our work shows that progress has been made by management during the year to address previously identified control weaknesses. However there are specific areas referred to in Appendix 2 (on Payroll and PCI DSS) where agreed actions had not been completed and management are therefore planning to ensure these are addressed in 2016/17.

6 Appendix 1 provides a summary of the audit work carried out in the year, and the opinions given for each completed audit. Further details of the key findings and agreed management actions for each audit are given in Appendices 2 and 3. The opinions and priority rankings used by Veritau are detailed in Appendix 4.

7 We agreed with officers to cancel the 2015/16 proposed work on Performance Management arrangements and Data Quality. This allowed for additional time to be provided to fully review and report the issues from the other work in the Audit plan.

## Compliance with Public Sector Internal Audit Standards (PSIAS)

- 8 The work of internal audit has been undertaken in accordance with the PSIAS. Veritau has an established Quality Assurance and Improvement Programme.
- 9 The programme includes ongoing monitoring of the performance of the internal audit activity. Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. All audit work is reviewed by senior staff and a sample of work is also subject to internal peer review. All reports are reviewed by Audit Managers prior to being issued to officers. Post audit customer satisfaction surveys are issued after all assignments. In addition, senior management in each client organisation are asked to complete an annual survey on the overall quality of the service provided by Veritau.
- 10 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. An external assessment was carried out in 2014 by the South West Audit Partnership (SWAP). The outcome from the review demonstrated that the service provided by Veritau conformed to the International Standards for the Professional Practice of Internal Auditing.
- 11 Further details about the 2016 Quality Assurance and Improvement Programme are shown in Appendix 5.

## Audit Opinion and Assurance Statement

- 12 The overall opinion of the Head of Internal Audit on the governance, risk management, and control framework operating in the Council is that it provides **Reasonable Assurance**. There are no qualifications to that opinion. No reliance was placed on the work of other assurance bodies in reaching this opinion.
- 13 Although a reasonable assurance opinion can be given, we are aware of some specific weaknesses in the control environment which have been identified in respect of the systems for Payroll and Risk Management. The council should consider whether it feels these two areas are required for inclusion in the council's Annual Governance Statement.



Max Thomas  
Director and Head of Internal Audit  
Veritau Ltd

28 July 2016

Audit	Status	Assurance Level	Audit Committee
<b>Strategic Risk Register</b>			
Business Continuity	Completed	No opinion given	July 2016
Disaster Recovery	Completed	Reasonable Assurance	July 2016
Fraud and Corruption	Completed	No opinion given	July 2016
Performance Management arrangements and Data Quality	Cancelled	-	-
<b>Financial Systems</b>			
Housing Benefits	Completed	Substantial Assurance	April 2016
Payroll	Completed	Reasonable Assurance	July 2016
Council Tax / NNDR	Completed	High Assurance	January 2016
Sundry Debt Recovery	Completed	Substantial Assurance	April 2016
Creditors	Completed	Substantial Assurance	July 2016
General Ledger	Completed	High Assurance	July 2016
Budgetary Management	Completed	Substantial Assurance	July 2016
<b>Regularity Audits</b>			
Risk Management	Completed	Limited Assurance	July 2016
Contract Management – Corporate Arrangements	Completed	Reasonable Assurance	July 2016
Contract Management – Leisure Services	Completed	No opinion given	July 2016
Human Resources – Sickness Absence	Completed	Reasonable Assurance	July 2016
<b>Technical/Project Audits</b>			
Projects - Payroll budget monitoring development	Completed	No opinion given	November 2015
Projects - Cash Payments Ryedale House	Completed	No opinion given	November 2015
Server Rooms security	Completed	Limited Assurance	January 2016
Data Protection and security	Completed	Limited Assurance	November 2015
Payment Card Industry Data Security Standard	Completed	Limited Assurance	July 2016
<b>Follow-Ups</b>	Completed	N/A	

## Summary of Key Issues from audits completed and final reports issued/agreed; not previously reported to Committee

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Business Continuity	No opinion	<p>The council's responsibilities for business continuity follow from the Civil Contingencies Act 2004 which states that councils should ensure that they can continue to deliver their functions in an emergency 'so far as is reasonably practicable'.</p> <p>In addition to these statutory requirements, there are service and business reasons for why the council needs to have comprehensive and robust business continuity plans in place.</p> <p>We reviewed the council's arrangements for ensuring effective business continuity arrangements were in place throughout the organisation.</p>	April 2016	<p>The council had identified that business continuity plans needed to be re-written as the current plans were out of date and incomplete. Since November 2015, the council has employed an Emergency Planning Officer from North Yorkshire County Council (NYCC) one day a week to help develop new business continuity plans and procedures. So whilst some work has been undertaken, the council's business continuity arrangements are still evolving.</p> <p>We met with officers and discussed current and proposed arrangements. We noted that the experiences from the flooding and power outages in December 2015 were being captured to help influence future business continuity arrangements.</p> <p>A memorandum was issued for officers offering further guidance on some areas for consideration in 2016/17 including the need to effectively integrate business continuity within the council (with areas such as service delivery, risk management and ICT disaster recovery) and to ensure the future policy becomes fully embedded throughout the organisation.</p>	<p>At the time of writing the report, a draft of the business continuity policy had been written and was being reviewed by key individuals with a view to a final policy on business continuity being issued in 2016/17.</p> <p>The council is to continue to develop arrangements on business continuity in 2016/17.</p>
Disaster Recovery	Reasonable Assurance	ICT disaster recovery is the process of recovering information technology systems and services. Disaster recovery (DR) forms part	June 2016	<p><b>Strengths</b></p> <p>The council has developed documentation to guide disaster recovery. The IT Infrastructure Manager has a thorough understanding of</p>	<p>Some initial steps are to be considered by management.</p> <p>Longer term improvements to</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		<p>of wider business continuity planning arrangements intended to restore normal business functionality as quickly as is required by service areas.</p> <p>Effective IT disaster recovery plans should provide for a structured and timely recovery of services in the event of an incident, and should help reduce disruption to a pre-determined acceptable and managed level.</p> <p>Our review examined whether:</p> <ul style="list-style-type: none"> <li>the council had developed documents and maintained an ICT DR plan;</li> <li>DR roles and responsibilities were clearly defined;</li> <li>DR plans were tested</li> <li>System restoration was appropriately prioritised, and</li> <li>Data was available for restoration.</li> </ul>		<p>the council's network, server roles and back-up arrangements.</p> <p><b>Areas for improvement</b> The council has not carried out a full test of ICT disaster recovery arrangements for some time. The council's overall level of resilience can only be judged by carrying out comprehensive testing of a 'true' disaster situation.</p> <p>The council has back-ups on replicated servers at its depot and also tape back-ups held in a safe in the garage adjacent to Ryedale House. However, the back-ups are not routinely tested to ensure that they would function correctly and data would be available after a disaster. If Ryedale House was inaccessible, tape back-ups in the neighbouring garage could also be inaccessible. The fire-proof safe is also an antique model, which does not have a rating for data.</p> <p>The ICT Services Disaster Recovery Plan has not been approved by senior management.</p> <p>The DR Plan and the reconciliation of systems and servers both include information on the priority of service restoration, but don't include the background detail showing how the council arrived at these priorities. The prioritisation of services for restoration is derived from the corporate Business Continuity Plan, which is in need of revision.</p>	<p>arrangements are to be considered as part of the council's 'Towards 2020' efficiency programme in 2016/17.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Fraud and Corruption Arrangements	No opinion	<p>In 2014, CIPFA published a Code of Practice on managing the risks of fraud and corruption. The Code provides a high level set of principles that can be applied to any public sector organisation.</p> <p>The audit reviewed the counter fraud arrangements at the council against the five principles contained in the CIPFA Code of Practice (and the detailed guidance notes) which are that:</p> <ul style="list-style-type: none"> <li>responsibility of the governing body for countering fraud and corruption is acknowledged</li> <li>relevant fraud and corruption risks are identified</li> <li>an appropriate counter fraud and corruption strategy has been developed and implemented</li> <li>resources are provided to implement the strategy</li> <li>action is taken in response to fraud and corruption.</li> </ul> <p>It is important that councils tailor their approach to implementing the principles and make the best use of available resources.</p>	May 2016	<p><b>Strengths</b> The management team at the council take fraud matters seriously. There have been a number of instances where this has led to decisive action being taken on particular cases. Fraud is also highlighted as a risk on the council's corporate risk register.</p> <p>There has been close working with Veritau's fraud team on reactive and proactive fraud issues. This close working and serious focus on fraud matters gives the council a good base upon which to make further improvements.</p> <p><b>Areas for improvement</b> The council has a 'Counter Fraud and Corruption Strategy' which has been recognised as being out of date. An update to this document is being completed. A key action once the overall strategy is agreed and finalised is to complete fraud awareness training throughout the council.</p> <p>The Code highlights the benefit of an annual fraud risk assessment governed by a formal risk methodology. The risk assessment exercise is best supported by work such as fraud risk workshops in departments, comparing risks with other similar organisations and involving specialists to help conduct the fraud risk review. The Council did not complete such a formal exercise in 2015/16 although fraud risk has been considered as part of the council's general risk management processes.</p> <p>The Code highlights a number of policies</p>	<p>We have agreed a fraud related programme of work with Veritau to help develop the Counter Fraud policy framework.</p> <p>Each of the areas referred to in the report will be addressed in 2016/17.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				covering a variety of areas. The need for robust up-to-date policies to cover key requirements of the CIPFA code is recognised by management. Whilst all of these areas are covered by existing council policies, many have not been formally reviewed for some time. The council also does not have an assurance/compliance framework to provide confirmation all staff are aware of/ have acknowledged responsibilities for each policy.	
Payroll	Reasonable Assurance	<p>The council's payroll is processed by City of York Council (CYC) and so the arrangements operated by the council involve some 'in-house' processes alongside the work undertaken by CYC.</p> <p>We specifically covered the procedures and controls within the payroll system that ensured:</p> <ul style="list-style-type: none"> <li>• Payments are only made to valid employees at agreed rates of pay and any additional payments were accurate and appropriately authorised</li> <li>• The terms of the service level agreement with the payroll provider are fulfilled and regular and accurate management information is produced.</li> <li>• Calculations of deductions were at the correct and authorised rate</li> <li>• Payroll transactions are</li> </ul>	June 2016	<p><b>Strengths</b> The payroll information received from CYC is accurately reflected in the council's ledger.</p> <p>Changes to employment details are appropriately authorised, notified to CYC and relevant supporting information is held on file. Mileage and other travel and subsistence claims are checked and authorised prior to being paid.</p> <p><b>Areas for improvement</b> Our payroll audit in 2014/15 identified there was no service level agreement (SLA) in place with CYC for carrying out the payroll service. There is now a SLA in place but it is still in draft.</p> <p>The council is currently discussing with CYC to expand use of the payroll system to incorporate self service functions. These discussions will provide a good opportunity to further clarify the service provided by CYC and enable the council to agree a clear SLA which will allow for effective performance monitoring of the contract.</p>	<p>Management are working with CYC to update the SLA as part of the roll out of the self service discussions.</p> <p>The RDC HR Manager is to speak with HR managers at CYC and NYCC to establish how they remunerate shift workers to help identify ways of replacing the multipliers system.</p> <p>Salary advance information will be recorded electronically on one document. Although the sums involved are relatively small we agreed there is a need for a robust process in place which is regularly monitored.</p> <p>Other matters will also be addressed in 2016/17.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		<p>accurately reflected in the council's accounts.</p> <p>Our work on Payroll in 2014/15 highlighted a number of weaknesses which were reported to Members in November 2014. We recommended these weaknesses in the Payroll control environment were included in the council's Annual Governance Statement in July 2015.</p>		<p>As in 2014/15, we again found issues with multiplier payments for employees who work outside of normal office hours. Uncertainty in the handling of the calculations for multipliers when applied to bank holiday payments may have resulted in some employees being paid incorrectly.</p> <p>A review of the procedure for the payment and recovery of salary advances found that financial records were inconsistent, and there are weak authorisation controls in place for authorising payments. There were also delays in the recovery of some salary advances.</p> <p>There were also some other areas highlighted in the 2014/15 report where little or no action had been taken. These findings will remain open and will be followed up again in 2016/17.</p>	
Creditors	Substantial Assurance	<p>We reviewed the processes and controls for ordering supplies and services. The audit also examined the system for processing creditor payments to ensure payments were only made for valid invoices, the amounts were correct and payments were made within the required timescales.</p> <p>We used computer audit software to support our work and also reviewed council expenditure in 2015/16 to help identify potential duplicate payments.</p>	May 2016	<p><b>Strengths</b> No issues were found with the expenditure that was being made. Payments are made for valid invoices and the correct amount. Use of the purchasing system for the majority of council expenditure ensures goods are receipted before payments are made.</p> <p>We concluded that overall the creditors system appeared to be operating effectively.</p> <p><b>Areas for improvement</b> Invoices are still being received that do not have a purchase order, despite them not being utility or other payments that are</p>	<p>We will reiterate the proper process to be followed in line with Financial Regulations through an email to budget managers.</p> <p>The current ordering process will also be reviewed as part of the 'Towards 2020' efficiency programme.</p> <p>For potential duplicate payments and splitting of invoices then Veritau will help provide us periodic assurance</p>



System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>exempt from these financial regulations.</p> <p>There are no specific controls in place to identify duplicate payments although most duplicate invoices will be identified by officers. However, it is still possible for some to be paid in error. Our work identified 7 invoices which may be duplicate payments (amounting to about £9k) which were passed to the accounts payable officer for further investigation. We also highlighted a potential control gap in respect of splitting of invoices. No such payments were identified during this review.</p> <p>Requests to change a supplier's bank details may be received by any section, not just Finance. It is important that all sections are aware of the need to verify the validity of such requests.</p> <p>We found there are multiple duplicate suppliers on the system as well as multiple addresses for the same supplier.</p>	<p>using their computer audit software to help ensure these potential risks do not materialise.</p> <p>We will review the quality of information input to the financial system and give additional training where required. Where there is inaccurate data in the creditors system then this will be cleansed.</p>
General Ledger	High Assurance	<p>The purpose of this audit was to provide assurance to management that:</p> <ul style="list-style-type: none"> <li>Responsibilities and processes for journal entries are appropriately defined and followed.</li> <li>Cash accounts are regularly reconciled with the appropriate bank accounts.</li> <li>Control accounts are regularly reconciled.</li> </ul>	April 2016	<p><b>Strengths</b></p> <p>There are established controls and procedures relating to journals which ensure all relevant entries are authorised prior to posting. Any items coded to an incorrect ledger code are automatically sent to a suspense account. The suspense account is monitored and is cleared out on a regular basis.</p> <p>Debtors and creditors control accounts are reconciled daily and other control accounts reconciled monthly. When variations between</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		<ul style="list-style-type: none"> <li>Suspense accounts are regularly cleared.</li> </ul>		<p>systems are flagged up during reconciliations these are investigated appropriately. Any differences between the systems are documented.</p> <p><b>Areas for improvement</b> No significant issues identified.</p>	
Budgetary Management	Substantial Assurance	<p>Management of the council's budgets is a key internal control.</p> <p>Effective budgetary preparation and monitoring will enable the council to be assured the overall financial position is being properly managed, value is being obtained from expenditure and also help support the delivery of the future aims and objectives of the council.</p> <p>Our work involved meeting with officers who are responsible for the monitoring and review of the budget. We reviewed the budget procedures and controls to establish whether:</p> <ul style="list-style-type: none"> <li>Procedures were being operated in accordance with the Financial Regulations</li> <li>Budgetary monitoring, review and reporting procedures were successfully assisting managers to work within their set budget.</li> <li>The quality of budgetary information is sufficient for future requirements.</li> </ul>	May 2016	<p><b>Strengths</b> Budget holders found the monthly budget reports a useful and user friendly way to monitor their budgets. They were happy with the assistance they received from the Finance team when dealing with budget issues.</p> <p>Procedures being operated were consistent to those in the council's financial regulations.</p> <p><b>Areas for improvement</b> It was felt some additional training would be helpful to maximise the knowledge and value budget holders could obtain from the system. We also noted a lack of guidance notes.</p> <p>There are also opportunities for more information to be provided to some budget holders on grants and expenditure that is recharged from other areas.</p>	<p>In 2016/17, the s151 officer is planning further training with budget holders and moving them onto the web based version of the software for GL enquiries.</p> <p>The s151 officer is to discuss with budget holders in respect of the extra information requested.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Risk Management	Limited Assurance	<p>Risk management is a critical part of the strategic management of any organisation. It should be a continuous and developing process which runs throughout the organisation, methodically addressing all risks and opportunities surrounding past, present and future activities.</p> <p>The purpose of this audit was to review the council's risk management procedures and ensure that:</p> <ul style="list-style-type: none"> <li>• All identified risks are assessed and prioritised at corporate and service levels and are fully integrated into existing management arrangements.</li> <li>• Identified risks are assessed regularly, appropriately and effectively.</li> <li>• Appropriate processes are in place to ensure the effective management of the identified risks.</li> </ul>	May 2016	<p><b>Strengths</b> A training session was held with managers in December to help start to re-energise and communicate the council's expectations in respect of risk management. Work is currently underway in updating and populating service risk registers.</p> <p><b>Areas for improvement</b> Significant work is required in some areas in order to bring Covalent up to date.</p> <p>Many corporate risks show no evidence of being monitored or controlled, and they are not ranked in order of priority. Service risks, project risks and significant partnership risks all show a lack of evidence of monitoring or control. Covalent has not been populated with mitigating controls and actions.</p>	<p>It was acknowledged by senior management the consistent operation of effective risk management has not happened.</p> <p>One of the projects which forms part of the transformation programme is a re-design of the use of Covalent. Corporate risks will be prioritised on Covalent and there will be a review of the risks included. Mitigating actions will be added where appropriate.</p> <p>Following the launch of the web-based browser for Covalent, Management Team will review corporate risks monthly and in response to any factors arising.</p> <p>A programme of priority projects will be maintained on Covalent together with the associated risk plans.</p> <p>Partnerships will be linked to the relevant service delivery plans with mitigating actions for each.</p>
Contract Management Corporate Arrangements	Reasonable Assurance	The council spends a significant amount of money with third party providers. Good contract management will help ensure	June 2016	<p><b>Strengths</b> Contract management across the council is the responsibility of individual contract managers. Some contracts are being</p>	An updated and complete Contracts Register will be prepared and maintained on the Covalent system.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		<p>compliance with performance criteria and reduce the risk of fraud. It will also help to maximise the value that is obtained to the council and the public from the supplier relationship.</p> <p>The audit reviewed the arrangements in place to ensure that:</p> <ul style="list-style-type: none"> <li>The council's contract management procedures are being operated in line with expected policy and procedures; and</li> <li>The contract management arrangements are effective across the organisation.</li> </ul> <p>We reviewed a sample of contracts and discussed the application of the contract management procedures with officers.</p>		<p>managed well with contract managers showing a good understanding of key responsibilities such as relationship management and the monitoring of costs.</p> <p><b>Areas for improvement</b> There is no corporate monitoring of contracts. We would expect a form of 'assurance mechanism' in place for the council to be satisfied effective contract management is taking place across the organisation.</p> <p>There is no complete and up to date list of council contracts held within one register. Whilst a contracts register is maintained for publication this register is incomplete and out of date.</p> <p>There is no central repository for contracts and in some cases contract managers did not hold a copy of the contract they were responsible for managing.</p> <p>There are no corporate policies, procedures, guidance or training in place to support good quality (and proportionate) contract management. Contract management is a skill and not all managers will have the same level of knowledge and experience.</p>	<p>Responsible officers for each contract will be assigned. All contracts on the new register on Covalent will be assessed for significance. Those that are significant contracts and therefore are a high risk to the council will have a risk register included on Covalent.</p> <p>A working group will be developed through service unit managers and heads of service. This group will review high risk contracts.</p> <p>Corporate policies and guidance for contract management will be developed to support managers in their contract management responsibilities.</p>
Contract Management Leisure Services	No opinion	<p>The council appointed Sports and Leisure Management (operating as Everyone Active) in November 2014 to deliver its leisure services.</p> <p>The Corporate Director recognised the potential risks involved in the new Leisure Services contract and</p>	May 2016	<p>We noted that performance management arrangements are good, with a significant amount of information received and further information available as required. We highlighted a small number of potential improvements to current performance measures.</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		requested a review of the arrangements in place with Everyone Active. The objective of the review was to help identify how contractual performance management arrangements could be strengthened and improved.		<p>To ensure the contract management arrangements focus on the areas of greatest risk we recommend the contract risks were formally evaluated and recorded in a risk register. An up to date risk register will help ensure the contract is being managed effectively and proportionately.</p> <p>At present the council is obtaining some assurance through reported statistics and on the spot checks. The development of a comprehensive assurance framework will allow the council to obtain assurance over the provision of the service. We suggested the focus should be on ensuring there are effective processes in place rather than conducting detailed compliance tests. For example, the review of swimming pool temperature monitoring should focus on whether the provider has a process in place to carry out temperature monitoring (and checking the outcomes/compliance of that policy) as opposed to direct testing by officers.</p>	
Human Resources – Sickness Absence	Reasonable Assurance	The purpose of this audit was to provide assurance that effective policies and processes are in place for managing sickness absence.	May 2016	<p><b>Strengths</b> Our work found sickness absence data is being correctly and accurately recorded for both monitoring and payroll purposes.</p> <p><b>Areas for improvement</b> Application of the Absence Management policy is not consistent across all service areas.</p> <p>As an example, we found return to work (RTW) interviews are not routinely being carried out in some cases. Some records for</p>	<p>Discussions are in progress with the HR/payroll system provider to help maximise the use of the system to support sickness absence case management. The processes involved are being reviewed along with other HR processes as part of the T2020 programme.</p> <p>Trigger points in the Attendance Management</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>RTW interviews are incomplete in some service areas.</p> <p>Effective management of sickness absences was also being further hindered by a lack of accurate and timely information for managers about trigger points being reached. Instead managers were relying on their own records.</p> <p>It has also been several years since attendance management training has been provided.</p>	<p>Policy will be reviewed.</p> <p>All Managers will be reminded of the need to complete Return To Work interviews.</p> <p>Absence Management refresher training will be provided to Managers to tie in with training arising from the use of iTrent.</p>
Payment Card Industry Data Security Standard	Limited Assurance	<p>The Payment Card Industry Data Security Standard (PCI DSS) is an international standard mandated by the five major card providers. They have collectively adopted the PCI DSS as the requirement for all organisations which process, store or transmit payment cardholder data.</p> <p>Payments accepted using any debit, credit, or pre-paid card from these providers are subject to the standard. The council is required to follow the necessary parts of the standard to be in a position to confirm security over the data to which it is responsible.</p> <p>Compliance with the standard is not straightforward. An earlier audit report issued in July 2015 identified a number of areas requiring improvement.</p>	July 2016	<p><b>Strengths</b> There has been some limited progress made in addressing the findings from the previous PCI DSS audit.</p> <p><b>Areas for improvement</b> There are still a number of key issues that need to be addressed before the council is compliant with the PCI DSS requirements.</p> <p>The lack of progress has not been helped by the absence of an effective action plan. Such a plan would help by assigning roles, responsibilities and timescales for each task.</p> <p>In areas where some progress has been achieved (e.g. obtaining compliance assurances from third parties and identifying all processes subject to PCI DSS) then further work is still required.</p> <p>The council does not currently have any procedure notes in place for processing payments.</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>The council also needs to identify the level of relevant transactions and complete and submit the PCI DSS compliance questionnaire.</p> <p>In the future, whenever the council makes an operational decision that involves receiving payments, the relevant requirements of PCI DSS must be considered. Apparent efficiencies and savings from new card processing methods may be at risk due to the time and cost of adhering to a more onerous PCI DSS compliance requirement.</p>	

