

Democratic Services

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Date: 21 November 2011

E-mail: Democratic_Services@bathnes.gov.uk

To: All Members of the Corporate Audit Committee

Councillors: Andrew Furse (Chair), Gerry Curran, Will Sandry, Geoff Ward,
Kate Simmons, Barry Macrae and Brian Simmons

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

Dear Member

Corporate Audit Committee: Tuesday, 6th December, 2011

You are invited to attend a meeting of the **Corporate Audit Committee**, to be held on
Tuesday, 6th December, 2011 at 4.30 pm in the. **Kaposvar Room - Guildhall, Bath.**

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

If you need to access this agenda or any of the supporting reports in an alternative accessible format please contact Democratic Services or the relevant report author whose details are listed at the end of each report.

This Agenda and all accompanying reports are printed on recycled paper

NOTES:

- 1. Inspection of Papers:** Any person wishing to inspect minutes, reports, or a list of the background papers relating to any item on this Agenda should contact Sean O'Neill who is available by telephoning Bath 01225 395090 or by calling at the Riverside Offices Keynsham (during normal office hours).
- 2. Public Speaking at Meetings:** The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group. Advance notice is required not less than two full working days before the meeting (this means that for meetings held on Wednesdays notice must be received in Democratic Services by 4.30pm the previous Friday)

The public may also ask a question to which a written answer will be given. Questions must be submitted in writing to Democratic Services at least two full working days in advance of the meeting (this means that for meetings held on Wednesdays, notice must be received in Democratic Services by 4.30pm the previous Friday). If an answer cannot be prepared in time for the meeting it will be sent out within five days afterwards. Further details of the scheme can be obtained by contacting Sean O'Neill as above.

- 3. Details of Decisions taken at this meeting** can be found in the minutes which will be published as soon as possible after the meeting, and also circulated with the agenda for the next meeting. In the meantime details can be obtained by contacting Sean O'Neill as above.

Appendices to reports are available for inspection as follows:-

Public Access points - Riverside - Keynsham, Guildhall - Bath, Hollies - Midsomer Norton, and Bath Central, Keynsham and Midsomer Norton public libraries.

For Councillors and Officers papers may be inspected via Political Group Research Assistants and Group Rooms/Members' Rooms.

- 4. Attendance Register:** Members should sign the Register which will be circulated at the meeting.
- 5. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.**
- 6. Emergency Evacuation Procedure**

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are sign-posted.

Arrangements are in place for the safe evacuation of disabled people.

Corporate Audit Committee - Tuesday, 6th December, 2011

at 4.30 pm in the Kaposvar Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

The Chair will draw attention to the emergency evacuation procedure as set out under Note 8.

2. ELECTION OF VICE-CHAIR

To elect a Vice-Chair (if required) for this meeting.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

4. DECLARATIONS OF INTEREST

To receive any declarations from Members/Officers of financial or other interests in respect of matters for consideration at this meeting, together with their statements on the nature of any such interests declared.

5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair will announce any items of urgent business.

6. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

7. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

To deal with any petitions, statements or questions from Councillors and, where appropriate, co-opted and added Members.

8. MINUTES: 29 SEPTEMBER 2011 (Pages 5 - 38)

9. PRESENTATION ON INTERNAL AUDIT

10. INTERNAL AUDIT UPDATE REPORT (Pages 39 - 50)

11. PRESENTATION ON ANTI-FRAUD AND CORRUPTION ARRANGEMENTS

12. ANTI-FRAUD AND CORRUPTION REVIEW (Pages 51 - 110)

13. ANNUAL AUDIT LETTER (Pages 111 - 126)

14. EXTERNAL AUDIT UPDATE REPORT (Pages 127 - 142)

15. WORKPLAN

An update report will be distributed at the meeting.

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Thursday, 29th September, 2011, 5.30 pm

Councillors: Andrew Furse (Chair), Barry Macrae, Brian Simmons, Kate Simmons, Will Sandry and Geoff Ward

Independent Member: John Barker

Officers in attendance: Tim Richens (Divisional Director - Finance), Jeff Wring (Head of Risk and Assurance) and Irene Draper (Principal Accountant)

Guests in attendance: Chris Hackett (Audit Commission) and Wayne Rickard (Audit Commission)

17 EMERGENCY EVACUATION PROCEDURE

The Chair read out the procedure

[At this point, the Chair welcomed to the meeting Wayne Rickard and Chris Hackett, both of the Audit Commission]

18 ELECTION OF VICE-CHAIR

RESOLVED that a Vice-Chair was not required on this occasion

19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies had been received from Councillor Gerry Curran.

Andrew Pate (Strategic Director of Resources and Support Services) had sent apologies for his absence.

The Chair announced that the Committee's longstanding Democratic Services Officer, Sean O'Neill, was attending a family funeral so was unable to be at the meeting. The Committee expressed their condolences to Sean and his family and asked for this to be recorded in the minutes.

20 DECLARATIONS OF INTEREST

There were none

21 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none

22 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none

23 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none

24 MINUTES: 28 JUNE 2011

These were approved as a correct record and signed by the Chair.

25 PRESENTATION - UNDERSTANDING THE ACCOUNTS

The Chair welcomed Irene Draper (Principal Accountant) who had served the Committee for a number of years. He announced that Irene would be leaving the Council at the end of September. The Committee expressed its thanks to Irene and best wishes for her future.

Irene gave a presentation entitled "Understanding the Accounts" [*a copy of which is attached to these Minutes as Appendix 1 and on the Council's website*]. She explained the new layout of the accounts, which were now required to follow the International Finance Reporting Standards. There was a brief question and answer session. The Chair thanked Irene for her contribution.

26 B&NES AUDITED FINANCIAL STATEMENTS 2010/11

Tim Richens, Divisional Director (Finance) introduced the report and drew the Committee's attention to the report in a number of places. He reminded the Committee that the Budget vs. Actual figures (page 7) were the same figures which had been reported to Cabinet in July. The report also included the Summary of Capital Expenditure, split by service department, the General Fund Balances and Reserves, and the Property Plant and Equipment (excluding commercial estate).

Councillor Barry Macrae congratulated officers for their very clear presentation of the complex accounts. He expressed disappointment that there was not a single page summary, as an aid to the public.

Irene Draper said that as in previous years, there would soon be available a 6-sheet summary.

Councillor Will Sandry referred to the Cash Flow Statement (page 13) and observed that the available cash had increased by £7M in the year. He asked if there was a reason for this, given that the Council had borrowed several million pounds.

The Divisional Director (Finance) explained that the available cash included borrowings held in cash equivalents, and assured the Committee that the Council always sought to minimise and delay borrowings by prudent use of available cash.

Councillor Andy Furse referred to the "step change" in the Children's Services area of the Income and Expenditure Account (page 11) and asked why this had happened.

Irene Draper explained that this had been brought about because of a different way of recording notional depreciation of school buildings, so the two years were not directly comparable.

Councillor Geoff Ward asked for an explanation for the improvement in Short Term Creditors (page 12).

Irene Draper explained that this was mainly as a result of better debt collecting.

Councillor Ward was concerned that the Bank Overdraft (page 12) was reported as £14M.

Irene Draper assured the Committee that there was always cash to balance the overdraft, and that the overdrafts did not cost the Council any interest.

Councillor Ward asked about the “surplus assets” of £26M (page 12), which he felt seemed very high.

Irene explained that to a large extent these were assets no longer being used by services but which had not yet been sold off.

Councillor Andy Furse asked whether the Council should look at this with a view to selling or bringing back into use.

The Divisional Director (Finance) said that the situation was considered on a monthly basis by the Capital Strategy Group. He observed that the proceeds from the sale of educational assets could only be reapplied to educational use, and there was often a delay before assets could be sold.

Chris Hackett (Audit Commission) observed that the disclosure of assets was a new requirement, but was successful in ensuring more openness in accounts.

[At this point, the Chair pointed out to the Committee that before considering the officer's recommendations to this report, it would be necessary to consider the two Governance Reports (items 12 and 13 on the agenda), and then to return to the debate and vote on this current item. The Committee agreed to this approach.]

27 GOVERNANCE REPORT B&NES COUNCIL 2010/11

Wayne Rickard (Audit Commission) introduced the report. He explained that he would be issuing an unqualified opinion on the accounts, saying that credit was due to the Council's Finance team for their hard work in preparing the accounts. He also referred to page 12 of his report and confirmed that he would be issuing an unqualified Value For Money opinion.

He referred to page 4 of the report, which asked the Committee to take note of the adjustments to the financial statements, as set out in his report, and to approve the letter of representation.

At pages 6-7, he referred to the key audit risks and his findings, and confirmed that in his view the accounts were materially correct and that the requirements of the new International Financial Reporting Standards had been met.

He talked the Committee through the rest of his report, particularly at page 9 the issues he had become aware of and his recommendations to improve the accounts.

Councillor Andy Furse referred to the fact that a number of schools would be transferring to Academy status, and asked whether the maintenance liability would still fall to the Council.

The Divisional Director (Finance) explained that the funding for maintenance came direct from government but that the relevant amount would be clawed back to cover the cost of maintenance. This year it had been £450K and next year it would be likely to be £700K, rising to possibly £2-3M. Some functions such as school admissions, Director of Children's Services and other functions must be retained by local authorities. He acknowledged that large amounts of money were involved, and it would be important to get it right.

On a recommendation from Councillor Geoff Ward, seconded by Councillor Brian Simmons, it was

RESOLVED (unanimously):

1. To NOTE the adjustments to the financial statements which are set out on page 18 of appendix 2 of the report;
2. To APPROVE the letter of representation on behalf of the Council which is set out on page 23 of appendix 4 of the report.

28 GOVERNANCE REPORT AVON PENSION FUND 2010/11

Chris Hackett (Audit Commission) introduced the report. He explained that he had asked for an additional note (note 22) to be added at page 84 of the accounts.

The Chair read out the recommendations from the report. He asked for clarification of the understatement of debtors, reported in appendix 3 (page 19) of the Auditors' report.

Chris Hackett assured the Committee that, although requiring to be reported, both the references being referred to were in fact timing issues and were not material.

Councillor Barry Macrae expressed his thanks to the Auditors for the excellent working relationship they had built up with the Council. This was echoed by other members.

On a recommendation from Councillor Geoff Ward, seconded by Councillor Will Sandry, it was

RESOLVED (unanimously):

1. To NOTE the adjustment to the financial statements which is set out on page 18 of the Governance Report;
2. To APPROVE the letter of representation on behalf of the Avon Pension Fund which is set out on page 9 of the Governance Report.

[At this point, the Chair directed the attention of the Committee to the recommendations from the previous item "Audited Statement of Accounts", and

reminded the Committee that they now needed to make their decision about the accounts.]

On a motion proposed by Councillor Brian Simons, seconded by Councillor Barry Macrae, it was:

RESOLVED (unanimously):

(1) To APPROVE the audited Statement of Accounts for 2010/11 after receiving the Governance Reports from the Audit Commission for the Council and Pension Fund

[The Chair signed the accounts, which were passed to the 151 Officer for signature and safe keeping]

29 PRESENTATION - THE ROLE OF THE AUDIT COMMISSION

Wayne Rickard (District Auditor) gave a presentation *[a copy of which is attached to these Minutes as Appendix 2 and is available on the Council's website]* on the role of the Audit Commission and proposed changes to the governance arrangements of the Commission.

The Chair thanked the District Auditor for his presentation.

30 BRIBERY ACT 2010

Jeff Wring (Head of Risk and Assurance) introduced the report. He explained that the Bribery Act had come into force in July 2011. He referred in particular to paragraph 4.4 (page 2 of the report) which listed as a commercial offence "failure to prevent bribery". He also referred to the arrangements put in place to mitigate the risk of bribery, and these were laid out in paragraph 4.12 (page 4) of the report.

Councillor Will Sandry asked how many times in the last 12 months a member of staff had used the whistleblowing arrangements.

The Head of Risk and Assurance said that the Council received approximately 5 whistleblowing reports in any year, and about 75% of these were anonymous. So it was difficult to give an accurate figure for members of staff.

Councillor Sandry asked what percentage had been found to be proven.

The Head of Risk and Assurance said that in about a third of cases, evidence was found of "something not quite right", although in many cases it was down to poor management rather than deliberate fraud. He also explained that a proportion of whistleblowing incidents are the result of a breakdown in a working relationship.

Councillor Barry Macrae asked if all reports were treated seriously and properly investigated, and logged so that patterns could be spotted.

The Head of Risk and Assurance confirmed that a log was kept so that patterns could be spotted and investigated further.

John Barker observed that it would be very important to keep track of the activities of social enterprises and other partnerships.

It was **RESOLVED** (unanimously):

1. To NOTE the report;
2. To ACKNOWLEDGE the new legislation together with the Council's current response to this.

[The Committee agreed to note that the next meeting would be held on 6th December 2011, at 5:30pm. The Democratic Services Officer confirmed that matters were in hand to arrange dates for 2012 which would be announced in due course.]

The meeting ended at 7.45 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

Audit Committee Briefing
Understanding the Accounts

29th September 2011

Understanding the Accounts

Outline

- Introduction
- International Financial Reporting Standards
- Financial Statements

Understanding the Accounts

Introduction

Timetable

- The Council publishes its draft Statement of Accounts by the end June each year – certified by S151 Officer
- The draft accounts are audited by our external auditors during June to September
- During this time there is an opportunity for the public to inspect the accounts
- The final audited Statement of Accounts are approved by the Corporate Audit Committee by the end of September

Understanding the Accounts

Introduction

Format of Financial Statements

- Format is prescribed by the CIPFA Code of Practice & Guidance – standardised to allow comparison across

Councils

- Explanatory Foreword
- Statement of Responsibilities
- Movement in Reserves
- Comprehensive income & expenditure account
- Balance Sheet
- Cash Flow Statement
- Notes to the Accounts
- Collection Fund

Understanding the Accounts

Introduction

Purpose of Financial Statements

- **To give Councillors, officers, residents, customers and other interested parties information about the Council's financial position**

Understanding the Accounts

International Financial Reporting Standards

Background

- **Aim of IFRS is to harmonise global financial reporting**
- **The 2007 Budget announced that the UK public sector would adopt IFRS**
- **Central government and NHS implemented in 2009/10**
- **Local government implemented in 2010/11**

Understanding the Accounts

International Financial Reporting Standards

What are the significant changes ?

- **New statements and amended layouts**
- **More disclosures – bigger set of accounts**
- **Component Accounting – separate depreciation of significant components of assets**
- **Segmental reporting note**
- **Leases – major review**
- **Government grants**
- **Short-term accumulating compensation absences (annual and flexi leave untaken at year end)**

Understanding the Accounts

Main Financial Statements

Comprehensive Income and Expenditure Statement (CIES)

- **Equivalent of a private sector company Profit & Loss Account**
- **Shows the cost for the year of providing services in line with required accounting practices**
- **Produces the statutory accounting result which is prepared on a different basis to the Council's regular budget monitoring and outturn reports**

Understanding the Accounts

Main Financial Statements

Balance Sheet

- Shows the value of assets & liabilities recognised by the Council
- Net assets (assets less liabilities) are matched by reserves held
- Reserves are split into two main categories:
 - Usable Reserves: can be used to provide services
 - Unusable Reserves: can't be used to provide services

Understanding the Accounts

Main Financial Statements

Movement in Reserves Statement

- **Shows movement in the year on different reserves held by the Council**
- **Surplus / Deficit on Provision of Services line shows true economic cost of providing the Council's Services – links to CIES**
- **Closing balances of reserves – links to bottom section of the Balance Sheet**

Understanding the Accounts

Main Financial Statements

Cashflow Statement

- Shows how cash held at the bank and in investments has been received and used during the year
- Cashflow statement is broken down into:
 - a) Net cash flows from Operating Activities
 - b) Net cash flows from Investing and Financing Activities
 - c) Total net increase or decrease in cash or equivalents
 - d) Cash and cash equivalents held at the end of the reporting period

Understanding the Accounts

Notes to the Accounts

- **Disclosure Notes – changes**
- **Accounting policies**
- **Assumptions and estimation techniques**
- **Segmental reporting**
- **Leases**
- **Investment properties**

Understanding the Accounts

Notes to the Accounts

Disclosure Notes – segmental reporting

- **New requirements for segmental reporting this year**
- **Aim to provide greater transparency**
- **A matrix report showing type of expenditure by type of service area in the Council’s internal reporting format**
- **Reconciliation to the Net Cost of Services and the surplus/deficit on Provision of Services in the CIES which shows all items required to be included in the statutory accounting surplus or deficit**

Understanding the Accounts

Financial Statements

Collection Fund

Legal requirement to maintain this fund separately from all other funds and accounts of the council. It shows:

- **Transactions arising because B&NES is billing authority:**
 - **collection of council tax on behalf of precepting authorities**
 - **collection of business rates on behalf of central government**
- **Amounts paid out to preceptors and central government**

Understanding the Accounts

Financial Statements

Are there any questions ?