## Summary of Key Issues from audits previously reported to Committee

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Data Protection and security	Limited Assurance	<p>Information is one of the most valuable assets held by any organisation. The council holds and processes large amounts of personal and sensitive data. Senior management recognise there are information governance risks associated with holding this information, and that appropriate practices need to be followed by staff.</p> <p>We performed an unannounced visit and review of Ryedale House in August 2015. The objective of the visit was to assess the extent to which data was being held securely in the council's offices. This included hard copy personal and sensitive information as well as electronic items such as laptops and removable media.</p>	October 2015	<p><b>Strengths</b> The Council had addressed the findings from the 2013 audit with training and measures to improve staff awareness. Council procedures had also been updated. There is now increased awareness of the importance of securing personal and sensitive data.</p> <p><b>Areas for improvement</b> We noted a number of instances where documents had not been secured. Council policies were not always being complied with, including the need for clear desks. In some instances lockable storage was not available.</p> <p>There is still a need to fully embed good information security practice at Ryedale House.</p>	<p>Management is taking a number of actions.</p> <p>In the short term the need for all sensitive information to be secured is to be clearly communicated to all staff. Lockable storage where needed will be provided.</p> <p>Management is also considering how best to manage overall data security on an ongoing basis. Areas such as policy, procedures and ongoing compliance training will form part of that work.</p>
Server Rooms security	Limited Assurance	<p>It is important to protect servers and other network infrastructure from fire, flood, power outages and other environmental hazards, and also potential damage, theft or sabotage. Weak physical security arrangements could also lead to unauthorised access to sensitive information. We reviewed the server room at Ryedale House and the Malton depot.</p>	January 2016	<p><b>Areas for improvement</b> The council's servers at Ryedale House and the Malton depot are exposed to the risks of unauthorised access and potential disruption to, or loss of, data, services or operational activities due to important controls not being in place.</p>	<p>Management are currently considering the strategic and operational matters in respect of the management of the Server Rooms.</p>



### Audit Opinions and Priorities for Actions

Audit Opinions	
<p>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable (was Moderate) assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

## INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

### 1.0 Background

#### Ongoing quality assurance arrangements

Veritau maintains appropriate ongoing quality assurance arrangements designed to ensure that internal audit work is undertaken in accordance with relevant professional standards (specifically the Public Sector Internal Audit Standards). These arrangements include:

- the maintenance of a detailed audit procedures manual
- detailed job descriptions and competency profiles for each internal audit post
- regular performance appraisals
- regular 1:2:1 meetings to monitor progress with audit engagements
- training plans and associated training activities
- the maintenance of training records and training evaluation procedures
- agreement of the objectives, scope and expected timescales for each audit engagement with the client before detailed work commences (audit specification)
- the results of all audit testing work documented using the company's automated working paper system (Galileo)
- file review by an audit manager and sign-off of each stage of the audit process
- post audit questionnaires (customer satisfaction surveys) issued following each audit engagement
- performance against agreed quality targets reported to each client on a regular basis.

On an ongoing basis, a sample of completed audit files is also subject to internal peer review by a senior audit manager to confirm quality standards are being maintained. The results of this peer review are documented and any key learning points shared with the internal auditors (and the relevant audit manager) concerned.

The Head of Internal Audit will also be informed of any general areas requiring improvement. Appropriate mitigating action will be taken (for example, increased supervision of individual internal auditors or further training).

#### Annual self-assessment

On an annual basis, the Head of Internal Audit will seek feedback from each client on the quality of the overall internal audit service. The Head of Internal Audit will also update the PSIAS self assessment checklist and obtain evidence to demonstrate conformance with the standards. As part of the annual appraisal process, each internal auditor is also required to assess their current skills and knowledge against the competency profile relevant for their role. Where necessary, further training or support will be provided to address any development needs.

The Head of Internal Audit is also a member of various professional networks and obtains information on operating arrangements and relevant best practice from other similar audit providers for comparison purposes.

The results of the annual client survey, PSIAS self-assessment and professional networking are used to identify any areas requiring further development and/or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan. Specific actions may also be included in the Veritau business plan and/or individual personal development action plans. The outcomes from this exercise, including details of the Improvement Action Plan are also reported to each client. The results will also be used to evaluate overall conformance with the PSIAS, the results of which are reported to senior management and the board<sup>3</sup> as part of the annual report of the Head of Internal Audit.

### External assessment

At least once every five years, arrangements must be made to subject internal audit working practices to external assessment to ensure the continued application of professional standards. The assessment should be conducted by an independent and suitably qualified person or organisation and the results reported to the Head of Internal Audit. The outcome of the external assessment also forms part of the overall reporting process to each client (as set out above). Any specific areas identified as requiring further development and/or improvement will be included in the annual Improvement Action Plan for that year.

## **2.0 Customer Satisfaction Survey – 2016**

Feedback on the overall quality of the internal audit service provided to each client was obtained in May 2016. Where relevant, the survey also asked questions about the counter fraud and information governance services provided by Veritau. A total of 124 surveys (2015 – 103) were issued to senior managers in client organisations. 41 surveys were returned representing a response rate of 33% (2015 - 32%). The surveys were sent using Survey Monkey so the responses were anonymous. Respondents were asked to rate the different elements of the audit process, as follows:

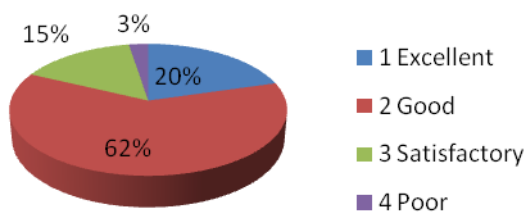
- Excellent (1)
- Good (2)
- Satisfactory (3)
- Poor (4)

Respondents were also asked to provide an overall rating for the service. The results of the survey are set out in the charts below:

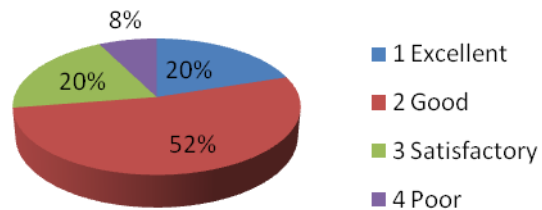
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<sup>3</sup> As defined by the relevant audit charter.

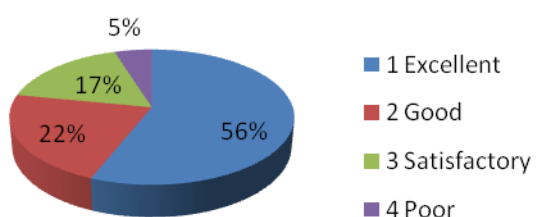
**1 The quality of planning and the overall coverage of the audit plan**



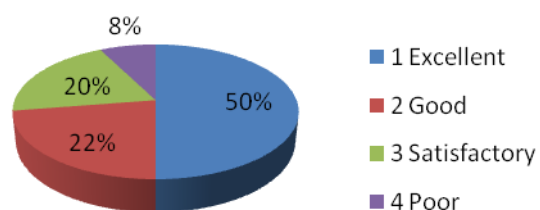
**2 The provision of advice and guidance**



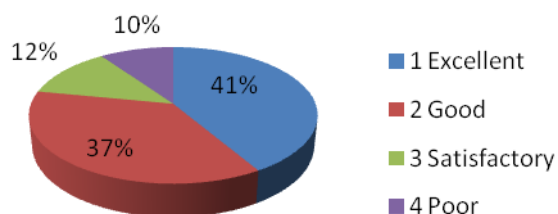
**3 The conduct and professionalism of audit staff**



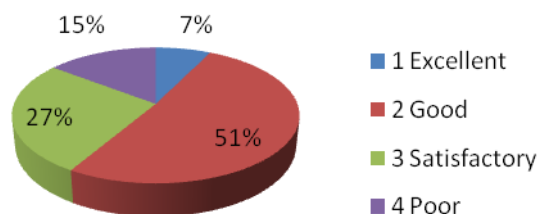
**4 The ability of audit staff to provide unbiased and objective opinions**



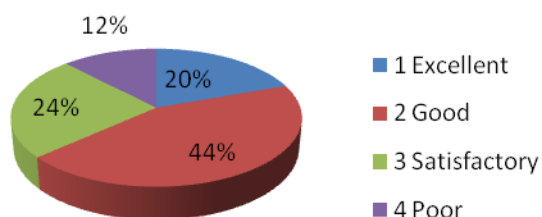
**5 The ability of audit staff to establish a positive rapport with customers**



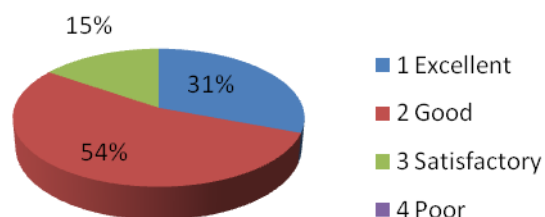
**6 The auditors' overall knowledge of the system / service being audited**



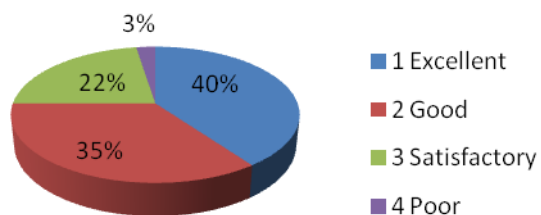
**7 The auditors' ability to focus on the areas of greatest risk**



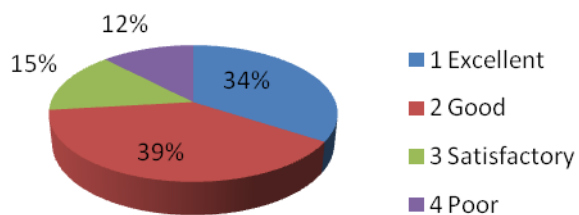
**8 Agreeing the scope and objectives of the audit**



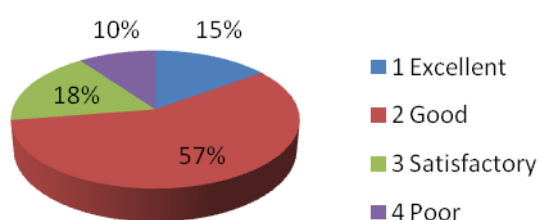
**9 The auditors' ability to minimise disruption to the service being audited**



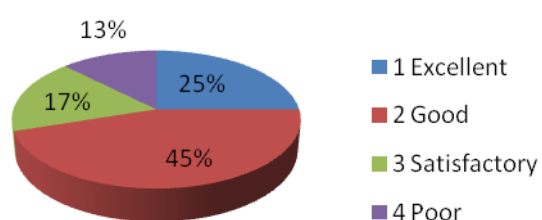
**10 The communication of issues found by the auditors during their work**



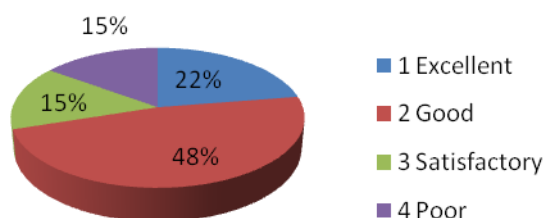
**11 The quality of feedback at the end of the audit**



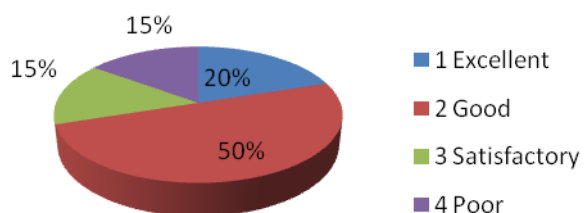
**12 The accuracy, format, length and style of audit reports**



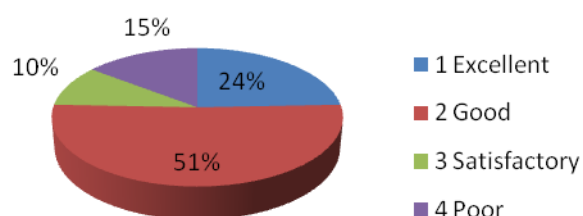
**13 The relevance of audit opinions and conclusions**



**14 The extent to which agreed actions are constructive and practical**



**Overall rating for the Internal Audit services provided by Veritau**



The overall ratings in 2015 were:

Excellent – 8 (27%)

Good – 19 (63%)

Satisfactory – 3 (10%)

Poor – 0 (0%)

The feedback shows that the majority of clients continue to value the service being delivered. A small number of respondents ranked the service as poor but did not provide any further comments or suggestions for improvement.

### **3.0 Self Assessment Checklist – 2016**

The checklist prepared by CIPFA to enable conformance with the PSIAS and the Local Government Application Note to be assessed was originally completed in March 2014. Documentary evidence was provided where current working practices were considered to fully or partially conform to the standards.

In most areas the current working practices were considered to be at standard. However, a few areas of non-conformance were identified. None of the issues identified were however considered to be significant. In addition, in some cases, the existing arrangements were considered appropriate for the circumstances and hence required no further action.

The checklist has been reviewed and updated in 2016. The following areas of non-conformance remain unchanged:

<b><u>Conformance with Standard</u></b>	<b><u>Current Position</u></b>
Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the Head of Internal Audit?	The Head of Internal Audit's performance appraisal is the responsibility of the board of directors. The results of the annual customer satisfaction survey exercise are however used to inform the appraisal.
Is feedback sought from the chair of the audit committee for the Head of Internal Audit's performance appraisal?	See above
Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the audit committee before the engagement was accepted?	Consultancy services are usually commissioned by the relevant client officer (generally the s151 officer). The scope (and charging arrangements) for any specific engagement will be agreed by the Head of Internal Audit and the relevant client officer. Engagements will not be accepted if there is any actual or perceived conflict of interest, or which might otherwise be detrimental to the reputation of Veritau.

<b><u>Conformance with Standard</u></b>	<b><u>Current Position</u></b>
Does the risk-based plan set out the - (b) respective priorities of those pieces of audit work?	Audit plans detail the work to be carried out and the estimated time requirement. The relative priority of each assignment will be considered before any subsequent changes are made to plans. Any significant changes to the plan will need to be discussed and agreed with the respective client officers (and reported to the audit committee).
Are consulting engagements that have been accepted included in the risk-based plan?	Consulting engagements are commissioned and agreed separately.
Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	Whilst reliance may be placed on other sources of assurances there is no formal process to identify and assess such sources. However, assurance mapping will be used where appropriate and audit plans will highlight where other sources of assurance are being relied upon.

#### **4.0 External Assessment**

As noted above, the PSIAS require the Head of Internal Audit to arrange for an external assessment to be conducted at least once every five years to ensure the continued application of professional standards. The assessment is intended to provide an independent and objective opinion on the quality of internal audit practices.

Whilst the new Standards were only adopted in April 2013, the decision was taken to request an assessment at the earliest opportunity in order to provide assurance to our clients. The assessment was conducted by Gerry Cox and Ian Baker from the South West Audit Partnership (SWAP) in April 2014. Both Gerry and Ian are experienced internal audit professionals. The Partnership is a similar local authority controlled company providing internal audit services to over 12 local authorities (including county, unitary and district councils across Somerset, Wiltshire and Dorset).

The assessment consisted of a review of documentary evidence, including the self-assessment, and face to face interviews with a number of senior client officers and Veritau auditors. The assessors also interviewed an audit committee chair.

The conclusion from the external assessment was that working practices conform to the required professional standards. Copies of the detailed assessment report were provided to client organisations and, where appropriate, reported to the relevant audit committee.

#### **5.0 Improvement Action Plan**

Last year's quality assurance process identified the following required changes and improvements:

Change / improvement	Progress to date
The standard specification template will be updated to ensure that the expectations on Veritau and the relevant client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care provided to third parties) are fully understood. Where appropriate, information sharing agreements will also be established with client organisations.	Completed. A new specification template has been adopted. Veritau has also signed the multi agency information sharing protocol. As well as its member councils, other signatories include North Yorkshire Police, North Yorkshire Fire and Rescue Authority plus various NHS organisations and housing associations.
Checklists will be provided to assist auditors ensure all stages of the audit process are fully completed on Galileo.	Completed.
Templates for 'non-standard' reports (for example – consultancy, fraud and special assignments) will be developed.	Completed.

The internal peer review has highlighted the need for further training to be provided on sampling and testing. This will be completed by 30 September 2016. No other changes or improvements to working practices have been identified as a result of this year's quality assurance process. To further enhance the overall effectiveness of the service, the Veritau business plan also includes a number of areas for further development, including:

- Preparation of a data analytics strategy
- Further development of in-house technical IT audit expertise
- Increased use of data matching to identify savings / data quality issues
- Development of a fraud awareness e-learning course.

## 6.0 Overall Conformance with PSIAS (Opinion of the Head of Internal Audit)

Based on the results of the quality assurance process I consider that the service generally conforms to the Public Sector Internal Audit Standards, including the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

The guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards. 'Partially conforms' means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit service from performing its responsibilities in an acceptable manner. 'Does not conform' means the deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit service from performing adequately in all or in significant areas of its responsibilities.





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<b>REPORT TO:</b>	<b>OVERVIEW AND SCRUTINY COMMITTEE (AUDIT)</b>
<b>DATE:</b>	<b>28 JULY 2016</b>
<b>REPORT OF THE:</b>	<b>FINANCE MANAGER (s151) PETER JOHNSON</b>
<b>TITLE OF REPORT:</b>	<b>ANNUAL GOVERNANCE STATEMENT 2015/16</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

- 1.1 For members to consider the Council's review of its system of internal control and approve the Annual Governance Statement (AGS) as required by the Accounts and Audit Regulations 2015.

### **2.0 RECOMMENDATION**

- 2.1 It is recommended that members approve the Annual Governance Statement for inclusion in the Statement of Accounts.

### **3.0 REASON FOR RECOMMENDATION**

- 3.1 The Accounts and Audit Regulations require councils to approve an Annual Governance Statement. In Ryedale approval of the AGS is the responsibility of the Audit Committee.

### **4.0 SIGNIFICANT RISKS**

- 4.1 The Council would not comply with the requirements of the Accounts and Audit Regulations 2015 if it failed to review its system of internal control at least annually, or did not approve and publish an Annual Governance Statement.

### **5.0 POLICY CONTEXT AND CONSULTATION**

- 5.1 Production of the AGS is a mandatory requirement. Senior Council officers have contributed to the review of controls and preparation of the statement.

## **REPORT**

### **6.0 REPORT DETAILS**

- 6.1 Good governance is important to the proper operation of all organisations, and is

essential for local authorities and other bodies with a responsibility for managing public funds. In recognition of this importance, the Accounts and Audit Regulations require all councils to annually review their systems of control and prepare an annual governance statement setting out their governance arrangements. The statement should include any significant issues relevant to an understanding of the governance framework. The AGS forms part of a Council's Statements of Accounts and is considered by the external auditor during their review of the accounts.

- 6.2 The Corporate Management Team and other appropriate officers have reviewed the Council's system of controls. In addition, comments, evidence, and feedback from a number of internal and external sources have been considered in compiling the statement. The Council has adopted the Cipfa framework for producing the AGS, and the attached AGS (See Annex A) has been prepared in accordance with proper practice

## **7.0 IMPLICATIONS**

- 7.1 The following implications have been identified:
- a) Financial  
None
  - b) Legal  
None
  - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)  
None

**Peter Johnson**  
**Finance Manager (s151)**

**Author:** Peter Johnson  
**Telephone No:** 01653 600666(385)  
**E-Mail Address:** peter.johnson@ryedale.gov.uk

### **Background Papers:**

CIPFA – Annual Governance Statement in Local Government – meeting the requirements of the Accounts and Audit (Amendment) (England) Regulations 2006 The 'rough guide'  
Cipfa Finance Advisory Network – AGS 'Rough Guide' for practitioners.  
Cipfa/Solace – Delivering Good Governance in Local Government Framework 2012  
The Accounts and Audit (England) Regulations 2015

### **Background Papers are available for inspection at:**

Finance – Ryedale House  
Contact Peter Johnson

## **1. Scope of Responsibility**

Ryedale District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Authority is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

## **2. The Purpose of the Governance Framework**

Corporate Governance is the system by which local authorities direct and control their functions and relate to their communities. The framework for corporate governance recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) identifies three underlying principles of good governance, namely:

- Openness and Inclusivity
- Integrity
- Accountability

The principles of corporate governance should be embedded into the culture of each local authority. Furthermore each local authority has to be able to demonstrate that it is complying with these principles. To achieve this, the framework document recommends that all local authorities should develop a local code of corporate governance, comprising the following elements:

- Community Focus
- Service Delivery Arrangements
- Structures and Processes
- Risk Management and Internal Control
- Standards of Conduct

The Authority has formally adopted a local code of corporate governance, consequently the principles and standards contained in the framework document are recognised as good working practice, and hence are supported and followed. To this end both Officers and Members have had externally provided training to ensure governance arrangements are understood and embedded. This Statement forms part of the overall process within the Authority for monitoring and reporting on the adequacy and effectiveness of the corporate governance arrangements, particularly those in respect of risk management and internal control.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on a continuous process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. This has been in place within the Authority for the year ended 31 March 2016 and up to the date of

approval of the Statement of Accounts.

### 3. **The Governance Framework**

The requirement to have a governance framework, incorporating a sound system of internal control covers all of the Authority's activities. The internal control environment within the Authority consists of a number of different key elements, which taken together contribute to the overall corporate governance framework. The key elements of internal control within the Authority consist of

#### ***Policies and Guidance:***

Specific policies and written guidance exist to support the corporate governance arrangements and include:

- The Council's Constitution, including Financial Regulations, Procurement Regulations and Contract Standing Orders
- Codes of Conduct for Members and Officers
- The Council Plan
- Medium Term Financial Plan
- Member and Officer Schemes of delegation
- Registers of interests, gifts and hospitality
- Corporate policies, for example those relating to Whistleblowing and Counter Fraud and Corruption
- Asset Management Plan/Capital Strategy Statement
- Strategic Risk Register
- Council Procurement Strategy

#### ***Political and Managerial Structures and Processes***

The Authority is responsible for agreeing overall policies and setting the budget. The Policy and Resources Committee is responsible for decision making within the policy and budget framework set by the Council. The Authority's Corporate Management Team has responsibility for implementing Authority's policies and decisions, providing advice to Members and for co-ordinating the use of resources. The Corporate Management Team meet regularly and the Committees usually every two months. Both the Committees and the Corporate Management Team monitor and review Authority activity to ensure corporate compliance with governance, legal and financial requirements. In addition, the Authority has scrutiny arrangements, through the Scrutiny and Audit Committees that include the review of policies, budgets and service delivery to ensure that they remain appropriate. A forward plan detailing the main work of Committees over the next year has been devised to ensure decisions are taken in a timely manner. Urgent items will be debated as appropriate.

The Authority has developed a process that is intended to reflect political and community objectives as expressed in the Council Plan and acts as a basis for corporate prioritisation. The process has identified the Authority's corporate aims together with a number of associated objectives. These will be reviewed annually to ensure that they continue to meet the needs of the community. The Authority has

linked the performance management process across all service areas to provide an integrated performance management system. Each service has developed a performance improvement plan as part of their Service Delivery Plan showing how that service will work to achieve the Authority's objectives.

### ***Financial Management***

The Finance Manager (s151 Officer) has the overall statutory responsibility for the proper administration of the Authority's financial affairs, including making arrangements for appropriate systems of financial control. The Authority operates within a system of financial regulations, comprehensive budgetary control, regular management information, administrative procedures (including the segregation of duties) and management supervision.

The Finance Manager (s151 Officer) is a member of the Authority's Corporate Management Team, and is directly responsible to the Chief Executive. The Authority is therefore fully compliant with the requirements of the 2010 CIPFA/SOLACE Application Note to Delivering Good Governance.

### ***Compliance Arrangements***

Monitoring and review of the Authority's activities is undertaken by a number of Officers and external regulators to ensure compliance with relevant policies, procedures, laws and regulations. They include:

- The Chief Executive Officer
- The Finance Manager who is the s151 Officer of the Authority and the Chief Finance Officer (CFO)
- The Monitoring Officer
- The Heads of Service
- The External Auditor and various other external inspection agencies
- Internal Audit (provided by Veritau North Yorkshire Limited)
- Finance Officers and other relevant service managers

### ***Value For Money***

Through reviews by external auditors, external agencies, internal audit and the Financial Services Manager the Authority constantly seeks ways of ensuring the economic, effective and efficient use of resources, and securing continuous improvement in the way in which its functions are exercised.

### ***Risk Management***

The Authority has adopted a formal system of Risk Management. This is effectively delivered through widespread use of Covalent, the Authority's Performance and Risk Management software. Although responsibility for the identification and management of risks rests with service managers, corporate arrangements are co-ordinated by the Heads of Service Group. The process is intended to ensure that:

- The Authority identifies, prioritises and takes appropriate mitigation for those risks it identifies as potentially preventing achievement of the Corporate and Community Plan

- The Authority's assets are adequately protected
- Losses resulting from hazards and claims against the Authority are mitigated through the effective use of risk control measures
- Service managers are adequately supported in the discharge of their responsibilities in respect of Risk Management

The system of Risk Management requires the inclusion of risk evaluation assessments in all Committee reports and the maintenance of a corporate risk register. Relevant staff within the Authority have received training and guidance in Risk Management principles.

A review of Risk Management Procedures was undertaken during the year, the review made a number of recommendations which are included within the AGS Action Plan.

### ***Internal Audit & Fraud***

The Authority operates internal audit and internal (non Housing Benefit) fraud investigation functions. Internal audit and counter fraud services are provided by Veritau North Yorkshire Limited – a company partly owned by the Authority. Internal audit services are provided in accordance with the Accounts and Audit Regulations 2015 and the CIPFA Code of Practice for Internal Audit in Local Government. An annual programme of reviews covering financial and operational systems is undertaken, to give assurance to Members and managers on the effectiveness of the control environment operating within the Council. The work of internal audit compliments and supports the work of the external auditors (KPMG for 2015/16). In addition, internal audit provides assurance to the Finance Manager as the Authority's s151 Officer in discharging his statutory review and reporting responsibilities. The Authority also undertakes an annual review of the effectiveness of its internal audit arrangements as required by the Accounts and Audit Regulations. The results of the review are reported to the Overview & Scrutiny (Audit) Committee.

Internal audit also has an advisory role that provides:

- Advice and assistance to managers in the design, implementation and operation of controls
- Support to managers in the prevention and detection of fraud, corruption and other irregularities

Housing Benefit Counter Fraud work has now largely been transferred to the DWP's Single Fraud Investigation Service and Veritau's Counter Fraud work will now focus on supporting the Council in meeting the requirements of CIPFA's code of practice on managing the risk of fraud and corruption.

The Authority has undertaken an initial assessment of its compliance against the code and the s151 officer, having considered all the principles, is satisfied that, subject to the actions identified within the assessment report, the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

***Performance Management***

The Authority has established effective performance management arrangements. The Chief Executive has overall responsibility for the function and the Corporate Management Team undertakes an ongoing monitoring role. Heads of Service and their Service Unit Managers are expected to deliver improvements or maintain performance standards where appropriate. The Covalent performance management system is used to record and monitor performance.

**4. Review of Effectiveness**

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its systems of internal control. In preparing this Statement a review of corporate governance arrangements and the effectiveness of the Authority's systems of internal control has been undertaken, by the Corporate Management Team. This review has included consideration of:

- Reports received from the Authority's external auditors and other inspection agencies
- The results of internal audit and fraud investigation work
- The views of senior managers, including Chief Executive, the s151 Officer and the Monitoring Officer
- The work of the Heads of Service Group in compiling the Authority's Corporate Risk Register.
- Outcomes of service improvement reviews and performance management processes
- Compliance with the CIPFA Statement on the role of the CFO

In addition, the Authority through its Committees especially the Scrutiny and Audit Committees considers corporate governance issues as they arise throughout the year and agree recommendations for improvement as necessary.

A comprehensive review has been undertaken to support the preparation of this AGS document as required by the Accounts and Audit Regulations 2015. The Authority has produced a detailed statement along with a targeted action plan to ensure that full compliance is achieved. This has followed the best practice framework suggested by CIPFA and adopted by the Authority. An action plan schedule has been produced to ensure compliance and a list of those Officers having responsibility is available.

An Action Plan is appended which identifies and notes progress with previous year's matters of concern, and includes those arising from this year's review. The Annual Governance Statement for 2015/16 will provide details of the work completed against this Plan.

We have been advised on the implications of the results of the review of the effectiveness of the system of internal control by the Overview & Scrutiny (Audit) Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

**5. INTERNAL CONTROL ISSUES**

A review of the internal control arrangements in place within the Authority highlighted no significant control issues, however the review did identify areas where improvements could be made. Specific actions are proposed to address the issues

identified. Attached is the action plan for 2015/16 incorporating those issues brought forward from the previous plan, which are still outstanding.

The Authority will continue to seek to improve performance and take action on agreed recommendations by both internal and external agencies.

Signed: ..... Dated: 22 September 2016  
Janet Waggott  
Chief Executive

Signed: ..... Dated: 22 September 2016  
Cllr Linda Cowling  
Leader of the Council



## AGS Action Plan 2015/16

STATUS	CONTROL ISSUE	ACTION PROPOSED	RESPONSIBILITY	TARGET DATE	CURRENT POSITION & COMMENTS
Brought Forward	Risk of compromise and weaknesses in operational systems as a consequence of continuing reductions in staffing as Government funding cuts made.	Where changes in staffing occur, that changes in operating arrangements are reviewed prior to reducing the controls.  Internal audit will be included in working groups reviewing operating systems and arrangements, including commissioning, partnership arrangements etc.	Finance Manager (s151 Officer).	Ongoing	This will be a continuing issue in 2016/17 and beyond
2015/16	The audit opinion of the control environment for the management of risk is weak.	That the Corporate approach to risk is applied consistently across the council for management of corporate, service, project and partnership risk.	Head of Corporate Services	October 2016	Good progress made following the implementation of the browser version of Covalent. Training undertaken for all managers.
2015/16	The audit opinion of the Internal control environment for the Payroll process remains weak. In the financial year 2015-16 there has been effort made to improve the control environment and whilst progress has been made it is not enough to improve the overall opinion.	In addition to the agreed audit actions, improved joint working is planned between staff involved in Payroll and Finance to improve a number of procedures for the payroll process. This will include regular meetings of key staff responsible for the implementation of recommendations with the s151 Officer to ensure progress made continues in the new financial year.	Finance Manager and HR Manager.	October 2016	Initial meeting has been arranged.
2015/16	On-going and future changes to the Council's financial framework including several changes to national and local funding regimes will increase the financial pressure on the Council and risk profile. These changes arise from on-going	The agreed Medium Term Financial Strategy of the Council reflects the expected need to make future savings over the medium term taking into account anticipated changes in financing. This informs the	Finance Manager	Ongoing	2017/18 Budget Strategy recommended for approval by Full Council 7th July 2016.

	changes to benefit administration and continued downward pressure on government funding of Councils as confirmed in the indicative long term financial settlement	budget process for 2017/18 and future years.  The Finance Manager considers the risk as part of the closure of accounts including the need to make appropriate provisions and reserves at the year-end.			2015/16 Statement of Accounts will be presented to P&R in September 2016
2015/16	The Council has identified the publication of data to meet the requirements of the Transparency Code for Local government, as placing the council at risk of a future fraud as information included in the public domain could be used by determined third parties to exploit the Council.	That the Council meet its statutory requirements to publish open data by releasing the minimum level of detail required. That Internal Controls are kept under review and key staff are kept updated on latest techniques used by fraudsters.	Finance Manager (s151)	Ongoing	Currently this has not been a significant issue for the Council however we need to remain constantly vigilant

## OVERVIEW AND SCRUTINY ITEM, FOR CONSIDERATION PRIOR TO FULL COUNCIL

**RYEDALE  
DISTRICT  
COUNCIL**



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<b>REPORT TO:</b>	<b>COUNCIL</b>
<b>DATE:</b>	<b>1 SEPTEMBER 2016</b>
<b>REPORT OF THE:</b>	<b>FINANCE MANAGER (s151) PETER JOHNSON</b>
<b>TITLE OF REPORT:</b>	<b>TREASURY MANAGEMENT ANNUAL REPORT 2015-16</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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### **EXECUTIVE SUMMARY**

#### **1.0 PURPOSE OF REPORT**

- 1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

#### **2.0 RECOMMENDATIONS**

- 2.1 That Council is recommended to:
- (i) Note the annual treasury management report for 2015/16; and
  - (ii) Approve the actual 2015/16 prudential and treasury indicators in this report.

#### **3.0 REASON FOR RECOMMENDATIONS**

- 3.1 The Council has adopted the Code. A provision of the Code is that an annual review report must be made to the Full Council relating to the treasury activities of the previous year.

#### **4.0 SIGNIFICANT RISKS**

- 4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment strategy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

## **5.0 POLICY CONTEXT AND CONSULTATION**

- 5.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this code.
- 5.2 The Council uses the services of Capita Treasury Services Limited to provide treasury management information and advice.

## **REPORT**

### **6.0 REPORT DETAILS**

- 6.1 During 2015/16 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Council 24 February 2015)
- A mid year (minimum) treasury update report (Council 10 December 2015)
- An annual review following the end of the year describing the activity compared to the strategy (this report).