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Bath and North East Somerset Council Audit Committee Briefing

**Wayne Rickard
Chris Hackett
September 2011**



Introduction

What is the role of the Audit Commission auditor?

How do we work with you?

What is the role of the audit committee ?



Role of the Audit Commission auditor

Our work is prescribed in a number of sources

Work done is prescribed by the *Code of Audit Practice*

Audit Commission Standing Guidance

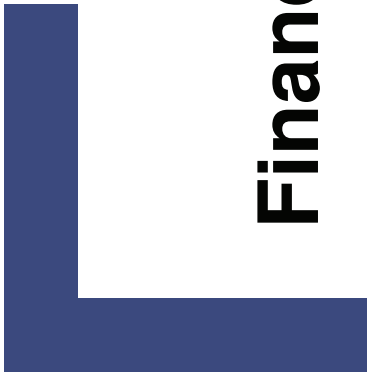
International standards of Audit

Accounts and Audit Regulations



Audit work focussed mainly on two areas

- 1. Financial Statements**
- 2. Value for Money Conclusion**

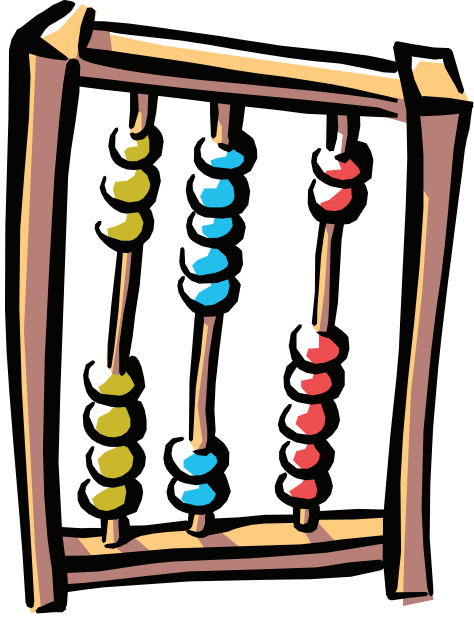


Financial Statements

We provide an opinion on your
financial statements

Key issues for 2010/11:

- Implementation of Internal Financial Reporting Standards





Our approach financial statements

Understand the entity and assess risks (ISA 315)

Determine materiality

Issue an audit plan

Undertake an interim audit

Undertake a post statements audit



Interim Audit

- Document all financial systems that support material headings in the accounts
- Undertake testing of controls on a cyclical basis
- Review your governance arrangements

Post statements audit

- Reassess materiality and risks ISA 320
- Review qualitative issues in the accounts, explanatory foreword, accounting policies
- Review the annual governance statement
- Assess disclosure in line with the CIPFA accounts Code
- Substantively test all material account headings in the statement of accounts
- Assertions



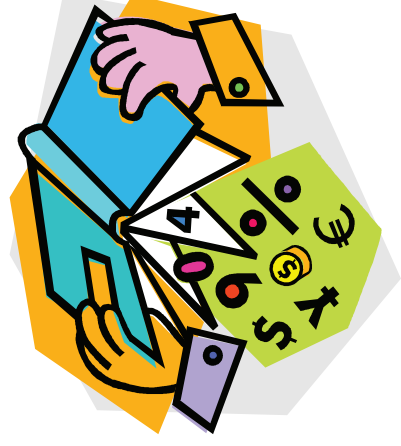
How we work with you

- **Internal Audit**
 - Rely on IA work where possible to maximise use of audit resource recognising different responsibilities
- **Working papers**
 - Agreed at an early stage
- **Technical issues**
 - Chief accountants workshops

The role of the audit committee

Accounts

- Review and approve the Statement of Accounts
- Receive the auditors report (ISA 260) on the annual audit by 30 September



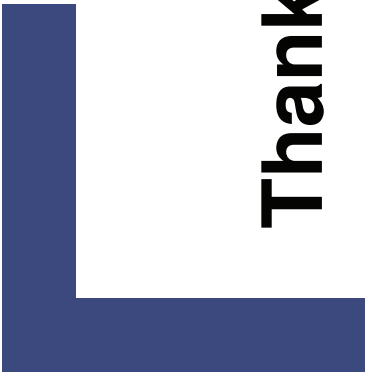
The role of the audit committee

What should the review of the Statement of Accounts focus on?

Suitability and treatment of accounting policies

Major areas of judgement made by officers

Significant adjustments and weaknesses in internal control reported by the external auditor in the ISA 260 report.



Thank You For Your Time

Any further questions?



Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	6 th December 2011	AGENDA ITEM NUMBER
TITLE:	Internal Audit– Update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Audit Plan 2011/12 – Position Statement as at 31 st October 2011		

1 THE ISSUE

1.1 The Annual Internal Audit Plan for 2011/12 was presented to the Corporate Audit Committee on the 24th May 2011. Accordingly, attached at Appendix 1 is an update on progress against the Plan six months into the year.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to:

Comment on the progress made against the Internal Audit Plan 2011/12.

3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications relevant to this report.

4 THE REPORT

4.1 Audit Plan Progress

4.2 Appendix 1 shows the 2011/12 Annual Audit Plan and the current status of each review.

4.3 As at the 31st October 2011, the Audit & Risk Team has completed or has work in progress amounting to 63% of the Plan and subject to any significant unplanned work or staff sickness it is hoped that at least 95% of the plan will be complete at the end of the financial year. This is a significant increase on past years and is a reflection of improvements made as a result of restructuring the audit and risk teams earlier in the year.

- 4.4 During this current financial year one member of staff had to undergo surgery which required a long period of convalescence and the impacts of losing key members of staff in a relatively small team can be significant. However a significant increase in productivity focussed on the audit follow-up process has compensated for this lost time and helped overall performance against the plan to remain high.
- 4.5 Appendix 1 details that 21 Audit Reviews and 28 Audit 'Follow-Ups' have been completed. The number of 'Follow-Up' reviews carried out during the first half of this year is unusually high as a decision was taken to prioritise this work to obtain assurance that audit recommendations were being implemented in a timely manner. 22 of the 28 (78%) 'Follow-Up' reviews identified that all the audit recommendations made had been implemented at the time of the review.
- 4.6 Of the 21 Audit Reviews, 74% were assessed at an Assurance Level of 3 or above (Adequate to Good Framework of Internal Control with five reviews achieving a 'Weak' Assurance Level (Level 2). Three of these reviews are at 'Draft' Report stage so we are liaising with management about the recommendations. The remaining two reviews have been completed and management have agreed to implement all the audit recommendations.
- 4.7 Audit activity recorded as 'unplanned' is recorded in Appendix 1 and currently activity in this area is relatively low which is aiding the current projections on completing the overall plan.
- 4.8 In addition to focussing on completing the agreed audit plan time has been spent on the following areas –
- a) **Integration of the Internal Audit and Risk Management team functions** (joint team with effect from 1st April 2011). Based on the need to achieve financial savings, a restructure of the Risk & Assurance Service resulted in the separate Risk Management Team being brought together with the Internal Audit Team.
 - b) **Reviewing and updating the Audit Brief and Audit Report templates.** The objective of review was to increase the use of the Internal Audit software to automatically produce these documents and also to tailor the content to that required by the audit client. The plan is to commence use of the revised templates by the beginning of 2012.
 - c) **Reviewing and updating the Post Audit Questionnaire.** This is used to obtain feedback from the audit client related to audit work completed. The results provide useful data on the performance of the team and individual auditors enabling action to be taken if areas for improvement are identified. The use of the revised questionnaire will commence in December.
 - d) **Reviewing and amending the Audit Review 'Follow-Up' process** to ensure agreed recommendations are implemented in a timely manner. The method of carrying out 'Follow-Ups' was focussed on each individual Audit Review. The scheduling of the 'Follow-Up' was therefore delayed until after the date of the last recommendation to be implemented as agreed and recorded in the 'Final' version of the Audit Report. This could mean that the check to confirm implementation of a 'Critical' or 'High' risk

recommendation may be delayed until months after the agreed implementation date. The intention is to 'Follow-Up' individual / groups of recommendations based on implementation date, thus ensuring that important recommendations are implemented in a timely manner.

- e) **Reviewing the approach to School audit's** based on a reduction of capacity. A theme approach adopted by other LA auditors has been agreed following consultation with Children Services and School Headteachers / Governors.

4.9 **Impact of Academies**

4.10 In the May 2011 report to this Committee it was highlighted that we had been successful in being appointed as the "Responsible Officer" (in effect, an Internal Auditor) by 3 new Academies. Since then a number of other schools have obtained Academy status and we have been approached by a further 6 schools to provide this role.

4.11 The key to being offered this work has been the close working relationships with Schools over a number of years. This included the work with schools when they were working towards and achieving the Financial Management Standard in Schools (FMSiS), which was abolished by the Department for Children, Schools & Families in 2010/11.

4.12 It should be noted that the replacement for FMSiS, the Schools Financial Value Standard (SFVS) will require B&NES non Academy Schools to complete a self-assessment process in 2012/13.

4.13 Audit & Risk are being proactive in providing the necessary guidance to schools and will assist the Council's Chief Financial Officer in completing an Annual Assurance Return, however none of this work is chargeable.

4.14 **Performance Indicators**

4.15 The Audit & Risk Team use a number of Performance Indicators to help manage the performance of the team and a sample of these are included below.

Service PI	As at 30th September 2011
% of Audits completed within time allocated	100%
% of Services which rate Internal Audit as Excellent / Good	100%
% of recommendations agreed (based on management response recorded in Final version of Audit Reports issued).	98%
% of recommendations implemented (based on findings of 'Follow-Up' Reviews completed and reported to management).	88%

4.16 **Future Service Delivery**

4.17 As reported to previous audit committees over the last 18 months we have reviewed the options for service delivery for Internal Audit in light of the changing financial environment.

4.18 Our preferred intention is to move to a form of partnership either with an existing provider or to form our own local one with neighbouring authorities. Progress unfortunately remains slow and whilst there appears to be appetite locally to develop a sustainable partnership there is limited activity from our neighbours to progress at this time.

4.19 As can be seen this is not currently having an impact on performance internally, however the reductions in budgetary terms that have been achieved have resulted in reduced audit coverage. This can be mitigated in the short-term however, with pro-active risk assessment with services of current and emerging risks and close working relationships with external auditors and other partners to maximise all resources in this area.

4.20 The committee will therefore be kept up-to-date with developments and should it become clear in the next few months that the local partnership option is no longer viable a further re-assessment will need to take place prior to any final decision on changing the existing method of service delivery.

5 RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6 EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out in relation to this report. There are no significant issues to report to the Committee.

7 CONSULTATION

7.1 The report was distributed to the S151 Officer and Monitoring Officer for Consultation.

Contact person	<i>Andy Cox (01225 477316) Jeff Wring (01225 477323)</i>
Background papers	<i>Report to Corporate Audit Committee –24th May 2011 – Internal Audit - Annual Report (Outturn 2010/11& Annual Plan 2011/12)</i>
Please contact the report author if you need to access this report in an	

alternative format

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Audit Plan 2011/12

Name	Audit Type	Risk Level	Current Status	Audit Opinion Assurance Level	Recommendations Made / Accepted	Recommendations Made / Implemented	Key Findings (Assurance Level 1 & 2 Audits)
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Adult Health, Social Care & Housing

Safeguarding Adults	Follow-up	High	Completed	3		9/8 (89%)	
Social Enterprise - Governance & Operational	Consultancy Work	High	Completed	N/A			
Personalised Budgets 2010/11 Review	Follow-up	Medium	Completed				
Personalised Budgets	Audit Review	Medium	Draft Report	3		4/4 (100%)	
Community Day Services	Audit Review	Medium	Not Started	3			
Radstock Road Community Stores	Audit Review & Follow-up	Medium	WIP				
Housing Allocations	Audit Review	Medium	Not Started				

Children's Services

Health, Commissioning and Planning

Ethnic Minority Achievement Service	Follow-up		Completed	4		1/1 (100%)	
SIMS - Audit Commission Key Control Review	Follow-up	Medium	Completed	4		2/2 (100%)	

Learning & Inclusion

Out of Authority Placements	Follow-up	Medium	Completed	4		4/4 (100%)	
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Primary Schools

Chandag Infant School	Follow-up	Medium	Completed	2		10/10 (100%)	2010/11 Review - Issues previously reported
Clutton Primary School	Follow-up	Medium	Completed	4		6/3 (50%)	
Midsomer Norton Primary School	Follow-up	Medium	Completed	5		3/3 (100%)	
Oldfield Park Infants School	Follow-Up		Unplanned	5		2/2 (100%)	
Oldfield Park Junior School	Follow-up	Medium	Completed	3		8/7 (88%)	
Southdown Infant School	Follow-up	Medium	Completed	4		7/7 (100%)	
St John's CofE (Keynsham) Primary School	Follow-up	Medium	Completed	4		5/5 (100%)	
St Martins Garden Primary School	Audit Review	Medium	Completed	4	4/4 (100%)		
St Michaels CofE Junior School	Follow-up	Medium	Completed	4		5/5 (100%)	
St.Saviours Infant School	F/U 2009/10 Review		Unplanned	4		6/4 (67%)	
Twerton Infant School	Audit Review	Medium	Completed	4	7/7 (100%)		
Westfield Primary School	Follow-up	Medium	Not Started				

Themed School Reviews

Financial planning, budget setting and budget monitoring	Audit Review	High	WIP				
Governance Arrangements	Audit Review	High	WIP				
Safeguarding	Audit Review	High	Not Started				

Safeguarding, Social Care & Family Services

Childrens Centre Services

First Step Twerton Childrens Centre	Audit Review	High	Completed	4	4/4 (100%)		
Radstock Childrens Centre	Audit Review	High	WIP				
St Martins Garden Childrens Centre	Audit Review	High	Completed				
	Follow-up			4		7/7 (100%)	

Integrated Safeguarding

Safeguarding	Key Controls Review	High	Cancelled				
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Integrated Services 0-11

Commissioned Services	Audit Review	High	Draft Report	3	
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Social Care

Fostering	Key Controls Review	High	Cancelled		
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Development & Major Projects

Employment of Consultants - Devp & Regeneration	Audit Review	High	See Corporate Work		
RG20 Land stabilisation - Combe Down Stone Mines	Funding Compliance	Medium	Completed	3	1/1 (100%)
Consultancy & advice - Major Projects	Corporate Work	High	Not Started		

Improvement & Performance

Human Resources

Sickness Monitoring	Follow-up	Medium	Completed	2	6/1 (17%)
Payroll Additions and Deductions - Pension Contributions	Audit Review	Medium	WIP		
Opted out school payroll	Follow-up	Medium	WIP		
Payroll - Audit Commission Key Controls Review	Follow-up	High	WIP		
Project support/advice	Corporate Work	Medium	WIP		
Statutory Returns	Audit Review	Medium	Draft Report	2	
Teachers pension return PEN05	Audit Review	Medium	Completed	3	10/10 (100%)
Business Use of Private Vehicles	Audit Review		Unplanned	2	

Strategic Performance

National Data Set / Key Performance Indicators	Audit Review	Medium	Cancelled		
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Information Technology Management

Hosted System Security	Audit Review & Follow-up	High	Not Started		
Internet / Network Controls - Firewall	Audit Review	Core	Cancelled		
Virus Protection	Audit Review	High	Completed	4	4/4 (100%)
Mouchel - Performance Management	Audit Review	High	Completed	3	2/2 (100%)
Agresso Financial Management System	Project Implementation Support	High	WIP		
CareFirst - Management & Information Systems	Follow-up	High	Not Started		
CareFirst Data Stewardship	Audit Review	High	Cancelled		
Documentum	Follow-up	High	Completed	3	2/2 (100%)
Uniform	Follow-up	High	Completed	3	5/5 (100%)

Resources & Support Services

Finance

Accounts Payable - Audit Commission Key Controls Review	Audit Review	Medium	Completed	4	2/2 (100%)
Accounts Receivable - Audit Commission Key Controls Review	Audit Review	Medium	Completed	4	1/1 (100%)
Purchase Cards	Follow-up	Medium	WIP		
Accounting arrangements for asset management	Audit Review	High	WIP		
Treasury Management	Audit Review	High	WIP		