In addition, treasury management update reports were received by the Policy and Resources Committee.

- 6.2 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

- 6.3 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Overview and Scrutiny Committee before they were reported to the full Council. Further Member training on treasury management was undertaken on 28th January 2016 in order to support members' scrutiny role.

- 6.4 This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Summary of interest rate movement in the year;
- Detailed borrowing activity;
- Detailed investment activity.

#### **The Council's Capital Expenditure and Financing 2015/16.**

- 6.5 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

- 6.6 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2015/16 Actual (£)	2014/15 Actual (£)
<b>Total Capital Expenditure</b>	<b>1,076,215</b>	<b>1,330,779</b>
Resourced by:		
Capital receipts	-	-
Capital grants and contributions	301,878	318,561
Capital reserves	34,054	2,500
External Borrowing	740,283	1,009,718
Total	1,076,215	1,330,779

### The Economy and Interest rates

- 6.7 Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.
- 6.8 These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4. The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.
- 6.9 The ECB commenced a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015. As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth. The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

## Overall Treasury Position as at 31 March 2016

- 6.10 At the beginning and the end of 2015/16 the Council's treasury position was as follows (excluding finance leases):

	31 March 2016 Principal	31 March 2015 Principal
Total Debt	£1.75m	£1.75m
CFR	£1.73m	£1.01m
Over/(Under) borrowing	<b>£0.02m</b>	<b>£0.74m</b>
Total Investments	£11.66m	£9.16m
Net Debt	<b>-£9.91m</b>	<b>-£7.41m</b>

## The Strategy for 2015/16

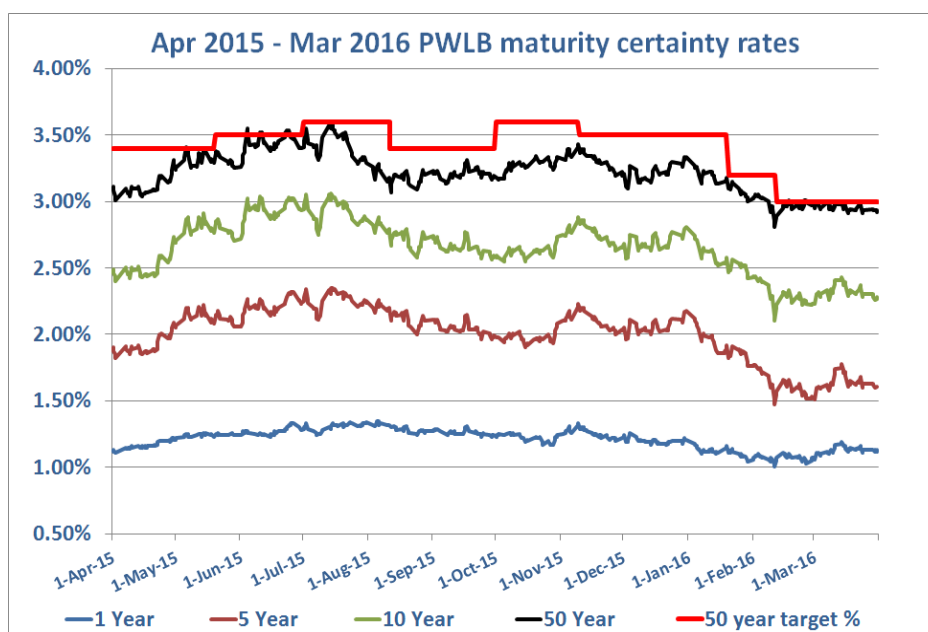
- 6.11 The Treasury Management Strategy for 2015/16 was approved by members at full Council on 24 February 2015.
- 6.12 The expectation for interest rates within the treasury management strategy for 2015/16 anticipated low but rising Bank Rate, (starting in quarter 1 of 2016), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates. The treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk. The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back.

## The Borrowing Requirement and Debt

- 6.13 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR) (excluding borrowing by finance leases).

	31 March 2015 Actual	31 March 2016 Budget	31 March 2016 Actual
Total CFR	£1.010m	£2.029m	£1.730m

## Borrowing Rates in 2015/16



## Borrowing Outturn for 2015/16

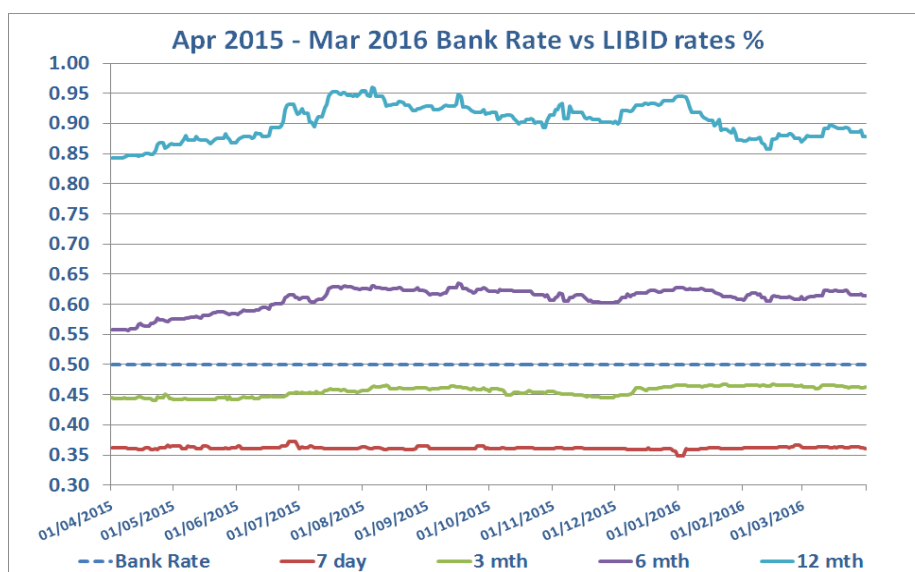
- 6.14 No new borrowing was undertaken during the year, the debt portfolio remains as follows:

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£1.00m	Maturity	3.69%	50 years
PWLB	£0.75m	EIP	2.99%	19 years

This compares with a budget assumption of borrowing at an interest rate of 3.85%.

## Investment Rates in 2015/16

- 6.15 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2016 but then moved back to around quarter 2 2018 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start rising.



### Investment Outturn for 2015/16

- 6.16 The Council's investment policy is governed by DCLG guidance, which has been implemented in the Annual Investment Strategy approved by the Council on 24 February 2015. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).
- 6.17 The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.
- 6.18 The following table shows the result of the investment strategy undertaken by the Council and the relative performance of the internally managed funds against the 7-day LIBID uncompounded rate bench mark:

	Average Investment (£)	Gross Rate of Return	Net Rate of Return	Benchmark Return
<b>Internally Managed:</b>				
Temporary & On-Call Investments	5,525,273	0.30%	n/a	n/a
Fixed Term Deposits	1,135,029	0.77%	n/a	0.36%

- 6.19 **The interest received by the Council from investments in 2015/16 totalled £98k; this compares to an original estimate of £59k.**
- 6.20 The Council's investment position is organised by the Finance Section in order to ensure adequate liquidity for revenue and capital activities and security of investments. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Treasury Management Practices. At the beginning and the end of 2015/16 the Council's investments position was as follows:



	31 March 2016 (£)	31 March 2015 (£)
Internally Managed Investments	11,660,000	9,160,000
Total	11,660,000	9,160,000

6.21 The maturity of the investment portfolio was as follows;

	31 March 2016 (£)	31 March 2015 (£)
On-call Investments	60,000	60,000
Fixed Term Deposits:		
Repayable within 1 month	0	0
Repayable 1 month to 3 months	2,100,000	3,000,000
Repayable 3 months to 6 months	9,500,000	3,600,000
Repayable 6 months to 12 months	0	2,500,000
Repayable 12 months to 24 months	0	0
Total	11,660,000	9,160,000

6.22 Investments were placed with the following institutions:

Type of Institution	31 March 2016 (£)	31 March 2015 (£)
UK Clearing Banks	7,160,000	7,160,000
Foreign Banks	2,000,000	1,000,000
Building Societies	2,500,000	1,000,000
Local Authorities	0	0
Total	11,660,000	9,160,000

#### **Compliance with Treasury Limits**

6.23 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (annex B).

## **7.0 IMPLICATIONS**

7.1 The following implications have been identified:

- a) Financial  
The results of the investment strategy effect the funding of the capital programme.
- b) Legal  
There are no legal implications within this report
- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)  
There are no additional implications within this report.

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**Background Papers:** None

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## TREASURY MANAGEMENT ANNUAL REPORT 2015/16 - RISK MATRIX – ANNEX A

Issue/Risk	Consequences if allowed to happen	Likelihood	Impact	Mitigation	Mitigated Likelihood	Mitigated Impact
Credit risk - associated with investing with financial institutions that do not meet the credit rating criteria.	Could mean loss of principal sum and interest accrued.	2	D	In response to the economic climate the Council continue to adopt a more stringent credit rating methodology.	1	D
Market risk - Selection of wrong type of investment for higher return.	The poor performance of the chosen investment.	3	B	The number of investment options have been kept to a minimum within the investment strategy.	2	B
Liquidity risk - Use of fixed term deposits and / or instruments / investments with low marketability may mean a lack of liquidity	Unable to take advantage of better investment options. Funds are unavailable to cover capital spend.	1	B	The maturity profile has shortened for investments. Short and medium term cash flow management ensures funds are available when needed.	1	B

Score	Likelihood	Score	Impact
1	Very Low	A	Low
2	Not Likely	B	Minor
3	Likely	C	Medium
4	Very Likely	D	Major
5	Almost Certain	E	Disaster

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## ANNEX B

### PRUDENTIAL AND TREASURY INDICATORS

#### Prudential Indicators

	2014/15 Actual	2015/16 Original	2015/16 Actual
<b>Capital Expenditure</b>	£1.331m	£1.263m	£1.076m
<b>Ratio of financing costs to net revenue stream</b>	1.47%	3.91%	2.11%
<b>Net borrowing requirement</b>	-£6.897m	-£6.700m	-£9.339m
<b>Capital Financing Requirement as at 31 March</b>	£1.526m	£2.764m	£2.351m
<b>Annual change in Capital Financing Requirement</b>	£1.272m	£1.238m	£0.825m
<b>Incremental impact of capital investment decisions</b>			
Increase in council tax (band D) per annum	N/a	£1.08	N/a

#### Treasury Management Indicators

	2014/15 Actual	2015/16 Original	2015/16 Actual
<b>Authorised Limit for external debt - borrowing</b>			
other long term liabilities	N/a	£20.0m	N/a
Total	N/a	£ 1.0m	N/a
<b>Operational Boundary for external debt - borrowing</b>			
other long term liabilities	N/a	£5.0m	N/a
Total	N/a	£0.7m	N/a
<b>External debt</b>	£1.750m	£2.070m	£1.750m
<b>Upper limit for fixed interest rate exposure</b>			
Net principal re fixed rate investments	N/a	100%	N/a
<b>Upper limit for variable rate exposure</b>			
Net principal re variable rate investments	N/a	50%	N/a
<b>Upper limit for total principal sums invested for over 364 days</b> (per maturity date)	N/a	£1.0m	N/a

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# Local Authority Corporate Risk Register Analysis

**District Councils**  
**Ryedale District Council**

# Local authority corporate risk register analysis

## Background

Risk management is a critical management tool to manage, assess and prioritise risks, therefore enabling resources to be applied to minimise, monitor and control the probability and/or the impact of negative events.

An important component of the risk management process is the corporate risk register, which identifies those risks which are critical for management to minimise, monitor and control.

KPMG has used its extensive audit client base to undertake Corporate/Strategic risk register analysis. The exercise compared the corporate risk registers from a range of local authorities covering:

- Single Tier Councils;
- County Councils;
- District Councils;
- Fire and Rescue Services; and
- Police bodies.

The outcome highlights the most frequently featured risks across local authority risk registers and changes from 2014 when a similar exercise was carried out.

We also considered the arrangements in place to maintain and review risk registers at the local authorities and fire and police bodies.

Finally, we considered the degree to which risk registers are used as an integrated management and assurance tool, which is especially important given other parts of the Public Sector are increasingly using tools such as Board Assurance Frameworks and Assurance Mapping.

## Purpose

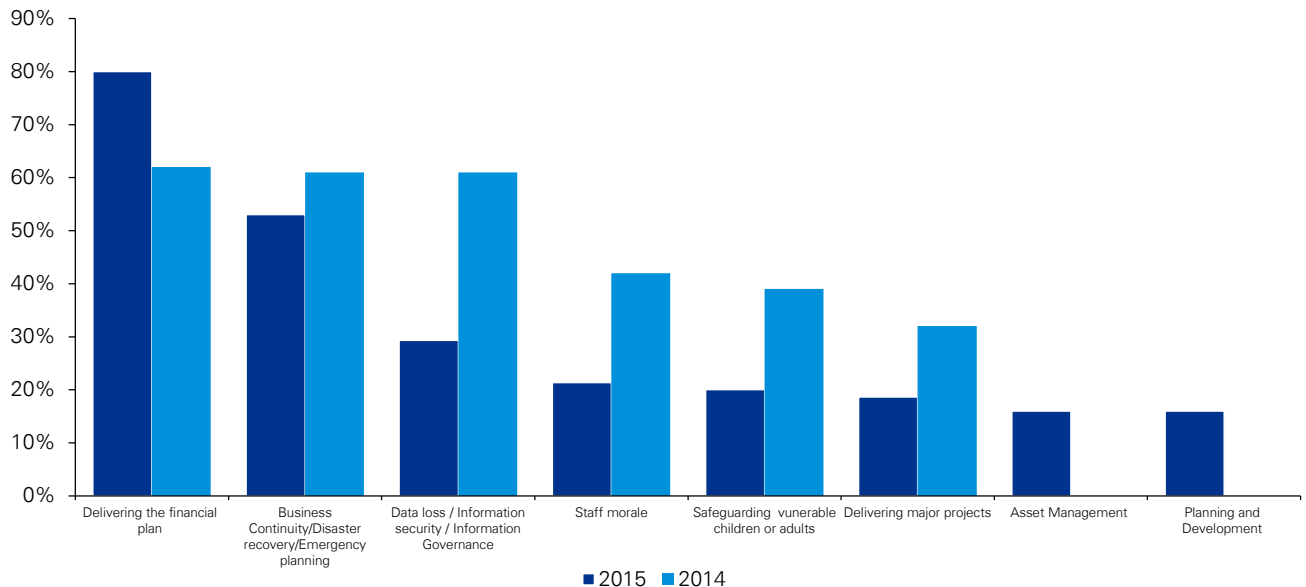
Organisations should use the comparative information to help consider:

- Whether there are potential risks that may have been omitted from their own risk register;
- Whether potential risks are given sufficient priority;
- The mechanics of the risk management process at their organisations; and
- How managing risks and providing assurance can be developed further.



# Local authority corporate risk register analysis (cont.)

## Most frequently featured risks across all authority types



The top three residual risks occurring most frequently are:

- Delivering the medium term financial plan/saving targets/delivering funding cuts;
- Business continuity/disaster recovery incidents/emergency planning; and
- Data loss/information security/information governance risks.

A much higher number of bodies (80% compared to 62% in 2014) identified **Delivering the medium term financial plan/saving targets/delivering funding cuts** as a risk, although this is still not as high as might be expected given the significant reduction in grants seen in recent years and on-going financial pressures.

Risks in relation to **Business continuity and disaster recovery** were identified in 53% of risk registers (compared to 61% in 2014) and **Data loss/information security and information governance** were identified in 29% of risk registers (compared to 61% in 2014). So whilst these risks remain high in terms of frequently occurring risks – It is noticeable that both risks occur less often than in prior years. This fall is a surprise but may be as a result of investments in arrangements reducing the residual risks across the sector.

The risk that no longer features in the above analysis is **Partnership arrangements/governance**, which is surprising given the emergence and growth of initiatives such as the Better Care Fund.

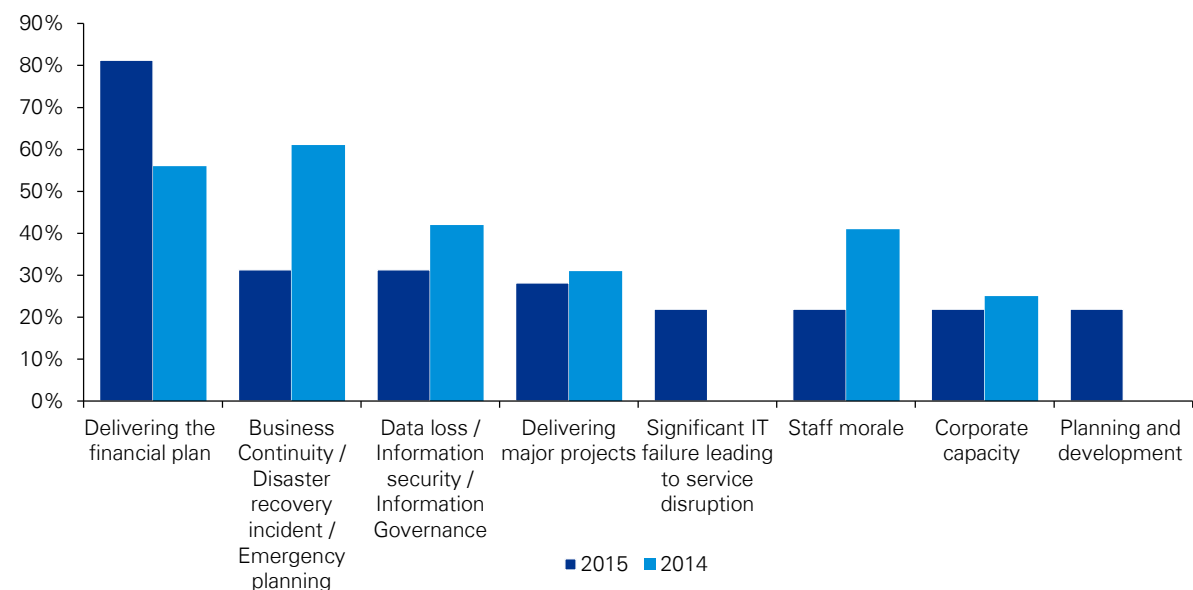
Compared to the same analysis last year, the following risks are new for 2015:

- Asset management; and
- Planning and development issues.

# Local authority corporate risk register analysis (cont.)

## Most frequently featured risks across district councils

The chart below shows the eight most frequently identified risks at district councils included in the exercise.



The three most common risks for district councils are the same as the all authority type analysis with **delivery of the Medium Term Financial Plan** again the highest risk.

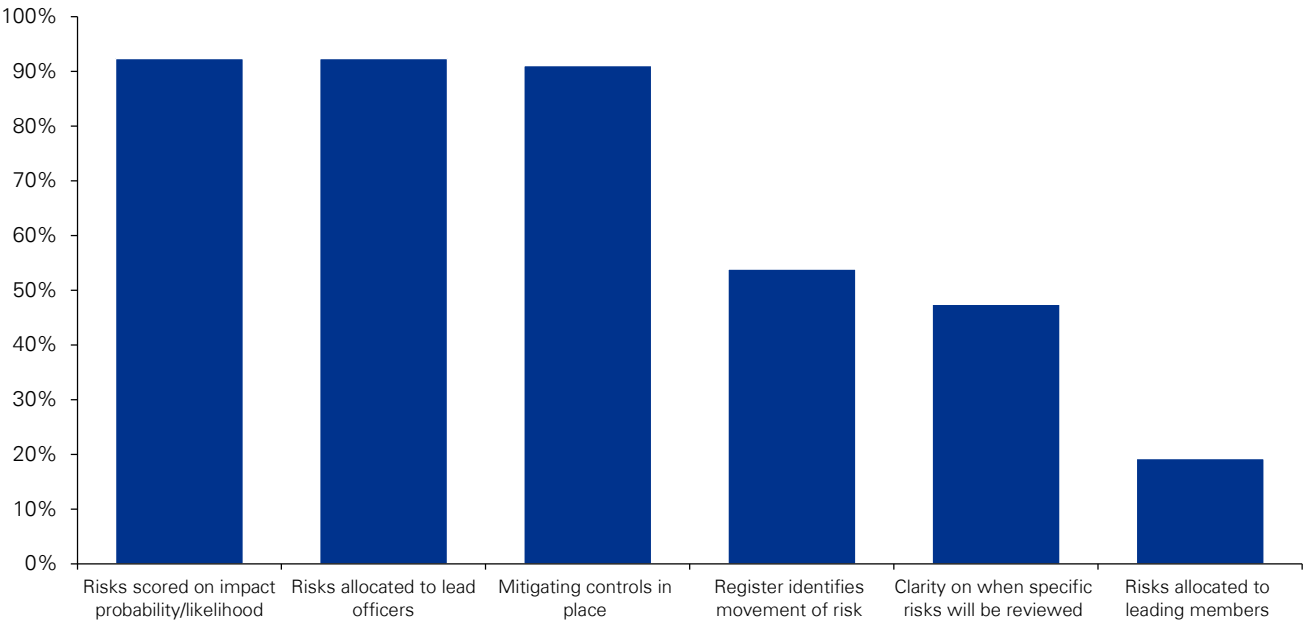
We note we see more risks in relation to **Significant IT Failures**, (21% of districts) and **Planning and development** compared to 2014, however **Delivery of major projects**, **Staff morale** and **Corporate capacity** remain significant residual risks throughout local government. **Partnership governance** and **Welfare reform**, which were seen in 60% and 38% of registers respectively in the 2014 analysis, do not feature in the top eight risks, suggesting mitigating control arrangements are better developed.

Human resources issues in relation to staff morale and corporate capacity also feature in the most frequent risks in district councils. Linked to corporate capacity is also the ability to deliver major projects which again features in the assessment above.

The Corporate Risk at the Council show no 'red' risks those with a high impact and likelihood without plans or mitigations in place. There are 5 'yellow' risks including **External Funding/finance**, **Data Protection and Council Assets** which all feature to some extent in the top risks seen elsewhere. Two of the 'yellow' risks are not generally seen elsewhere relating to **Affordable Housing** and **Customer Expectations** recognizing the strategic approach taken by the Council rather than the more operationally focused risks seen in some Councils. The other risks above are represented in the Council's strategic risks but with mitigating actions showing their status as 'green' however **Significant IT failure** and **Planning and development** are not identified which the council could consider particularly **Planning and development** given the recent Wentworth Street Issues.

# Local authority corporate risk register analysis (cont.)

Survey Responses on Risk Register Reporting and Responsibilities



The chart above analyses the risk registers reviewed across all authorities. As expected, a high level of registers score risks on impact, probability and the controls in place and risks are allocated to lead officers.

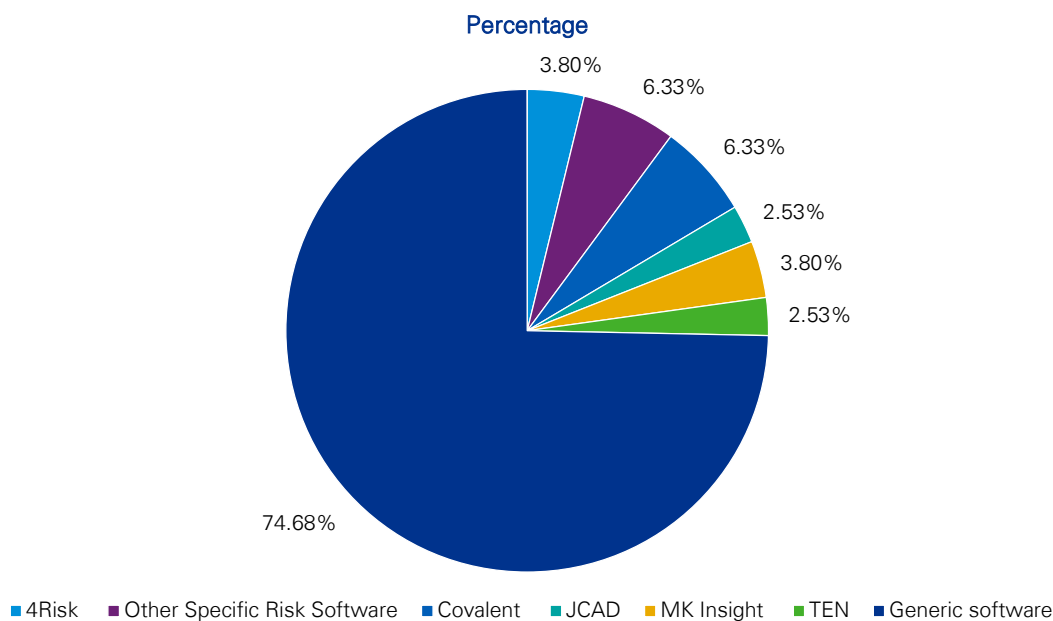
However, less risk registers clarify when a risk is to be reviewed, which could result in the risk not being dealt with appropriately and provides less assurance. Further to this, risks do not appear to be regularly/widely allocated to lead members, which could reduce the scrutiny of these risks.

The Council responded positively to all of the above questions except risks are not allocated to leading members. The Council could consider whether there needs to be greater member input to risks or whether specific risks should be allocated to members.

# Local authority corporate risk register analysis (cont.)

## Software used to support risk management

The chart below shows that 75% of authorities do not use specific risk management software, often preferring to use spreadsheet systems to record the risks. These systems are potentially less robust compared to specific software. Of the authorities that do use specific software, the most commonly used packages are Covalent, 4risk and MK Insight. The Council use Covalent.



## Moving forward

It is noted that in the wider Public Sector many bodies are now using Board Assurance Frameworks/Assurance Mapping. Assurance mapping is the process where risk reports set out the controls and assurances in place to confirm that risks are being addressed. Setting out the assurances can give lead Officers and Members confirmation that assurance is in place and that the quality of the assurance is sufficient against the risk.

Our work has identified limited use of such tools in the local authority sector.

Our comparison exercise identified that:

- Risks were linked to strategic objectives in 57% of reports;
- Assurances were reported in 53% of the reports; and
- Effectiveness of controls were reported in 49% of the reports.

These are important elements of assurance mapping processes and our work suggests there is significant scope for local authorities to develop in this area.



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<b>REPORT TO:</b>	<b>OVERVIEW AND SCRUTINY COMMITTEE</b>
<b>DATE:</b>	<b>28 JULY 2016</b>
<b>REPORT OF THE:</b>	<b>FINANCE MANAGER (s151) PETER JOHNSON</b>
<b>TITLE OF REPORT:</b>	<b>SECTOR LED BODY FOR EXTERNAL AUDITOR APPOINTMENTS - OPT IN</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

- 1.1 To apprise Members on the proposal from the Local Government Association (LGA) that Public Sector Audit Appointments Ltd (PSAA) is appointed as the sector-led body to procure future External Audit contracts for local government.

### **2.0 RECOMMENDATIONS**

- 2.1 Members are recommended to note the report.

### **3.0 REASON FOR RECOMMENDATIONS**

- 3.1 At this stage the contents of the report are for Members information only.

### **4.0 SIGNIFICANT RISKS**

- 4.1 The Council is required to have appropriate External Auditors. A sector-led body to negotiate contracts would undertake the due diligence and other associated requirements for contract tendering and negate the need for an independent auditor appointment panel.

### **5.0 POLICY CONTEXT AND CONSULTATION**

- 5.1 External Audit is part of the Governance framework of the Council which assists with the assurances around financial resilience.

## REPORT

### 6.0 REPORT DETAILS

- 6.1 In August 2010, the Secretary of State for Communities and Local Government announced plans for new arrangements to audit local public bodies in England. The Government consulted widely and worked with a range of partners to develop and refine its proposals. The Local Audit and Accountability Act 2014 which received Royal Assent in January 2014 led to the abolition of the existing regime which included the Audit Commission.
- 6.2 The closure of the Audit Commission on 31 March 2015 heralded the start of the process of devolving the responsibility for making external audit appointments to all public bodies including all classes of local authorities, police, fire and rescue bodies (where separate), waste disposal, transport authorities and executives, together with relevant NHS bodies.
- 6.3 Initially transitional arrangements were put in place until 31 March 2017. PSAA, an independent company established by the LGA, was set up to manage the existing appointments.
- 6.4 The Council is currently audited by KPMG LLP who were appointed as the Council's auditors from 1st April 2015.
- 6.5 The transitional arrangements were due to expire when the 2016/17 audits are complete. On 5 October 2015 the Secretary of State notified his intention to extend the transitional arrangements, larger local government bodies will remain on current appointments contracts until the completion of the 2017/18 audits. This means new appointments will need to be made by 31 December 2017.
- 6.6 In 2017, the Council will need to make choices about the arrangements for appointing its external auditors. Briefly these options comprise;
- i. setting up an independent Auditor Panel
  - ii. joining with other councils to set up a joint independent Auditor Panel
  - iii. opting-in to a sector lead body that will negotiate contracts and make the appointment on behalf of councils, removing the need to set up an independent Auditor Panel.
- 6.7 The view of the statutory officers (s151, Head of Paid Service and Monitoring Officer) is that at this stage the Council should express an interest for opting-in to a sector led body for the following reasons;
- i. The Audit and Accountability Act 2014 sets out the criteria for the Independent Auditor Panel. The criteria are;
    - a) the panel must be made up from a majority of wholly independent members
    - b) the Chair must be an independent member (this means that the panel must consist of at least 3 if not 5 members)
    - c) members of the panel must not have been a member or officer of the Council within 5 years
    - d) members of the panel cannot be a member or officer of an entity associated with the Council within 5 years
    - e) members of the panel cannot be a close relative or friend of a member or officer of the Council



- ii. Setting up an independent Auditor Panel just for Ryedale District Council may not be practicable due to the criteria that need to be met for panel members.
  - iii. The option for joining with other councils to set up a joint independent Auditor Panel may not be practicable because of the criteria, depending on which Councils joined together. Unless there were reciprocal arrangements between different groups.
- 6.8 The consensus from colleagues within North Yorkshire is that a sector led body should be the most cost effective route.
- 6.9 PSAA responded to DCLG's market enquiry for bodies interested in becoming the sector led appointing person and has submitted an application. They are now waiting to hear from DCLG as to the next steps and timetable. It is still expected that PSAA will be specified as a sector led body by September, they may or may not be the only one. Formal invitations to opt-in will be issued shortly after that. The likely deadline for opt-in will be November/December 2016. The legislation requires a minimum of 8 weeks between invitation and closure of the window to opt-in.
- 6.10 It is currently understood that formal opt-in will require full council approval. The LGA is seeking advice on whether councils can get 'approval in principle' in advance of the formal invitations to opt-in being received.
- 6.11 The next stage will, depending on timing, either be a report to this committee with a recommendation to Council or a report straight to Council.

## **7.0 IMPLICATIONS**

- 7.1 The following implications have been identified:
- a) Financial  
There are no financial implications associated with this report.
  - b) Legal  
There are no legal implications associated directly with this report.
  - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)  
There are no additional implications within this report.

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**Background Papers:**  
None

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<b>REPORT TO:</b>	<b>OVERVIEW AND SCRUTINY COMMITTEE</b>
<b>DATE:</b>	<b>28 July 2016</b>
<b>REPORT OF THE:</b>	<b>FINANCE MANAGER (s151) PETER JOHNSON</b>
<b>TITLE OF REPORT:</b>	<b>COUNTER FRAUD POLICY AND ANTI MONEY LAUNDERING POLICY</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

- 1.1. The report sets out a new anti money laundering policy and an updated counter fraud and corruption policy.

### **2.0 RECOMMENDATION(S)**

- 2.1 Members are asked to recommend to Council approval of the updated counter fraud and corruption policy and anti money laundering policy.

### **3.0 REASON FOR RECOMMENDATION(S)**

- 3.1 To help ensure the council maintains robust counter fraud arrangements.

### **4.0 SIGNIFICANT RISKS**

- 4.1 The risk of fraud against public bodies is growing. It is essential that the council maintains up to date counter fraud arrangements to minimise financial losses and safeguard public money.

### **5.0 POLICY CONTEXT AND CONSULTATION**

- 5.1 Seeking to minimise losses from fraud helps to ensure that resources are directed to delivering services and supports the achievement of overall council aims.

### **6.0 REPORT DETAILS**

- 6.1 Overall council counter fraud and corruption arrangements have not been reviewed for a number of years. In this time, there has been a significant change in the fraud risks affecting local authorities. For example the use of technology and opening up of council data has led to an increase in attacks on council payment systems. And recent high profile attacks on IT systems using "ransom ware" have highlighted further risks. More generally, there has been a growing awareness of fraud risks in

the public sector. This has led to the publication of updated guidance for local authorities including the Chartered Institute of Public Finance and Accountancy's Code of Practice on managing the Risks of Fraud and Corruption.

- 6.2 An updated version of the counter fraud and corruption policy is included at appendix 1. This sets out responsibilities for counter fraud and investigation work and the actions the council will take in response to fraud. The policy reflects current arrangements following the transfer of benefit fraud investigation to the DWP in March 2016. An updated version of the councils counter fraud and corruption prosecution policy has also been prepared and is included as an appendix to the counter fraud and corruption policy.
- 6.3 It is important that the council recognises the potential for criminals to use its services for money laundering. The proposed anti money laundering policy at appendix 2 sets out the council's responsibilities in respect of the Proceeds of Crime Act 2002 and Money Laundering Regulations 2007.

## **7.0 IMPLICATIONS**

- 7.1 The following implications have been identified:
- a) Financial  
None
  - b) Legal  
None
  - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)  
None

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### **Background Papers:**

- Fighting Fraud & Corruption Locally - The local government counter fraud and corruption strategy 2016 - 2019)
- The Code of Practice on Managing the Risks of Fraud and Corruption (Cipfa 2014).

### **Appendices:**

- Appendix 1: Counter Fraud and Corruption Policy, incorporating the counter fraud and corruption prosecution policy.
- Appendix 2: Anti Money laundering Policy

RYEDALE  
DISTRICT  
COUNCIL



# COUNTER FRAUD POLICY

## **1 Introduction**

- 1.1 All organisations are at increasing risk of fraud and corruption. Some commentators estimate that annual fraud losses to local government in the UK could be £7.3 billion. It is therefore a risk that the council cannot and should not ignore.
- 1.2 Any fraud committed against the council effectively constitutes a theft of taxpayer's money. It is unlawful and deprives the council of resources which should be available to provide services to the public. By putting in place effective measures to counter the risk of fraud and corruption the council can reduce losses which impact on service delivery as a contribution to the achievement of overall council priorities.
- 1.3 This document sets out the council's policy in relation to fraud and corruption perpetrated against it, and its overall arrangements for preventing and detecting fraud. It includes the fraud and corruption prosecution policy contained in Appendix A. It forms part of the council's overall policy framework for combating fraud and corruption and should be read in conjunction with the counter fraud strategy, constitution, the financial regulations, contract procedure rules, the whistleblowing policy, anti-money laundering policy and disciplinary procedures.

## **2 Definitions and Scope**

- 2.1 For the purpose of this policy, the term fraud is used broadly to encompass:
  - acts which would fall under the definition in the Fraud Act (2006)
  - anything which may be deemed fraudulent in accordance with the generally held view of fraud as causing loss or making a gain at the expense of someone by deception and dishonest means
  - any offences which fall under the Social Security Administration Act (1992) and the Council Tax Reduction Schemes Regulations (2013)
  - any act of bribery or corruption including specific offences covered by the Bribery Act (2010)
  - acts of theft
  - any other irregularity which is to the detriment of the council whether financially or otherwise, or by which someone gains benefit they are not entitled to.
- 2.2 This policy does not cover fraud or corruption against third parties, except where there may be an impact on the service provided by the council. In addition, it does not cover other acts – for example offences involving violence - which may affect the council, and which should in most cases be reported directly to the police.

### **3 Principles**

- 3.1 The council will not tolerate fraud or corruption in the administration of its responsibilities, whether perpetrated by members, officers, customers of its services, third party organisations contracting with it to provide goods and/or services, or other agencies with which it has any business dealings. There is a basic expectation that members, employees, and contractors' staff will act with integrity and with due regard to matters of probity and propriety, the requirement to act lawfully and comply with all rules, procedures and practices set out in legislation, the constitution, the council's policy framework, and all relevant professional and other codes of practice.
- 3.2 The council will seek to assess its exposure to risks of fraud and corruption. It will prioritise resources available to prevent and deter fraud in order to minimise this risk.
- 3.3 The council will consider any allegation or suspicion of fraud seriously, from whatever source, and if appropriate will undertake an investigation to confirm whether fraud has occurred and determine the appropriate outcome. Any investigation will be proportionate. The council may refer any incident of suspected fraud to the police or other agencies for investigation, if appropriate.
- 3.4 To act as a deterrent, the council will take action in all cases where fraud (or an attempt to commit fraud) is proved, in proportion to the act committed. This may include prosecution, application of internal disciplinary procedures, or any other action deemed appropriate to the offence (for example referral to a professional body). Prosecution decisions will be made in accordance with the fraud and corruption prosecution policy (Appendix A).
- 3.5 As a further deterrent, and to minimise losses, the council will attempt to recover any losses incurred through civil or legal action. In addition, the council will seek to apply any appropriate fines or penalties, and recover any costs incurred in investigating and prosecuting cases.

### **4 Responsibilities**

- 4.1 Overall responsibility for this policy rests with the council's Finance Manager (section 151 officer) on behalf of the council in accordance with the council's constitution.
- 4.2 The Overview and Scrutiny Committee has a responsibility to provide advice to the council on issues arising out of fraud investigations and to report any remedial or preventative action that has or which ought to be taken by the council

in relation to such matters. It also monitors the application of council policies on whistle-blowing and counter fraud & corruption and can consider any matter referred to it in accordance with the council's whistle-blowing policy and procedures.