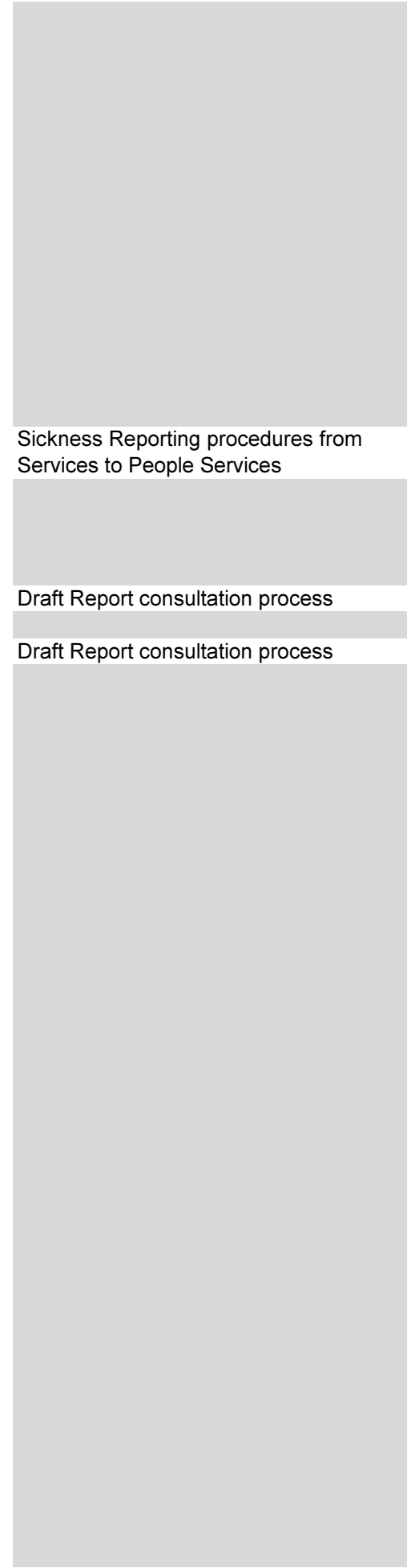
Policy & Partnerships

Equalities	Audit Review	Medium	Cancelled		
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Property Services

Primary School Meals - Catering	Follow-up	Medium	Not Started		
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Revenues & Benefits, Council Connect



E Pay	Follow-up	High	Completed	3	1/1 (100%)
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Service Delivery

Environmental Services

Highways Networks Management

Highway Maintenance & Term Contracts	Audit Review	Medium	Not Started		
Home to School Transport	Follow-Up		Completed	1	7/7 (100%)

Parking Services

Cash Collection - Income Reconciliation	Audit Review	High	WIP		
Parking ANPR System	Project Implementation Support	High	Not Started		

Planning & Transport Development

Income Reconciliation - Planning	Audit Review	Medium	Completed	2	
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Land Charges	Audit Review	Medium	WIP		
Planning Application, Appeals & Enforcement	Audit Review	Medium	Not Started		
Section 106 Agreements	Audit Review	Medium	WIP		
Section 38 Agreements	Audit Review	Medium	WIP		

Tourism, Leisure & Culture

Tourism Company (Bath Tourism Plus)	2010/11 Audit c/f	Medium	Completed	4	
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Destination Management

SPA Operators Accounts Review	Audit Review	Medium	Not Started		
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Heritage Services

Till System (Replacement)	Project Implementation Support	Medium	Not Started		
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Sports & Active Leisure

Aquaterra - Safeguarding	Audit Review	Medium	Completed	3	7/6 (86%)
Sport & Active Leisure Team - Safeguarding	Audit Review	Medium	Completed	As above	As above

Anti-fraud

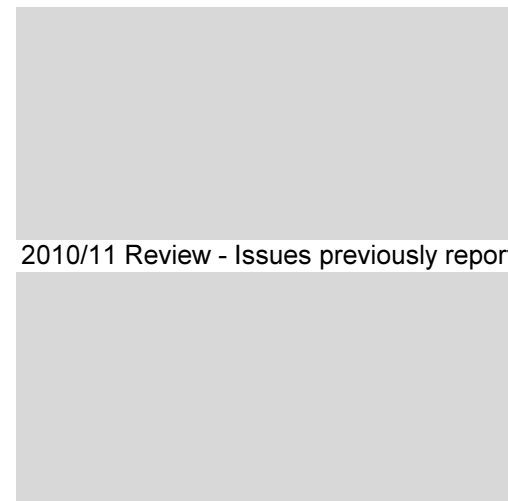
Adult Health, Social Care & Housing

Community Resource Centres - Inventories	Audit Review	Medium	Completed	2	
Payments to Domiciliary Care Providers	Audit Review & Follow-up	Medium	Not Started		9/9 (100%)

Improvement & Performance

Human Resources

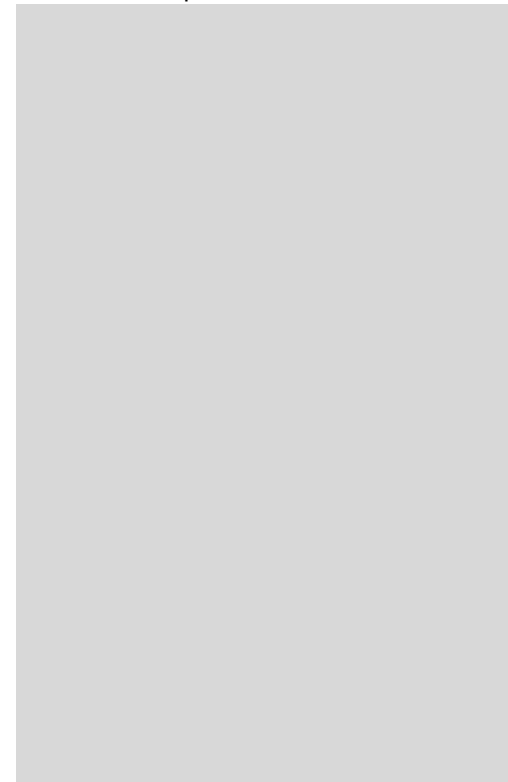
Payroll - Mileage & Business Expenses	Follow-up	Medium	WIP		
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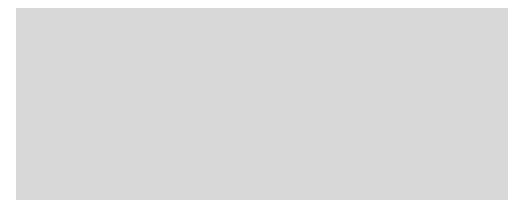
2010/11 Review - Issues previously report

9/9 (100%)

Income, refund validation and reconciliation processes.



All aspects of control of Council and Residents property.



Payroll - Testing	Follow-up	Core	WIP
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Resources & Support Services

Finance			
Accounts Payable - Invoice Testing	Audit Review	High	Not Started
Accounts Receivable - Raising Of Accounts & Payments	Audit Review	High	Not Started
Procurement Compliance	Follow-up	Core	WIP
Purchase Cards	Audit Review	Medium	WIP

Property Services

Community Meals	Follow-up	Medium	Completed	3	3/3 (100%)
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Revenues, Benefits and Council Connect

Council Tax - National Fraud Initiative Single Person Discount	Corporate Work	High	WIP		
Council Tax - Student Exemptions	Follow-up	Medium	Completed	3	6/6 (100%)
Council Tax Liability - Single Person Discount	Audit Review	High	Not Started		
Housing Benefit - Overpayments	Follow-up	Medium	WIP		
Housing Benefit - Processing Claims	Audit Review	High	Not Started		

Risk & Assurance Services

Anti Fraud & Corruption Policy	Corporate Work	High	WIP
Money Laundering	Corporate Work	High	Not Started
National Fraud Initiative	Corporate Work	High	WIP

Transformation

Mobile Phones	Audit Review	High	Draft Report	2
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Service Delivery

Environmental Services					
Blue Badges	Audit Review	Medium	Not Started		
Fuel Cards / Fobs	Follow-up	Medium	Completed	3	6/6 (100%)
Parking Services - Main Car Parks	Follow-up	Core	Not Started		
Use of Council/Hired Vehicles	Audit Review	Medium	Completed	3	9/9 (100%)

Tourism Leisure & Culture

Cash - Library Services	Follow-up	Medium	Not Started		
Income Collection Roman Baths	Follow-up	Medium	Completed	4	2/2 (100%)

Avon Pension Fund

Assets and Revenues	Follow-up	Medium	Completed	4	1/1 (100%)
Governance & Strategy	Audit Review	High	Not Started		
Payroll - Audit Commission Key Controls Review	Follow-up	Medium	Completed	5	1/1 (100%)

Other Corporate Work

Engagement of individuals not treated as employees	Audit Review	High	WIP
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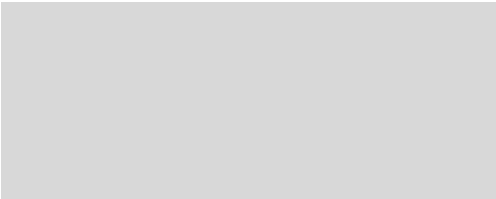
Academy Schools

Beechen Cliff	Responsible Officer	Completed	N/A
Norton Hill	Responsible Officer	Completed	N/A
Somervale	Responsible Officer	Completed	N/A
Backwell	Responsible Officer	Completed	N/A
Fosse Way	Responsible Officer		

Advice & Guidance to staff and management of the contractual arrangements and devices

Grants

Bus Services Operators Grant	Corporate Work	WIP		
Greater Bristol Bus Network Grant	Corporate Work	Completed	N/A	
RDA Grant	Corporate Work	Completed	N/A	
Great British Heritage Pass Claim	Corporate Work	Completed	N/A	



Unplanned Work

Oldfield Park Infants School	Follow-Up	Unplanned	3	6/4 (67%)
St.Saviours Infant School	F/U 2009/10 Review	Unplanned	4	2/2 (100%)
Business Use of Private Vehicles	Audit Review	Unplanned		
Parade Gardens Income Collection & Banking Review	Anti Fraud	Unplanned		
Property Services Contracting Review	Audit Review	Unplanned		
Expenses Review - Daily Telegraph FOI	Anti Fraud	Unplanned		
PCIDSS Consultancy	Consultancy	Unplanned		
Carbon Emmissions	Audit Certification	Unplanned		

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Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	6 th December 2011	AGENDA ITEM NUMBER
TITLE:	Review of Counter Fraud & Corruption Arrangements	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Action Plan		
Appendix 2 –Anti-Fraud & Corruption Policy& Whistleblowing Policy		
Appendix 3 – Anti-Money Laundering Policy		

1 THE ISSUE

- 1.1 This report presents the results of a biennial review of the Council’s Counter Fraud and Corruption arrangements. This includes the review of associated Policies and Procedures as well as assessing the impacts of Fraud and misuse of Council resources on the Authority and the views of external auditors.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to:
- a) Comment on the review carried out and actions proposed (Appendix 1).
 - b) Confirm that the revised Anti-Fraud & Corruption & Whistleblowing Policies (Appendix 2) and Anti-Money Laundering Policies (Appendix 3) remain appropriate

3 FINANCIAL IMPLICATIONS

- 3.1 Fraud and Corruption can cost any organisation substantial sums of money if poorly managed, whilst there are no direct implications relevant to this report the impacts from implementing the actions proposed should hope to minimise any future risks.

4. The Report

Introduction

4.1 The Audit Commission's 2011 report "Protecting the Public Purse – Fighting Fraud against Local Government" repeats the message on how Local Authorities can effectively combat fraud and manage the risk:

- Developing a zero-tolerance approach towards fraud;
- Adopting good practice in managing the risk of fraud (in the 2011 Report it specifically refers to the soon to be published National Fraud Authority Strategy 'Fighting Fraud Locally') ;
- Creating a strong counter-fraud culture and implementing counter-fraud policies and procedures.

4.2 The Audit Commission has specified the following key risk areas –

- Housing Tenancy Fraud
- Council Tax Fraud
- Personal Budgets (direct payments) fraud
- Procurement Fraud
- Housing & Council Tax Benefit Fraud
- Emerging Fraud

4.3 With the increased need to carefully manage financial resources the fight against fraud and corruption in the public sector is even more important. This Council has taken and will continue to take the necessary action to fight fraud and corruption. It defines fraud & corruption as follows –

'Fraud is an intentional deception made for personal gain or to damage another individual or entity'.

'Corruption is the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person'.

4.4 Historically within local government fraud and corruption is a result of a number of issues which can be broadly grouped into the following categories as follows –

- Inadequate record keeping (both incomplete & non-existing)
- Inadequate Management Supervision
- Conflicts of interests
- Management competency
- Inadequate compliance with Council policies & procedures
- Collusion between officers
- Inadequate verification of expenditure
- Inadequate control over cash income

- 4.5 Our review took into consideration the environment described above and then assessed our overall framework of control against the following key areas:
- (a) **Policies:** Review and update of the existing policies:
 - Anti-Fraud & Corruption Policy (Appendix 2)
 - Whistleblowing Policy (Appendix 2)
 - Anti-Money Laundering Policy (Appendix 3)
 - (b) **Culture & Awareness:** Review the Council's culture and awareness of its approach to tackling Fraud and Corruption.
 - (c) **Audit & Risk Team 'Planned' & 'Responsive' Work:** Work included in the 'Internal Audit' Plan and adopted response to reports of financial irregularities.
 - (d) **Financial Irregularity Investigations (Unplanned Work):** Internal Audit's involvement in these investigations and identified failures in systems of internal control (preventive and detective internal controls).
 - (e) **National Fraud Initiative:** Review results of the biennial National Fraud Initiative exercise run nationally by the Audit Commission.
 - (f) **Compliance with new legislation and related best practice:** Bribery Act 2010
- 4.6 The results of the review were in general very positive with no one area from the six headings above being assessed as weak or requiring detailed action or improvement. However this does not mean we can relax our approach and therefore Appendix 1 details the remaining or continual actions we are required to take to continue to combat this very real risk.

Policies:

- 4.7 Alongside the employees Code of Conduct and General Employment Standards and Rules, the Council currently has 3 key policies directly linked to anti-fraud and corruption, these are:
- Anti-Fraud & Corruption Policy (including the Fraud Response Plan) (Appendix 2)
 - Whistleblowing Policy (Appendix 2)
 - Anti Money Laundering Policy (Appendix 3)
- 4.8 The Anti-Fraud & Corruption Policy sets out roles and responsibilities and how the Council will respond to any suspected Fraud. The Whistleblowing Policy was put in place in response to the Public Interest Disclosure Act 1998 and details how the Council will support and respond to "Whistleblowers". The Anti-Money Laundering Policy is to meet the obligations placed on the Council arising from the Money Laundering Regulations 2007.

- 4.9 These policies have been reviewed and have been updated (see Appendices). The Council's policies were found to be sound in terms of content, and amendments have mainly been cosmetic (e.g. changes in Officer name / title) except for reference to the Bribery Act 2010 which came into effect on the 1st July 2011.
- 4.10 The Bribery Act was the subject of a report presented to Corporate Audit Committee on the 29th September 2011. It is possible that the Council, its Member and Officers could be held liable under offences covered by Sections of this Act. Sections 1 & 2 refer to offences committed by individuals i.e. bribing another person or accepting a bribe, while Section 6 & 7 cover offences committed by a 'commercial organisation'(bribing a foreign official or failing to prevent bribery).
- 4.11 A Bribery Act 2010 Briefing has been added to the Anti-Fraud & Corruption Policy (Appendix 3) to assist in communicating the offences and the 'good practice' principles to prevent bribery.
- 4.12 The Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering Regulations 2007 place obligations on the Council and its employees with respect to suspected money laundering. The Council is not in the "Regulated Sector" but a Council Anti-Money Laundering Policy has been adopted. Only cosmetic changes have been required.

Culture & Awareness:

- 4.13 A strong anti-fraud Culture is key to preventing and detecting fraudulent / corrupt activity. Critical to the development / maintenance of this culture is an awareness of policies and procedures.
- 4.14 Since 2009, 1st, 2nd & 3rd tier officers have been asked to complete an Organisation Values Survey to obtain feedback about the leadership values (agreed in 2007 and enshrined in the Council's Code of Corporate Governance in 2008) i.e. whether these are being lived, and also to obtain opinions on the Council's ethical framework through responses to a number of related statements.
- 4.15 The results to the 2011 survey were very positive. A 'green' status was recorded against 'Ethics' linked to the 'Integrity' Value (honesty, openness, trust, enjoyment, professionalism, pragmatism, excellence). A further 'green' status resulted from answers in relation to the Principle that 'the Authority will promote values and behaviours for the Authority that will demonstrate how it will uphold good governance and high standards of conduct'.
- 4.16 In addition to the regular Organisation Values Survey, the Council has completed an extensive Staff Survey the last one being in 2008 (note: the 2011 Staff Survey was despatched to staff on 11th November). One statement posed for a response in the 2009 Survey was "I think it is safe to speak up and challenge the way things are done". This resulted in very positive feedback in 2008 with 83% of responses not disagreeing with that statement. This had increased at each survey completed from a low point of 57% in 1998.
- 4.17 The Action Plan in Appendix 1 records an action to liaise with Communications and Marketing to consider the inclusion of similar statements to monitor the anti-fraud culture in the Council in future staff surveys.

- 4.18 As part of developing an anti-fraud & corruption culture within the Council and promoting awareness, Audit & Risk prepare and issue a periodic Fraud Bulletin.
- 4.19 The purpose of the Bulletin is to promote fraud awareness by communicating information on known fraudulent activity to Council staff and Members. Cases reported in this Bulletin may be examples where the Council, Schools and other organisations have been targeted by fraudsters or are frauds / scams which are investigated by Council staff whilst carrying out their official duties (e.g. Benefit & Trading Standard investigations).
- 4.20 The latest version of the Fraud Bulletin was issued in September 2011 and is available via the intranet. It included an introduction by the Chair of the Corporate Audit Committee, promoting a strong counter fraud culture. Its availability was publicised using the Council's 'Staff Matters' electronic newsletter. In addition a copy was sent to all B&NES Schools via e-mail.
- 4.21 Whistleblowing posters have been distributed for display in Council buildings and with the number of recent changes to Council corporate buildings a new version of the poster is about to be distributed for display (see Appendix 1).

Audit & Risk Team 'Planned' & 'Responsive' Work

- 4.22 All planned work by the Audit & Risk Team considers 'safeguarding the council's assets'. The annual audit plan continues to include specific "Anti-fraud" work, focussing on high risk activities / functions to verify that systems of internal control are operating and that any actual or attempted fraudulent activity is identified and managed.
- 4.23 The Council's Financial Regulations places a duty on all staff to report suspected cases of financial irregularity. In addition, senior management are required to report financial irregularities to the Audit & Risk Team who act on behalf of the Director of Resources. The Audit & Risk Team respond promptly to all reported cases. The investigation of such cases can take considerable time and resources.
- 4.24 The experience and knowledge of the Audit & Risk Team is used to assist in any investigation required. This is primarily around investigating the internal control breakdown(s) so any weaknesses / risks are identified and actions are taken to manage them. In addition, the team may lead or assist with the related staff disciplinary process.
- 4.25 During periods of economic downturn and financial constraint the expectation would be that fraud and theft would increase and that would mean an increase in financial irregularities being investigated. This has not been the experience during the first half of 2011/12 and compared with past years the level of reported fraud and theft is currently very low.
- 4.26 During 2011/12 the following are examples of areas the Audit & Risk Team have been informed of:
- **Cheque Fraud** - Several schools have been experiencing cheque frauds, the severest of which amounted to 17 cheques with a total value in excess of £41,000. The fraudsters managed to obtain / intercept cheque payments and in one case a cheque was sent to an address which the supplier had vacated but

had failed to inform the school. The cheque was then copied and amended - payee details, payment amount, dates and cheque numbers. Although this is concerning for the schools concerned the National Westminster Bank have agreed repayment of the funds very speedily and have their own fraud team to carry out subsequent investigations.

- **Theft** -On-going thefts of scrap metal from recycling centres managed by Waste Services. Management have recently installed CCTV in an attempt to deter the perpetrators.
- **Cash** - A customer complaint which resulted in the identification of poor cash handling and banking procedures in one particular service area. The Audit & Risk Team are liaising with management to improve the system of internal control as a matter of urgency.

4.27 As part of the Council / PCT Integration initiative, a working protocol has been agreed and published between the Council's Internal Audit Team and the NHS Dorset & Somerset Counter Fraud & Security Management Service, who carry out investigations of fraud and corruption on behalf of the PCT. Periodic meetings take place with the NHS Counter Fraud team to exchange views, learn lessons and promote best practice.

4.28 Quarterly meetings now take place with the Council's External Auditors, the Audit Commission, to discuss and share work programmes.

4.29 We continue to liaise and network both through the West of England Chief Internal Auditors' network (covering Local Authority Audit Teams from Swindon down to Cornwall) and the Western Unitaries network (the Ex-Avon and Swindon Audit Teams).

4.30 In particular, the West of England Fraud Sub-Group is a very active group, exchanging information, providing an excellent source of expertise and knowledge, with group members sharing best practice.

National Fraud Initiative:

4.31 The National Fraud Initiative is an exercise led and co-ordinated by the Audit Commission and is statutory for all Local Authorities. Data is provided mainly by Local Authorities and Government Departments, The data the Council provides is principally used for cross-matching between systems and organisations to identify possible incidences of fraud or overpayment. Data sets (see 4.23 below) are matched every two years.

4.32 The data provided by the Council for the data matching exercises include Creditors, Payroll, Pensions, Concessionary Bus Travel, Resident Parking Permits, Residential Care, Blue Badges, Council Tax (Single Person Discount), Electoral Register, Market Traders, Taxi Drivers, and Personal Alcohol Licences (Note: Council Tax & Electoral Register are matched on a different two year cycle).

4.33 The role of Audit & Risk is to lead on the co-ordination of the exercise, liaise with Services (investigating data matches) and the Audit Commission to monitor and report on investigation outcomes. The Council investigates matches from the following data sets: Creditors, Housing Benefits, Payroll, Pensions, Concessionary

Bus Travel, Resident Parking Permits, Residential Care, Blue Badges, Insurance, Council Tax (Single Person Discount) and Electoral Register.

4.34 On a national level the Audit Commission reports the data matching and investigation exercise identifies significant fraud. In 2008/09, this was reported as totalling £215million. Despite, these large figures being reported, historically this Council has identified very little fraud and overpayments.

NFI Year	Data Matches to investigate	Value of Fraud & Overpayments identified
2004/05	3,875	£13,642
2006/07	39,344 *	£73,816 **
2008/09	8,668	£11,500 ***
2009/10 (Council Tax & Electoral Register Data Matching)	1,237 (1,003 C/Tax to E/ Register; C/Tax rising 18 234)	£15,876.09 (19% of total from NFI /Experian data matching exercise - 2010/11 £82,568).
2010/11	7926 ****	To be confirmed (see 4.26 below)

- * over 30,000 related to Creditor Payment matches
- ** approx.. £73,000 was in respect of Pension overpayments (abatements)
- *** All in respect of Housing Benefits
- **** 2,329 matches have been processed (another 875 are in the process of being 'investigated' with a target completion date of 31/12/11).

4.34 Preliminary Results of NFI 2010/11 to date:

- 72 Cancelled Blue Badges (approximately 0.8% of total - 8,700 in circulation) – Holders deceased (as notified by Department Works & Pensions).
- 958 Cancelled Concessionary Travel Passes (approximately 3% of total - 35,000 in circulation) – Holders deceased

Compliance with new legislation and related best practice:

4.35 As detailed in 4.5 above the Bribery Act 2010 came into effect on the 1st July 2011 and a Bribery Act 2010 Briefing has been added to the Anti-Fraud & Corruption Policy (Appendix 3) to assist in communicating the offences and the 'good practice' principles to prevent bribery.

4.36 'Good practice' related to the 2010 Act refers to six principles. The review of anti-fraud and corruption arrangements has included an initial assessment of the Council's status for each of the 'good practice' principles:

1) Risk Assessment –bribery risks are identified and assessed.
'Green' Status.

An initial RAG risk assessment (**pre-mitigating actions**) has been completed based on the following criteria:

- a) Operational Functions – Considering bribery risk based on the type of operation(s) managed - likelihood of Council representatives being offered or offering payments, gifts, hospitality etc.
- b) Contracting & Purchasing – Considering bribery risk based on the number, type and size of contracts / payments - likelihood of Council representatives being offered or offering payments, gifts, hospitality etc.
- c) Foreign Operations - Considering bribery risk based on the likelihood of visiting other countries or hosting foreign visits- likelihood of Council representatives being offered or offering payments, gifts, hospitality etc.
- d) Use of consultants / external organisations – Considering bribery risk based on the use of these to carry out business on behalf of the Council.

Directorate Area	Operational Functions	Contracting & Purchasing	Foreign Operations	Use of Consultants, External Organisations
People & Communities Directorate				
Places Directorate				
Resources Directorate				

Even though we have assessed areas at being at medium to high risk, when we take into account the framework of internal control which is subject to regular monitoring and review (see below), the residual risk would be assessed as low.

2) Top Level Commitment - this is obtained through the adoption and dissemination of Council Policy and procedures. These are subject to regular review by the Council’s Corporate Audit Committee and are effectively disseminated through the Council’s communication processes. This helps to foster a culture of ‘zero tolerance’.
'Green' Status.

3) Proportionate Procedures - The Council’s Anti-Fraud & Corruption Policy and related procedures have been reviewed and are considered proportionate to the risks it faces based on the nature scale and complexity of its operations.
'Green' Status.

- 4) Due Diligence** - in respect of the organisations / person(s) who will/do perform services for or on behalf of the Council. This area may require more work to obtain assurance that sufficient action is taken to confirm that reciprocal anti-bribery agreements are in place.
'Amber' Status.
- 5) Communication** - the Council already has procedures in place to ensure fraud and corruption policies and procedures are communicated and understood by its staff. These include the regular publication of a fraud bulletin highlighting recent cases and reminding staff of controls including reference to existing Council Policies and procedures. Based on the risk assessment (pre mitigating actions) there may be a need for targeted communications to high risk staff (those in a position to be subject to bribery). Contract documentation is clear that attempting to bribe Council officials will not be tolerated.
'Amber' Status.
- 6) Monitoring and Review** - The internal audit and external audit functions review the adequacy of internal controls (including policies and procedures) and confirm on-going compliance. The Audit & Risk Team include an element of anti-fraud and corruption work in their Annual Audit Plan.
'Green' Status.

5. RISK MANAGEMENT

- 5.1 The risks in relation to fraud and corruption are significant as detailed in Section 3 above. The purpose of this report is to highlight the risks to the Council and to provide assurance to the Committee that action is being taken to prevent, detect and investigate wrongdoing and that the Council has a plan to maintain the momentum in combatting fraud and corruption to protect Council's resources and its reputation.

6. EQUALITIES

- 6.1 A proportionate equalities impact assessment has been carried out in relation to this report. There are no significant issues to report to the Committee.

7. CONSULTATION

- 7.1 The report was distributed to the S151 Officer and Monitoring Officer for consultation.

Contact person	<i>Andy Cox (01225 477316) or Jeff Wring (01225 477323)</i>
Background papers	
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1 – Action Plan – Review of Anti-Fraud and Corruption Arrangements

Action Reference	Action Required	Responsibility	Action Date
1	Obtain the input of Corporate Audit Committee in relation to the maintenance of : 1) Anti-fraud & Corruption Policy, 2) Whistleblowing Policy, 3) Fraud Response Plan 4) Anti-Money Laundering Policy.	Group Manager (Audit & Risk)	6/12/11
2	Build upon information / guidance available through the intranet (New Starter Induction webpages) related to Council rules and regulations by considering the use of the Corporate Induction one day course.	Group Manager (Audit & Risk)	31/03/2012
3	Continue to use the Fraud Bulletins to raise / maintain awareness of fraud risks. Refer to relevant Council rules, regulations, policies, procedures.	Group Manager (Audit & Risk)	Ongoing - Quarterly
4	Revise and update the Council's Whistleblowing Poster and arrange for copies to be prominently displayed in all appropriate Council premises.	Group Manager (Audit & Risk)	31/03/2012
5	Audit & Risk Team to consult with Divisional Directors and Managers to identify all Council activities / functions for audit planning purposes. This should enable all activities / functions to be assessed in terms of potential financial irregularity risk to enable Anti-Fraud and corruption work to be scheduled / agreed and a full risk assessment to take place.	Group Manager (Audit & Risk)	31/03/2012

APPENDIX 1 – Action Plan – Review of Anti-Fraud and Corruption Arrangements

Action Reference	Action Required	Responsibility	Action Date
6	Audit & Risk to continue to co-ordinate the Council's response to the National Fraud Initiative and monitor the outcomes. If any serious control breakdowns are identified these should be resolved by liaising with the relevant Council Service.	Group Manager (Audit & Risk)	Ongoing
7	Based on the creation of the Social Enterprise (Sirona) and the proposed changes to the NHS the Audit & Risk Team will liaise with the NHS Counter Fraud Team to consider changes to the existing joint working protocol.	Group Manager (Audit & Risk) NHS Counter Fraud Team	31/03/2012
8	The current annual survey of 1 st to 3 rd tier officers on Organisational Values is continued.	Head of Risk & Assurance	30/07/2012
9	Work with Communications and Marketing to consider the development of the Staff Survey to monitor the anti-fraud / corruption culture of the Council.	Group Manager (Audit & Risk)	31/12/2012
10	Review counter fraud arrangements in context of the National Fraud Authority Strategy for Local Government, Fighting Fraud Locally (to be published shortly).	Group Manager (Audit & Risk)	31/03/2012
11	Review whistleblowing arrangement for residents and visitors to the area.	Group Manager (Audit & Risk)	31/03/2012

APPENDIX 1 – Action Plan – Review of Anti-Fraud and Corruption Arrangements

Action Reference	Action Required	Responsibility	Action Date
12	Develop a 'database' of actual or attempted frauds scams (financial irregularities) so assurance can be provided that systems of control in relation to these irregularities have been tested and assessed as robust as at a point of time.	Group Manager (Audit & Risk)	31/03/2012
13	Consider the British Standard Institutes new standard BS10500 designed to verify both internally and to external stakeholders that robust anti-bribery practices are in place and operating. Take any action as necessary.	Group Manager	31/03/2012

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Bath & North East Somerset Council

Anti Fraud and Corruption Policy

The Council is committed to tackling fraud and corruption whether within or external to the organisation.

It will ensure that –

- Everyone within the organisation or within Partner organisations takes responsibility for the prevention and detection of fraud and corruption (including Bribery);
- There is compliance with key policies and procedures;
- Fraud and corruption is not tolerated and that all such cases are thoroughly investigated;
- Officers, Members and Partners receive proper guidance regarding anti fraud and corruption issues;
- High standards of ethical behaviour & internal control are promoted;
- There is a safe environment to report suspected cases of fraud and corruption;
- Rigorous action is taken against anyone found guilty of fraud or corruption. This will be through the Council's disciplinary process and by taking legal action as appropriate.

This document is aimed primarily at Members and employees of Bath and North East Somerset Council. It is published on the Council's website so that residents, businesses and Council partners are fully aware of the Council's commitment to the prevention and detection of fraud.

The Policy is made up of the following:

1. [Overall Aims](#) – of the Policy.
2. [Definitions](#) – of fraud and corruption
3. [Key Principles](#) – embedded in the culture of the Council.
4. [Roles and Responsibilities](#)– in minimising the risk of fraud and corruption.
5. [Investigating suspected cases of fraud](#) – guidance for Managers.
6. [Awareness and Training](#) – for Members and employees.

Other related documents:

- [Appendix 1 - Whistleblowing Policy](#)
- [Appendix 2 - Fraud Response Plan](#)
- [Appendix 3 – Bribery Act 2010 Briefing](#)

Related Links

- [Members Code of Conduct](#)
- [Employees Code of Conduct](#)
- [Contract Standing Orders](#)
- [Financial regulations](#)

1. Overall Aims

1.1 Bath and North East Somerset Council recognises the responsibility it has for the safeguarding of public funds and is fully committed to dealing with fraud and corruption (including bribery) whether attempted from inside or outside the Council.

1.2 Fraud and corruption undermine the high standards of public service that the Council promotes and so it has implemented this Anti-Fraud and Corruption Policy with the aims of -

- Providing guidance to Members and employees;
- Encouraging prevention;
- Promoting detection; and
- Identifying a clear pathway for investigation.

1.3 In support of this Policy the Council expects

- all Members and employees to carry out their duties and responsibilities in accordance with relevant legal requirements, internal protocols, rules and procedures and to act with integrity and ethically (honesty and openness) at all times;
- all outside individuals and organisations, including suppliers, contractors and claimants, act towards the Council with integrity and ethically;
- all partners, whether commercial, public sector or voluntary show the same commitment to high ethical standards required by this Policy.

1.4 The Council will take all available action to recover any losses suffered by fraud or corruption including legal action where appropriate.

2. What are Fraud and Corruption?

Fraud- Fraud is an intentional deception made for personal gain or to damage another individual or entity. Defrauding people or entities of money or valuables is a common purpose of fraud. The 2006 Fraud Act defines three classes of fraud - fraud by false representation, fraud by failing to disclose information, and fraud by abuse of position. The 2006 Act largely replaced laws relating to obtaining property by deception, obtaining a pecuniary advantage and other offences that were covered by the Theft Act 1978. However, the offence of making off without payment is still covered under this Act.

Corruption – Corruption is the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person. The Bribery Act 2010 (see Appendix 3) has defined offences of offering and requesting bribes and has created a corporate offence of failing to prevent bribery through the lack of adequate procedures.

3. Key Principles of the Policy

3.1 The Council is determined that the culture of the organisation will continue to be one of honesty and opposition to fraud and corruption and it expects staff and Members, at all levels, to lead by example in complying with this Policy.

3.2 The Council's staff are positively encouraged to raise any concerns about fraud and corruption and can do this in the knowledge that these will be treated in confidence and properly investigated.