- 4.3 The Senior Management Team (SMT) has a responsibility for ensuring that the council has effective fraud and corruption procedures embedded across the organisation that comply with best practice and good governance standards and requirements.
- 4.4 Veritau (who provide internal audit and counter fraud services to the council) is responsible for reviewing the council's counter fraud and corruption policies on a regular basis and for recommending any required changes to those policies. In addition, Veritau leads on fraud prevention and detection issues for the council and is responsible for investigating suspected cases of fraud or corruption. The internal audit team carries out audit work to ensure that systems of control are operating effectively, which contributes to the reduction in opportunities for committing fraud. The Head of Internal Audit is required to report his/her professional opinion on the council's control environment to members of the Overview and Scrutiny Committee on an annual basis in accordance with proper practice.
- 4.5 The council's Finance Manager as chief financial officer is required to ensure the council has appropriate systems of control in place to prevent and detect fraud. All senior managers have a responsibility for preventing and detecting fraud within their service areas. This includes maintenance of effective systems of internal control and ensuring that any weaknesses identified through the work of internal audit or by other means are addressed promptly.
- 4.6 The council's Finance Manager (section 151 officer) is the council's nominated officer for the purposes of the Money Laundering Regulations (2007), and has a statutory responsibility for reporting any issues referred in this capacity.
- 4.7 All staff have a general responsibility to be aware of the possibility of fraud and corruption, and to report any suspicions that they may have to Veritau. Where appropriate, staff may use the whistleblowing policy to raise concerns anonymously.
- 4.8 Officers within human resources have a responsibility to support service departments in undertaking any necessary disciplinary process after consultation and initial investigation, where appropriate, by Veritau.



## **5 Overall Counter Fraud Arrangements**

### **Introduction**

- 5.1 The purpose of this section is to set out the council's overall framework for countering the risk of fraud and corruption. While the council aims to follow best practice in relation to counter fraud activity<sup>1</sup>, it recognises that new and emerging fraud risks will require a dynamic approach to fraud prevention and detection.

### **Measurement**

- 5.2 The council will assess the potential risks and losses due to fraud and corruption, and will use these to prioritise counter fraud activity, and review the resources available to counter those risks. The review will include an assessment of actual levels of fraud<sup>2</sup> and the effectiveness of counter fraud activity in reducing losses. The outcome of this review will be reported to the Overview and Scrutiny Committee on an annual basis as part of the audit and fraud planning cycle.

### **Culture**

- 5.3 The council will promote a culture whereby all staff, members, service users, and contractors are aware that fraud or corruption in any form is unacceptable. To do this, it will:
- ensure that there are clear arrangements in place for reporting suspicions about potential fraud or corruption, whether that be by staff, council members, partners, stakeholders, contractors or members of the public;
  - investigate reported suspicions and where evidence of fraud or corruption is found will prosecute where appropriate and take any other action necessary in accordance with the financial regulations, contract procedure rules, fraud and corruption prosecution policy, disciplinary procedures, members code of conduct, or any relevant legislation or guidance;
  - ensure that the consequences of committing fraud and/or partaking in corrupt practices are widely publicised.

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<sup>1</sup> For example the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

<sup>2</sup> All suspected fraud should be reported to Veritau. A record of all such information will be maintained on a confidential basis.

## **Prevention and Detection**

### Controls

- 5.4 As part of its ongoing operating procedures, the council seeks to ensure that proper systems of internal control are in place. This includes controls to directly prevent and detect fraud, such as separation of duties and management review, along with other procedures such as vetting as part of recruitment processes and systems for declaration of interests and gifts and hospitality. The effectiveness of systems of control are monitored and a formal report is made as part of the process for preparing the annual governance statement. The council maintains a system of internal audit to provide independent review of control systems on an ongoing basis, in accordance with a risk assessment.
- 5.5 Services will be encouraged to consider the risk of fraud as part of the council's risk management process. Any information on risks identified will be used to inform the annual review of counter fraud activity.

### Proactive Work

- 5.6 The council will carry out targeted project work (for example data matching exercises) to identify fraud and corruption in known high risk areas. This work will be carried out by Veritau as part of its annual workplan. Work will be prioritised based on a risk assessment as part of the annual review of counter fraud activity. Work may include joint exercises with other agencies, including other local councils.
- 5.7 The council will take part in projects led by other agencies such as the Cabinet Office and the DWP to identify potential fraud e.g. the National Fraud Initiative and HBMS Data Matching Service. Resources will be allocated to follow up all data matches as part of audit and fraud workplans. Veritau will work with service departments to ensure that they are aware of the need to include notices to service users stating that any data held may be subject to use for data matching purposes.

### Relationships

- 5.8 The council has established relationships with a number of other agencies. It will continue to develop these relationships and develop new ones to further the prevention and detection of fraud. Organisations which the council will work with include:
- the police
  - the courts
  - the Cabinet Office

- the Department for Communities and Local Government
- the Department for Works and Pensions
- other councils
- community groups

5.9 Veritau will work with council departments to ensure that systems for reporting and investigating suspected fraud and corruption are robust.

#### Fraud Awareness Training

5.10 As part of its annual workplan, Veritau will provide targeted fraud awareness training to specific groups of staff, based on its annual risk assessment.

#### Investigation

5.11 All suspected cases of fraud, corruption, theft or other irregularity will be investigated. The nature of each investigation will depend on the circumstances of each case. Veritau will act as a first port of call for any suspected fraud and will provide advice on whether other agencies should be notified (eg the police). Veritau will determine the extent of the investigation to be carried out in consultation with the Finance Manager (s151), service departments and human resources. Where necessary, Veritau may refer cases to other agencies (for example the police) at the discretion of the Head of Internal Audit.

5.12 All staff involved in the investigation of fraud will be appropriately trained. They will be required to comply with any relevant legislation and codes of practice. For example the Police and Criminal Evidence Act (PACE), Regulation of Investigatory Powers Act (RIPA), the Data Protection Act, and the Criminal Procedures Investigations Act (CPIA). Investigators will take into account the individual circumstances of anyone involved in an investigation and adjustments to procedure will be made where necessary to ensure that all parties are treated equitably (where it is appropriate and reasonable to do so).

5.13 As part of the outcome of every investigation, a review of any weaknesses in control will be made and if necessary recommendations will be made to address any issues identified. These will be set out in a formal report to the managers of the service concerned, and will be followed up to ensure the issues are addressed.

5.14 The Head of Internal Audit will ensure that systems for investigating fraud are reviewed on an ongoing basis, to ensure that they remain up to date and comply with good practice.

## Publicity

- 5.15 The council will publicise all successful prosecutions undertaken either by itself or by partner organisations, to act as a deterrent against future fraud.
- 5.16 In addition, where appropriate, targeted publicity will be used to raise the awareness of fraud to staff, members, the public, and other agencies. This will consist of both internal and external publicity and will aim to:
- raise awareness about potential fraud and ensure all stakeholders are alert to the possibilities of fraud;
  - inform all stakeholders of the procedures to be followed if they have suspicions of fraud;
  - ensure that all stakeholders are aware that the council will not tolerate fraud and the consequences of committing fraud against it.

## Recovery of Monies

- 5.17 Where any loss has been incurred by the council or additional costs have been incurred as a result of fraud or corruption, the council will seek to recover these from the individual or organisation concerned. This will help to ensure that the financial impact of fraud on the council is minimised and act as a deterrent. As a further deterrent, the council will seek to levy any appropriate fines or penalties where it is possible and desirable to do so.
- 5.18 Methods of recovery may include (but are not limited to):
- recovery from assets held by the organisation or individual (using the Proceeds of Crime Act or any other relevant legislation);
  - bankruptcy where appropriate;
  - recovery from future salary payments if an individual remains an employee of the council;
  - recovery of pension contributions from employees or members who are members of the North Yorkshire Pension Fund.

## **6 Monitoring & Review Arrangements**

- 6.1 The arrangements set out in this policy document will be reviewed on an annual basis as part of the audit and fraud planning cycle and will include the fraud and corruption prosecution policy (Appendix A) and other related guidance. Veritau will work with other departments to ensure that other related guidance and policy (such as the whistleblowing policy) are reviewed on a regular basis and any amendments or necessary changes are reported to members for approval.

**LAST REVIEWED AND UPDATED: 28 July 2016**

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# **FRAUD AND CORRUPTION PROSECUTION POLICY**

## **1 Scope and Purpose**

- 1.1 The fraud and corruption prosecution policy forms part of the council's overall counter-fraud and corruption strategy. The policy covers all acts, and/or attempted acts, of fraud or corruption committed by officers or members of the council, or committed by members of the public, or other organisations or their employees, against the council.
- 1.2 The policy sets out the circumstances in which the council will take legal action against the perpetrators of fraud or corruption. It also sets out the circumstances when it is appropriate to consider alternative courses of action such as offering a caution. The policy does not cover internal disciplinary procedures which are the subject of the council's separate disciplinary policy and procedures.
- 1.3 This policy should be read in conjunction with the council's constitution, financial regulations, contract procedure rules, the counter fraud and corruption policy and the strategy, the whistleblowing policy and the council's disciplinary policy and procedures.
- 1.4 The policy contains specific guidelines for determining the most appropriate course of action when fraud has been identified. Offences other than fraud and corruption (for example those relevant to the enforcement of regulations) are dealt with by the appropriate service departments under other policies and relying on specific legal powers.

## **2 Principles**

- 2.1 The council is committed to an effective anti-fraud and corruption strategy. The strategy is designed to encourage the prevention and detection of fraud and corruption. As part of the strategy the council is also committed to taking appropriate action against anyone believed to have attempted and/or committed a fraudulent or corrupt act against it. The council considers that those guilty of fraud or corruption must take responsibility for their actions before the courts.
- 2.2 The policy is designed to ensure that the council acts fairly and consistently when determining what action to take against the perpetrators of fraud or corruption.
- 2.3 Staff and members who are found to have committed fraud or corruption may be prosecuted in addition to such other action(s) that the council may decide to take, including disciplinary proceedings in the case of staff and referral to the relevant officer or body in the case of members. Any decision not to prosecute a member of staff for fraud and corruption does not preclude remedial action being taken by the relevant director(s)

in accordance with the council's disciplinary procedures or other policies.

- 2.4 This Policy is also designed to be consistent with council policies on equalities. The council will be sensitive to the circumstances of each case and the nature of the crime when considering whether to prosecute or not.
- 2.5 The consistent application of the policy will provide a means for ensuring that those who have perpetrated fraud and corruption are appropriately penalised. It will also act as a meaningful deterrent to those who are contemplating committing fraud or corruption. The council recognises the deterrent value of good publicity and therefore information regarding successful prosecutions and sanctions will be made public.
- 2.6 Any decision taken by an authorised officer to prosecute an individual or to offer a formal sanction will be recorded in writing. The reason for the decision being taken will also be recorded.
- 2.7 Irrespective of the action taken to prosecute the perpetrators of fraud and corruption, the council will take whatever steps necessary to recover any losses incurred, including taking action in the civil courts.

### **3 Prosecution**

- 3.1 The policy is intended to ensure the successful prosecution of offenders in court. However, not every contravention of the law should be considered for prosecution. The council will weigh the seriousness of the offence (taking into account the harm done or the potential for harm arising from the offence) with other relevant factors, including the financial circumstances of the defendant, mitigating circumstances and other public interest criteria. All cases will be looked at individually and be considered on their own merit.
- 3.2 To consider a case for prosecution the council must be satisfied that two tests have been passed. Firstly, there must be sufficient evidence of guilt to ensure conviction. This is called the **evidential test**. Secondly, it must be in the public interest to proceed – the **public interest test**.
- 3.3 To pass the evidential test, authorised officers must be satisfied that there is a realistic prospect of conviction based on the available evidence (that is, there must be sufficient admissible, substantial and reliable evidence to secure a conviction).
- 3.4 To pass the public interest test, the authorised officer will balance, carefully and fairly, the public interest criteria against the seriousness of

the offence. The public interest criteria include;

- the likely sentence (if convicted);
- any previous convictions and the conduct of the defendant;
- whether there are grounds for believing the offence is likely to be repeated;
- the prevalence of the offence in the area;
- whether the offence was committed as a result of a genuine mistake or misunderstanding;
- any undue delay between the offence taking place and/or being detected and the date of the trial;
- the likely effect that a prosecution will have on the defendant;
- whether the defendant has put right the loss or harm caused.

3.5 It will generally be in the public interest to prosecute if one or more of the following factors applies, subject to any mitigating circumstances;

- the actual or potential loss to the council was substantial;
- the fraud has continued over a long period of time;
- the fraud was calculated and deliberate;
- the person has previously committed fraud against the council (even if prosecution did not result) and/or there has been a history of fraudulent activity;
- the person was in a position of trust (for example, a member of staff);
- there has been an abuse of position or privilege;
- the person has declined the offer of a caution or financial penalty;
- the case has involved the use of false identities and/or false or forged documents;

## **4 Mitigating Factors**

4.1 The following mitigating factors will be taken into account when determining whether to prosecute;

### **Voluntary Disclosure**

4.2 A voluntary disclosure occurs when an offender voluntarily reveals fraud about which the council is otherwise unaware. If this happens, then the



fraud will be investigated but the offender will not be prosecuted unless in exceptional circumstances. However, any person colluding in the crime will still be prosecuted. A disclosure is not voluntary if the:-

- admission is not a complete disclosure of the fraud;
- admission of the fraud is made only because discovery of the fraud is likely, (for example, the offender knows the council is already undertaking an investigation in this area and/or other counter fraud activity);
- offender only admits the facts when challenged or questioned;
- offender supplies the correct facts when making a claim to Legal Aid.

### **III Health or Disability**

- 4.3 Where the perpetrator (and/or their partner) is suffering from prolonged ill health or has a serious disability or other incapacity then the offender will not normally be prosecuted. Evidence from a GP or other doctor will be requested if the condition is claimed to exist, unless it is obvious to the investigator. It is also necessary to prove that the person understood the rules governing the type of fraud committed and was aware that their action is wrong. This may not be possible where, for instance, the offender has serious learning difficulties. However, simple ignorance of the law will not prevent prosecution.

### **Social Factors**

- 4.4 A wide range of social factors may make a prosecution undesirable. The test is whether the court will consider the prosecution undesirable, and go on to reflect that in the sentence.

### **Exceptional Circumstances**

- 4.5 In certain exceptional circumstances the council may decide not to prosecute an offender. Such circumstances include;
- the inability to complete the investigation within a reasonable period of time;
  - the prosecution would not be in the interests of the council;
  - circumstances beyond the control of the council make a prosecution unattainable.

## **5 Alternatives to Prosecution**

5.1 If some cases are considered strong enough for prosecution but there are mitigating circumstances which cast a doubt as to whether a prosecution is appropriate then the council may consider the offer of a sanction instead. The two sanctions available are;

- a caution, or;
- financial penalty.

### **Simple Cautions**

5.2 A simple caution is a warning given in certain circumstances as an alternative to prosecution, to a person who has committed an offence. All cautions are recorded internally and kept for a period of six years. Where a person offends again in the future then any previous cautions will influence the decision on whether to prosecute or not.

5.3 For less serious offences a simple caution will normally be considered where all of the following apply;

- there is sufficient evidence to justify instituting criminal proceedings;
- the person has admitted the offence;
- there is no significant public requirement to prosecute;
- it was a first offence, and;
- a financial penalty is not considered to be appropriate.

Only in very exceptional circumstances will a further caution be offered for a second or subsequent offence of the same nature.

5.4 Cautions will be administered by the Head of Internal Audit (or deputy), Counter Fraud Manager, or a senior fraud investigator. If a caution is offered but not accepted then the council will usually consider the case for prosecution. In such cases the court will be informed that the defendant was offered a penalty but declined to accept it.

### **Financial Penalties**

5.5 The Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013, permit a financial penalty to be offered to claimants as an alternative to prosecution. The penalty is set at 50% of the amount of the excess reduction, subject to a minimum

of £100 and a maximum of £1000. Once a penalty is accepted, the claimant has 14 days to change their mind.

5.6 Subject to the thresholds set out in the guidelines below, a financial penalty will normally be offered by the council in the following circumstances;

- the council believes that there is sufficient evidence to prosecute;
- it was a first offence or a previous offence was dealt with by way of a caution, and;
- in the opinion of the council, the circumstances of the case mean it is not overwhelmingly suitable for prosecution, and;
- the claimant has the means to repay both the overpayment and the penalty, and;
- there is a strong likelihood that both the excess reduction and the penalty will be repaid.

5.7 It is important to note that the claimant does not need to have admitted the offence for a financial penalty to be offered. Financial penalties will be administered by the Head of Internal Audit (or deputy), Counter Fraud Manager or a senior investigation officer. If a financial penalty is not accepted or is withdrawn then the council will usually consider the case for prosecution. In such cases the court will be informed that the defendant was offered a penalty but declined to accept it.

## **6 Proceeds of Crime Act 2002 (POCA)**

6.1 In addition to the actions set out in this policy, the council reserves the right to refer all suitable cases for financial investigation with a view to applying to the courts for restraint and/or confiscation of identified assets. A restraint order will prevent a person from dealing with specific assets. A confiscation order enables the council to recover its losses from assets which are found to be the proceeds of crime.

## **7 Implementation Date**

7.1 This revised policy is effective from 8 July 2016 and covers all decisions relating to prosecutions and sanctions after this date.

POLICY LAST REVIEWED AND UPDATED 28 July 2016

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# **ANTI-MONEY LAUNDERING POLICY**

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## **1.0 INTRODUCTION**

- 1.1 Most organised criminal activity is directly or indirectly aimed at making money. The ability to 'launder' this money and clean the trail of its origins to prevent it being associated with criminal activity is a major concern for criminals or organised criminal groups. The proceeds of most crime are usually generated as cash, however, this represents a considerable risk to criminals: it increases the possibility of exposure, theft by rival criminals and/or seizure by law enforcement agencies (as when cash enters the legitimate economy, it is easier to identify). Cash is also bulky and cumbersome to handle in large quantities.
- 1.2 To avoid this, criminals take action to prevent this cash from attracting suspicion, for example, they may move it to other locations, including abroad, or use it to buy other assets or try and introduce it into the legitimate economy through businesses with a high cash turnover.
- 1.3 Historically, the statutory framework seeking to prevent the laundering of the proceeds of criminal activity was aimed at professionals in the financial and investment sector, however it was subsequently recognised that those involved in criminal conduct were able to "clean" the proceeds of crime through a wider range of businesses and professional activities.
- 1.4 The legislation concerning money laundering (the Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering Regulations 2007 (all as amended)) has broadened the definition of money laundering and increased the range of activities and organisations/individuals brought within the statutory framework. As a result, the obligations now impact on certain areas of local authority business. Some parts of the anti-money laundering framework apply, potentially, to everybody whereas other parts only apply to particular organisations which are in the regulated sector or carrying out certain regulated activities.
- 1.5 Whilst the concept of 'money laundering' being applicable to the council may, at first, seem strange, it is easier to understand after seeing the breadth of the definition of money laundering (essentially any involvement with criminal property, ie that which represents a person's benefit from virtually any crime). Potentially any member of staff could commit a money laundering offence if they suspect money laundering and either become involved with it in some way (without reporting it to, and seeking permission from, the council's Money Laundering Reporting Officer ("MLRO")) and/or do nothing about it. This Policy sets out how to report such concerns.