3.3 Members, employees or the public must feel able to raise concerns with the Council if they reasonably believe that one or more of the following is occurring:

- A criminal offence.
- A failure to comply with a statutory or legal obligation.
- Improper or unauthorised use of public or other official funds.
- A miscarriage of justice.
- Maladministration, misconduct or malpractice.
- Endangering an individual's health and/or safety.
- Damage to the environment.
- Deliberate concealment of any of the above.

3.4 Full information about how to raise concerns is set out in the Council's [Whistleblowing Policy](#) (see Appendix 1).

3.5 The Whistleblowing Policy aims to -

- encourage individuals to feel confident in raising serious concerns and to question and act upon concerns about practice;
- provide avenues by which these concerns can be raised and subsequently to supply feed back on any action taken;
- ensure that a response is provided to any concerns raised and that people raising concerns are aware of how to pursue them if they are not satisfied;
- reassure individuals that they will be protected from possible reprisals or victimisation if they have made any disclosure in good faith.

4. Roles and Responsibilities- in Minimising Risk of Fraud

and Corruption

4.1 Elected Members

- As elected representatives, all Members of the Council have a duty to the residents of Bath and North East Somerset, to protect the assets of the Council from all forms of misuse. This is done through:
 - (a) the adoption and enforcement of this Policy, [the Fraud Response Plan](#) and [the Whistleblowing Policy](#);
 - (b) personal compliance with the Bath & North East Somerset Local Code of Conduct for Councillors;
 - (c) operating in accordance with the terms of the Council's Constitution, including in particular its Contract Standing Orders and Financial Regulations.
- In the first instance Members should contact the Chief Executive or the Director of Resources & Support Services about any concerns they may have regarding possible fraud or corruption suspicions. They will then be referred to the most suitable contact officer within the Council. If this is not possible due to the nature of the concern, contact could be made with the Council Solicitor or the Head of Risk & Assurance.

4.2 Management

- The Council is required under the Audit and Accounts Regulations to ensure the proper administration of the Council's financial affairs and has designated the Director of Resources & Support Services as the responsible officer for this purpose. To assist this officer in the discharge of these duties, all financial recording systems must be designed in consultation with and to the satisfaction of the Head of Risk & Assurance.
- It is the responsibility of all Managers in the Council (including Headteachers) to maintain effective internal control systems for all financial records. This includes the responsibility for the prevention and detection of fraud and other illegal acts. The Head of Risk & Assurance will support Managers with this responsibility by undertaking an agreed programme of work to evaluate the adequacy and effectiveness of these controls. This programme (the Annual Audit Plan) will be regularly monitored by the Corporate Audit Committee of the Council.
- Managers are responsible for ensuring that:
 - a) they and their staff understand how Council policies and procedures such as Financial Regulations, Financial Standards and Contract Standing Orders impact on their Service;
 - b) they and their staff always comply with Council policies and procedures and are aware of any service specific procedures in

relation to fraud and corruption;

- c) they fully consider and act upon promptly any recommendations and advice from the Risk & Assurance Service when system weaknesses are identified which expose the Council to the risk of loss.
- Managers are expected to create a working environment in which their staff feel able to approach them with any concerns they may have about suspected irregularities.
 - Special arrangements will apply where employees are responsible for cash handling or in charge of systems that generate payments, for example Payroll or the payment of Housing Benefit. In these circumstances, Managers must ensure that adequate and appropriate training is provided for staff and that checks are carried out from time to time to ensure that the appropriate controls and procedures are being followed.
 - The Council operates rigorous recruitment processes, which includes the verification of all references and the completion of the appropriate level of CRB checks for staff (including enhanced CRB checks for those that have contact with children or vulnerable adults), prior to them taking up their appointment. Managers must ensure that references, qualifications and CRB checks (where these are required) of all proposed new employees are thoroughly followed up and checked prior to a position being offered.

In particular, where posts are considered high risk relating to fraud and corruption an in depth vetting of references for proposed new employees should be carried out. This should include:

- a) At least 2 written references – one of which is from current or most recent employer,
 - b) Verifying that previous employers are genuine,
 - c) Ensuring that the required skill profile is met,
 - d) Verifying educational and professional qualifications,
 - e) Verifying previous employment and duties performed.
- Management are responsible for following up any allegation of fraud or corruption received and will do so by taking the following action:
 - a) Comply with Financial Regulations and immediately inform the appropriate officer as per the [Whistleblowing Policy](#) and respond accordingly;
 - b) recording and securing all evidence presented to them;
 - c) ensuring that evidence is sound and adequately supported;
 - d) implementing Council disciplinary procedures where appropriate.

- Senior Managers are expected to deal swiftly and firmly with those who defraud the Council or who are corrupt.
- The investigation process must not be misused and any abuse, such as raising malicious allegations, will be dealt with as a disciplinary matter.

4.3 Employees of the Council

- Employees are expected to work towards giving the highest possible standard of service to the public.
- All employees are responsible for ensuring that they follow the instructions given to them by Management, particularly in relation to the safekeeping of the assets of the Council.
- All employees should be aware of the following key documents which apply to them in addition to this Policy:-
 - a) Employees Code of Conduct
 - b) Financial Regulations (and Financial Standards)
 - c) Contract Standing Orders
 - d) [Whistleblowing Policy](#)
- Employees may be required to disclose information about their personal circumstances in accordance with these documents. This may relate to any interest in, or association with, any Council contract or an interest in any activity of the Council that could lead to a potential conflict of interest.
- All employees play an important role in preventing and detecting theft, fraud and corruption. They should always be aware of the possibility that it may exist in the workplace and be able to discuss any concerns with their Line Manager if they suspect financial irregularities are occurring or could occur because internal controls are weak.
- If, for any reason, employees feel unable to speak to their Manager they should refer to the Council's [Whistleblowing Policy](#), which identifies a number of other officers to contact. In respect of queries with regard to suspected financial irregularities, the Head of Risk & Assurance is the nominated contact officer. All cases are treated seriously and contact can be made anonymously.

4.4 General Public, Contractors and Partners

- Members of the public, external contractors and council partners are encouraged to report concerns through:
 - a) Strategic Directors and Divisional Directors
 - b) The Chief Executive
 - c) The Risk & Assurance Service
 - d) The Council's Complaints procedure
 - e) The Benefit Fraud 'Hot Line'
 - Local - 01225 477768
 - National – 0800 328 6340
 - f) In certain circumstances the Council's External Auditor (currently The Audit Commission).

4.5 Internal Audit Function

- The Internal Audit function is carried out by the Audit & Risk Team (part of the Risk & Assurance Service) and has a proactive role in ensuring that systems and procedures are in place to prevent and deter fraud and corruption.
- The Audit & Risk team has responsibility for:
 - a) Assisting with the detection of fraud by undertaking an annual programme of anti-fraud transaction testing. This work may also assist in the deterrent of fraud and corruption.
 - b) Examining all allegations of fraud or corruption received from whatever source including anonymous information
 - c) Investigating all employee related cases of suspected fraud or corruption, with the exception of benefit claims cases, in accordance with the [Fraud Response Plan](#) (see Appendix 2).
 - d) Providing the Corporate Audit Committee and the Director of Resources & Support Services with an annual opinion of the adequacy of control over the assets of the Council.

4.6 "Lessons Learnt"

- During the investigation of individual cases of potential fraud and corruption by the Audit & Risk Team, failures in the framework of internal controls will be identified and documented to enable corrective action to be taken to prevent further losses to the Council. Management will be responsible for implementing internal controls and verifying their continued application.

4.7 External Audit

- Independent External Audit is an essential safeguard of the stewardship of public money. The External Auditors deliver this by carrying out specific reviews that are designed to test the adequacy of the Council's financial systems and arrangements for preventing and detecting fraud and corruption.
- It is not External Audit's function to prevent fraud and irregularity but they are always alert to the possibility and will act without delay if grounds for suspicion come to their notice.

4.8 Revenues & Benefits Visiting Team

- Surveys by the Audit Commission have identified that Housing and Council Tax Benefit Fraud is the largest area of detected fraud in local government.
- The Visiting Team, who are responsible for all outside visits of the Revenues and Benefits Service, have a crucial role to play in the detection and prevention of benefit fraud. They undertake all investigations of suspected Benefits fraud and this is supported by their own Counter Fraud and prosecutions policies.
- Whilst encouraging genuine claimants to apply for benefit the Council has adopted a number of initiatives to detect and prevent fraudulent applications including:
 - a) a Policy to undertake the prosecution of persons who have committed criminal offences, in dishonestly obtaining Housing and or Council Tax Benefit to which they were not entitled;
 - b) a specific Anti-Fraud/Counter Fraud policy for Benefits;
 - c) all Benefit staff receiving on-going training in fraud awareness;
 - d) the establishment of Codes of Conduct for Benefits staff. These explicitly state that no employee should deal with any claimant who is personally known to them or get involved in any case where they have a pecuniary interest, e.g. the claim is in respect of a property they own or for a member of their family.

5. Investigation of Suspected Cases of Fraud or Corruption

5.1 The Council's Financial Regulations require Senior Management to immediately inform the Director of Resources & Support Services (through the Head of Risk & Assurance) of any financial irregularity or suspected irregularity. Immediate reporting is essential because it:

- a) Ensures consistent treatment;
- b) Enables an investigation to be assisted by an independent team;
- c) Ensures that agreed investigation procedures are followed (i.e. the [Fraud Response Plan](#)).

5.2 Depending on the nature and the anticipated extent of the allegations, the Risk & Assurance Service may refer the case to other Agencies, such as the Police. Referral to the Police is a matter for agreement between Risk & Assurance, the relevant Senior Manager and / or Strategic Director and the Council Solicitor.

5.3 If the potential investigation is to be carried out within the Adult Health, Social Care & Housing Directorate, both within the Commissioning or Delivery Services, the Head of the Dorset & Somerset Counter Fraud & Security Management Service must be notified.

5.4 In this respect, there is an agreed working protocol in place between the Council's Risk & Assurance Service and the Dorset & Somerset Counter Fraud Service, involving all allegations of fraud & corruption within the Adult Health, Social Care & Housing Directorate.

5.5 Referral to the Police will not prohibit and should not delay action under the Disciplinary Procedures. This will ensure that all allegations and evidence are properly investigated and reported upon, and the financial implications for the Council are minimised.

5.6 If the investigation is within the Adult Health, Social Care & Housing Directorate, the Internal Audit Lead Officer will work alongside the nominated officer from the Dorset & Somerset Counter Fraud Service.

5.7 Prosecution

- The Council will prosecute where it is considered appropriate. In particular, the Council has issued a Prosecution policy in relation to Benefit fraud. It is designed to deter others from committing offences against the Council whilst recognising that it is not always in the public interest to refer cases for criminal proceedings.

5.8 Disciplinary Action

- The Council's Disciplinary Procedures will be used where the outcome of an investigation indicates improper behaviour by a Council employee.
- Fraud and corruption are serious offences against the Council and employees will face disciplinary action if there is evidence that they have been involved in these activities in addition to, or instead of, criminal

proceedings, depending on the circumstances of each case.

- The Council will attempt to recover all possible financial losses.

5.9 Publicity

- Where a case is referred to the Police for criminal proceedings and is subsequently brought to Court, the Council's Head of Communications and Marketing will be advised by the appropriate Senior Manager. It is hoped that any resultant publicity will demonstrate that the Council takes action where wrongdoing is identified and that this will deter any potential fraudsters

6. Awareness and Training

- The Council recognises that the continuing success of this Policy and its general credibility depends in part on the effectiveness of training and awareness for Members and employees. The Policy is an integral part of the induction programme and there is specialist training for certain elected Members and employees.
- Regular awareness by managers' briefings, leaflets and other methods will ensure that the Policy is continually publicised. Full details of the Anti-Fraud and Corruption Policy (including the Whistleblowing Policy and Fraud Response Plan) are available on the Council's Intranet and the public website.
- In addition external fraud alerts and periodic fraud bulletins are circulated to all appropriate staff and appear on the Risk & Assurance section of the Intranet.
- The Council commits to reviewing this Policy on an annual basis by the submission of a report to the Corporate Audit Committee from the Head of Risk & Assurance.

Appendix 1

Whistleblowing Policy

What is Whistleblowing?

- Someone blows the whistle when they tell someone in authority about a dangerous, illegal or unethical activity that they are aware of through their work. This can include health and safety risks, environmental issues, fraud, poor standards of care and other problems.

Why is Whistleblowing important?

- This Council is committed to the highest possible standards of service and being open, fair and honest. It recognises that all staff, Members and others associated with the Council are often the first to realise that there may be something seriously wrong. Whistleblowing, enabled by this policy, provides a structured way for this important information to come to light.

Why does the Council need a Whistleblowing policy?

- Under the requirements of the Public Interest Disclosure Act 1998, it will:
 - a) encourage employees, Members and others who have serious concerns about any aspect of the Council's work to voice them;
 - b) recognise that certain cases have to proceed on a confidential basis;
 - c) enable participation without fear of reprisals;
 - d) enable employees, Members and others to raise serious concerns within the Council rather than overlook a problem.

Who does the Whistleblowing policy apply to?

- All employees, whether full or part time, permanent or temporary.
- Elected Members.
- All staff working in schools and School Governors.
- All contractors, agencies and partners.

What is covered by the Whistleblowing policy?

- The Policy:
 - provides avenues for the raising of concerns;
 - provides procedures for how action taken will be reported back to the whistleblower;
 - allows for the matter to be taken further if there is dissatisfaction with the Council's decision;
 - underpins the Anti-Fraud and Corruption Policy and will aim to reassure anyone whistleblowing that they will be protected from reprisals or victimisation for acting in good faith.
- The Policy does not replace:
 - the Council's complaints procedure;
 - the Council's grievance procedure;
 - the Employees' Code of Conduct;
 - specific Council procedures (e.g. **those specific to Adult and Childrens' Services**);
 - managerial responsibilities

When should I raise a Concern?

If you find out about, or have suspicion of, any activity that could be detrimental to the Council. These activities may include:

- conduct which is an offence or a breach of law;
- disclosures relating to miscarriages of justice;
- health & safety risks to public or employees;
- damage to the environment;
- unauthorised use of public funds;
- possible fraud and corruption;
- breaches of the Council's policies, rules and regulations including Financial Regulations, Contract Standing Orders;
- falling below established professional standards or practices;
- improper or unethical conduct; or
- the abuse or neglect of service users.

(This list is not exhaustive).

What if I don't want to reveal my identity?

- The Council will respect the confidentiality of anyone raising a concern and will do everything in its power to protect the identity of that individual whether they are an employee, Member or an external source.
- However, as a result of the investigation process a statement may be requested to contribute to the evidence collected. In all such cases the provision of a statement will be discussed with you.

Can I raise my concern anonymously?

- Yes. However the Council would encourage you to put your name to an allegation. Formal statements do help to build a case and add credibility to allegations. The key factors to be taken into account when investigating allegations are:
 - seriousness of the issues raised;
 - credibility of the concern and likelihood of confirming the allegation.

Will I be protected from possible Harassment or Victimisation?

- The Council recognises that the decision to report a concern can be a difficult one to make, not least because of the fear of reprisal from those responsible for malpractice. The Council will not tolerate harassment or victimisation and will take action to protect anyone raising a concern in good faith.
- If an employee is the subject of disciplinary or redundancy procedures when they raise their concerns, then those procedures will not automatically be affected. The information provided would be assessed in the light of the new circumstances and a decision taken as to how, if at all, those proceedings should be affected.

Will I be subject to any sanctions if the allegation is not proven?

- When an allegation is made in good faith, but is not confirmed by the investigation, no action will be taken against the person voicing the concern.
- If, however, an employee or Member makes a malicious or vexatious allegation, disciplinary action may be taken. The conduct of the Member may be the subject of consideration by the Standards Committee under the provisions of the Bath & North East Somerset Local Code of Conduct for Councillors. The conduct of employees may be subject to the Council's Disciplinary Process.

How do I go about raising a concern?

- Employees should initially raise concerns with their Line Manager. School staff should raise concerns with the Headteacher or the Chair of Governors. However, this does depend on the seriousness and sensitivity of the issues involved and who is thought to be involved in the matter that concerns them.
- Governors should raise concerns with the Director of Children's Services.
- If the matter is more serious or it is not appropriate to raise with Line Management then any of the following should be contacted :-
 - a) Senior Management i.e. Strategic Director or Divisional Director;
 - b) Chief Executive;
 - c) Head of Risk & Assurance;
 - d) Head of Human Resources;
 - e) Council Solicitor;
 - f) Leader of the Council.
- Where there are local specific procedures relating to the raising of concerns (e.g. **Adult Health, Social Care & Housing and Children's Services**) then these procedures will apply.
- Outside agencies and partners should raise concerns with the appropriate Senior Manager or Director. Where this is not appropriate they should contact the Council Solicitor or the Chief Executive.

Who will be told about my concern?

- There are also certain officers with delegated responsibilities who will need to be contacted on certain matters. However they will not be advised of your identity without your approval. They are
 - a) Council Solicitor,

In respect of actual/potential unlawful conduct, maladministration, breach of the Bath & North East Somerset Local Code of Conduct for Members or breach of law:
 - b) Head of Risk & Assurance,

In respect of any actual/potential irregularity affecting Council resources.
 - c) Head of Human Resources,

In respect of any matters relating to human resource or personnel issues.

How should I raise my concern?

- Concerns are better raised in writing and should incorporate relevant information about specific incidents. The background and history of the concern including names, dates and places where possible and the reason why you are particularly concerned about certain situations should also be provided. If you are unable to express your concerns in writing, then you should contact the appropriate officer by telephone or arrange to meet them.

Do I have to provide proof of the allegation?

- Although you are not expected to provide evidence of an allegation, you will need to demonstrate to the appropriate officer contacted that there are sufficient grounds for raising the concern.

How will the Council respond to my concern?

- The action taken by the Council will depend on the nature of the concern. The matters raised may be :
 - a) Resolved without the need for investigation;
 - b) Investigated internally;
 - c) Referred to the police;
 - d) Referred to the External Auditor; or
 - e) Form the subject of an independent inquiry.
- In order to protect individuals and the Council, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. Concerns or allegations, which fall under the scope of specific procedures (e.g. **Adult Health, Social Care & Housing**), will be referred for consideration under those procedures.
- As soon as possible after a concern has been raised (normally within 10 working days) the Council will write to the individual concerned to acknowledge the issue that has been raised and to indicate the future course of any action.

Will I be involved with the investigation?

- The amount of contact between the individual raising the concern and the officers considering the issue will depend on the nature of the matters raised. The individual may be approached to provide further information.
- If a meeting is arranged then the individual concerned has the right to be accompanied by an appropriate person; this could be a Trade Union representative, a fellow Member or some other person of their choice.

Will I be informed of the outcome of the investigation?

- The person raising a concern will need to be assured that the issue has been appropriately addressed. Therefore the Council, subject to legal constraints, will inform them in writing about the outcomes of any investigations.

How can I take a concern further?

- This Policy is intended as an avenue for individuals to raise concerns **within** the Council. The objective will be to investigate reported concerns to the satisfaction of all parties. However, if you are not satisfied you may take your concerns outside of the Council and these are possible contact points:
 - Local Council Members;
 - Your Member of Parliament;
 - The External Auditor;
 - Relevant professional bodies or regulatory organisations;
 - A solicitor;
 - The police.

Appendix 2

Fraud Response Plan

Why do we need a Fraud Response Plan?

- The main purpose of this Fraud Response Plan is to set out the procedures to be followed where a fraud is suspected or detected. As such it forms part of the Council's Anti Fraud and Corruption Policy and therefore is applicable to all Members and staff. It can also be referred to, as considered appropriate, by the public, Council partners and voluntary agencies.
- The Fraud Response Plan is set out over 3 distinct sections:

Section 1 – Reporting a suspected fraud

Advice on what you should do if you think there is a fraud – who you should contact – what you must not do – and other “do’s and don’ts”.

Section 2 – Action by Managers following allegations of Fraud or Corruption

Advice for Managers on what they need to do if they suspect or are advised of a suspected fraud – including “do’s and don’ts”.

Section 3 – Investigation procedures in cases of Fraud

Detailing the procedures that are to be followed when a suspected fraud or allegation of corruption has been referred for investigation and an Investigating Officer and an Internal Audit lead officer have been appointed.

Section 1 – Reporting a suspected fraud

What you should do if you suspect fraud or corruption.

DO's

- **do raise the matter**

the sooner the problem is raised and looked into the sooner any wrongdoing can be stopped.

- **do make an immediate note of your concerns**

it is important that you make an immediate note of key details such as what caused your suspicion, when things happened and who was involved.

- **do pass on your suspicions to someone in authority**

for an employee this would normally be the Line Manager. However depending on the suspicion this could be the Risk & Assurance Service, the Council Solicitor, the Director of Resources & Support Services or the Chief Executive.

for Members, the public or outside agencies this could be any of the above as considered appropriate

- **do check the Council's whistleblowing policy**

this will give you more information on how you can safely raise a genuine suspicion within the Council and who you should talk to.

DON'T s

- **don't do nothing**

if you are worried that some wrongdoing is happening within the Council, please don't keep it to yourself.

- **don't be afraid to raise your concern**

the Council's whistleblowing policy will provide safeguards.

- **don't approach or accuse any individual directly**

- **don't try to investigate the matter yourself**

both the above could only make matters worse and prejudice the official investigation.

Section 2 – Management Action following allegations of fraud.

How you should react to suspected fraud or corruption.

DO's

- **do be responsive to staff concerns**

you need to encourage staff to be able to raise any genuine concerns with you. You should reassure them that if they raise concerns with you, they will be protected from victimisation or reprisal.

- **do note details**

get as much information as possible from the person raising the concern. If they have made notes or have documentary evidence, ask for copies of these.

- **do evaluate the information objectively and consult**

before you take the matter further, you need to decide whether the suspicions seem justified. Consider the facts as you have them and consult with Risk & Assurance about what should happen next.

- **do deal with the matter promptly**

the sooner the problem is passed on by you for investigation the sooner the potential fraud or corruption can be stopped.

- **do advise the appropriate person**

the Council's Whistleblowing policy and the Fraud Response plan will detail the normal referral route for cases of suspected fraud or misconduct. You should select the appropriate reporting line which in the majority of cases should be the Risk & Assurance Service who will normally lead on fraud investigations.

DON'Ts

- **don't ignore or ridicule concerns raised with you**

as a Manager you should reassure staff about raising concerns.

- **don't approach or accuse any individuals directly**

you may inadvertently tip off a fraudster before evidence has been collected.

- **don't convey your suspicions to anyone other than those with the proper authority to investigate**

- **don't try to investigate the matter yourself**

your responsibility is to pass on to the designated officer.

Section 3 – The Fraud Investigation Process

Stage 1 Decisions to proceed with an investigation will be made by the appropriate Senior Manager in conjunction with the Head of Risk & Assurance, the Head of Human Resources and the Council Solicitor.

At this point the above officers will need to assess whether there is a requirement for any employee to be suspended.

If the potential investigation is to be carried out **within Adult Health, Social Care & Housing, both within the Commissioning & Delivery Services, the Head of the Dorset & Somerset Counter Fraud & Security Management Service must be notified.**

In this respect, there is an agreed working protocol in place between the Council's Risk & Assurance Service and the Dorset & Somerset Counter Fraud Service.

Stage 2 For each investigation, the first step will be to appoint an Investigating Officer. This will usually be a Senior Manager from the service concerned who will delegate the detailed investigation process to Internal Audit. The Head of Risk & Assurance will appoint a lead officer from Internal Audit together with supporting staff if appropriate.

Expertise from other service areas may be drafted in to support the Investigating Officer as required.

If the investigation is within **Adult Health, Social Care & Housing, the Internal Audit Lead Officer will work along side the nominated officer from the Dorset & Somerset Counter Fraud Service.**

Stage 3 The Investigating Officer will need to liaise with the Internal Audit lead officer to ensure that a plan of action is drawn up. The Internal Audit officers will as a matter of priority ensure that all relevant evidence including documentary records pertaining to the investigation are immediately secured.

Stage 4 If the investigation relates to a suspected criminal offence, the Investigating Officer will need to consider (in conjunction with other appropriate officers) whether to inform the Police.

The Police normally welcome early notification so that informal discussions can be held. If they decide that a formal police investigation is necessary then all liaison with the Police will normally be via the Internal Audit lead officer.

Stage 5 The Investigating Officer will ensure, in conjunction with the Internal Audit lead officer, that all evidence of fraud or corruption relating to the investigation is gathered objectively, systematically and in a well documented manner.

Where this is being carried out in conjunction with a Police investigation the Internal Audit lead officer will be responsible for preparing any required statements and assembling all evidence and exhibits. The Internal Audit lead officer will keep the Investigating Officer fully informed of all developments with any Police investigation.

Stage 6 During the course of the investigation, the Internal Audit lead officer will produce interim reports (which can be verbal reports) on progress and findings. These will normally be to the Investigating Officer, the Head of Risk & Assurance, Human Resources and Legal Services.

Stage 7 The Investigating Officer will produce a final report that may be used by management as a basis for disciplinary action where necessary.

Stage 8 Separately, following the disciplinary process, the Internal Audit Team will produce an Issues Report(Lessons Learnt) that identifies any system weakness that enabled the fraud to happen and put forward recommendations for improvements.

Stage 9 The Investigating Officer will ensure that all opportunities are followed to obtain compensation for any losses to the Council including insurance, voluntary restitution by the individual or by compensation claims.

Stage 10 The decision to issue press statements about fraud or corruption cases that have been investigated and proven by the Council, will be made by the Investigating Officer, Risk & Assurance, Human Resources and Legal Services together with the Head of Communications and Marketing and other relevant officers. They will take account of, on a case by case basis, any sensitivities and legal issues involved and the need for confidentiality.

Other Issues

- **External Audit**

The Council is required to report all suspected frauds of a significant value to its external auditors and this will be done by the Head of Risk & Assurance at the appropriate time.

- **Elected Members**

The Head of Risk & Assurance will keep the Corporate Audit Committee appraised of all investigations as part of the interim progress reports on the Annual Audit Plan.

Appendix 3

Bribery Act 2010 Briefing

As a community leader the Council welcomes the introduction of the Bribery Act 2010. The Council has a zero tolerance policy towards all acts of fraud and corruption including bribery.

Bribery definition:

A bribe is a financial or other advantage that is offered or requested with the intention of inducing or rewarding the improper performance of a relevant function or activity, or with the knowledge or belief that the acceptance of such an advantage would constitute the improper performance of such a function or activity.

A relevant function or activity is:

- any function of a public nature
- any activity connected with a business
- any activity performed in the course of a person's employment
- any activity performed by or on behalf of a body of persons,

Where it meets one or more of the following conditions:

- a person performing it is expected to perform it in good faith
- is expected to perform it impartially

- or is in a position of trust by virtue of performing it

The Act

The Bribery Act 2010 makes it an offence to offer, promise or give a bribe (Section 1). It is also be an offence to request, agree to receive, or accept a bribe (Section 2).

Section 6 of the Act creates a separate offence of bribing a foreign public official with the intention of obtaining or retaining business or an advantage in the conduct of business.

A corporate offence is created under Section 7 of failure by a commercial organisation to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation. An organisation will have a defence to this corporate offence if it can show that it had in place "adequate procedures" designed to prevent bribery by or of persons associated with the organisation.

Corporate Offence:

The legislation applies equally to public sector organisations as it does to the private sector.

The Government considers that procedures put in place by organisations wishing to prevent bribery being committed on their behalf should be informed by six general principles. These general principles are outcome-focused and flexible. This is to allow each organisation to tailor its policies and procedures so that they are proportionate to the nature, scale and complexity of its activities. As a result, the detail of how organisations will address these principles will vary, but the outcome should always be robust and effective anti-bribery systems and controls.

The Council and the six principles for bribery prevention

Proportionate Procedures

The Council's Anti-Fraud & Corruption Policy and related procedures have been reviewed and are considered proportionate to the risks it faces based on the nature scale and complexity of its operations.

Top level commitment

Top level commitment is obtained through the adoption and dissemination of Council Policy and procedures. These are subject to regular review by the Council's Corporate Audit Committee and are effectively disseminated through the Council's communication processes.

Risk Assessment

The Council will keep up to date with the bribery risks it faces. The Council's

adopted risk management processes are and will be used to assess risks and document action (internal controls) to mitigate identified bribery risks.

Due diligence

The Council must know who it does business with. This includes knowing why, when and to whom the Council are releasing funds, seeking reciprocal anti-bribery agreements; and being in a position to feel confident that business relationships are transparent and ethical.

Communication and training

The Council will go beyond 'paper compliance' by embedding anti-bribery in the Council's internal controls, recruitment and remuneration policies, operations, communications and training on practical business issues.

Monitoring and review

The Council will put in place auditing and financial controls that are sensitive to bribery and are transparent. The internal audit and external audit functions review the adequacy of internal controls including policies and procedures and confirm on-going compliance.

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Bath & North East Somerset Council

Anti Money Laundering Policy

1. Introduction

- 1.1 The Proceeds of Crime Act 2002 (The Act), the Terrorism Act 2000 and the Money Laundering Regulations 2007 place obligations on the Council and its employees with respect to suspected money laundering.
- 1.2 This Policy should be read in conjunction with the Guidance for Staff.
- 1.3 Any Member or employee, who in the course of Council business becomes aware that criminal property or funds could be involved, should report their suspicion promptly, in accordance with the Policy. Failure to do this may result in a criminal offence being committed

2. What is Money Laundering?

- 2.1 Money laundering is any attempt to use the proceeds of crime for legitimate purposes. Anyone becoming involved with an activity which they know, or have reasonable grounds to suspect, is related to the proceeds of crime may be guilty of money laundering.
- 2.2 The following acts constitute the act of money laundering:
 - Concealing, disguising, converting, transferring criminal property or removing it from the UK (Section 327 of the Proceeds of Crime Act 2002);
 - 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 of the Proceeds of Crime Act 2002);
 - Acquiring, using or possessing criminal property (Section 329 of the Proceeds of Crime Act 2002).

3. What are the obligations on the Council?

- 3.1 Organisations conducting “relevant business” 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;
 - Maintain client identification procedures in certain circumstances; and
 - Maintain customer due diligence records.
- 3.2 While the risk to the Council of contravening the legislation is low, it is important that all employees are familiar with their responsibilities: serious criminal sanctions may be imposed for breaches of the legislation. The key requirement on employees is to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer.
- 3.3 The following sections of this Policy provide further detail about the requirements listed in paragraph 3.1.

4. The Money Laundering Reporting Officer (MLRO)

- 4.1 The officer nominated to receive disclosures about money laundering activity within the Council is the Group Manager (Audit &Risk).

Group Manager (Audit &Risk),
Risk & Assurance Service,
The Guildhall,
High Street,
BATH,
BA1 5AW

Telephone: 01225 477316

E-mail: andy_cox@bathnes.gov.uk

- 4.2 In the absence of the MLRO, the following Audit Team Leaders are authorised to deputise for him:

Paul Chadwick, paul_chadwick@bathnes.gov.uk
Mobile: 07980998925

Dave Mahew, dave_mahew@bathnes.gov.uk
Mobile: 07980998969

Richard Howroyd richard_howroyd@bathnes.gov.uk
Tel: 07530263028

5. Reporting to the Money Laundering Reporting Officer

- 5.1 Where you know or suspect that money laundering activity is taking/ has taken place, or become concerned that your involvement in a matter may amount to a prohibited act under sections 327-329 of the Act, you must disclose this as soon as practicable to the MLRO. The disclosure should be within “hours” of the information coming to your attention, not weeks or months later.

SHOULD YOU NOT DO SO, THEN YOU MAY BE LIABLE TO PROSECUTION

6. Scope of the Policy

- 6.1 This Policy applies to all employees of the Council and aims to maintain the high standards of probity which currently exist within the Council by preventing criminal activity through money laundering.
- 6.2 This Policy is part of the Council's Anti-Fraud and Corruption Strategy.
- 6.3 Failure by a member of staff to comply with the procedures set out in this Policy may lead to disciplinary action under the Council's Employee Code of Conduct and/ or prosecution.

7. Procedures

Cash Payments

- 7.1 **The Council will not accept cash payments in excess of £5,000 in order to comply with the Money Laundering Regulations.**

Reporting

- 7.2 Any employee who suspects money laundering activity must report their suspicion promptly to the MLRO, or to the MLRO's deputy if appropriate, using the attached form (Appendix A). If you would prefer, you can discuss your suspicions with the MLRO or their deputy first.
- 7.3 The employee must follow any subsequent directions of the MLRO or deputy, and must not themselves make any further enquiries into the matter. They must not take any further steps in any related transaction without authorisation from the MLRO.
- 7.4 The employee must not disclose or otherwise indicate their suspicions to the person suspected of the money laundering. They must not disclose the matter with others or note on the file that a report has been made to the MLRO in case this results in the suspect becoming aware of the situation. (See Section 8)

- 7.5 The MLRO or deputy must promptly evaluate any Disclosure Report, to determine whether it should be reported to the Serious and Organised Crime Agency (SOCA).
- 7.6 The MLRO or deputy must, if they so determine, promptly report the matter to SOCA in the prescribed manner by submitting a Suspicious Activity Report (SAR) via the SAR online system at: [SOCA | Suspicious Activity Reports](#)
- 7.7 You will be informed if the MLRO makes a SAR report to SOCA. Officers should not complete any transactions **until clearance has been given by SOCA, or seven days have elapsed since the disclosure was made to SOCA.**
- 7.8 The MLRO or deputy will commit a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering and they do not disclose this as soon as practicable to SOCA.