## **2.0 SCOPE OF THE POLICY**

- 2.1 This Policy applies to all employees of the Ryedale District Council and aims to maintain the high standards of conduct which currently exist within the council by preventing criminal activity through money laundering.
- 2.2 All staff MUST be aware of the content of this Policy, to enable the council to comply with its legal obligations. Failure by a member of staff to comply with the procedures set out in this Policy may lead to disciplinary action being taken against them.

## **3.0 WHAT IS MONEY LAUNDERING?**

- 3.1 Under the legislation there are two main types of offences which may be committed: money laundering offences and failure to report money laundering offences.

### **Primary money laundering offences:**

#### **3.2 Money laundering means:**

- concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the 2002 Act); or
- 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 328); or
- acquiring, using or possessing criminal property (section 329); or
  - an attempt, conspiracy or incitement to commit such an offence; or
  - aiding, abetting, counselling or procuring such an offence; or
- becoming concerned in an arrangement facilitating concealment, removal from the jurisdiction, transfer to nominees or any other retention or control of terrorist property (section 18 of the Terrorist Act 2000).

These are the primary money laundering offences and are prohibited acts under the legislation.

3.3 “Criminal property” is widely defined: it is property representing a person’s benefit from criminal conduct where you know or suspect that that is the case. It includes all property (situated in the UK or abroad) real or personal, including money, and also includes an interest in land or a right in relation to property other than land.

3.4 “Terrorist property” means money or other property which is likely to be used for the purposes of terrorism, proceeds of the commission of acts of terrorism, and acts carried out for the purposes of terrorism.

3.5 Money laundering therefore goes beyond major drug money laundering operations, terrorism and serious crime and now covers a range of activities (which do not necessarily need to involve money or laundering) regarding the proceeds of potentially any crime, no matter how minor and irrespective of the size of the benefit gained, for example “an illegally obtained sum of £10 is no less susceptible to the definition of criminal property than a sum of £1million.” (P v P, 2003).

### **Failure to report money laundering offences:**

3.6 In addition to the money laundering offences, the legislation sets out further offences of failure to report suspicions of money laundering activities. Such offences are committed where, in the course of conducting business in the regulated sector:

- you know or suspect, or have reasonable grounds to do so (even if you did not actually know or suspect), that another person is engaged in money laundering;
- you can identify the money launderer or the whereabouts of the laundered property (or you believe, or it is reasonable to expect you to believe, that the information you have will assist you to identify the person/property); and
- you do not disclose this as soon as is practicable to the MLRO (section 330 of the 2002 Act and section 21A of the 2000 Act).

3.7 The broad definition of money laundering means that the Act applies to a very wide range of everyday activities within the authority and therefore potentially any member of staff (irrespective of what sort of council business they are undertaking) could be caught by the



money laundering provisions if they suspect money laundering and become involved with it in some way. In short, the money laundering offences apply to your own actions and to matters in which you become involved. If you become aware that your involvement in a matter may amount to money laundering under the 2002 Act then you must discuss it with the MLRO and not take any further action until you have received, through the MLRO, the consent of National Crime Agency (NCA). The failure to report money laundering obligations, referred to above, relate also to your knowledge or suspicions of others, through your work. If you know or suspect, through the course of your work, that anyone is involved in any sort of criminal conduct then it is highly likely, given the wide definition of money laundering, that s/he is also engaged in money laundering and a report to the MLRO will be required.

- 3.8 Whilst the risk to the council of contravening the legislation is low, **it is extremely important that all employees are familiar with their legal responsibilities: serious criminal sanctions may be imposed for breaches of the legislation.** Any person found guilty of a money laundering offence is liable to imprisonment (maximum of 14 years), a fine or both. However, an offence is not committed if the suspected money laundering activity is reported to the council's MLRO and, where necessary, official permission obtained to continue in the transaction. Certain other defences are also available.

### **Possible signs of money laundering**

- 3.9 It is impossible to give a definitive list of ways in which to spot money laundering or how to decide whether to make a report to the MLRO. The following are types of risk factors which may, either alone or cumulatively with other factors, suggest the possibility of money laundering activity:

#### **(a) General**

- A new client;
- A secretive client: eg, refuses to provide requested information without a reasonable explanation;
- A client you have not met;
- Concerns about the honesty, integrity, identity or location of a client eg a client who is not present in the area and there is no good reason why they would instruct us, or information reveals that the client is linked with criminality;
- Complex or unusually large transactions/systems;
- Illogical third party transactions: unnecessary routing or receipt of funds from third parties or through third party accounts;
- The source or destination of funds differs from the original details given by the client;
- Involvement of an unconnected third party without logical reason or explanation;
- Payment of a substantial sum in cash (over £10,000);
- Overpayments by a client (or money given on account); care will need to be taken, especially with requests for refunds eg a significant overpayment which results in a repayment should be properly investigated and authorised before payment;
- Absence of an obvious legitimate source of the funds;

- Movement of funds overseas, particularly to a higher risk country or tax haven;
- Providing assistance in setting up trusts or company structures, which could be used to obscure ownership of property;
- Where, without reasonable explanation, the size, nature and frequency of transactions or instructions (or the size, location or type of a client) is out of line with normal expectations;
- Unusual patterns of transactions which have no apparent economic, efficient or visible lawful purpose;
- The cancellation or reversal of an earlier transaction (where the client is likely to request the return of previously deposited monies);
- Requests for release of client account details other than in the normal course of business;
- Companies and trusts: extensive use of corporate structures and trusts in circumstances where the client's needs are inconsistent with the use of such structures;
- Poor business records or internal accounting controls;
- A previous transaction for the same client which has been, or should have been, reported to the MLRO;
- any other activity which by its nature is likely to be related to money laundering or terrorist financing;

**(b) Property Matters**

- A cash buyer;
- Sudden change of buyer;
- The client's financial profile does not fit;
- Unusual property investment transactions if there is no apparent investment purpose or rationale;
- Instructions to receive and pay out money where there is no linked substantive property transaction involved (surrogate banking);
- Re property transactions, funds received for deposits or prior to completion from an unexpected source or where instructions are given for settlement funds to be paid to an unexpected destination;
- No clear explanation as to the source of funds along with lack of clarity as to how the client would be in a position to finance the purchase;
- Money comes in from an unexpected source.

3.10 Property transactions are a slightly higher risk for the council. For example, if the council agrees to sell a parcel of land to a developer or other third party, at a price that is far in excess of its estimated value, or the buyer offers to pay the full price in cash, then this may be evidence of money laundering activity.

- 3.11 Facts which tend to suggest that something odd is happening may be sufficient for a reasonable suspicion of money laundering to arise. Employees need to be on the look out for anything out of the ordinary. **If something seems unusual, stop and question it.** If you are unsure, seek guidance from the MLRO.

#### 4.0 WHAT ARE THE OBLIGATIONS ON THE COUNCIL?

- 4.1 Organisations in the “regulated sector” and which undertake particular types of regulated activity must:

- appoint a Money Laundering Reporting Officer (“MLRO”) to receive disclosures from employees of money laundering activity (their own or anyone else’s);
- implement a procedure to enable the reporting of suspicions of money laundering;
- apply customer due diligence measures in certain circumstances;
- obtain information on the purpose and nature of certain proposed transactions/business relationships;
- conduct ongoing monitoring of certain business relationships;
- maintain record keeping and other specified procedures on a risk sensitive basis;
- train relevant staff;

the aim being to require such organisations to know their clients and the detail of the transaction being entered into and to monitor the use of their services by clients.

- 4.2 Not all of the business of the council is caught by the above: it is mainly the accountancy, tax and audit services and certain financial, company and property transactions. It is clear that from supervisory body guidance that in-house lawyers and accountants are not intended to be caught within the regulated sector: however, although those business units are not external/independent advisers to the council, they are to the external clients for whom they undertake work under contract. Such external work may, therefore, bring the council within the regulated sector.
- 4.3 Under the legislation, certain offences (eg failure to report money laundering activity) may only be committed in the course of a business in the regulated sector however, the safest way to ensure compliance with the law and consistency throughout the council is to apply most of the requirements to all areas of work undertaken by the council; therefore, **all staff are required to comply with the reporting procedure set out in section 6 below.** The Customer Due Diligence Procedure and other internal procedures referred to later are only required to be followed by those engaging in regulated business as defined above.
- 4.4 Failure to comply with the above requirements is a criminal offence for which you may be liable to imprisonment for up to 2 years, a fine or both.
- 4.5 The following sections of this Policy provide further detail about the requirements listed in **paragraph 4.1.**

#### 5.0 MONEY LAUNDERING REPORTING OFFICER

- 5.1 The officer nominated to receive disclosures about money laundering/terrorist financing activity within the council is the Finance Manager (s151), who can be contacted as follows:

Peter Johnson  
Finance Manager  
Ryedale District Council  
Ryedale House  
Old Maltongate  
Malton  
YO17 9AE  
Telephone: 01653 600666 extension 392  
Email: peter.johnson@ryedale.gov.uk

- 5.2 In the absence or unavailability of the MLRO, the Head of Corporate Services, Clare Slater, is authorised to deputise for him. Clare can be contacted at Ryedale House or on telephone number 01653 600666 extension 347.

## 6.0 DISCLOSURE PROCEDURE

### Reporting to the Money Laundering Reporting Officer

- 6.1 Where you know or suspect that money laundering activity is taking/has taken place, or you become concerned that your involvement in a matter may amount to a prohibited act under the legislation (see **paragraph 3.2** above), you **must** disclose this as soon as possible to the MLRO.
- 6.2 Your disclosure should be made to the MLRO using the proforma report attached at **Appendix 1**. The report must include as much detail as possible, for example:
- full details of the people involved (including yourself, if relevant), eg name, date of birth, address, company names, directorships, phone numbers, etc;
  - full details of the property involved and its whereabouts (if known);
  - full details of the nature of their/your involvement:
    - if you are concerned that your involvement in the transaction would amount to a prohibited act under the legislation, then your report must include all relevant details, as you will need consent from the NCA, via the MLRO, to take any further part in the transaction - this is the case even if the client gives instructions for the matter to proceed before such consent is given;
    - you should therefore make it clear in the report if such consent is required and clarify whether there are any deadlines for giving such consent eg a completion date or court deadline;
  - your suspicions of the types of money laundering activity involved (if you are aware of possible particular offences, please cite the relevant section number(s) if known);
  - the dates of such activities, including:
    - whether the transactions have happened, are ongoing or are imminent;
  - where they took place;
  - how they were undertaken;
  - the (likely) amount of money/assets involved;
  - why, exactly, you are suspicious – NCA will require full reasons;

along with any other available information to enable the MLRO to make a sound judgment as to whether there are reasonable grounds for knowledge or suspicion of money laundering and to enable him/her to prepare his report to NCA, where appropriate. You should also enclose copies of any relevant supporting documentation.

- 6.3 Once you have reported the matter to the MLRO you must follow any directions s/he may give you. **You must NOT make any further enquiries into the matter yourself:** any necessary investigation will be undertaken by NCA. Simply report your suspicions to the MLRO who will refer the matter on to NCA if appropriate. All members of staff will be required to co-operate with the MLRO and the authorities during any subsequent money laundering investigation.
- 6.4 Similarly, **at no time and under no circumstances should you voice any suspicions** to the person(s) whom you suspect of money laundering, even if NCA has given consent to a particular transaction proceeding, without the specific consent of the MLRO; otherwise, you may commit a criminal offence of “tipping off”.
- 6.5 Do not, therefore, make any reference on a client file to a report having been made to the MLRO – should the client exercise their right to see the file, then such a note will obviously tip them off to the report having been made and may render you liable to prosecution. The MLRO will keep the appropriate records in a confidential manner.

#### **Consideration of the disclosure by the Money Laundering Reporting Officer**

- 6.6 Upon receipt of a disclosure report, the MLRO must note the date of receipt on his section of the report and acknowledge receipt of it. S/he should also advise you of the timescale within which s/he expects to respond to you.
- 6.7 The MLRO will consider the report and any other available internal information s/he thinks relevant eg:
- reviewing other transaction patterns and volumes;
  - the length of any business relationship involved;
  - the number of any one-off transactions and linked one-off transactions;
  - any due diligence information held;

and undertake such other reasonable inquiries s/he thinks appropriate in order to ensure that all available information is taken into account in deciding whether a report to NCA is required (such enquiries being made in such a way as to avoid any appearance of tipping off those involved). The MLRO may also need to discuss the report with you.

- 6.8 Once the MLRO has evaluated the disclosure report and any other relevant information, s/he must make a timely determination as to whether:
- there is actual or suspected money laundering taking place, or
  - there are reasonable grounds to know or suspect that is the case;
  - he knows the identity of the money launderer or the whereabouts of the property involved or they could be identified or the information may assist in such identification, and
  - whether he needs to seek consent from NCA for a particular transaction to proceed.
- 6.9 Where the MLRO does so conclude, then s/he must disclose the matter as soon as practicable to NCA via their secure on-line reporting system, **unless** s/he has a reasonable

excuse for non-disclosure to NCA (for example, if you are a lawyer and you wish to claim legal professional privilege for not disclosing the information).

- 6.10 Where the MLRO suspects money laundering but has a reasonable excuse for non-disclosure, then s/he must note the report accordingly; s/he can then immediately give his/her consent for any ongoing or imminent transactions to proceed.
- 6.11 In cases where legal professional privilege may apply, the MLRO must liaise with the legal adviser to decide whether there is a reasonable excuse for not reporting the matter to NCA.
- 6.12 Where consent is required from NCA for a transaction to proceed, then the transaction(s) in question must not be undertaken or completed until NCA has specifically given consent, or there is deemed consent through the expiration of the relevant time limits without objection from NCA.
- 6.13 Where the MLRO concludes that there are no reasonable grounds to suspect money laundering then s/he shall mark the report accordingly and give his/her consent for any ongoing or imminent transaction(s) to proceed.
- 6.14 All disclosure reports referred to the MLRO and reports made by him/her to NCA must be retained by the MLRO in a confidential file kept for that purpose, for a minimum of five years.
- 6.15 **The MLRO commits a criminal offence if s/he knows or suspects, or has reasonable grounds to do so, through a disclosure being made to him/her, that another person is engaged in money laundering of whom s/he knows the identity or the whereabouts of laundered property in consequence of the disclosure, that the person or property's whereabouts can be identified from that information, or s/he believes, or it is reasonable to expect him/her to believe, that the information will or may assist in such identification and s/he does not disclose this as soon as practicable to NCA.**

## 7.0 CUSTOMER DUE DILIGENCE PROCEDURE

- 7.1 Where the council is carrying out certain activities which might fall within the definition of **regulated business** (accountancy, audit and tax services and legal services re financial, company or property transactions) and:

- forms an ongoing business relationship with a client;
- undertakes an occasional transaction amounting to 15,000 Euro (approximately £12,500) or more whether carried out in a single operation or several linked ones;
- suspects money laundering or terrorist financing, or
- doubts the veracity or adequacy of information previously obtained for the purposes of client identification or verification;

then customer due diligence measures must be applied and this Customer Due Diligence Procedure must be followed **before** the establishment of the relationship or carrying out of the transaction.

- 7.2 Applying customer due diligence means:

- identifying the client and verifying the client's identity on the basis of documents, data or information obtained from a reliable and independent source:

- Where the client is acting or appears to be acting for someone else, reasonable steps must also be taken to establish the identity of that other person (although this is unlikely to be relevant to the council).
- identifying the beneficial owner (where s/he or it is not the client) so that we are satisfied that we know who the beneficial owner is, including, in the case of a legal person, trust or similar legal arrangement, measures to understand the ownership and control structure of the person, trust or arrangement, and
  - Where there is a beneficial owner who is not the client, adequate measures should be taken, on a risk-sensitive basis, to verify the beneficial owner's identity, so that you are satisfied that you know who they are, including, in the case of a legal person, trust or similar legal arrangement, measures to understand the ownership and control structure of the person, trust or arrangement. In terms of clients for whom Finance and Legal Services provide services, "beneficial owner" would include bodies corporate (eg our public authority clients) and any individual who exercises control over the management of the body (eg Chief Executive).
- obtaining information on the purpose and intended nature of the business relationship.

**Please note that unlike the reporting procedure, the Customer Due Diligence Procedure is restricted to those employees undertaking relevant business, (eg Finance and Legal Services).**

7.3 In the above circumstances, staff in the relevant Service Units of the council must obtain satisfactory evidence of the identity of the prospective client, and full details of the purpose and intended nature of the relationship/transaction, as soon as practicable after instructions are received. **However**, the legislation does allow organisations to vary customer due diligence and monitoring according to the risk of money laundering or terrorist financing which depends on the type of customer, business relationship, product or transaction. This recognises that not all clients present the same risk. Satisfactory evidence of identity is that which:

- is capable of establishing, to the satisfaction of the person receiving it, that the client is who they claim to be; and
- does in fact do so.

7.4 In the council, details of proposed transactions are usually, as a matter of good case management practice, recorded in writing in any event and proposed ongoing business relationships are usually the subject of Terms of Business Letters, Service Level Agreements or other written record which will record the necessary details.

7.5 There is also now an ongoing legal obligation to check the identity of existing clients and the nature and purpose of the business relationship with them at appropriate times. Opportunities to do this will differ, however one option is to review these matters as part of the ongoing monitoring of the business arrangements, as is usually provided for in the Terms of Business Letter, Service Level Agreement or other written record. The opportunity should also be taken at these times to scrutinise the transactions undertaken throughout the course of the relationship (including, where necessary, the source of funds) to ensure they are consistent with your knowledge of the client, its business and risk profile. Particular scrutiny should be given to the following:

- complex or unusually large transactions;

- unusual patterns of transactions which have no apparent economic or visible lawful purpose; and
- any other activity particularly likely by its nature to be related to money laundering or terrorist financing.

7.6 Council staff conducting regulated business need to be able to demonstrate that they know their clients and the rationale behind particular instructions and transactions.

7.7 Once instructions to provide regulated business have been received, and it has been established that any of **paragraphs 7.1 (a) to (d)** apply, or it is otherwise an appropriate time to apply due diligence measures to an existing client, evidence of identity and information about the nature of the particular work should be obtained/checked as follows:

#### **Internal clients:**

7.8 Internal clients are part of the council. Under the legislation, there is **no need to apply customer due diligence measures where the client is a UK public authority**. However, as a matter of good practice, identity of internal clients should continue to be checked as before by ensuring that signed, written instructions on council headed notepaper or via email on the internal council email system are obtained at the outset of a particular matter. Such correspondence should then be placed on the council's client file along with a prominent note explaining which correspondence constitutes the evidence and where it is located. Full details about the nature of the proposed transaction should be recorded on the client file.

#### **External Clients**

7.9 Most of the external clients to whom the council provides potentially regulated business services are UK public authorities and consequently, as above, there is no need to apply customer due diligence measures. However, again as a matter of good practice, full details about the nature of the proposed transaction should be recorded on the client file, and the identity of such external clients should continue to be checked, along with other external clients (eg designated public bodies), using the following procedure.