Customer Due Diligence

- 7.9 Where the Council is carrying out certain 'regulated activities' then extra care needs to be taken to check the identity of the customer or client; this is known as carrying out Customer Due Diligence.
- 7.10 Regulated activity is defined as the provision 'by way of business' of: advice about tax affairs; accounting services; treasury management, investment or other financial services; audit services; legal services; estate agency; services involving the formation, operation or arrangement of a company or trust or; dealing in goods wherever a transaction involves a cash payment of €15,000 or more.(The limit specified by the Money Laundering Regulations 2007).
- 7.11 The Regulations regarding customer due diligence are detailed and complex, but there are some simple questions that will help you decide if it is necessary:
- Is the service a regulated activity?
 - Is the Council charging for the service i.e. is it 'by way of business'?
 - Is the service being provided to a customer other than a UK public authority?

If the answer to any of these questions is **NO** then you do not need to carry out customer due diligence.

If the answer to all these questions is **YES** then you must carry out customer due diligence **BEFORE** any business is undertaken for that client. If you are unsure whether you need to carry out customer due diligence then you should contact the MLRO.

- 7.12 Where you need to carry out customer due diligence then you must seek evidence of identity, for example:
- Checking with the customer's website to confirm their business address;
 - Conducting an on-line search via Companies House to confirm the nature and business of the customer and confirm the identities of any directors;
 - Seeking evidence from the key contact of their personal identity, for example their passport and position within the organisation.
- 7.13 The requirement for customer due diligence applies immediately for new customers and should be applied on a risk sensitive basis for existing customers. Ongoing customer due diligence must also be carried out during the life of a business relationship but should be proportionate to the risk of money laundering and terrorist funding, based on the officer's knowledge of the customer and a regular scrutiny of the transactions involved.
- 7.14 If, at any time, you suspect that a client or customer for whom you are currently, or are planning to carry out a regulated activity is carrying out money laundering or terrorist financing, or has lied about their identity then you must report this to the MLRO.
- 7.15 In certain circumstances enhanced customer due diligence must be carried out for example where:
- The customer has not been physically present for identification;
 - The customer is a politically exposed person. A politically exposed person is 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;
 - There is a beneficial owner who is not the customer. A beneficial owner is any individual who: holds more than 25% of the shares, voting rights or interest in a company, partnership or trust.
- 7.16 Enhanced customer due diligence could include any additional documentation, data or information that will confirm the customer's identity and/ or the source of the funds to be used in the business relationship/ transaction. If you believe that enhanced customer due diligence is required then you must consult the MLRO prior to carrying it out.

Treasury Management and Money Market Transactions

- 7.17 It is not a requirement under the Proceeds of Crime Act for Councils to require identification from every person or organisation it deals with.
- 7.18 The Council will not accept loans from individuals
- 7.19 All loans are obtained from the PWLB, other local authorities or authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FSA website: [Click Here](#)
- 7.20 All transactions will be carried out by electronic transfer for making deposits or repaying loans

Record Keeping

- 7.21 The precise nature of the records is not prescribed by law, however, the records must be capable of providing an audit trail during any subsequent investigation, e.g: distinguishing the client and the relevant transaction and recording in what form funds were received or paid.
- 7.22 Where 'relevant business' is carried out then the customer due diligence records and details of the relevant transaction(s) for that client must **be retained for at least five years after the end** of the business relationship.
- 7.23 **Internal Clients:** Appropriate evidence of identity for Council employees will be signed, written instructions on Council headed notepaper or e-mail from an internal email address at the outset of a particular matter. Such correspondence should then be placed in the Council's client file along with a prominent note explaining which correspondence constitutes the evidence and where it is located.
- 7.24 **External Clients:** For external clients of the Council, appropriate 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 in the Council's client file along with a prominent note explaining what constitutes the evidence and where it is located.
- 7.25 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.
- 7.26 In all cases, the evidence should be retained for at least five years from the end of the business relationship or one-off transaction(s).

- 7.27 **If satisfactory evidence of identity is not obtained at the outset of the matter then the business relationship or one-off transaction(s) cannot proceed any further.**

8. Offence of Tipping Off

- 8.1 Tipping Off is where someone informs the person who has approached the financial institution, such as the Council, that they are suspected of being involved in money laundering, in such a way as to prejudice any investigation.
- 8.2 If an employee has a concern they should ask questions or seek information/ documentation, which would allay any suspicions they may have and negate the need to make a report.
- 8.3 Once a report has been made to the nominated officer and the person the council is dealing with suspects that a report has been made the potential criminal offence of “tipping off” arises.

9. Training

- 9.1 In support of the policy and procedure, the Council will:
- Make all staff aware of the requirements and obligations placed on the Council and on themselves as individuals by the anti-money laundering legislation; and
 - Ensure that those most likely to encounter money laundering are fully aware of the Policy and its requirements.
 - Prepare guidance notes to assist staff in the operation of this policy (Appendix B).
 - Make the Policy, guidance and reporting form available to officers and members on the intranet

Bath & North East Somerset Council

APPENDIX A

CONFIDENTIAL

REPORT TO MONEY LAUNDERING REPORTING OFFICER

To: Group Manager (Audit & Risk), Risk & Assurance Service

From: **Extn:**

Department: **Location:**

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, value and timing of activity involved and cause of suspicion:

(Please include full details e.g. what, when, where, how.)

Has any investigation been undertaken (as far as you are aware) ? Yes No

If yes, please include details below:

Have you discussed your suspicions with anyone else? Yes No

If yes, please specify below whom the discussion took place with, when and why such discussion was necessary:

Have you consulted any supervisory body guidance re money laundering (e.g. the Law Society)?

Yes

No

If yes, please include details below:

Do you feel you have a reasonable excuse for not disclosing the matter to SOCA (Serious Organised Crime Agency) e.g are you a lawyer and wish to claim legal professional privilege?

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 Proceeds of Crime Act 2002 and which requires appropriate consent from SOCA?

If yes, please set out full details 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.

When completed, please pass immediately to the Group Manager (Audit & Risk), who is based at the Guildhall, Bath.

Your report will be treated in the strictest confidence.

=====

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?

If there are reasonable grounds for suspicion, will a report be made to the SOCA?

(Please tick relevant box)

YES

NO

If yes, please confirm date of SARS report to the SOCA: _____ and complete the box below:

Details of liaison with the SOCA regarding the report:

Notice Period: from : _____ to: _____

Moratorium Period: from : _____ to : _____

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

(Please tick relevant box)

YES

NO

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

Date consent received from the SOCA: _____

Date consent given by MLRO to employee: _____

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

(Please set out any reasonable excuse for non-disclosure)

Date consent given by MLRO to employee for any prohibited transactions to proceed:

Other relevant information:

Signed: _____ Date: _____

THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS

Guidance to

Anti Money Laundering Policy

1. Introduction

1.1 This document **must** be read with the Council's Anti Money Laundering Policy. The aims of the Policy and guidance are to:

- Assist staff and Members of the Council to understand money laundering and their personal legal obligations and responsibilities arising from the requirements of the legal and regulatory provisions
- Prevent Council services being used for money laundering purposes, and
- Set out the procedures which must be followed to enable the Council and its staff to comply with their legal obligations

1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) has published further guidance on anti money laundering for Public Service Organisations.(CIPFA 2009)

1.3 This guidance and the policy have been designed to ensure that the Council, Members and its staff fulfil all legal obligations and regulatory requirements in accordance with this guidance.

1.4 Although the Council's risk of exposure to money laundering is relatively low and some of the provisions do not apply, there is, as CIPFA observes, a reputational risk for any local authority that does not have adequate policies and procedures in place.

1.5 CIPFA's view is that it is prudent and responsible practice for local authorities who are outside the scope of the regulations, to put in place appropriate and proportionate anti money laundering safeguards and reporting arrangements, designed to detect and minimise the risk of involvement in the crimes described in the legislation

2. What is Money Laundering?

- 2.1 Money laundering is the disguising of the source of money, either in cash, paper or electronic form. This may be in order to conceal that the money has originated from crime, or it may be to conceal the source of money that is to be used in the pursuit of future crime.
- 2.2 Money Laundering is highly sophisticated. The conversion of cash in to a non-cash form of money is only the first step. In itself it is not sufficient disguise for the launderer. There will follow a complex series of transactions intended to hide the trail from any investigator. Consequently those on the look out for money laundering should not restrict themselves to looking for cash transactions.
- 2.3 Drug dealing in particular is a business that generates large amounts of cash that the dealers then need to re-introduce to the legitimate economy through money laundering.
- 2.4 The financiers of terrorism will attempt to disguise their links with terrorism by laundering their funding.
- 2.5 There are three principal offences - concealing, arranging, and acquisition/ use/ possession.
- Concealing is where someone knows or suspects a case of money laundering, but conceals or disguises its existence.
 - Arranging is where someone involves himself or herself in an arrangement to assist in money laundering.
 - Acquisition/ use/ possession is where someone seeks to benefit from money laundering by acquiring, using or possessing the property concerned.
- 2.6 There are two 'third party' offences of failure to disclose one of the three principal offences, and tipping off.
- 2.7 Tipping off is where someone informs a person or people who are, or are suspected of being, involved in money laundering, in such a way as to reduce the likelihood of their being investigated, or prejudicing an investigation.

3. Liability

- 3.1 All the money laundering offences may be committed by an organisation or by the individuals working for it.

- 3.2 It is an offence under the Proceeds of Crime Act if an employee enters into or becomes concerned in an arrangement, which a person knows, or suspects, facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person.
- 3.3 Money laundering offences may be tried at a magistrates' court or in the Crown Court, depending upon the severity of the suspected offence.
- 3.4 Trials at the Magistrates Court can attract fines of up to £5,000, up to six months in prison, or both.
- 3.5 In a Crown Court, fines are unlimited, and sentences from two to 14 years may be handed out.

4. Offence of Tipping Off

- 4.1 The offence of tipping off the money launderer that a disclosure has been made only occurs once a disclosure has been made or the person suspects that a disclosure has been made. Consequently enquiries can be made of the individual to establish whether or not there is an innocent explanation before deciding whether or not to make a disclosure. However, once you have reasonable grounds for knowing or suspecting that the individual is engaged in money laundering a report must be made and the suspected money launderer must not be informed of this.

5. How you might recognise Money Laundering

- 5.1 The key slogan is "**Know Your Customer**" or **K.Y.C.**
- 5.2 For any transaction, cash or otherwise you should ask yourself: -
"Given my knowledge of this person, is it plausible that they can pay this amount for this service by this means?"
- 5.3 If they are paying more than would be reasonable or more than they could afford or by a means that would not normally be used the answer would be "No". Then action will be required.
- 5.4 More specific possible indicators of Money Laundering are:
 - If the Source or Destination of funds differ from the original details given by the client.
 - If the Client cancels a transaction without good reason and requests a cheque refund for previously deposited funds.
 - Any large cash deposits.
 - Large Overpayments of fees or money on account.

- If Information about the client reveals criminality or association with criminality.
- If there is more than one Solicitor/ Conveyancer used in the sale or purchase of a property or land or if there is an unexplained and unusual geographic use of a solicitor in relation to a property's location.
- If the Buyer or Seller's financial profile does not fit, particularly in relation to property transactions.
- If there are over complicated financial systems.
- If the client enters into transactions which make little or no financial sense or which go against normal practice.
- If the client is happy to enter into an apparent bad deal for them.
- If the client enters into arrangements beyond their apparent financial means.
- Any odd behaviour by any of the parties involved.

6. Client Identification Procedure

6.1 You need to be satisfied as to the identity of the client **before** any business is undertaken for that client. The client's identity can be verified on the basis of documents, data or information obtained from a reliable and independent source.

6.2 The following checklist should be used for the identification of a private individual:

- Name
- Address
- Date of Birth
- National Insurance Number
- Telephone number
- E-mail address

6.3 The following checklist should be used for the verification of a private individual:

- Passport
- Driving Licence
- Birth Certificate
- Current Council Tax and / or Utility Bill
- Marriage Certificate

- 6.4 In the case of a representative of an organisation, this can include measures such as:
- Checking the organisation's website to confirm the business address
 - Attending the client at their business address
 - Asking the key contact officer to provide evidence of their personal identity and position within the organisation.
- 6.5 Where the client is acting on behalf of a third party, reasonable steps should be taken to establish the identity of that other person.
- 6.6 **If satisfactory evidence of identity is not obtained at the outset of the matter then the business relationship or one off transactions(s) cannot proceed any further.**

7. Methods to Safeguard Yourself

- 7.1 Obtain sufficient evidence/ knowledge to ascertain the true identity of the person(s) you are dealing with.
- 7.2 Ask the key contact officer to provide evidence of their personal identity and position within the organisation; for example signed, written confirmation from their Head of Service or Chair of the relevant organisation.
- 7.3 Ask the person(s) you are dealing with to provide contact details of officers they have dealt with in other local authorities, whom you could then contact if you wished.
- 7.4 Surf the web to confirm details supplied.
- 7.5 Visit the client at their business address instead of always contacting them by telephone or e-mail or meeting at the Council Office. (This will help verify the validity of the client).
- 7.6 Retain evidence for a period of 5 years, with a prominent note explaining which document constitutes the evidence and where it is located.

8. Examples of Potential Money Laundering Activities

8.1 People & Communities

- 8.1.1 A council employee assesses a service user's finances to calculate how much they should pay towards the cost of a service and arranges for services to be provided and charged for or for a grant to be

awarded and becomes aware of, or suspects the existence of, criminal property.

- 8.1.2 A council employee finds a large sum of money in a 'client's home'.
- 8.1.3 A council employee appointed as a Court of Protection receiver is responsible for managing a service user's property and affairs and becomes aware of, or suspects the existence of, criminal property.
- 8.1.4 A child protection case conference takes place; during the course of which it becomes clear that one of the parents is claiming benefits but has unexplained financial resources

8.2 Revenues & Benefits

- 8.2.1 A long running fraud is identified whereby a claimant owned a property instead of being a tenant. It is also found that another property is owned by the claimant's son, which he would not have had the legitimate means to purchase.

8.3 Property Services

- 8.3.1 The Council agree to sell a parcel of land to a developer/ third party, at a price that is far in excess of its value.

Agenda Item 13

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	6th December 2011	AGENDA ITEM NUMBER
TITLE:	Annual Audit Letter	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Annual Audit Letter for Bath & North East Somerset Council		

1 THE ISSUE

1.1 The External Auditor will summarise their findings from the 2010/11 audit (Appendix 1).

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to note the findings from the External Auditor detailed in Appendix 1.

3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications as a result of this report.

4 THE REPORT

4.1 The purpose of the report attached at Appendix 1 is to bring together the External Auditors overall findings from their audit work for 2010/11. It details the results of the audit of the financial accounts for 2010/11 and their assessment of the Councils value for money arrangements. Within this context the External Auditor considers the current and future challenges facing the Authority and these are detailed with the respective audit commentary.

4.2 There are no significant audit issues or recommendations to report, however the external auditor will give a verbal update at the committee.

5RISK MANAGEMENT

5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance. There are no new significant risks or issues to report to the Committee as a result of this report.

6. EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

7CONSULTATION

7.1 Consultation has been carried out with the Section 151 Finance Officer.

Contact person	Jeff Wring (01225 47323)
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

Annual Audit Letter

Bath and North East Somerset Council

Audit 2010/11



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Key messages

- This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**
- **the audit of your financial statements; and**
 - **my assessment of your arrangements to achieve value for money in your use of resources.**

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

Traffic light explanation

Red ■ Amber ◆ Green ●

Audit opinion and financial statements

I issued an unqualified opinion on 30 September 2011, in line with the national deadline. The draft statements submitted to audit were timely and complete and queries were resolved promptly. There were a large number of presentational adjustments to the statements resulting from the audit. These adjustments did not impact on the underlying financial position of the Council. This was particularly impressive in light of the significant additional requirement this year for Local Government bodies to implement International Financial Reporting Standards, as this was a major project.

Value for money

I issued an unqualified VFM conclusion in 2010/11.

My VFM conclusion this year is based on nationally-set criteria:

- financial resilience – confirming the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and

- challenging how the Council secures economy, efficiency and effectiveness – confirming the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.
- I was satisfied the Council had appropriate arrangements in place against each of the criteria.
- My audit also considered specific risk areas:
- The transfer of social care services to a social enterprise - My high level review of the governance arrangements found the Council established suitable governance arrangements to support the decision making process.
 - The organisational change programme - My review indicated that during 2010/11 arrangements had been established for managing the programme.

Current and future challenges

The Council is working in an increasingly demanding environment but it has high expectations of what it can achieve.

The Council has performed well in recent years but, like other councils in England, it is starting to face significant challenges because of the economic downturn.

Below I focus on some of the key challenges facing the Council going forward.