7.10 You should also then obtain the appropriate additional evidence: For external clients, appropriate additional evidence of identity will be written instructions on the organisation's official letterhead at the outset of the matter or an email from the organisation's e-communication system. Such correspondence should then be placed on the council's client file along with a prominent note explaining which correspondence constitutes the evidence and where it is located (and including a reference to a search of the MLRO's central file, if undertaken).

7.11 In some circumstances, however, enhanced due diligence (eg obtaining additional evidence of identity or source of funds to be used in the relationship/transaction) must be carried out, for example where:

- the client is not physically present when being identified. This situation is however unlikely to occur as the council normally only undertakes its regulated business for other local authorities and designated public bodies (not individuals) and therefore instructions will usually be given in writing;
- the client is a "politically exposed person" (an individual who at any time in the preceding year has held a prominent public function outside of the UK, and EU or international institution/body, their immediate family members or close associates). This is unlikely to ever be relevant to the council but the provision must be included in local procedures;



7.12 With instructions from new clients, or further instructions from a client not well known to you, you may wish to seek additional evidence of the identity of key individuals in the organisation and of the organisation itself, for example:

- checking the organisation's website to confirm the identity of key personnel, its business address and any other details;
- conducting an on-line search via Companies House to confirm the nature and business of the client and to confirm the identities of any directors;
- attending the client at their business address;
- a search of the telephone directory;
- asking the key contact officer and/ or any individual who exercises control over the management of the body (eg the Chief Executive Officer) to provide evidence of their personal identity and position within the organisation, for example:
  - passport;
  - photocard driving licence;
  - birth certificate;
  - medical card;
  - bank/building society statement (but not if used to prove address and no older than 3 months);
  - National Insurance number;
  - signed, written confirmation from their Head of Service or Chair of the relevant organisation that such person works for the organisation.

If such additional evidence is obtained, then copies should be sent to the MLRO for his/her central client identification file.

7.13 In all cases, the due diligence evidence should be retained for at least five years from the **end** of the business relationship or transaction(s).

7.14 **If satisfactory evidence of identity is not obtained at the outset of the matter then generally the business relationship or one off transaction(s) cannot proceed any further and any existing business relationship with that client must be terminated.**

## **8.0 ONGOING MONITORING AND RECORD KEEPING PROCEDURES**

8.1 Each Service Unit of the council conducting potentially regulated business must monitor, on an ongoing basis, their business relationships in terms of scrutinising transactions undertaken throughout the course of the relationship (including, where necessary, the source of funds) to ensure that the transactions are consistent with their knowledge of the client, its business and risk profile.

8.2 We must also maintain records of:

- client identification/verification evidence obtained (or references to it), and
- details of all regulated business transactions carried out for clients;

for at least five years from the end of the transaction/relationship. This is so that they may be used as evidence in any subsequent investigation by the authorities into money laundering.

- 8.3 The precise nature of the records is not prescribed by law however they must be capable of providing an audit trail during any subsequent investigation, for example distinguishing the client and the relevant transaction and recording the source of, and in what form, any funds were received or paid. In practice, the Service Units of the council will be routinely making records of work carried out for clients in the course of normal business and these should suffice in this regard. See also **paragraphs 7.4 to 7.6**.

## **9.0 TRAINING**

- 9.1 The council will take appropriate measures to ensure that all employees are made aware of the law relating to money laundering and will arrange targeted, ongoing, training to key individuals most likely to be affected by the legislation.

## **10.0 RISK MANAGEMENT AND INTERNAL CONTROL**

- 10.1 The risk to the council of contravening the anti-money laundering legislation will be assessed on a periodic basis and the adequacy and effectiveness of the Anti-Money Laundering Policy will be reviewed in light of such assessments.
- 10.2 The adequacy and effectiveness of, promotion of, and compliance by employees with, the documentation and procedures will also be monitored through the council's governance arrangements and Counter Fraud Policy frameworks.

## **11.0 CONCLUSION**

- 11.1 The legislative requirements concerning anti-money laundering procedures are lengthy, technical and complex. This Policy has been written so as to enable the council to meet the legal requirements in a way which is proportionate to the very low risk to the council of contravening the legislation.
- 11.2 Should you have any concerns whatsoever regarding any transactions then you should contact the MLRO.

## **12.0 REVIEW OF THE POLICY**

- 12.1 The Policy will be subject to review as and when required.

28 July 2016

**CONFIDENTIAL**

**Report to Money Laundering Reporting Officer**

**re money laundering activity**

**To: PETER JOHNSON, Finance Manager (s151), Ryedale District Council Money Laundering Reporting Officer**

**From:** .....  
*[insert name of employee]*

**Directorate:** .....  
*[insert post title and Business Unit]*

**Ext/Tel No:**.....

**DETAILS OF SUSPECTED OFFENCE:**

**Name(s) and address(es) of person(s) involved:**  
*[if a company/public body please include details of nature of business]*

**Nature, whereabouts, value and timing of activity/property involved:**  
*[Please include full details eg what, when, where, how. Please also include details of current whereabouts of the laundered property, so far as you are aware. Continue on a separate sheet if necessary]*

**Nature of suspicions regarding such activity:**

*[Please continue on a separate sheet if necessary]*

**Has any investigation been undertaken (as far as you are aware)?**

*[Please tick the relevant box]*

☐

Yes

☐

No

**If yes, please include details below:**

**Have you discussed your suspicions with anyone else?**

*[Please tick the relevant box]*

☐

Yes

☐

No

**If yes, please specify below, explaining why such discussion was necessary:**

**Have you consulted any supervisory body guidance re money laundering? (e.g. the Law Society)** *[Please tick the relevant box]*

☐

Yes

☐

No

**If yes, please specify below:**

**Do you feel you have a reasonable excuse for not disclosing the matter to NCA? (e.g. are you a lawyer and wish to claim legal professional privilege?)** *[Please tick the relevant box]*

☐

Yes

☐

No

**If yes, please set out full details below:**

**Are you involved in a transaction which might be a prohibited act (under sections 327- 329 of the 2002 Act or section 18 of the 2000 Act) and which requires appropriate consent from NCA?**

*[Please tick the relevant box]*

☐

Yes

☐

No

**If yes, please enclose details in the box below:**

**Please set out below any other information you feel is relevant:**

**Signed:**.....

**Dated:**.....

**Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence, which carries a maximum penalty of 5 years' imprisonment.**

**THE FOLLOWING PART OF THIS FORM IS FOR COMPLETION BY THE MLRO**

Date report received: .....

Date receipt of report acknowledged: .....

**CONSIDERATION OF DISCLOSURE:**

**Action plan:**

**OUTCOME OF CONSIDERATION OF DISCLOSURE:**

**Are there reasonable grounds for suspecting money laundering activity?**

**Do you know the identity of the alleged money launderer or the whereabouts of the property concerned?**

**If there are reasonable grounds for suspicion, will a report be made to NCA?** *[Please tick the relevant box]*

☐

Yes

☐

No

**If yes, please confirm date of report to NCA:** .....  
**and complete the box below:**

**Details of liaison with NCA regarding the report:**

**Notice Period:** ..... **to** .....

**Moratorium Period:** ..... **to** .....

**Is consent required from NCA to any ongoing or imminent transactions which would otherwise be prohibited acts?**

☐

Yes

☐

No

**If yes, please confirm full details in the box below:**

**Date consent received from NCA:** .....

**Date consent given by you to employee:** .....

If there are reasonable grounds to suspect money laundering, but you do not intend to report the matter to NCA, please set out below the reason(s) for non-disclosure:

*[Please set out any reasonable excuse for non-disclosure]*

Date consent given by you to employee  
for any prohibited act  
transactions to proceed: .....

Other relevant information:

Signed:..... Dated:.....

THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS





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<b>REPORT TO:</b>	<b>OVERVIEW AND SCRUTINY COMMITTEE</b>
<b>DATE:</b>	<b>28 JULY 2016</b>
<b>REPORT OF THE:</b>	<b>FINANCE MANAGER (s151) PETER JOHNSON</b>
<b>TITLE OF REPORT:</b>	<b>COUNTER FRAUD STRATEGY</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

- 1.1. The report sets out a counter fraud and corruption strategy for the council. The strategy acknowledges the fraud risks the council faces and outlines plans to strengthen its counter fraud framework.

### **2.0 RECOMMENDATION(S)**

- 2.1 Members are asked to approve the proposed counter fraud and corruption strategy and action plan, subject to approval of the updated counter fraud and corruption policy by Full Council.

### **3.0 REASON FOR RECOMMENDATION(S)**

- 3.1 To help ensure the council maintains robust counter fraud arrangements.

### **4.0 SIGNIFICANT RISKS**

- 4.1 The risk of fraud against public bodies is growing. It is essential that the council maintains up to date counter fraud arrangements to minimise financial losses and safeguard public money.

### **5.0 POLICY CONTEXT AND CONSULTATION**

- 5.1 Seeking to minimise losses from fraud helps to ensure that resources are directed to delivering services and supports the achievement of overall council aims.

### **6.0 REPORT DETAILS**

- 6.1 A recent internal audit review of counter fraud arrangements against the Code of Practice has highlighted a need to review existing arrangements. In response to this the council has developed a counter fraud strategy that recognises the fraud risks it faces and sets out actions required to strengthen the counter fraud framework. The proposed strategy and action plan is included at appendix 1. The strategy takes into

account both the Code of Practice, and the national local government counter fraud strategy, Fighting Fraud Locally. The strategy is a working document and updates will be brought to the committee for review annually.

- 6.2 The counter fraud strategy forms part of an overall review of counter fraud arrangements. It has been developed having regard to the counter fraud and corruption policy and anti money laundering policy reported separately within this agenda. The strategy action plan includes the requirement for a fraud risk assessment which is also included as a separate report within this agenda. Conversely, the fraud risk assessment actions inform the strategy action plan.
- 6.3 Further reports will be brought to this Committee, as and when required, in line with the actions identified.

## **7.0 IMPLICATIONS**

- 7.1 The following implications have been identified:
- a) Financial  
None
  - b) Legal  
None
  - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)  
None

**Peter Johnson**  
**Finance Manager (s151)**

**Author:** Jonathan Dodsworth, Counter Fraud Manager, Veritau Limited  
**Telephone No:** 01904 552947  
**E-Mail Address:** [jonathan.dodsworth@veritau.co.uk](mailto:jonathan.dodsworth@veritau.co.uk)

### **Background Papers:**

- Fighting Fraud & Corruption Locally - The local government counter fraud and corruption strategy 2016 - 2019)
- The Code of Practice on Managing the Risks of Fraud and Corruption (Cipfa 2014).

### **Appendices:**

Appendix 1: Counter Fraud and Corruption Strategy

RYEDALE  
DISTRICT  
COUNCIL



# **COUNTER FRAUD & CORRUPTION STRATEGY**

**2016-19**

## **Forward by the Chief Executive**

The council is funded by public money, through council tax, business rates and other sources. Fraud against the council is essentially theft of this money and the council takes its role as a guardian of these public funds seriously.

We also provide essential services for customers. In the Council Plan we set out our key priorities, to focus our effort on those things which will make a difference to the lives of people living in Ryedale's communities and target resources to those in greatest need. Any fraud against the council takes money away from services and undermines our ability to meet these aims.

For these reasons, the council will not tolerate any fraud or corruption against it.

This strategy sets out the measures the council will take to develop its arrangements to tackle fraud and corruption. We will seek to identify areas where fraud may occur and limit opportunities for fraudsters to exploit the council. Where fraud is suspected we will investigate robustly, and where it is proved will utilise all measures available to us to deal with criminals and recover any losses.

A handwritten signature in black ink that reads "Janet Waggott". The script is cursive and fluid, with the first letters of each word being capitalized and prominent.

Janet Waggott  
Chief Executive

## Introduction

- 1 All organisations are at increasing risk of fraud and corruption. The illegal and hidden nature of fraud makes it hard to measure accurately. Some commentators suggest that annual fraud losses to local government in the UK could be £7.3 billion<sup>1</sup>. And the risks are growing as fraudsters become more aware of the possibilities for committing fraud against public sector bodies, new technology gives easy access to sophisticated fraud techniques, and council resources are stretched to maintain services with reduced levels of funding.
- 2 The council faces significant financial challenges in the next few years. It must make significant changes to the way it works to continue to provide effective services for its citizens and to achieve its overall aims. It is essential that the council minimises losses caused by fraud, to help it achieve those aims and to maximise the money it has available to provide services.
- 3 This strategy outlines how the council will assess the risks of fraud and corruption that it faces, strengthen its counter fraud arrangements, and tackle fraud where it occurs. It has been prepared to reflect the national collaborative counter fraud strategy for local government in the UK (Fighting Fraud & Corruption Locally - The local government counter fraud and corruption strategy 2016 - 2019). It also takes into account the principles set out in the Chartered Institute of Public Finance and Accountancy's (Cipfa's) Code of Practice on Managing the Risks of Fraud and Corruption (2014).
- 4 The strategy has been approved by the Overview and Scrutiny as part of its responsibility for development of a counter fraud culture at the council. The strategy will be reviewed annually.

## Our aim

- 5 Fighting Fraud & Corruption Locally recommends councils consider the effectiveness of their counter fraud framework by considering performance against the six key themes set out below. The council's aim is that by 2019 it will have adequate and effective arrangements in each of these areas.
  - **Culture**: – creating a culture in which beating fraud and corruption is part of daily business
  - **Capability** – ensuring that the range of counter fraud measures deployed is appropriate to the range of fraud risks
  - **Capacity** – deploying the right level of resources to deal with the level of fraud risk
  - **Competence** – having the right skills and standards

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<sup>1</sup> Annual Fraud Indicator 2016 - Experian/PKF Littlejohn/University of Portsmouth Centre for Counter Fraud Studies. The figure excludes benefit fraud.

- **Communication** – raising awareness, deterring fraudsters, sharing information, celebrating successes
- **Collaboration** – working together across internal and external boundaries: with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.

### **Current arrangements and action required**

- 6 The council already has many of the components for a strong counter fraud framework in place. For example:
- control arrangements for key financial systems are robust, being underpinned by statutory requirements, council financial regulations and scrutiny through internal and external audit
  - the policy framework incorporates many elements of counter fraud good practice (eg a counter fraud policy, codes of conduct and registers of interests) which have developed over the years in response to legislation and emerging issues
  - the council invested resources to tackle benefit fraud which were also available to support other investigation work where fraud was suspected
  - participation in collaborative counter fraud work with other agencies, through the National Fraud Initiative.
- 7 However, with a growing awareness of new fraud risks in recent years there is now a need to review overall arrangements, taking into account the latest guidance available to assess whether the overall counter fraud framework is robust. To support this review, the council has allocated some of the resource previously used for benefit fraud investigation<sup>2</sup>.
- 8 The themes listed in paragraph 5 are reflected by the good practice arrangements set out in Cipfa's Code of Practice on Managing the Risks of Fraud. In May 2016, internal audit reported on a review undertaken to compare the council's current counter fraud arrangements against the code of practice. The review identified a number of areas for development, and these are included in the action plan at Appendix 1. The actions also address the recommendations directed at local authorities in the national Fighting Fraud Locally strategy.

### **The counter fraud policy framework**

- 9 This strategy is part of the council's overall framework for countering the risks of fraud and corruption. Further detailed information can be found in other detailed policies and procedures including:

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<sup>2</sup> In March 2016 the responsibility for benefit fraud investigation transferred from the council to the DWP.

- Counter Fraud Policy - this sets out responsibilities for counter fraud and investigation work, the actions the council will take in response to fraud, and its policy on sanctions
- Counter Fraud Risk Assessment - a specific risk assessment undertaken to identify counter fraud risks and develop action to address those risks. This is being undertaken for the first time in July 2016
- Anti Money Laundering Policy - defines council responsibilities in respect of the Proceeds of Crime Act 2002 and Money Laundering Regulations 2007
- Whistleblowing Policy - arrangements for council staff to raise concerns; confidentially if required.

10 The strategy also links to, and is supported by, wider council policy and procedures covering areas such as:

- governance
- employee disciplinary arrangements
- codes of conduct
- registers of interest
- financial regulations
- electronic communications
- information security
- cyber security

## Appendix 1: Counter Fraud and Corruption Strategy Action Plan

Ref	Action Required	Target Date	Responsibility	Notes / Further Action Required
1	Prepare a counter fraud strategy which acknowledges fraud risks facing the council and sets overall counter fraud aims. The strategy should link together existing counter fraud related policies and set out actions required for developing counter fraud arrangements.	July 2016	Finance Manager (s151) / Veritau	Progress against the strategy to be reviewed annually and reported to the Overview and Scrutiny Committee  For longer term to consider whether specific targets can be set under each of the FFL themes
2	Prepare an updated counter fraud policy to take account of the latest national guidance, and reflecting changes to the councils counter fraud arrangements following the transfer of benefit fraud investigation to the DWP.	July 2016	Finance Manager (s151) / Veritau	Review annually
3	Undertake a counter fraud risk assessment.  (Note that separate actions are included within the risk assessment to address specific issues identified.)	July 2016	Finance Manager (s151) / Veritau	To be reviewed at least annually.  For the longer term: <ul style="list-style-type: none"> <li>consider whether counter fraud risk assessment can be integrated into service risk management arrangements, supported by counter fraud expertise (eg through risk workshops)</li> <li>look to refine the risk assessment by developing techniques to evaluate potential fraud losses.</li> </ul>



4	Prepare an anti-money laundering policy	July 2016	Finance Manager (s151) / Veritau	
5	Participate in regional data matching and counter fraud exercises.	September 2016	Veritau	Cross boundary data matching work on council tax and NNDR discounts and exemptions is in progress. Investigative work to follow up matches will commence in September. Results will be reported through ongoing internal audit progress reports (see 7).
6	Undertake a publicity campaign to raise awareness of the counter fraud strategy and policy, internally within the council.	September 2016	Veritau	Ongoing updates on fraud and corruption issues locally and nationally will be provided through distribution of periodic Veritau fraud bulletins and alerts.
7	Introduce regular reporting to Overview and Scrutiny committee on counter fraud activity.	September 2016	Veritau	To include an annual report timed to coincide with the Head of Internal Audit report and review of the counter fraud strategy. In year reporting to be included in internal audit progress reports.
8	Undertake specific fraud awareness training for priority service areas identified through the fraud risk assessment.	March 2017	Veritau	To be undertaken on a rolling basis
9	Liaise with HR officers to incorporate general counter fraud awareness training into induction training for all new employees.	March 2017	Veritau / Head of HR	Veritau are developing an e-learning fraud awareness application which will be available from 2017/18

10	<p>Review wider governance and other policies (eg employee related policies, gifts, interests, financial regulations) to ensure they:</p> <ul style="list-style-type: none"> <li>• cover all required areas (eg anti-bribery)</li> <li>• are consistent with the counter fraud strategy and policy.</li> </ul>	March 2017	Finance Manager (s151) / Veritau	The review will identify timescales for updates to individual policies.
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