Economic downturn, pressure on the public sector and financial challenges

The economic downturn is creating financial pressures across local government and the public sector. In October 2010 the Government set out its plans for tackling the national deficit over the next four financial years. Local government spending will be reduced by some 28 per cent over this period.

In common with many local authorities Bath and North East Somerset Council will receive significantly less Government funding in the medium term. The Council's current financial plan includes savings of £23million for the two years 2011/12 and 2012/13 with similar levels expected over the coming years.

The Council has a good track record in making savings while maintaining its performance and the quality of its services but the scale of this financial challenge is unprecedented. Delivery of the planned savings will require continued close monitoring to minimise the risk of overspending the budget and impacting the quality of service provision.

The economic downturn will also place pressures on the Council in terms of demand for services, for example, in areas such as benefits and temporary accommodation. Reduced economic activity could impact planned income from fees and charges.

The Council needs to continue to have in place robust financial monitoring and forecasting systems to provide information on service demand and spending patterns.

Transfer of social care services to a community interest company

The Council transferred its social care services to a community interest company, Sirona, on 1 October 2011. On the same date Bath and North East Somerset Primary Care Trust (PCT) transferred its community health care provider to the same company. This is intended to ensure services are integrated and promote value for money. The Council and the PCT will be embedding joint contract management arrangements over the coming months.

The Council will need to develop sound governance arrangements to support the commissioning and on-going monitoring of the delivery of social care services.

Organisational change programme

The Council has an on-going review of the way it is organised and the way services are delivered. This is designed to develop value for money in the provision of Council services. It includes the rationalisation of office accommodation, working with partners and greater use of information technology in streamlining service delivery. The achievement of this programme continues to be a major challenge.

The Council will need to continue to show strong leadership in meeting the challenges ahead. The change programme will require sound project management to maintain effective control and to realise the planned benefits.

Financial statements and annual governance statement

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

Overall conclusion from the audit

I gave an unqualified opinion on the Council's 2010/11 financial statements on 30 September 2011. In my opinion the financial statements give a true and fair view of the Council's financial position and its income and expenditure for the year.

Before giving my opinion I presented my Annual Governance Report to the Corporate Audit Committee. The Annual Governance Report summarises the issues arising from my audit.

The Council had to comply with International Financial Reporting Standards (IFRS) for the first time in 2010/11. This involved significant changes to the financial statements. The Council met most of the requirements of IFRS and working papers to support the financial statements were of a good quality.

I agreed a number of presentational changes to the financial statements including:

- Movement in reserves statement - changes removed duplicated amounts;
- Capital grants – to disclose the balance as grants received in advance in accordance with the requirements of IFRS; and
- Accounting disclosures – changes to the detailed notes to the accounts.

This outcome is good. Implementing IFRS was a major project which has caused many Local Authorities difficulties because of its scope and complexity.

My work on the Council's financial statements was supported by a review of the key financial and IT controls in place to ensure that financial information is fully and accurately presented in the financial statements. During the year I identified a need to strengthen controls over adjustments to the accounts, accounting journals. This was addressed by the Council. Other than this I did not identify any significant weaknesses in the Council's internal control arrangements.

Value for money

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

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

Value for money criteria and key messages

Criterion

Key messages

1. Financial resilience

The organisation has proper arrangements in place to secure financial resilience.

Focus for 2010/11:

The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

I considered the Council's financial planning, financial governance and financial control arrangements. I concluded that the Council's arrangements were effective. That is, the Council has effective arrangements to establish its strategic financial position and to develop it budgets. It also has appropriate systems of monitoring its finances and the governance arrangements to manage the in-year position.

In relation to the delivery of the budget I was satisfied the Council had achieved its plan for 2010/11, including delivering the savings planned for the year.

2. Securing economy efficiency and effectiveness

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

I concluded the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. This involved an assessment of how the Council manages its funds including how resources are prioritised and also arrangements to ensure resources are used to their maximum benefit.

Focus for 2010/11:

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

I did not identify any issues that adversely impact on my VFM conclusion. I issued an unqualified conclusion on 30 September 2011 stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources. My VFM conclusion was informed by further work on specific risk areas:

- the transfer of social care services to a social enterprise
- the organisational change programme.

The transfer of social care services to a social enterprise

I undertook a high level review of the governance arrangements to support the decision to transfer social care services to a social enterprise in the form of a community interest company. I found the Council established suitable governance arrangements to support the decision making process, this included the analysis and management of risks in relation to the transfer. A project manager was appointed along with key leads from the Primary Care Trust and the Council. Consultants were engaged to advise on the development of detailed business plans including financial models and operational plans. Governance arrangements included consideration of the advice received from the consultants. Due diligence was performed by the Council on the arrangements established by the new community interest company. The decision making process was agreed in advance by Members.

The organisational change programme

I maintained a watching brief in this area. Arrangements for managing the programme were developing during the year. The Council had a structured approach to developing the programme, for example in terms of prioritising the areas for review. A Programme Board had been established to exercise oversight of progress. Progress was checked through a monitoring report referred to as a dashboard. A programme management office provided administrative support and coordination. Detailed arrangements existed for managing individual projects which were tailored as necessary depending on the nature of the project.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Director of Resources and Support Services. I will present this letter at the Corporate Audit Committee on 6 December 2011 and will provide copies to all members.

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

Report	Date issued
Audit fees letter	April 2010
Supplementary plan for the audit of the financial statements	December 2010
Audit opinion including audit opinion on the Pension Fund accounts and the Council accounts	September 2011
Value for money conclusion	September 2011
Annual governance report	September 2011
Annual audit letter	October 2011

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

Wayne Rickard

District Auditor

October 2011

Appendix 1 - Fees

	Actual £	Proposed £	Variance £
Audit fee	303,776	303,776	0
Rebate issued centrally by the audit commission in relation to the abolition of use of resources work	(10,087)	(10,087)	0
Rebate issued centrally by the audit commission in relation to work on IFRS	(16,776)	(16,776)	0
Total	276,913	276,913	0
Avon Pension audit fee	47,000	47,000	0

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Subject to the rebates the audit fee charged is in line with the fees agreed with the Council in April 2010.

I will report the fee for the certification of Government grants after this work is complete.

Appendix 2 - Glossary

Annual governance statement

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

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

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

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Audit opinion

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

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

Opinion

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

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

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

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

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0844 798 7070

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

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



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Agenda Item 14

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	6th December 2011	AGENDA ITEM NUMBER
TITLE:	External Audit Update Reports	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – External Audit Update Report for Audit Committee		

1 THE ISSUE

- 1.1 The External Auditor will update the Committee on a range of issues affecting the Councils audit work (Appendix 1).

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to note the update from the External Auditor and the findings from Appendix 1.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications as a result of this report.

4 THE REPORT

- 4.1 The purpose of the report attached at Appendix 1 is to provide the Corporate Audit Committee with a commentary on progress in delivering the external auditors responsibilities. It includes an update on the externalisation of the Audit Practice.
- 4.2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Corporate Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.

5RISK MANAGEMENT

5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance. There are no new significant risks or issues to report to the Committee as a result of this report.

6. EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

7CONSULTATION

7.1 Consultation has been carried out with the Section 151 Finance Officer.

Contact person	Jeff Wring (01225 47323)
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

Corporate Audit Committee Update

Bath and North East Somerset Council

Audit 2011/12

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

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

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

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Introduction

1 The purpose of this paper is to provide the Corporate Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.

2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Corporate Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.

3 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.

4 Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Wayne Rickard
District Auditor
December 2011

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Progress Report

5 I have completed my 2010/11 audit of the accounts and value for money arrangements. My Annual Audit Letter, summarising the key messages from my 2010/11 audit is presented to this meeting of the Corporate Audit Committee.

6 I am completing my work on the 2010/11 grant claims which require audit certification. The outcome of this work will be reported in February 2012.

7 The 2011/12 audit fee was discussed at the February meeting of the Corporate Audit Committee and confirmed in my fee letter dated 5th April 2011. The audit commission has set a scale fee for each audited body. The actual fee is only expected to vary from this where the auditor's assessment of risk is significantly different from 2010/11. The Council's 2011/12 fee is set at the scale fee.

Audit area	Scale fee	Final Fee	Planned fee
	2011/12	2010/11	2010/11
Audit fee	£273,398	£276,913	£303,776

8 The 2011/12 fee was reduced reflecting the Government's decision to abolish comprehensive area assessment and efficiency measures taken by the audit commission centrally.

9 The 2011/12 interim audit commenced in November 2011. I am coordinating our work with that of Internal Audit. During our interim visit, we will:

- review the Council's financial systems and consider the assurances they give us on the figures which will appear in the Council's annual financial statements;
- undertake transaction testing; and
- update our knowledge and evidence of the Council's arrangements to obtain value for money. This will focus on the two key criteria specified for 2011/12 by the Audit Commission i.e.
 - arrangements the Council has in place for securing financial resilience; and
 - arrangements the Council has in place for challenging how it secures economy, efficiency and effectiveness.

Appendix 1 Progress against planned outputs

The following table sets out the key milestones for the coming year.

Area of work	Date report is due	Comments
2011/12 audit		
Audit fees letters	April 2011	Discussed with the Corporate Audit Committee and agreed with the Director of Financial Services
Audit plan	January 2012	
Interim Audit	April 2012	Interim Memorandum to be issued as required.
VFM conclusion	September 2012	
Annual governance report	September 2012	
Auditor's report giving the opinion on the financial statements and the value for money conclusion	September 2012	
Annual audit letter	October 2012	

Other Matters of Interest

Audit practice

10 The Audit Commission's Chief Executive, Eugene Sullivan, wrote to clients on 21 September 2011 summarising the Department for Communities and Local Government's plans for externalising the Audit Commission's work that is currently undertaken by the Audit Practice.

11 The key points are:

- Contracts will be let from 2012/13 on a three- or five-year basis. The earliest you will be able to appoint your own auditors is therefore for the 2015/16 audit.
- The work is split into four regions, comprising ten 'lots'. Each lot will be awarded separately, but any individual bidder can only win a maximum of one lot in each region (i.e. four lots in total).
- The Commission is managing a fair and equitable procurement process to allow suitable private-sector providers the opportunity to bid.
- Bids are due in by mid-December 2011, with the contract awards planned for mid-February 2012, with formal Commission approval planned for late July 2012 following consultation.
- Appointments will start on 1 September 2012. As such, the Commission will extend the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The costs of this 'interim' audit role will be met by the Commission.
- Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

12 A further update was provided in Eugene Sullivan's letter to clients of 10 November 2011. Thirteen potential providers have now been invited to tender following the initial pre-qualification stage.

13 Further details are available on the Audit Commission's website. We will continue to keep you updated on developments.

14 Against this background, the Audit Practice's focus remains:

- Fulfilling our remaining responsibilities – completing our work for 2010/11 and delivering your 2011/12 audit - to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

Income Generation

15 Income from fees and charges is a key financial area for local authorities with the top ten income streams generating over £7 billion each year nationally.

16 CIPFA has recently produced an updated guide to income generation and much has happened since the earlier editions were published in 2005 and 2008.

17 In 2011, organisations are looking at income in its widest sense as a key factor in their funding equation. The economic downturn has demonstrated the risks associated with excessive reliance on income from fees and charges. However, the Spending Review 2010 has motivated local authorities to evaluate robustly every possible funding source.

18 Rather than just focussing on savings, organisations are increasingly focussing on maximising their income generation opportunities.

19 This new 2011 edition should enable local authorities to make the most of their fees and charges potential. It provides a full update of the charging opportunities available as at March 2011, reflecting recent legislation and regulations.

Code on Data Transparency

20 On 29 September 2011 the Department for Communities and Local Government (DCLG) published the Code of Recommended Practice for Local Authorities on Data Transparency.

21 Subject to consultation, we understand that Ministers are minded to make this Code a legally binding requirement.

22 The Code requires local authorities to publish public data as soon as possible following production even if it is not accompanied with detailed analysis. Where practical, local authorities should seek to publish in real time. As a minimum, the public data that should be released are:

- expenditure over £500 (including costs, supplier and transaction information);
- senior employee salaries, names (with the option for individuals to refuse to consent for their name to be published), job descriptions, responsibilities, budgets and numbers of staff;
- an organisational chart of the staff structure of the local authority including salary bands and details of currently vacant posts;
- the 'pay multiple' - the ratio between the highest paid salary and the median average salary of the whole of the authority's workforce;
- councillors' allowances and expenses;
- copies of contracts and tenders to businesses and to the voluntary community and social enterprise sector;
- grants to the voluntary community and social enterprise sector should be clearly itemised and listed;
- policies, performance, external audits and key inspections and key indicators on the authority's fiscal and financial position;
- the location of public land and building assets and key attribute information that is normally recorded on asset registers; and

- data regarding the democratic running of the local authority including the constitution, election results, committee minutes, decision - making processes and records of decisions.

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Guides to Local Government Finance

23 CIPFA has recently issued a comprehensive guide to Local Government finance. This guide reflects proposals for academies, HRA self financing, the future of local audit, police and crime commissioners and social care reform.

24 In addition to the above changes, the guide also looks at the impact the recent cuts have had on local authority finances.

25 In addition to the comprehensive guide, a shorter guide has also been prepared which is aimed specifically at members. It provides councillors with a brief overview of key facts, figures and requirements in relation to local government finance in a more user friendly and handy reference format.

Code of Practice on Public Sector Pensions

26 In October 2011 CIPFA published a Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

27 Pension schemes are growing in complexity and their financial management in the public sector demands appropriate skills, including a knowledge of:

- financial markets and products;
- financial services procurement;
- pensions accounting and auditing;
- actuarial practices;
- investment performance and risk management; and
- the implications of legal and regulatory requirements.

28 It is CIPFA's view that every public sector organisation should secure appropriate training, having assessed the professional competence of both those involved in pension scheme financial management and those with a policy, management and/or oversight role.

29 Its view is that public sector organisations should also ensure that those charged with pension scheme governance, including audit committees and relevant scrutiny groups, have access to the skills and knowledge they require to carry out this role effectively.

30 CIPFA's Code of Practice has been produced to put these requirements into a formal structure for public sector pension schemes.

Financial Management in Schools

31 On 19 October 2011 the National Audit Office (NAO) published a report covering financial management in local authority maintained schools.

32 Up to 2007/08, schools collectively spent less money each year than they were given, and the sum of unspent primary and secondary school balances peaked at £1.76 billion. As a result, many schools did not need to prioritise efficiency to remain within their budgets.

33 However, more schools are now facing reductions in their budgets in real terms, at the same time as significant changes to qualifications and curricula are being introduced - alongside continuing pressure for improved performance.

34 The NAO found that weak financial management and weak academic performance often go hand in hand. A comparison of Ofsted's judgements of the overall effectiveness of schools with school surpluses and deficits showed that schools in deficit generally performed worse than schools in surplus.

35 The NAO's report continues a number of recommendations for the Department of Education, but nevertheless should prove of interest to local authorities themselves.

For information: Fighting Fraud Together

36 In October 2011, thirty-seven organisations joined forces to launch 'Fighting Fraud Together', a new strategy that aims to reduce fraud - a crime estimated to cost the UK £38 billion every year.

37 The organisations involved include the NHS, the Charity Commission, the Department for Communities and Local Government, HM Revenues and Customs and the Association of Chief Police Officers.

38 It is the first time that government, industry, voluntary groups and law enforcement agencies have joined together on such a large scale to sign a joint commitment to tackle fraud.

39 All thirty-seven partners that have signed up to the 'Fighting Fraud Together' strategy which will contribute to and be accountable for its success.

40 The strategy and its accompanying action plan place a strong emphasis on preventing fraud through greater fraud awareness and self protection, combined with stronger government and industry prevention systems and controls.

41 Examples of the new initiatives include:

- Preventing fraud: Industry and the public sector will develop their intelligence-sharing capabilities to prevent fraud attacks;
- Increasing awareness and reporting: A new research tool will help all sectors provide more targeted prevention advice to the public, particularly vulnerable people, and develop a better understanding of small businesses' vulnerability to fraud and the support they need; and
- A more effective enforcement response: Greater intelligence capabilities of the National Fraud Intelligence Bureau will disrupt fraudsters' activities and rapidly close down the channels through which they operate and launder money.

Key Considerations

42 The Corporate Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Council reviewed CIPFA's guide on income generation and is the Corporate Audit Committee satisfied that all potential income sources have been identified?
- Has the Council adequate arrangements in place to ensure that it complies with the Code of Recommended Practice for Local Authorities on Data Transparency and that all published information is both accurate and complete?
- Have Members been provided with a copy of CIPFA's guide to Local Government finance?
- Has the Council reviewed CIPFA's Code of Practice on Public Sector Pensions and satisfied itself that the arrangements in place are adequate?
- Has the Council reviewed the NAO's report on financial management in schools and developed an action plan where necessary?

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Contact Details

43 If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

44 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

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